<table>
<thead>
<tr>
<th>Table of Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Statements</td>
</tr>
<tr>
<td>Company Profile</td>
</tr>
<tr>
<td>Board Members</td>
</tr>
<tr>
<td>Management Committee Members</td>
</tr>
<tr>
<td>Overview</td>
</tr>
<tr>
<td>Five-Year Financial Highlights</td>
</tr>
<tr>
<td>Group</td>
</tr>
<tr>
<td>Company</td>
</tr>
<tr>
<td>Review of Results</td>
</tr>
<tr>
<td>Review of Business</td>
</tr>
<tr>
<td>Exploration and Production Business</td>
</tr>
<tr>
<td>Oil Business</td>
</tr>
<tr>
<td>Gas Business</td>
</tr>
<tr>
<td>Petrochemical Business</td>
</tr>
<tr>
<td>Logistics and Maritime Business</td>
</tr>
<tr>
<td>Technology Development</td>
</tr>
<tr>
<td>Corporate Sustainability</td>
</tr>
<tr>
<td>People</td>
</tr>
<tr>
<td>Our Corporate Social Investments</td>
</tr>
<tr>
<td>Main Events</td>
</tr>
<tr>
<td>Glossary of Terms</td>
</tr>
</tbody>
</table>
CORPORATE STATEMENTS

VISION STATEMENT

To be a Leading Oil and Gas Multinational of Choice

MISSION STATEMENT

We are a business entity
Petroleum is our core business
Our primary responsibility is to develop and add value to this national resource
Our objective is to contribute to the well being of the people and the nation

SHARED VALUES

Loyalty
Loyal to nation and corporation

Professionalism
Committed, innovative and proactive and always striving for excellence

Integrity
Honest and upright

Cohesiveness
United in purpose and fellowship
COMPANY PROFILE

PETRONAS, the acronym for Petroleam Nasional Berhad, was incorporated on 17 August 1974 under the Companies Act 1965. It is wholly-owned by the Malaysian government and is vested with the entire ownership and control of the petroleum resources in Malaysia through the Petroleum Development Act 1974, an Act of Parliament. Over the years, PETRONAS has grown to become a fully-integrated oil and gas corporation and is ranked among FORTUNE Global 500’s largest corporations in the world. PETRONAS has four subsidiaries listed on the Bursa Malaysia and has ventured globally into more than 30 countries worldwide in its aspiration to become a leading oil and gas multinational of choice.
LEADERSHIP & GROWTH

Like the bark of a tree a good leader remains tough in the face of challenges.
BOARD MEMBERS

DATO’ HALIPAH ESA

TAN SRI DATO’ SRI MOHD HASSAN MARICAN
Acting Chairman and President & Chief Executive Officer

TAN SRI DATO’ SRI IZZUDDIN DALI

TAN SRI DATO’ SERI KHALID RAMLJ
MANAGEMENT COMMITTEE MEMBERS

TAN SRI DATO SRI MOHD HASSAN MARICAN
Acting Chairman and President & Chief Executive Officer

DATUK ISHAK IMAM ABAS
Group CEO, KLCC (Holdings) Sdn Bhd

DATUK’ SHAMSUL AZHAR ABBAS
President/CEO, MISC Berhad

DATUK ANUAR AHMAD
Vice President, Oil Business

DATUK (DR) ABDUL RAHIM HJ. HASHIM
Vice President, Research and Technology Division

DATUK DR. ROSTI SARUWONO
Vice President, Education Division

NASARUDIN MD IDRIS
Vice President, Corporate Planning & Development Division

DATUK YEOW KIAN CHAI
Vice President, Petrochemical Business
DATUK AINON MARZIAH WAHI
Vice President, Human Resource Management Division

GEORGE RATILAL
Vice President, Finance Division

ABDULLAH KARIM
Vice President, Exploration & Production Business

WAN ZULKIFLEE WAN ARIFFIN
Vice President, Gas Business

MOHAMAD JOHARI DASRI
Managing Director/Chief Executive Officer, PETRONAS Carigali Sdn Bhd

AHMAD NIZAM SALLEH
Managing Director/CEO, Malaysia LNG Sdn Bhd

MOHAMMED AZHAR OSMAN KHAIRUDDIN
Senior General Manager
Legal & Corporate Affairs Division

FARIDAH HARIS HAMID
Secretary
STRENGTH

A single branch is easily broken, but not ten in a bundle.
TAN SRI DATO SRI MOHD HASSAN MARICAN
Acting Chairman and President & Chief Executive Officer
OVERVIEW

PETRONAS Group delivered an outstanding performance for the financial year ended 31 March 2006 amidst an increasingly competitive and challenging global oil and gas industry environment filled with heightened volatility and uncertainties.

The year’s strong financial and operational achievements bear testimony to our determination and focus on our overall strategy to integrate, add value and globalise our operations. This, coupled with our emphasis on sound management policies, business improvements, operational excellence and strategic growth, has enabled us to turn challenges into opportunities and capitalise on the synergistic benefits of our fully integrated business to deliver outstanding results.

Revenue soared to an all-time high of RM166.9 billion. Profit before tax was a record RM70.2 billion, a 20.9% increase from the previous year. Correspondingly, our balance sheet continued to strengthen with total assets rising 12.6% to RM269.2 billion. Shareholders’ funds expanded 20.5% to RM156.0 billion while Return on Average Capital Employed remained strong at 39.8%, a reflection of our ability to efficiently generate returns and profits that compares favourably with more established major players in the industry.
Continuous emphasis on operational efficiency and reliability has enabled us to optimise the benefits of our long-term strategy of integration, value adding and globalisation.
The year under review was another highly challenging year for the global oil and gas industry on the back of heightened level of uncertainties compounded by a multitude of pressing issues that exerted enormous strain on the volatile, technology-driven and capital-intensive industry. Against this backdrop, global demand for oil and gas continued to increase primarily due to the strong growth in the emerging economies of China and India. Meanwhile, the on-going tensions in the Middle East, recurring supply disruptions in Venezuela, Nigeria and Iraq, uncertainties in Russia, Africa and Latin America, coupled with disruptions brought about by Hurricanes Katrina and Rita escalated concerns over security of supply.

Stronger demand combined with threats of supply disruptions, compounded by shortage of refining capacity globally as well as increased speculative oil trading and stock-building activities, resulted in oil prices remaining high throughout the year. The average price of West Texas Intermediate (WTI) and Brent crudes increased by 32.9% to 37.8% during the review period to USD59.86 per barrel and USD58.01 per barrel respectively. The weighted average price of Malaysian Crude Oil (MCO) rose in tandem to USD61.60 per barrel, an increase of 36.9%. Prices of petroleum products also rose with gasoline and diesel, used mainly by the transport sector, reaching an average price of USD66.87 and USD68.59 per barrel respectively.

The year also saw significant escalations in costs as industry players intensified exploration, development and production activities to capitalise on the high oil price scenario. The upward pressure on cost was compounded by the fact that new reserves are located not only in deeper waters but also in harsher climatic and environmentally sensitive regions, making access more difficult, technologically more demanding and riskier.

In summary, the year under review saw the global oil and gas industry operate in a highly challenging and uncertain environment on the back of not only high energy prices but also escalating cost. Nonetheless, our continuous emphasis on operational efficiency and reliability has enabled us to optimise the benefits of our long-term strategies of integration, value adding and globalisation, and deliver an outstanding performance during the review period.
FIVE-YEAR FINANCIAL HIGHLIGHTS
GROUP AS AT 31 MARCH (MILLION RM)
### GROUP HIGHLIGHTS

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</thead>
<tbody>
<tr>
<td>Revenue (RM billion)</td>
<td>166.9</td>
<td>137.0</td>
<td>97.5</td>
<td>81.4</td>
<td>67.2</td>
</tr>
<tr>
<td>Profit Before Tax (RM billion)</td>
<td>70.2</td>
<td>58.0</td>
<td>37.4</td>
<td>26.9</td>
<td>24.3</td>
</tr>
<tr>
<td>EBITDA (RM billion)</td>
<td>80.8</td>
<td>68.1</td>
<td>47.8</td>
<td>36.0</td>
<td>32.2</td>
</tr>
<tr>
<td>Net Profit (RM billion)</td>
<td>43.6</td>
<td>35.6</td>
<td>23.7</td>
<td>15.1</td>
<td>14.6</td>
</tr>
<tr>
<td>Total Assets (RM billion)</td>
<td>269.2</td>
<td>239.1</td>
<td>203.2</td>
<td>178.0</td>
<td>144.2</td>
</tr>
<tr>
<td>Shareholders’ Funds (RM billion)</td>
<td>156.0</td>
<td>129.4</td>
<td>102.7</td>
<td>83.5</td>
<td>68.9</td>
</tr>
<tr>
<td>Cash &amp; Fund Investment Balance (RM billion)</td>
<td>93.1</td>
<td>75.2</td>
<td>53.8</td>
<td>55.4</td>
<td>42.8</td>
</tr>
<tr>
<td>Total Borrowings (RM billion)</td>
<td>43.9</td>
<td>52.8</td>
<td>57.7</td>
<td>58.1</td>
<td>40.4</td>
</tr>
</tbody>
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</tr>
</thead>
<tbody>
<tr>
<td>Return on Revenue</td>
<td>42.1%</td>
<td>42.3%</td>
<td>38.4%</td>
<td>33.0%</td>
<td>36.2%</td>
</tr>
<tr>
<td>Return on Total Assets</td>
<td>26.1%</td>
<td>24.3%</td>
<td>18.4%</td>
<td>15.1%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Return on Capital Employed</td>
<td>39.8%</td>
<td>37.4%</td>
<td>28.7%</td>
<td>25.6%</td>
<td>27.5%</td>
</tr>
<tr>
<td>Total Debt/Total Assets Ratio</td>
<td>0.16x</td>
<td>0.22x</td>
<td>0.28x</td>
<td>0.33x</td>
<td>0.28x</td>
</tr>
<tr>
<td>Reserves Replacement Ratio</td>
<td>1.7x</td>
<td>0.7x</td>
<td>2.6x</td>
<td>2.1x</td>
<td>4.0x</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>33,682</td>
<td>33,944</td>
<td>30,634</td>
<td>28,378</td>
<td>25,733</td>
</tr>
</tbody>
</table>

### TOTAL ASSETS

- 2002: 144,116
- 2003: 178,012
- 2004: 233,326
- 2005: 238,077
- 2006: 298,249

### SHAREHOLDERS’ FUNDS

- 2002: 68,454
- 2003: 63,585
- 2004: 116,989
- 2005: 121,380
- 2006: 156,816
FIVE-YEAR FINANCIAL HIGHLIGHTS
COMPANY AS AT 31 MARCH (MILLION RM)
The year’s strong financial and operational achievements bear testimony to our determination and focus on our overall strategy to integrate, add value and globalise our operations.
Lifting of inaugural LNG cargo from record-breaking Egyptian LNG project
REVIEW OF RESULTS

Strong earnings and profits, driven by price and volume increases

The PETRONAS Group posted a record revenue of RM166.9 billion, a 21.8% increase compared to RM137.0 billion registered in the previous financial year. While higher prices were a factor, the Group’s ability to record higher sales volume of Liquefied Natural Gas (LNG) and petrochemical products in a highly competitive and challenging environment was also a key contributor to the higher revenue.

Refined petroleum products continue to be the key revenue generator for the Group, with sales revenue amounting to RM55.6 billion, constituting approximately one-third of Group revenue. This represents a 24.9% increase from last year’s revenue of RM44.5 billion. A strong performance from the marketing and retail business together with higher prices for the Group’s petroleum products accounted for the increase in revenue. Sales volume nevertheless declined marginally from 218.5 million barrels last year to 208.8 million barrels during the review period primarily due to lower petroleum products trading activities by the Group.

The Group’s revenue from the sale of crude oil and condensates amounted to RM41.0 billion, up 25.4% compared to the previous year, on the back of higher global crude oil prices, particularly MCO, which averaged at USD61.60 per barrel from USD45.00 per barrel last year. Sales volume, however, decreased from 207.1 million barrels to 184.9 million barrels due to the Group’s lower crude oil production in Malaysia, Sudan and Chad.
SALES VOLUME AT A GLANCE

5-YEAR TREND

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<tbody>
<tr>
<td>Crude Oil ('000 barrels)</td>
<td>184,942</td>
<td>207,089</td>
<td>194,203</td>
<td>181,540</td>
<td>164,545</td>
</tr>
<tr>
<td>Natural Gas ('000 mmbtu)</td>
<td>217,175</td>
<td>212,840</td>
<td>164,247</td>
<td>126,749</td>
<td>90,489</td>
</tr>
<tr>
<td>Processed Gas ('000 mmbtu)</td>
<td>690,580</td>
<td>622,000</td>
<td>560,789</td>
<td>587,117</td>
<td>553,686</td>
</tr>
<tr>
<td>LNG (million tonnes)</td>
<td>23.6</td>
<td>22.4</td>
<td>18.4</td>
<td>15.2</td>
<td>15.3</td>
</tr>
<tr>
<td>Petroleum Products ('000 barrels)</td>
<td>208,834</td>
<td>218,472</td>
<td>225,403</td>
<td>200,285</td>
<td>186,475</td>
</tr>
<tr>
<td>LPG (million tonnes)</td>
<td>3.2</td>
<td>2.6</td>
<td>2.3</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Petrochemicals (million tonnes)</td>
<td>7.0</td>
<td>6.4</td>
<td>6.1</td>
<td>5.5</td>
<td>4.0</td>
</tr>
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During the year, the Group sold a total of 23.6 million tonnes of LNG, a 5.4% increase from the 22.4 million tonnes sold in the previous year, supported by higher volume produced and sold from the PETRONAS LNG Complex in Bintulu as well as from the Group’s Egyptian LNG (ELNG) plant. The Group realised an average LNG price of USD310.04 per tonne for its term cargoes during the review period compared to USD256.07 per tonne in the previous period. The higher volume sold and stronger price resulted in a 30.4% increase in LNG revenue for the Group from RM21.7 billion to RM28.3 billion.

The Group’s petrochemical business achieved its best-ever operational performance during the review period with improved plant reliability and utilisation rates, resulting in higher production volume. Consequently, sales volume increased by 9.4% to 7.0 million tonnes and generated revenue of RM12.7 billion, an increase of 5.8%.

PETRONAS remains focused on value-adding activities to enhance the value of its oil and gas resources. The review period saw a substantial increase in revenue from the Group’s manufacturing activities, comprising the manufacture of petroleum products, LNG, processed gas and petrochemicals, from RM78.2 billion to RM97.4 billion. Revenue from manufacturing activities continue to account for a higher proportion of Group revenue at 58.4% compared to 57.1% in the previous period.

The Group’s globalisation strategy continues to yield positive rewards. Our international business revenue, which
comprises revenue from international operations and exports from Malaysia, grew 22.9% to RM130.2 billion, accounting for 78.0% of Group revenue. Export revenue amounted to RM73.6 billion, representing about 13.4% of Malaysia’s exports over the same period, earning valuable foreign exchange revenue for the nation, and at the same time contributing positively towards the country’s balance of payments.

The Group’s profit before tax and net profit increased by 20.9% and 22.6% respectively, consistent with the growth in Group revenue. Profit before tax was RM70.2 billion compared to RM58.0 billion in the last financial year and profit after tax and minority interests was RM43.6 billion, an increase of RM8.0 billion.

Our balance sheet continues to strengthen with total assets increasing to RM269.2 billion, up 12.6% from RM239.1 billion last year. Shareholders’ funds also increased to RM156.0 billion from RM129.4 billion last year, an increase of 20.5%.

Return on Total Assets (profit before tax over total assets) rose to 26.1% compared to 24.3% previously, while Return on Average Capital Employed (ROACE) improved to 39.8% compared to 37.4% in the previous year.

Cashflow from operations continue to be strong and is more than sufficient to cover the Group’s investing and financing needs. With this surplus, our cash and fund investment balance increased to RM93.1 billion. Total borrowings decreased to RM43.9 billion from RM52.8 billion in the previous period following scheduled payments of Notes and Term Loans made during the year.

For PETRONAS, the financial year ended 31 March 2006 was indeed challenging as we continue to compete in the global arena to deliver results amidst an increasingly competitive, highly challenging, volatile and uncertain global industry environment. The outstanding financial results and operational performance delivered have enabled us to continue to be an effective value creator as we steadfastly pursue our aspiration to become a Global Champion.
The Group’s petrochemical business achieved its best-ever operational performance during the review period.

Top: A PETRONAS Vinyl Chloride plant in Kertih, Terengganu
Driving this performance excellence is our strategy of integration, adding value and globalisation. We remain fully committed to this strategy, which has enabled us to evolve and grow into what we are today. It has served us well in addressing the challenges faced by the volatile and uncertain oil and gas industry. This uncertain environment is likely to remain in the foreseeable future with oil prices anticipated to remain firm. PETRONAS, however, is confident that it has the resolve to adapt to this uncertain and volatile environment. We believe that having the right strategies and the right people are crucial in paving the way for the future as we continue to uphold a culture of trust and integrity, firmly guided by our Shared Values of Loyalty, Professionalism, Integrity and Cohesiveness. As we continue the journey to transform the Group into becoming a Global Champion, we remain devoted to raising the level of our performance to not only meet, but to exceed the expectations of our partners, customers and stakeholders.

On a final note, I would like to take this opportunity to express my sincere appreciation to the PETRONAS family of more than 30,000 employees around the world who have individually and collectively, through excellent teamwork, contributed to the success we have achieved thus far. I would also like to express my gratitude to the Government of Malaysia and the Governments of PETRONAS’ host countries for their support, as well as to the members of the Board of Directors for their continued support, counsel and guidance.

TAN SRI DATO SRI MOHD HASSAN MARICAN
Acting Chairman, President & Chief Executive Officer
30 June 2006
DETERMINATION

Life is not a continuum of pleasant choices, but of inevitable challenges that call for determination and hard work.
Baronia Gas Platform, offshore Miri, Sarawak, taps into Malaysia's abundant gas reserves
REVIEW OF BUSINESS

EXPLORATION AND PRODUCTION BUSINESS

Maximising value and growth to domestic resources, capitalising on select opportunities abroad

PETRONAS Group’s exploration and production (E&P) business activity is driven by the need to augment Malaysia’s reserves and ensure growth in line with its strategy of integration, adding value and globalisation. The domestic upstream sector saw intensified efforts during the year to enhance the nation’s reserves with greater focus in the deepwater areas and to sustain production amidst a costlier environment as a result of high oil prices. On the international front, the Group strengthened its position in its host countries by securing new acreages while progressing in various development projects. The Group’s E&P arm, PETRONAS Carigali Sdn Bhd, continue to enhance its upstream capacity, capability and competency especially in the areas of technology and human capital in line with its aspiration to become a leading global E&P player.
EXPLORATION AND PRODUCTION BUSINESS AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>FY2006</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reserves (billion boe)</td>
<td>25.85</td>
<td>25.29</td>
</tr>
<tr>
<td>Domestic</td>
<td>19.91</td>
<td>19.36</td>
</tr>
<tr>
<td>International</td>
<td>5.94</td>
<td>5.93</td>
</tr>
<tr>
<td>Total production ('000 boe per day)</td>
<td>1,596.5</td>
<td>1,598.0</td>
</tr>
<tr>
<td>Domestic</td>
<td>1,164.2</td>
<td>1,213.0</td>
</tr>
<tr>
<td>International</td>
<td>432.3</td>
<td>385.0</td>
</tr>
</tbody>
</table>

HIGHLIGHTS

- Strong total reserves at 25.85 billion barrels of oil equivalent (boe), with new discoveries of 754.3 million boe. International reserves account for 23.0% of the Group’s total reserves.

- Achieved Reserve Replacement Ratio (RRR) of 1.8 times in Malaysia and 1.1 times internationally, amongst the highest in the industry.

- International production rose to 432,300 boe per day, equivalent to 27.1% of the Group’s total production.

- Awarded nine new Production Sharing Contracts (PSCs) in Malaysia and secured six new PSCs abroad, bringing the number of ventures to 62 in 23 countries.
DOMESTIC EXPLORATION AND PRODUCTION

As at 1 January 2006, Malaysia's total reserves rose to 19.91 billion boe compared to 19.36 billion boe in the preceding year as a result of new discoveries made following continued investment in the nation’s upstream sector. Crude oil and condensates reserves rose from 5.16 billion barrels to 5.25 billion barrels while natural gas reserves increased from 85.20 trillion standard cubic feet (tscf) to 87.95 tscf, equivalent to 73.6% of Malaysia’s total reserves.

The Group’s continuous effort to replenish the nation’s hydrocarbon resources have resulted in a fairly constant reserve life for Malaysia – an average of 20 years for crude oil and condensates and 34 years for natural gas reserves respectively, at current rates of production. One of the Group’s significant achievements in the E&P sector during the year was its success in replacing more hydrocarbons than what was produced in Malaysia, with a respectable Reserves Replacement Ratio (RRR) of 1.8 times, which is amongst the highest in the industry.

During the year, the Group revised the guidelines on the classification and reporting of Malaysia’s reserves to be in line with the industry’s evolving conventions. The new reporting standard, which came into effect on 1 January 2006, allows standardisation with the industry’s practice and at the same time improve clarity and transparency in reserves reporting and classification.

### MALAYSIA RESERVES AND PRODUCTION AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>FY2006</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves (billion boe)</td>
<td>19.91</td>
<td>19.36</td>
</tr>
<tr>
<td>Crude Oil and Condensates</td>
<td>5.25</td>
<td>5.16</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>14.66</td>
<td>14.20</td>
</tr>
<tr>
<td>Production ('000 boe per day)</td>
<td>1,656.1</td>
<td>1,690.7</td>
</tr>
<tr>
<td>Crude Oil and Condensates</td>
<td>699.1</td>
<td>735.7</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>957.0</td>
<td>955.0</td>
</tr>
<tr>
<td>Reserves Replacement Ratio</td>
<td>1.8x</td>
<td>1.0x</td>
</tr>
</tbody>
</table>

### MALAYSIA’S RESERVES

In billion barrels of oil equivalent

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil &amp; Condensates</th>
<th>Natural Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>14.58</td>
<td>14.64</td>
</tr>
<tr>
<td>2003</td>
<td>14.84</td>
<td>14.81</td>
</tr>
<tr>
<td>2004</td>
<td>14.50</td>
<td>14.56</td>
</tr>
<tr>
<td>2005</td>
<td>14.29</td>
<td>14.25</td>
</tr>
<tr>
<td>2006</td>
<td>14.68</td>
<td>14.62</td>
</tr>
</tbody>
</table>

As at 1 January

### MALAYSIA’S AVERAGE PRODUCTION

In million barrels of oil equivalent per day

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY</td>
<td>1.42</td>
<td>1.50</td>
<td>1.58</td>
<td>1.69</td>
<td>1.66</td>
</tr>
</tbody>
</table>
A total of 604.5 million boe of crude oil and natural gas, or an average of 1.66 million boe per day (boepd), was produced in Malaysia during the review period, slightly lower compared to 617.1 million boe (1.69 million boepd) recorded in the previous period. The slight decline in Malaysia’s production was due to shutdowns for major maintenance and repair works in several fields operated by the Production Sharing Contractors. The lower national production resulted in lower share of production for PETRONAS at 424.9 million boe or 70.3% compared to 442.8 million boe previously.

Two new fields, namely South Angsi (oil) offshore Peninsular Malaysia and Shallow Clastics (gas) offshore Sarawak, started production, bringing the number of producing fields in Malaysia to 77.

The level of activities in the country’s E&P sector increased significantly during the year under review. Exploration activities were most active with the acquisition of some 439,182 line kilometres of 3D seismic data. A total of 53 new exploration wells were drilled compared to 47 before, resulting in the discovery of 645.3 million boe of oil and gas reserves. Significant discoveries were made in the deepwater Blocks K and G as well as in shallow water blocks of PM 3 CAA, PM 301, PM 314 and SK 306. The deepwater discoveries accounted for nearly 60% of reserve additions during the year.

The high potential of Malaysia’s acreages especially the frontier areas is reflected in the signing of nine new PSCs last year, of which six was for the ultra deepwater blocks. This brings the number of PSCs in
operation to 60 - a historic high. Eighteen of the PSCs in operation are in deepwater and ultra deepwater areas. Production from Malaysia’s deepwater areas will commence with the Kikeh field expected to come onstream in the third quarter of 2007, followed by Gomusut-Kakap and Malikai fields by 2010 and 2012 respectively. These developments will help spur the development of Malaysia’s support services and will position Malaysia closer to its aspiration to become the region’s centre for deepwater capability.

About RM16.1 billion was spent by PETRONAS and its PSC contractors in Malaysia’s E&P sector compared to RM12.3 billion last year, of which nearly 75% was in the form of foreign direct investment (FDI) brought in by the PSC partners. Of this, RM8.1 billion or 50.6% was for development and production activities, RM2.0 billion or 12.4% for exploration activities and the balance for operations. The dynamism of Malaysia’s E&P sector has created enormous spin-off benefits not only to the oil and gas players and service providers but also to the Malaysian economy in general. Future prospects for Malaysia’s E&P sector remain promising as frontier deepwater and ultra deepwater acreages provide new growth opportunities for the industry.
INTERNATIONAL EXPLORATION AND PRODUCTION AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>FY2006</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total reserves (billion boe)</td>
<td>5.94</td>
<td>5.93</td>
</tr>
<tr>
<td>Crude Oil and Condensates</td>
<td>2.35</td>
<td>2.16</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>3.59</td>
<td>3.77</td>
</tr>
<tr>
<td>Total production ('000 boe per day)</td>
<td>432.3</td>
<td>385.0</td>
</tr>
<tr>
<td>Crude Oil and Condensates</td>
<td>184.9</td>
<td>196.1</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>247.4</td>
<td>188.9</td>
</tr>
<tr>
<td>Reserves Replacement Ratio</td>
<td>1.1x</td>
<td>(1.1x)</td>
</tr>
</tbody>
</table>

INTERNATIONAL EXPLORATION AND PRODUCTION

The year under review saw considerable progress made in the Group’s international E&P operations. PETRONAS’ international reserves as at 1 January 2006 amounted to 5.94 billion boe (5.93 billion boe last year), equivalent to 23.0% of the Group’s total reserves. About 41% of PETRONAS’ international reserves are located in Africa, 32% in Central Asia and the Middle East, and the balance 27% in South East Asia, with natural gas accounting for about 60% of the Group’s international reserves portfolio.

The Group’s international Reserves Replacement Ratio stood at a respectable 1.1 times, driven by an aggressive exploration campaign that yielded international oil and gas discoveries of 109 million boe.

PETRONAS’ international production rose from 140.5 million boe (385,000 boepd) to 157.8 million boe (432,300 boepd) in the review period as a result of higher production from Egypt and the Malaysia-Thailand Joint Development Area (JDA). The early completion of Simian/Sienna and Sapphire development projects in the West Delta Deep Marine (WDDM) block tripled production from the Group’s Egyptian operations. The completion of the Trans Thailand-Malaysia (TTM) project allows PETRONAS to bring Malaysia’s share of natural gas production from the JDA into the Peninsular Gas Utilisation (PGU) system, further enhancing the reliability of gas supply to the national gas grid.
Combined, the Group’s total production during the review period amounted to 582.7 million boe or 1.60 million boepd, of which international production accounted for 27.1% of the Group’s total production compared to 24.1% the year before. The growing international reserves and production are clear indication of the Group’s success in the international E&P arena.

The Group further strengthened its position in Africa, with six new ventures secured during the year. In Sudan, PETRONAS signed the Exploration and Production Sharing Agreement for offshore Block 15 in the Red Sea, marking its entry into the offshore operation in the country following active involvement in Sudan’s onshore sector since 1997. The Group also expanded its presence in Egypt, with the signing of the Concession Agreement for El Burg block and in Ethiopia with the signing of the Petroleum Production Sharing Agreement for Ogaden Block 3 & 4, Block 12 & 16 and Block 17 & 20. PETRONAS also secured a Petroleum Concession Agreement for onshore Block 2567-10 (Daphro) in Pakistan, bringing the Group’s total international upstream interests to 62 ventures in 23 countries. Of this, PETRONAS is the operator for 27 ventures, joint operator for 12 and active partner in the other 23 ventures.

The Group spent RM6.3 billion in its international E&P activities during the review period, a significant portion of which was spent on development projects in Sudan, Egypt and Turkmenistan.
Refined petroleum products continued to be the largest contributor to PETRONAS’ revenue.
OIL BUSINESS

Maximising synergy and returns through expansion of integrated and value-adding activities

The Group’s Oil Business Sector continued to harness value through its marketing, trading, refining and retailing activities, delivering another year of strong performance. Timely operational improvement initiatives allowed the sector to capitalise on high refining margins. The year also saw the oil business sector making further inroads in downstream expansion beyond Malaysian borders with its retailing business in Indonesia, LPG business in Vietnam and aviation business and a new refinery project in Sudan. Strong emphasis on product and service quality solidified the Group’s retail market leadership, both at home and in South Africa.
HIGHLIGHTS

- Signed a Shareholders Agreement with Sudan’s Ministry of Energy and Mining to jointly develop and operate a new 150,000 barrels per day (bpd) complex refinery in Port Sudan.

- Successfully completed the de-bottlenecking of Kertih Refinery, increasing the Group’s total net refining capacity from 356,500 bpd to 367,300 bpd.

- Strengthened domestic petroleum product market leadership in Malaysia and retained petroleum product market leadership in South Africa (at 40.7% and 24.3% market shares respectively).

- Opened the first PETRONAS service station in Jakarta, marking the Group’s entry in the petroleum product retail business in Indonesia.
OIL BUSINESS AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>FY2006 (in million barrels)</th>
<th>FY2005 (in million barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export of Malaysian Crude Oil (MCO)</td>
<td>117.3</td>
<td>123.7</td>
</tr>
<tr>
<td>Export of Petroleum Products</td>
<td>52.5</td>
<td>51.7</td>
</tr>
<tr>
<td>Sales of Foreign Equity Crude Oil (FEC)</td>
<td>39.0</td>
<td>46.3</td>
</tr>
<tr>
<td><strong>Crude Oil Refining</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing of MCO</td>
<td>77.4</td>
<td>84.3</td>
</tr>
<tr>
<td>Processing of Non-MCO</td>
<td>56.3</td>
<td>61.8</td>
</tr>
<tr>
<td>- Domestic</td>
<td>21.8</td>
<td>21.3</td>
</tr>
<tr>
<td>- International</td>
<td>34.5</td>
<td>40.5</td>
</tr>
<tr>
<td><strong>Petroleum Products Retail</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>74.4</td>
<td>73.2</td>
</tr>
<tr>
<td>International</td>
<td>65.4</td>
<td>63.0</td>
</tr>
<tr>
<td><strong>Trading</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>28.7</td>
<td>29.7</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>50.3</td>
<td>61.6</td>
</tr>
</tbody>
</table>

PETRONAS’ total net refining capacity increased from 356,500 barrels per day (bpd) to 367,300 bpd, as a result of the successful de-bottlenecking of its refinery in Kertih, Terengganu. The de-bottlenecking exercise, which was completed in May 2005 increased the refinery’s nameplate capacity from 103,500 bpd to 114,300 bpd.

During the year, the Group’s three refineries in Melaka and Terengganu processed an average of 361,300 bpd of crude oil, about 15% higher than the combined capacities of the domestic refineries. The high capacity utilisation of the three refineries was made possible through operational efficiency and increased plant reliability. The world-class performance continues to place the refineries in the top quartile of the refinery utilisation index of Solomon Tracking.

PETRONAS’ Melaka refinery awarded an Engineering, Procurement, Construction and Commissioning (EPCC) Contract for the construction of Malaysia’s first Group III Base Oil plant in December 2005. The plant, scheduled to be completed by mid-2008, will supply 6,500 bpd of Group III base oil to top-tier automotive and industrial lubricants manufacturers in the domestic and international markets.

MARKETING

During the year under review, PETRONAS exported 117.3 million barrels or about 59% of its share of MCO, compared to 123.7 million barrels last year. The lower export was due to lower production of MCO during the year. About 74% of the MCO exports went to the Asian region and the balance was sold to markets in Australia, USA and New Zealand. The Group also exported 52.5 million barrels of petroleum products from its domestic refineries, a slight increase compared to last year’s export of 51.7 million barrels.

The Foreign Equity Crude Oil (FEC) from the Group’s international production experienced a decrease in sales volume to 39.0 million barrels from 46.3 million barrels in the previous year, mainly due to the lower crude oil entitlement from Chad operations. The Group’s FEC was sold to the USA, Europe and the Asian region.

CRUDE OIL REFINING

Refined petroleum products continued to be the largest contributor to the Group’s revenue. The Group’s refineries continued to play a key role to capitalise on the stronger global demand for petroleum products.
In Sudan, PETRONAS signed a Shareholders Agreement with the Ministry of Energy and Mining in August 2005 to jointly develop and operate a new refinery in Port Sudan. The complex refinery, which is due to be operational by 2009, will process the Dar Blend crude oil from Sudan’s Melut Basin Blocks 3 & 7 in which PETRONAS holds 40% equity. The refinery will produce high quality petroleum products to meet the Euro 4 specifications.

**PETROLEUM PRODUCTS RETAIL**

In the year under review, PETRONAS through its domestic retail arm PETRONAS Dagangan Berhad (PDB) weathered an increasingly competitive retail business environment to register a higher sales volume of 74.4 million barrels of petroleum products compared to 73.2 million barrels last year. This has strengthened the company’s leadership in the domestic market with 40.7% market share. PDB also expanded its retail network, adding 59 new service stations to bring the total to 785 stations nationwide.

In South Africa, subsidiary Engen Ltd. also retained its leadership position with 24.3% market share of the South African petroleum product retail business. Engen currently has 1,363 service stations in the African continent, of which 1,230 are located in South Africa.

In Sudan, PETRONAS Marketing Sudan Ltd. (PMSL) completed its acquisition of Shell’s Aviation Business in the country during the review period, enabling it to provide into-plane service at Khartoum International Airport. In addition,
PMSL also commissioned the into-plane service at El-Obeid Airport, the main commercial airport in Western Sudan. El-Obeid is also used as a base for the United Nations World Food Programme serving Southern Sudan and Darfur.

In Vietnam, PETRONAS Vietnam LPG (PVL) acquired the Liquefied Petroleum Gas (LPG) assets and business from ExxonMobil Unique (Vietnam) Co. Ltd. PVL is responsible for importing, storing, processing and distributing LPG particularly in southern Vietnam to complement the Group’s existing LPG business in northern Vietnam. PETRONAS PT Niaga launched its first service station in Cibubur, Jakarta, demonstrating the Group’s commitment to expand its presence in the Indonesian retail market. The station markets high-octane fuel products under the brand names Primax 92 and Primax 95 as well as PETRONAS’ range of Syntium and Sprinta lubricants. The service station is also equipped with a wide range of facilities to provide added convenience to customers.

**TRADING**

The Group continued to be active in crude oil and petroleum product trading in order to optimise its position in the market and to enhance its value-adding capability in oil business. However, volume was lower at 79.0 million barrels compared to 91.3 million barrels previously, mainly due to the tight market conditions.
The PETRONAS LNG Complex in Bintulu is the world's largest LNG production facility in a single location.
GAS BUSINESS

Ensuring reliable gas supply to the nation while growing in the global LNG business

The Gas Business Sector delivered another solid performance during the year under review. The gas processing and transmission business consistently operated at a world-class standard to support the nation’s increasing demand for processed gas from the power and industrial sectors. Meanwhile, the LNG business further strengthened its position in its traditional Far Eastern markets and continued to make headway in the Atlantic Basin LNG market, most notably with the commencement of the Egyptian LNG project. Higher LNG sales volume also enabled the business to capitalise on record-level prices during the review period.
HIGHLIGHTS

- Higher domestic sales gas volume by 7.8% to 2,122 million standard cubic feet per day (mmscfd), driven by the resilient economy. The PGU system transported 2,031 mmscfd, of which 66.8% was consumed by the power sector.

- Continued to supply gas at regulated prices to the nation’s power and industrial sectors resulting in a higher subsidy of RM14.2 billion, an increase of almost 100%.

- Higher sales volume of 23.6 million tonnes of LNG, with 21.4 million tonnes from PETRONAS LNG Complex, 1.0 million tonnes from Egyptian LNG and 1.2 million tonnes from trading activities.

- Strengthened presence in the emerging Atlantic Basin LNG market with the commencement of operations of Egyptian LNG, which simultaneously increased the Group’s total net production capacity to 25.4 million tonnes per annum.
GAS BUSINESS AT A GLANCE

<table>
<thead>
<tr>
<th></th>
<th>FY2006</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales Gas Volume (mmscf/d)</td>
<td>2,122</td>
<td>1,969</td>
</tr>
<tr>
<td>Sales Gas through PGU (mmscf/d)</td>
<td>2,031</td>
<td>1,869</td>
</tr>
<tr>
<td>Domestic Gas Subsidy (RM billion)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Total</td>
<td>14.2</td>
<td>7.4</td>
</tr>
<tr>
<td>- Power</td>
<td>11.5</td>
<td>6.2</td>
</tr>
<tr>
<td>- Non Power</td>
<td>2.7</td>
<td>1.2</td>
</tr>
<tr>
<td>LNG Sales Volume (million tonnes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Malaysia LNG</td>
<td>21.4</td>
<td>21.2</td>
</tr>
<tr>
<td>- Egyptian LNG</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>- ASEAN LNG Trading Company Ltd.</td>
<td>1.2</td>
<td>1.2</td>
</tr>
</tbody>
</table>

GAS PROCESSING AND TRANSMISSION

The Group sold an average volume of 2,122 mmscf/d of sales gas during the review period, a 7.8% increase compared to the previous year’s 1,969 mmscf/d, as a result of higher demand for gas from the power, industrial and petrochemical sectors.

Of this amount, 2,031 mmscf/d was transported by the Peninsular Gas Utilisation (PGU) system. The power sector remained the largest gas consumer, accounting for 66.8% of gas sales through PGU followed by the industrial, petrochemical and other users at 27.5%. The Independent Power Producers (IPPs) consumed almost two-thirds of the total gas supplied to the power sector. A further 5.7% of sales gas was exported to Singapore.

During the review period, the Group secured additional supplies from gas fields offshore Terengganu, as well as through imports from Vietnam, Indonesia, and the Malaysia-Thailand Joint Development Area (JDA) to cater to the higher demand. Gas imports increased by 188% from 148 mmscf/d to 426 mmscf/d during the review period, representing 17.8% of total gas supplied into the PGU system.

The Group continues to supply gas to the domestic power and non-power sectors at regulated rates. The higher volume of gas consumed by the domestic power and industrial sectors coupled with high market prices resulted in PETRONAS
subsidiing about RM14.2 billion for the
gas during the review period, an increase
of 91.9% over the previous year.

The Group’s gas processing plants and
pipeline system sustained a world-
class performance with reliability rates
of over 98%. The Gas Processing and
Transportation Agreement (GPTA) with
PETRONAS Gas Berhad (PGB), effective
from 1 April 2005 to 31 March 2010,
was revised to include performance-
based incentive payments. The Group
successfully completed the rejuvenation
and de-bottlenecking project of GPP-1
to extend the plant’s life for another 20
years and increased the plant’s capacity
by 25% or about 60 mmscf/d, enhancing
the Group’s total gas processing capacity
to 2,060 mmscf/d.

Other significant developments during
the year include the completion of a Gas
Separation Plant (GSP) in Songkhla,
Thailand as part of the TTM joint
venture project in October 2005, enabling
further gas supplies to the PGU system.
LPG extracted at the GSP is transported
by pipeline to the Group’s depot in
Butterworth, Penang.

The Group made another breakthrough
in gas exports to Singapore with the
signing of a Gas Sales Agreement (GSA)
with Keppel Energy for a period of up
to 18 years, commencing from mid-
2006. The contract, the second with a
Singapore customer, further enhances
PETRONAS’ position in Singapore’s gas
market, strengthening its long-standing
reputation as a reliable gas supplier to the
island nation.
LIQUEFIED NATURAL GAS (LNG)

PETRONAS is currently the second largest equity owner of LNG production capacity in the world and the PETRONAS LNG Complex in Bintulu, Sarawak, remains the world’s largest LNG production facility at a single location with a combined capacity of about 23 million tonnes per annum. During the year, the Complex produced 21.6 million tonnes of LNG compared to 21.2 million tonnes previously. Of this, 13.4 million tonnes or 62% was exported to Japan, 4.8 million tonnes or 22% to South Korea and 3.3 million tonnes or 15% to Taiwan.

The Group increased its market share in Japan and Taiwan to 23% and 42% respectively and retained its market share in South Korea at 21%. During the year, three new long-term contracts were signed with Hiroshima Gas Co. Ltd., Korea Gas Corporation and Toho Gas Co. Ltd. PETRONAS is currently de-bottlenecking the MLNG Dua Plant to increase its production capacity by 1.2 million tonnes per annum. The de-bottlenecking project is scheduled for completion in 2009.

The ELNG project commenced operations ahead of schedule and produced 4.3 million tonnes of LNG during the year. The Group’s LNG trading arm, ASEAN LNG Trading Company Ltd. (ALTCO) continues to support the widening reach of PETRONAS’ LNG business. ALTCO sold a total of 21 cargoes, amounting to 1.2 million tonnes of LNG to customers in the USA, Spain, Belgium and South Korea.

The construction of the Dragon LNG receiving and regasification terminal in the UK continues to progress and is expected to be operational in 2008. The terminal will provide the Group with access to a new gas market and a home for future LNG cargoes.
The port at the PETRONAS Petroleum Industry Complex in Kertih provides logistics support for the petrochemical industry.
The Petrochemical Business Sector recorded its best-performing year ever. Continuous operational excellence initiatives, backed by favourable market conditions enabled the sector to achieve record production and sales volume during the year under review. The availability of gas-based feedstock from the PGU system and interdependency of feedstock supply between integrated plants have also enabled the sector to maintain its competitive cost structure.
HIGHLIGHTS

- Increase in total production of petrochemical products by 12.8% to 8.8 million tonnes due to significant improvement in plant reliability and utilisation rates.

- Higher sales volume recorded, amidst favourable market conditions for petrochemical products.

One of the end products of the petrochemical sector include PVC pipes as seen here.
The Group's integration and value adding strategy continue to yield dividends to the Petrochemical Business sector, enabling it to add further value to the Group's earnings and record its highest production and sales volume during the review period.

During the year, the Group's (including its associates) total production of petrochemical products increased 12.8% to 8.8 million tonnes, compared to 7.8 million tonnes previously. Sales volume also increased from 6.4 million tonnes to 7.0 million tonnes in the review period.

The improved performance was due to continuous operational improvement efforts. The sector attained record reliability and utilisation rates, at 93.3% and 88.3% respectively, as compared to 90.2% and 77.4% in the previous financial year. The Group's Petrochemical Business embarked on concerted cost reduction initiatives three years ago and to date has successfully realised cumulative cost savings of USD200 million. This success was built upon continuous measures to trim and increase overall cost competitiveness, leveraging on synergies derived from improved processes, logistics, as well as resource and feedstock allocation optimisation efforts.

Expansion of the business continues to progress well. The construction of the Mega Methanol Project in Labuan is progressing as scheduled and is expected to be operational by early 2008.

While the commendable progress made by the Petrochemical Business bears testimony to the success of the Group's integration and value adding strategy, the sector has also provided an immense contribution to the development of the nation's petrochemical industry, particularly in the Eastern Corridor, in line with the country's Industrial Masterplans, and has positioned Malaysia as a regional petrochemical hub.

<table>
<thead>
<tr>
<th>PETROCHEMICAL BUSINESS AT A GLANCE</th>
<th>FY2006</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production Volume (million tonnes)</td>
<td>8.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Sales Volume (million tonnes)</td>
<td>7.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Overall plant reliability rate</td>
<td>93.3%</td>
<td>90.2%</td>
</tr>
<tr>
<td>Overall plant utilisation rate</td>
<td>88.3%</td>
<td>77.4%</td>
</tr>
</tbody>
</table>
MISC's diverse fleet of vessels provide strategic advantage to PETRONAS' energy business
LOGISTICS AND MARITIME BUSINESS

Exploring new synergies for growth

The Group’s logistics and maritime business is undertaken by its subsidiary MISC Berhad (MISC), the leading international shipping line of Malaysia. The principal business of the sector consists of ship-owning, ship management and other related logistics and maritime transportation services. The Group’s strategic integration and the sector’s focus on energy transportation and logistics again emerged as the main drivers for strong performance. The logistics and maritime business is primarily supported by ongoing long-term contracts and timely contributions from the offshore and engineering business, backed by a strong emphasis on building internal capabilities and the effective execution of carefully planned strategies and synergies.
LOGISTICS AND MARITIME BUSINESS AT A GLANCE

<table>
<thead>
<tr>
<th>Fleet numbers (by vessel type)</th>
<th>FY2006</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNG</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Petroleum</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>Chemical</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>FPSO/FSO</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Liner</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>103</td>
</tr>
</tbody>
</table>

HIGHLIGHTS

- Strengthened position as the largest owner/operator of LNG tankers through delivery of three new LNG tankers - Puteri Mutiara Satu, Seri Alam and Seri Amanah.

- Signed a 20-year long-term contract for the provision of two new LNG tankers with Yemen LNG.

- Completed and delivered the Group’s first Floating, Storage and Offloading (FSO) facility to Talisman Malaysia Ltd. for South Angsi field.

- Signed a 15-year long-term contract with Sonatrach.

The Group’s integrated energy transportation and logistics were the main drivers for strong performance.
During the year, MISC continued to chart significant progress and enhanced its role as a strategic value creator within PETRONAS’ business value chain.

The year in review saw three new LNG vessels added to MISC’s LNG tankers portfolio, increasing the size of the LNG fleet to twenty-one tankers. With the delivery of new LNG tankers Puteri Mutiara Satu, Seri Alam and Seri Amanah during the year, MISC continued to strengthen its global market position as the single largest owner/operator of LNG tankers. Each new vessel is employed on a twenty-year time charter contract with the Group’s subsidiary MLNG, strengthening synergies within the PETRONAS Group as a whole.

MISC successfully concluded its first long-term third party shipping contract with Yemen LNG to provide two new LNG carriers for a twenty-year contract beginning in 2009. MISC also strengthened its relationship with Gaz de France (GdF) following the extension of its charter party contract and secured time charter contracts with BG of the United Kingdom and Pertamina of Indonesia.

MISC’s reorganisation of its petroleum shipping business under its subsidiary AET, completed in April 2005, saw the creation of three regional centres in London, Houston and Singapore. AET made a significant debut into the Suezmax tanker market through a joint venture with Sonatrach to own and operate one VLCC, one Aframax and one Suezmax class tankers for a fifteen-year long-term contract to haul Algerian crude oil and condensates commencing in 2008.

In the offshore business, MISC continued to strengthen its position in the Floating, Production, Storage and Offloading (FPSO)/ FSO sector, successfully completing and delivering its first FSO facility to Talisman Malaysia Ltd. for its South Angsi field in August 2005.

The FSO was constructed by Malaysia Marine and Heavy Engineering Berhad (MMHE). The construction of FPSO Kikeh for Murphy Oil (Sabah) Ltd. at MMHE’s shipyard in Pasir Gudang is progressing on schedule. MMHE made a significant breakthrough in its business focus by making a strategic shift towards the oil and gas industry and high value added marine repairs, which included the undertaking of several Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) projects.
PETRONAS encourages innovation to enhance our competitive edge
TECHNOLOGY DEVELOPMENT

Renewing Enthusiasm for Innovation

PETRONAS fully realises the role of technology in business growth. The strategic deployment and application of technology will enable us to achieve further operational excellence and maximise the potential of existing assets and emerging opportunities. At the end of the review period, we announced the creation of a new Research and Technology Division to stimulate and enhance technology development.

We continue to record positive developments in the application of new technology across our business. Among the many innovative uses of technology that have added value to our E&P activities during the year include the application of Thermo-Chemical In-situ Heat Generation, a novel technique that was developed in-house to remove organic solids from in and around the well bore and production tubing in Temana field; the successful installation of the world’s first modified Stratapac Separation Tool in the Tukau TK-54L well to control sand production and the utilisation of 3D Shallow Water OBC technique in the Siwa field to enable exploration of the shallow water areas, offshore Sarawak.

We continue to improve and enhance our own integrated Risk-Based Inspection (RBI) methodology to improve the margin of plant safety in the most cost-effective manner. Utilising this system, we completed the ‘Integrity Management of Topside Static Equipment and Piping’ project at the Yetagun platform in Myanmar during the year.
STABILITY

The deeper your roots, the higher you reach.
Climate change, biodiversity and the environment are part of PETRONAS’ corporate sustainability initiatives.
CORPORATE SUSTAINABILITY

Building a Heritage of Trust

In line with PETRONAS’ commitment to sustainable development, continued emphasis was made on the effective and consistent implementation of PETRONAS HSE Management System across the Group. With the triple bottom line as a basis of the corporate sustainability initiative, seven key result areas namely Shareholders Value; Energy Use; Health, Safety and Environment; Product Stewardship; Societal Needs; Climate Change and Biodiversity were identified within the PETRONAS Corporate Sustainability Framework.
The PETRONAS Corporate Sustainability Framework reflects the Group’s commitment and continuous emphasis on the responsible management of our petroleum resources in balancing our commercial, environmental and social performance, collectively known as the triple bottom line. The seven key result areas under this framework streamline our efforts to achieve effective organisational management towards sustained growth well into the future while ensuring the systematic implementation, measurement and reporting of our triple bottom line performance.

HEALTH, SAFETY & ENVIRONMENT

Health, Safety and Environmental Management (HSE) continues to be a top priority in all PETRONAS’ operations, as evident in the various initiatives implemented throughout the Group with both internal and external stakeholders in elevating HSE standards. As we expand further into both the domestic and international arenas, it shall remain vital that assets, investments and the lives of our employees and surrounding local communities are safeguarded.

The Group’s efforts to uphold high HSE standards continue to result in recognition with many awards received from the various authorities and bodies during the year.
PETRONAS HSE MANAGEMENT SYSTEM

Throughout the year in review, continuous emphasis is made on the effective and consistent implementation of the PETRONAS HSE Management System (HSE MS) across the Group. The effort proved positive as the Group Lost Time Injury Frequency per million man-hours improved to 0.60 from the 0.77 recorded in the previous year.

We continue to carry out regular assurances, interventions and continuous improvement activities that are strategically complemented by HSE experiences and best practices. These in turn are constructively shared with our contractors, other players in the oil and gas fraternity and relevant government authorities through various channels including strategic forums, dialogue sessions and internal online communication channels.

Emergency management and response preparedness are other important elements of the Group’s HSE Management System. Major emergency exercises requiring close interface and integration between PETRONAS and relevant government agencies and authorities continue to be carried out to assess and enhance the Emergency Response Plan including mitigation plans.
CLIMATE CHANGE

In the area of climate change, PETRONAS Greenhouse Gas (GHG) Inventory Working Group’s efforts to establish PETRONAS GHG inventory continue to progress. A PETRONAS Green House Gas Accounting & Reporting User Guide has been internally established, with references made to internationally accepted standards, to ensure a consistent and systematic GHG accounting and reporting throughout the Group. In line with the National Inventory Requirements, the Group’s GHG inventory was completed in December 2005 for domestic operations with baseline year being FY 2003/04. The GHG inventory will be included in Malaysia’s Second National Communication report to the United Nations Framework Convention on Climate Change. The inventory will be the main reference for future project development and investment opportunities.

EDUCATION

We continue to invest significantly in human capital development and education to ensure sustained growth for the benefit of both the present and future generations. We believe in creating opportunities for individuals and communities to realise their full potential.

During the year in review, PETRONAS presented five public institutions of higher learning with education grants to support the development of their respective geosciences and petroleum engineering programmes. Under the PETRONAS Education Sponsorship...
Programme, a total of 2,374 students were awarded scholarships based on academic and professional merit to pursue tertiary studies in Malaysia and abroad during the year. Of these, 116 were foreign students enrolled into our own university, Universiti Teknologi PETRONAS (UTP), now well known as a premier engineering and technology institution of higher learning. This brings the number of foreign students at UTP to 411 from 17 countries.

We also sponsored various educational initiatives and our ‘Adopt-a-School’ project called Program Bakti Pendidikan PETRONAS, involving 25 schools and 1,000 students in Malaysia, continue to address the special tutoring needs of primary school students. In collaboration with the National Association for the Prevention of Drugs (PEMADAM), we organised the Second Annual Sahabat Pemadam National Colloquium, which focused on drug abuse prevention at youth level.

In Sudan, PETRONAS in collaboration with the host government established two vocational training centres in Omdurman and Oumbadda in Khartoum during the year. The centres are aimed at developing selected skills that are critically needed in the country.

The year also saw our Education Division continuing to pursue rigorous enhancement of training programmes and facilities at UTP and our other training institutions namely PERMATA, INSTEP and ALAM. Smart partnerships continue to be developed with established institutions, both locally and internationally, to further enhance our training and development programmes. In January 2006, an Academic Cooperation Agreement with Institut Francais du Petrole (IFP) and ENSPM Formation Industrie (IFP Training) were signed, paving the way for the introduction of a Master of Science programme in the field of Petroleum Geoscience at UTP. PETRONAS also collaborated with Halliburton to develop the Halliburton Technical Excellence Centre (TEC) at UTP. This highly specialised upstream oil and gas training centre is the first such TEC established outside North America to provide specialised training support in E&P to new graduates and oil and gas professionals, including the areas of geology and geophysics.
PETRONAS’ ability to realise the full potential of its business anchors on the quality and competency of its people.
PEOPLE

Enhancing capabilities and performance

PETRONAS’ stature as a multinational entity is reflected in its workforce composition comprising nationals from 28 countries. In optimising the diverse talents, capability building and developing leadership qualities remain key strategic thrusts upon which PETRONAS’ development initiatives are based. In addition to the Key Performance Indicators (KPIs) in place, an Intensified Performance Management System (IPMS) was also implemented encompassing coaching and 360° feedback on leadership behaviour. Also central to effective human resource management is the Group’s Code of Conduct, through which all operational and legal guidelines on work ethics are disseminated.
PETRONAS’ ability to realise the full potential of its business anchors on the quality and competency of its most valuable asset, its people. As such, it remains fully committed to attract, develop, enrich and retain capable, confident, and competent human talents.

During the year, we have realigned our Human Resource Management (HRM) Division to better support the Group’s business strategies and meet our highly integrated and dynamic business requirements. Our HRM Division works closely with our Education Division to strategically manage the human capital requirements of the Group. To maintain high performance within the organisation with distinction and resilience, the Group has continued to invest in staff development and capacity building, both in functional skills as well as capability building. International assignments, hands-on job training and on-line learning are some of the methods employed, in addition to continued sponsorship of qualified staff for postgraduate training.

**PERFORMANCE MEASUREMENT**

In line with a performance-driven work culture that appreciates and rewards talent, effort and results, the IPMS was introduced to enhance the KPIs and target setting within the organisational structure. Embedded in the system is an emphasis on coaching and 360° feedback on leadership behaviour. This is necessary to create the appropriate mindset for the development of reliable
and replicable enhanced performance culture required for PETRONAS’ continued performance.

LEADERSHIP DEVELOPMENT

PETRONAS also devotes considerable effort to retain top calibre manpower within the organisation. Talent recruitment in PETRONAS sets its sight on long-term staff-employer relationship. Capability building and leadership qualities are key strategic thrusts upon which our people development initiatives are based upon. To ensure smooth succession planning, the Group has successfully leveraged, enhanced and expanded the existing platforms, systems and processes in leadership development. Initiatives include matching personnel to the right positions, provision of assessment and progression platforms, leadership programmes and occupational mobilisation for further development.

CODE OF CONDUCT

The Group’s Code of Conduct demonstrates PETRONAS’ firm commitment to the highest standards of integrity, openness and accountability in the conduct of its business and operations. Through the document, the Group disseminates information on employee-specific guidance, directions, updates and legal implications in key areas of ethical and responsible business conduct. This forms the foundation upon which both domestic and overseas employees embrace common shared values.
PETRONAS volunteers helped out a humanitarian mission to Pakistan’s earthquake-stricken areas.
OUR CORPORATE SOCIAL INVESTMENTS

Positive contribution to host communities

The Group continued with its efforts to contribute to the development of the nation and communities of the host nations where we operate. Throughout the year, the Group was involved in various proactive community outreach activities to aid the disadvantaged. We also organised various education activities and our volunteer employees participated in disaster-relief missions in Aceh and Pakistan.
PETRONAS works together with its partner nations to contribute to the well-being of the communities where it operates.
PETRONAS is actively engaged in balancing economic, environmental and social objectives in all its business operations through sustainable development and initiatives to safeguard the interests of present and future generations. Our track record speaks for itself and we hope to continue contributing meaningfully towards enhancing and sustaining the quality of life of the people and communities where we operate, now and in the future.

**PETRONAS VOLUNTEER OPPORTUNITY PROGRAMME (PVOP)**

The PETRONAS Volunteer Opportunity Programme (PVOP) undertook its first international humanitarian mission in 2005 with Mercy Malaysia to assist Aceh in its rebuilding efforts after the December 2004 Tsunami tragedy. The volunteer programme trains PETRONAS employees in humanitarian relief work before deploying them in disaster sites. PVOP volunteers also accompanied Mercy Malaysia on relief missions to Pakistan following a massive earthquake in October 2005.

**GLOBAL CSI**

Internationally, PETRONAS continues to support social initiatives addressing specific needs of local communities, primarily in human capital development, education, healthcare and rural development aid. Throughout the year, we monitored the progress of the schemes we had put in place and carried out new activities within these schemes in our host nations.
ADAPTABILITY

The key to success is often the ability to adapt.
MAIN EVENTS
(1 APRIL 2005 - 31 MARCH 2006)

E&P BUSINESS

26 April 2005
PETRONAS made Malaysia’s first basement oil discovery in a well drilled within the Southern Malay Basin offshore Terengganu.

24 July 2005
PETRONAS entered into a strategic partnership agreement with Tharwa Petroleum Company of Egypt, commencing with the execution of mutual projects for an investment of USD60 million which includes oil exploration activities in four blocks located in the western desert of Siwa, West Ghazalat, El Farafa and El Saloom.

25 July 2005
PETRONAS' investments in Egypt were further strengthened by the award of a 30 percent equity stake in Block El Burg. The remaining equity is held by British Gas, who is also the operator of the block.

25 July 2005
PETRONAS and the Ethiopian Ministry of Mines signed three Exploration and Production Agreements for Ogaden Blocks 3 & 4, Blocks 12 & 16 and Blocks 17 & 20, in addition to Block G in the Gambela Basin.

30 August 2005
PETRONAS secured its first offshore gas exploration rights in Sudan with the signing of the Exploration and Production Sharing Agreement for Block 15, which covers an area of 28,655 square kilometers within the Red Sea Basin.

7 March 2006
PETRONAS added Block 2567-10 (Daphro) in Pakistan to two other exploration blocks - Mubarak and Mehar - in the Sindh Province, in addition to the Rehmat Block already undergoing development and production.
19 August 2005
PETRONAS launched its range of premium grade automotive and motorcycle engine oils in Thailand. Apart from Thailand, PETRONAS’ lubricants, particularly SYNTIUM, are already available in Switzerland, Liechtenstein, South Africa, China, Indonesia, the Philippines, Myanmar and Sudan.

29 August 2005
PETRONAS officially expanded its entry into Sudan’s downstream business via its participation in the new Port Sudan Refinery Project. The complex will process the Dar Blend crude from Sudan Melut Basin Blocks 3 & 7, in which PETRONAS holds interests. It is expected to be fully operational by early 2009.

9 March 2006
PETRONAS officially opened its first retail station in Cibubur, East of Jakarta, marking a significant milestone in PETRONAS’ downstream venture in Indonesia.
17 May 2005
PETRONAS signed a Gas Sales Agreement (GSA) with Indonesia’s state owned electricity company, Perusahaan Listrik Negara (PLN) for the supply of up to 145 million standard cubic feet of gas per day (mmscfd) to PLN’s Tambak Lorok Power Plant in Central Java for a period of up to 10 years from the PETRONAS-operated Muriah Block.

25 May 2005
PETRONAS together with joint-venture partners Eni Pakistan Ltd and Government Holdings Private Ltd, opened its first gas plant, the Rehmat Gas Plant in Ghotki, Pakistan. The sales gas production from the Rehmat field had commenced earlier in April.

29 May 2005
PETRONAS’ subsidiary, Asean LNG Trading Company Ltd took delivery of its first LNG cargo from PETRONAS’ joint venture Egyptian LNG project in Idku, Egypt - the first cargo commitment under the project’s Train 1 which was completed four months ahead of schedule.

10 June 2005
PETRONAS signed a GSA for the supply of up to 110 mmscfd of gas to PT Perusahaan Gas Negara (PGN) for between 8 and 12 years from its 25%-owned Madura Offshore block in East Java.

15 June 2005
PETRONAS Gas Berhad (PGB) entered into an Addendum to the Gas Processing Transmission Agreement (GPTA) with PETRONAS, effective retrospectively from 1 April 2005 to 31 March 2010, that included for the first time performance-based incentives within the revised commercial terms.

27 June 2005
PETRONAS formalised a GSA with Keppel Energy Pte Ltd of Singapore for the supply of up to 115 mmscfd of gas for a period of up to 18 years, commencing from mid-2006.

4 July 2005
PETRONAS subsidiary, Malaysia LNG Sdn Bhd (MLNG) signed a Sale and Purchase Agreement (SPA) with Hiroshima Gas Co Ltd to supply LNG to the Japanese company for eight years.
12 July 2005
PETRONAS subsidiary, Malaysia LNG Tiga Sdn Bhd (MLNG Tiga) signed an SPA with Korea Gas Corporation (KOGAS) to supply LNG for 20 years beginning 2008 - making KOGAS the largest LNG importer from Malaysia LNG Companies with a total amount of 6.7 million tonnes per annum.

21 July 2005
Trans-Thai Malaysia’s Gas Separation Plant (GSP) commences operations to process gas from the Malaysia-Thailand Joint Development Area (MTJDA).

29 August 2005
PETRONAS, PETRONAS Carigali Sdn Bhd, and Sarawak Shell Bhd concluded a GSA with MLNG for supply of gas to the MLNG plant until the year 2020.

1 September 2005
PETRONAS subsidiary, MLNG Dua Sdn Bhd awarded the contract for the de-bottlenecking of its LNG plant, which will witness an increase in the plant’s output from 7.8 million tonnes per annum (mtpa) to about 9.0 mtpa by 2009.

2 March 2006
MLNG Tiga inked an SPA with Toho Gas Co Ltd to supply 520,000 tonnes per annum of LNG beginning 2007.

6 July 2005
PETRONAS, through subsidiary PETRONAS Methanol (Labuan) Sdn Bhd, awarded Lurgi AG of Germany the contract to expand its methanol plant in Labuan, involving the construction of a new plant that will produce 1.7 million tonnes of methanol a year - triple that of the existing plant’s current capacity of 660,000 tonnes a year.
LOGISTICS & MARITIME BUSINESS

9 May 2005
Malaysia Shipyard and Engineering Berhad, the marine and heavy engineering arm of PETRONAS’ subsidiary, Malaysia International Shipping Corporation Berhad (MISC), launched its new corporate identity under the new name, Malaysia Marine and Heavy Engineering (MMHE) Berhad. MMHE aims to become the centre for the construction of deepwater facilities, a regional hub for servicing LNG tankers, and marine engineering conversions of tankers to Floating Production, Storage and Offloading and Floating Storage and Offloading (FSO) vessels.

14 August 2005
MISC successfully completed and delivered its first FSO facility to Talisman Malaysia Ltd for its South Angsi field, offshore Sarawak. The facility was constructed by MMHE.

22 September 2005
PETRONAS subsidiary, Malaysia International Shipping Corporation Berhad was renamed MISC Berhad, projecting a new corporate identity that reflected the transformation of MISC from being a multi-focused shipping company to a global energy-focused maritime transportation and logistics company.

April & September 2005 and March 2006
MISC added another three new LNG vessels to its asset portfolio, increasing the size of LNG fleet to 21 vessels. With this, MISC continues to strengthen its global market position as the largest single owner/operator of LNG carriers.
11 July 2005
International experts converged in Kuala Lumpur, Malaysia for the first-ever Asia Pacific Conference on Natural Gas for Vehicles (NGV). The conference was jointly organised by PETRONAS, the Asia Pacific Natural Gas for Vehicles Association (ANGVA) and the Malaysian Gas Association.

2 September 2005
PETRONAS signed a Letter of Intent with China’s carmaker Nanjing Automobile Corporation and Brilliant Culture Group Limited to look into the possibility of using its PETRONAS E01 engine technology for the carmaker’s vehicle line-up.

24 November 2005
PETRONAS officially became a Premium Partner to the BMW SAUBER F1 Team, extending its longstanding arrangement with SAUBER to the new BMW-managed Team.

30 November 2005
PETRONAS signed a Joint Development Agreement with BRP-ROTAX of Austria to further develop and commercialise PETRONAS’ high performance engine family.

27 January 2006
PETRONAS inked a Memorandum of Intent (MOI) with Malaysia’s national carmaker Proton Holdings Berhad to jointly explore the possibility of the use of PETRONAS E01 engine technology in the carmaker’s vehicles. PETRONAS and Proton will also look at the possibility of developing environment-friendly NGV fuel systems for Proton.
1 April 2005
PETRONAS launched its Volunteer Opportunity Programme to give its staff the opportunity to contribute their services through community relations projects. Working in collaboration with MERCY Malaysia, PETRONAS volunteers have been sent to Banda Aceh, Indonesia, Pakistan and Myanmar.

9 July 2005
PETRONAS launched a nine-volume reference guide known as “The PETRONAS Young Environmentalist Guide” as part of its long-term commitment to assist in educating the younger generation of Malaysians on the appreciation, conservation and protection of nature and the environment.

10 August 2005
PETRONAS introduced its ‘Adopt-a-School’ programme Program Bakti Pendidikan, already widely successful in other parts of Malaysia, to selected schools in Kuala Lumpur and Selangor.
Glossary of Terms

- **Additives**: Chemicals to control engine deposits and improve lubricating performance.
- **Barrels of oil-equivalent (BOE)**: A unit of measure to quantify crude oil and natural gas amounts using the same basis. Natural gas volumes are converted to barrels on the basis of energy content. See oil-equivalent gas and production.
- **Brent Prices**: The benchmark crude oil price in Europe, as traded on the International Petroleum Exchange in London. Brent Crude refers to a particular grade of crude oil, which is slightly heavier than WTI crude. See WTI prices.
- **Condensate**: Liquid hydrocarbons produced with natural gas, separated by cooling and other means.
- **Development**: Drilling, construction and related activities following discovery that are necessary to begin production and transportation of crude oil and natural gas.
- **Enhanced recovery**: Techniques used to increase or prolong production from crude oil and natural gas fields.
- **Exploration**: Searching for crude oil and/or natural gas by utilizing geologic and topographical studies, geophysical and seismic surveys, and drilling of wells.
- **Greenhouse gases**: Gases that trap heat in the Earth’s atmosphere (e.g., carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride).
- **Integrated oil and gas company**: A company engaged in all aspects of the oil and gas industry; exploring for and producing crude oil and natural gas (upstream); refining, marketing and transporting crude oil, natural gas and refined products (downstream); as well as manufacturing and distributing petrochemicals (chemicals).
- **Liquefied natural gas (LNG)**: Natural gas that is liquefied under extremely cold temperatures to facilitate storage or transportation in specially designed vessels.
- **Liquefied petroleum gas (LPG)**: Light gases, such as butane and propane that can be maintained as liquids while under pressure.
- **Natural gas**: A clean burning, odourless, colourless, highly compressible mixture of hydrocarbons occurring naturally in gaseous form. Natural gas is primarily comprised of methane but can also include ethane, propane and butane.
- **Natural gas liquids (NGL)**: Separated from natural gas, these include ethane, propane, butane and natural gasoline.
- **Petrochemicals**: Derived from petroleum; used principally for the manufacture of chemicals, plastics and resins, synthetic fibers, detergents, adhesives, and synthetic motor oils.
- **Production**: Total production refers to all the crude oil and natural gas produced from a property. Gross production is the company’s share of total production before deducting both royalties paid to landowners and a host government's agreed-upon share of production under a production-sharing contract. Net production is gross production minus both royalties paid to landowners and a host government’s agreed-upon share of production under a production-sharing contract. Oil-equivalent production is the sum of the barrels of liquids and the oil-equivalent barrels of natural gas produced. See barrels of oil-equivalent and oil-equivalent gas.
- **Production-sharing contract**: A contractual agreement between a company and a host government whereby the company bears all exploration, development and production costs in return for an agreed-upon share of production.
- **Reserves**: Crude oil or natural gas contained in underground rock formations called reservoirs. Proved reserves are the estimated quantities that geologic and engineering data demonstrate can be produced with reasonable certainty from known reservoirs under existing economic and operating conditions. Estimates change as additional information becomes available. Oil-equivalent reserves are the sum of the liquids reserves and the oil-equivalent gas reserves. See barrels of oil-equivalent and oil-equivalent gas.
- **WTI Prices**: Stands for West Texas Intermediate, the benchmark crude oil price in the US measured in USD/barrel, which refers to a type of high quality, light in gravity crude oil.