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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
Corporate Profile

PETRONAS, the acronym for Petronas 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. Over the years, PETRONAS has grown to become a fully-integrated oil and gas corporation and is ranked among the FORTUNE Global 500® 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 be a leading oil and gas multinational of choice.
Board Members
Left to right:

Datuk Anuar Ahmad
Tan Sri Khalid Ramli
Tan Sri Dato Sri Mohd Hassan Marican
Datuk Nasarudin Md Idris
Tan Sri Dato’ Zaki Tun Azmi
Dato' Dr Wan Abdul Aziz Wan Abdullah
Datuk Dr Sulaiman Mahbob
Mohammed Azhar Osman Khairuddin (Company Secretary)
Management Committee Members

Tan Sri Dato Sri
Mohd Hassan Marican
Acting Chairman, President &
Chief Executive Officer

Left to right:

Dato’ 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 Ainon Marziah Wahi
Vice President
Human Resource Management Division

Datuk Yeow Kian Chai
Vice President
Petrochemical Business

Datuk Dr Rosti Saruwono
Vice President
Education Division
Left to right:

Datuk Nasarudin Md Idris
Vice President
Corporate Planning & Development Division
CEO of KLCC Group of Companies

George Ratilal
Vice President
Finance Division

Datuk Abdullah Karim
Vice President PETRONAS
MD/CEO, PETRONAS Carigali Sdn Bhd

Wan Zulkiflee Wan Ariffin
Vice President
Gas Business

Ramlan Abdul Malek
Vice President
Exploration & Production Business

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
PETRONAS ANNUAL REPORT 2007

Aerial view of the PETRONAS LNG Complex in Bintulu, Sarawak, Malaysia

TAN SRI DATO SRI MOHD HASSAN MARICAN
Acting Chairman, President & Chief Executive Officer
On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report of Petroniarm Nasional Berhad (PETRONAS) for the financial year ended 31 March 2007.

Overview

The PETRONAS Group delivered another set of record performance during the review period amidst a more complex and increasingly challenging global oil and gas industry environment. Crude oil prices remained high during the year as global demand, particularly from the transportation sector, continued to increase on the back of strong economic growth, especially in China and India. In the meantime, supply disruptions in Alaska and Nigeria, and continuing geopolitical tensions in the Middle East, escalated concerns over security of supply.
Samarang platform, offshore Sabah, Malaysia
Stronger demand amidst heightened threats of supply disruptions, coupled with lack of refining capacity globally and OPEC crude production curtailment, pushed oil prices higher with West Texas Intermediate (WTI) and Brent crudes average prices increasing by 8.5% and 12.2% to USD64.92 per barrel and USD65.08 per barrel respectively during the review period. In tandem, the weighted average price of Malaysian Crude Oil (MCO) increased by 11.2% to USD68.50 per barrel. Prices of petroleum products also rose, with gasoline and diesel, used mainly by the transport sector, reaching an average price of USD74.44 (USD66.87 previous year) and USD77.47 (USD68.59 previous year) per barrel respectively.

High oil prices and demand spurred intensified industry activities, and consequently drove up costs far higher than the increase in prices. For example, upstream capital costs had increased by approximately 21% during the year - more than double the rate of increase in crude prices over the same period.

The escalation in cost, coupled with the lack of engineering and construction capacity as well as shortage of experienced personnel, had led to project delays and adversely impacted safety, efficiency and quality of operations. The continuing cost escalation had also negatively affected the economic viability of ongoing and planned projects, resulting in many projects being deferred and some even abandoned. In summary, the review period saw oil and gas companies globally operate in a highly challenging environment as escalating costs overshadowed gains from high energy prices.

Against this industry environment, the PETRONAS Group recorded an all-time high revenue of RM184.1 billion and profit before tax of RM76.3 billion, both increasing by approximately 10% from the previous year. The Group’s balance sheet continued to strengthen with total assets rising 7.9% to RM294.6 billion. Shareholders’ funds expanded 16.3% to RM170.9 billion while Return on Average Capital Employed (ROACE) remained high at 40.9%.
Five-Year Financial Highlights
Group as at 31 March (RM million)

NOTE:
PETRONAS Group had adopted new and revised Financial Reporting Standards (FRSs) issued by the Malaysian Accounting Standards Board (MASB) which are mandatory for annual periods beginning on or after 1 January 2006. FY2006 financial numbers have been restated to comply with these new and revised FRSs.
<table>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (RM billion)</td>
<td>184.1</td>
<td>167.4</td>
<td>137.0</td>
<td>97.5</td>
<td>81.4</td>
</tr>
<tr>
<td>Profit Before Tax (RM billion)</td>
<td>76.3</td>
<td>69.4</td>
<td>58.0</td>
<td>37.4</td>
<td>26.9</td>
</tr>
<tr>
<td>EBITDA (RM billion)</td>
<td>88.4</td>
<td>80.9</td>
<td>68.1</td>
<td>47.8</td>
<td>36.0</td>
</tr>
<tr>
<td>Net Profit (RM billion)</td>
<td>46.4</td>
<td>43.1</td>
<td>35.6</td>
<td>23.7</td>
<td>15.1</td>
</tr>
<tr>
<td>Total Assets (RM billion)</td>
<td>294.6</td>
<td>273.0</td>
<td>239.1</td>
<td>203.2</td>
<td>178.0</td>
</tr>
<tr>
<td>Shareholders’ Funds (RM billion)</td>
<td>170.9</td>
<td>147.0</td>
<td>119.7</td>
<td>102.7</td>
<td>83.5</td>
</tr>
<tr>
<td>Cash &amp; Fund Investment Balance (RM billion)</td>
<td>99.4</td>
<td>92.4</td>
<td>75.2</td>
<td>53.8</td>
<td>55.4</td>
</tr>
<tr>
<td>Total Borrowings (RM billion)</td>
<td>35.9</td>
<td>43.9</td>
<td>52.8</td>
<td>57.7</td>
<td>58.1</td>
</tr>
</tbody>
</table>

Return on Revenue                  | 41.4% | 41.5% | 42.3% | 38.4% | 33.0% |
Return on Total Assets              | 25.9% | 25.4% | 24.3% | 18.4% | 15.1% |
Return on Capital Employed          | 40.9% | 41.6% | 38.5% | 28.7% | 25.6% |
Total Debt/Total Assets Ratio       | 0.12x | 0.16x | 0.22x | 0.28x | 0.33x |
Reserves Replacement Ratio          | 1.8x  | 1.7x  | 0.7x  | 2.6x  | 2.1x  |
# Five-Year Financial Highlights

Company as at 31 March (RM million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Profit Before Taxation</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>37,988</td>
<td>14,018</td>
<td>11,263</td>
</tr>
<tr>
<td>2004</td>
<td>41,607</td>
<td>15,074</td>
<td>12,192</td>
</tr>
<tr>
<td>2005</td>
<td>59,187</td>
<td>22,401</td>
<td>19,800</td>
</tr>
<tr>
<td>2006</td>
<td>82,451</td>
<td>44,668</td>
<td>31,272</td>
</tr>
<tr>
<td>2007</td>
<td>87,432</td>
<td>48,001</td>
<td>33,362</td>
</tr>
</tbody>
</table>

### NOTE:

PETRONAS Group had adopted new and revised Financial Reporting Standards (FRSs) issued by the Malaysian Accounting Standards Board (MASB) which are mandatory for annual periods beginning on or after 1 January 2006. FY2006 financial numbers have been restated to comply with these new and revised FRSs.
“PETRONAS will continue to build the capacity and capability of its people, and remain devoted to raising the level of its performance to not only meet but exceed the expectations of all of its stakeholders.”
PETRONAS Penapisan (Terengganu) refinery and Aromatics plant at the PETRONAS Petroleum Industry Complex in Kertih, Terengganu, Malaysia

**Highlights**

- Highest-ever revenue at RM184.1 billion, a 10% increase from RM167.4 billion in the previous year, driven by higher sales volume and average realised prices
- Increase in revenue from international operations by 19.4% to RM67.6 billion, demonstrating the Group’s growing international presence
- Profit before tax increased by 9.9% to RM76.3 billion, as the Group successfully contained costs despite operating in an environment with disproportionate operating cost escalations
- Stronger balance sheet with total assets increasing to RM294.6 billion
- Return on Total Assets and Return on Average Capital Employed of 25.9% and 40.9% respectively, at par, if not exceeding, the industry average
- Strong cash flow from operations, more than sufficient to cover the Group’s current investing and financing needs
Review of Results

Improved financial performance driven by operational excellence amidst challenging market conditions

The best ever revenue of RM184.1 billion was achieved not only on higher prices but also higher sales volume realised by the Group across nearly all businesses. Refined petroleum products remained the top revenue generator for the Group, with sales revenue amounting to RM62.7 billion, constituting approximately one-third of Group revenue. This represents a 12.8% increase from last year’s revenue of RM55.6 billion. Sales volume increased by 3.4% from 208.8 million barrels to 215.9 million barrels, in line with the growth in worldwide petroleum products demand.
Revenue from the sale of crude oil and condensates rose to RM45.4 billion, compared to RM41.0 billion in the previous year, as a result of higher sales volume as well as stronger global crude oil prices, particularly MCO. Sales volume increased from 184.9 million barrels to 192.4 million barrels, contributed by new crude oil production from Turkmenistan and Sudan.

Liquefied natural gas (LNG) continued to be the third largest revenue contributor for the Group. Sales volume increased by 2.1% from 23.6 million tonnes to 24.1 million tonnes on the back of higher volume produced from the Group’s Egyptian LNG (ELNG) plant. The Group also realised a higher average LNG price of USD328.97 per tonne during the year compared to USD310.04 last year, resulting in an increase in revenue from the sale of LNG by 1.4% from RM28.5 billion to RM28.9 billion.

Revenue from sales of petrochemical products increased by 9.4% from RM12.7 billion to RM13.9 billion on the back of higher average realised prices; particularly
ethylene and methanol. Sales volume, however, decreased by 8.6% from 7.0 million tonnes to 6.4 million tonnes primarily due to lower third-party trading activities by the Group arising from tight supply availability in the market.

The Group remained focused on value-adding activities to maximise the value of its oil and gas resources. Revenue from the Group’s manufacturing activities, comprising the manufacture of petroleum products, LNG, processed gas and petrochemicals, had increased from RM97.6 billion to RM102.9 billion during the year under review. The Group’s revenue from domestic manufacturing activities represents 28.7% of the manufacturing sector’s contribution to Malaysia’s GDP.

The Group continued to reap benefits from its globalisation strategy. International business revenue, which comprises revenue from international operations and exports from Malaysia, grew by RM10.9 billion to RM141.0 billion, accounting for 76.6% of Group revenue. In particular, revenue from international operations increased by 19.4% to reach RM67.6 billion, a sign of the Group’s growing international presence. Export revenue amounted to RM73.4 billion, representing about 12.4% of Malaysia’s exports over the same period, earning valuable foreign exchange revenue for the nation, while at the same time providing positive contribution towards the country’s balance of payments.
Despite operating in an environment of disproportionately higher operating costs compared to gains in prices, the Group successfully contained the cost impact and posted a 9.9% increase in profit before tax from RM69.4 billion to RM76.3 billion. Profit after tax and minority interests was RM46.4 billion, an increase of RM3.3 billion.

The Group’s balance sheet continues to strengthen with total assets increasing to RM294.6 billion, up 7.9% from the previous year. Shareholders’ funds also increased to RM170.9 billion, a 16.3% increase from the previous year’s RM147.0 billion.

Return on Total Assets (profit before tax over total assets) rose to 25.9% compared to 25.4% in the previous financial year, while Return on Average Capital Employed (ROACE) remained strong at 40.9%.

Cashflow from operations remain strong and is more than sufficient to cover the Group’s investing and financing needs. Total borrowings decreased to RM35.9 billion from RM43.9 billion in the previous
I would like to record my heartfelt appreciation to the entire PETRONAS family around the world for their contributions in making this achievement possible. 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 counsel and guidance.

PETRONAS ANNUAL REPORT 2007

TAN SRI DATO SRI
MOHD HASSAN MARICAN
Acting Chairman, President & Chief Executive Officer
28 June 2007
One of the challenges presented by the Extended Well Test project on Block 1 to PETRONAS Carigali in Turkmenistan was of getting the bulky sub-assembled facilities to the site in the landlocked Caspian Sea. Undaunted, the project team designed and built the huge Mobile Offshore Production Unit and Floating Storage and Offloading vessel to be able to navigate the bridges and locks of the Volga-Don canal, at one spot with only 4 cm clearance.

<table>
<thead>
<tr>
<th>Mindset</th>
<th>Behaviour</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>To spur PETRONAS towards achieving its aspiration of becoming a Global Champion, staff are encouraged to shift their mindsets to deliver breakthrough performance. The courage to take risks and see through to the ultimate value, to have self-confidence and the willingness to take ownership are mindsets which will sustain the growth of the organisation.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
At the PETRONAS Visualisation Centre in the PETRONAS Twin Towers, Kuala Lumpur, engineers use 3D visualisation software to interpret seismic surveys in search of hydrocarbon deposits.
Review of Business

Exploration and Production Business

Maximising value for domestic growth, strengthening of global position

The domestic upstream sector saw intensified efforts to enhance the nation’s reserves with greater focus in the deepwater areas and to sustain production amidst a costlier and increasingly challenging environment. On the international front, the Group strengthened its position by securing new acreages while progressing in various development projects. The Group’s E&P arm, PETRONAS Carigali Sdn Bhd, continued to enhance its capacity, capability and competency in line with its aspiration to be a leading global E&P player.
Installation of fluid transfer line at Kikeh deepwater development project, offshore Sabah
**Highlights**

- Strong total reserves at 26.49 billion barrels of oil equivalent (boe). International reserves account for 23.8% of the Group’s total reserves.
- Achieved Reserves Replacement Ratio (RRR) of 1.4 times in Malaysia and 3.2 times internationally, among the highest in the industry.
- International reserves addition of 536.88 million boe.
- International production rose to 581,700 boe per day, equivalent to 34% of the Group’s total production.
- Awarded four new Production Sharing Contracts (PSCs) in Malaysia and secured six new PSCs abroad, bringing the number of international ventures to 58 in 22 countries.

**Malaysia’s E&P sector** remained vibrant despite the increasingly challenging and costlier environment characterised by maturing hydrocarbon acreages and scarcity in the supply of materials, equipment and human capital. A total of 39 exploration wells were drilled and about 250,000 line km of 3D seismic data was acquired in FY2007. Four new PSCs, including two deepwater blocks were awarded during the review period, reflecting the attractiveness of Malaysia’s hydrocarbon acreages especially in the frontier areas.

Total national production, however, declined to 588.1 million boe (average of 1.61 million boe per day) due to the shutdown of several facilities for major maintenance and repair work as well as project delays. (The decline resulted in a lower entitlement for PETRONAS at 70% or 411.8 million boe compared to 424.9 million boe previously.)

Five oil fields and three gas fields came onstream during the year, increasing the number of producing fields in Malaysia to 85. The country’s first deepwater...
Sabah is home to the Rungus people, and to the nation’s first deepwater development - the Kikeh project, Kikeh, is expected to begin production in September 2007, with the Truss Spar floating production unit and the Floating Production, Storage and Offloading facility already on site in the field.

A total of RM19.24 billion was spent in Malaysia’s upstream sector during the year, higher by about 20% compared to last year’s expenditure, of which about half was expended by PETRONAS. Of the total expenditure, RM10.29 billion or 53.4% was spent on development and production projects, RM1.92 billion or 10.0% was spent on exploration activities, and the balance on operations.

**INTERNATIONAL EXPLORATION AND PRODUCTION**

The Group’s international E&P business continued to record another good performance during the year. Despite operating in an extremely challenging environment, the Group successfully increased its international reserves by 6.2% to 6.31 billion boe from 5.94 billion boe last year. Crude oil and condensates reserves increased significantly by 8.5% to 2.55 billion boe while natural gas reserves increased by 4.7% to 3.76 billion boe. The year saw the Group achieve an RRR of 3.2 times for
its international E&P operations, which is amongst the highest in the industry.

Total average production from the Group’s international operations increased by 34.6% from 432,300 boe per day to 581,700 boe per day. Crude oil and condensates production was higher by 33.3% to 246,500 boe per day mainly due to the commencement of production from the Melut Basin, Mala and Thar Jath projects in Sudan. Natural gas production was also higher by 35.5% to 335,200 boe per day (2,011 million standard cubic feet per day or “mmscfd”) primarily due to full production of the Group’s producing asset in Egypt, as well as first gas production from the Group’s Indonesian operations.

The Group secured another six new Production Sharing Contracts internationally during the year, namely Block N44/45/50/51 in Cuba, North Sidi Kirir Deep Block in Egypt, Aral Sea in Uzbekistan, Lampung II in Indonesia, Block 122 in Vietnam and Block 06/102 in Timor Leste, increasing its international E&P ventures to 58 in 22 countries. Of this, PETRONAS is the operator for 28 ventures, joint operator for 13 and active partner in the other 17 ventures.

A total of RM13.8 billion was spent in international E&P ventures, of which more than half was for the operation of existing producing assets while the balance was for development and exploration projects.

Overall, the Group’s total reserves have grown by 2.5% to 26.49 billion boe from 25.85 billion boe, of which almost 25% was from international ventures. Combined with domestic production, PETRONAS Group’s average total production has increased by 7.1% from 1.60 million boe per day to 1.71 million boe per day, with production from international operations accounting for 34% of the combined production compared to about 27% last year. The growing contribution from international production is an indication of the Group’s success in the international E&P arena.
Jet refuelling, Khartoum International Airport, Sudan
Oil Business

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

The integrated nature of the Oil Business sector, from refining to marketing, trading and retail, enabled the Group to add value to the oil value chain and pursue strategic growth opportunities. This has been reflected in a sustained, strong performance during the year, which includes the expansion of sales volumes in key segments of the value chain and the timely introduction of operational improvements to yield further cost savings. The review period also saw the Group maintaining its leadership in the domestic market while expanding its global reach, from the introduction of new Foreign Equity Crudes to an increasing presence in selected international retail markets.
Highlights

✦ Expansion in the Group’s crude oil marketing portfolio with the debut of Malaysian Cendor crude oil and Foreign Equity Crudes (FEC) such as Diyarbekir from Turkmenistan and Dar Blend from Sudan

✦ Improved capacity utilisation of 91.4% for the Group’s refineries

✦ Strengthened petroleum products market leadership position in Malaysia and South Africa at 42.4% and 24.4% market shares respectively

✦ Expanded lubricants market to Japan and Singapore

✦ Entry into the aviation business in Thailand

---

**OIL BUSINESS AT A GLANCE**

<table>
<thead>
<tr>
<th></th>
<th>FY2007 (in million barrels)</th>
<th>FY2006 (in million barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export of Malaysian</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil (MCO)</td>
<td>102.7</td>
<td>117.3</td>
</tr>
<tr>
<td>Export of Petroleum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td>53.5</td>
<td>52.5</td>
</tr>
<tr>
<td>Sale of Foreign Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil (FEC)</td>
<td>52.4</td>
<td>39.0</td>
</tr>
<tr>
<td><strong>Crude Oil Refining</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processing of MCO</td>
<td>86.4</td>
<td>77.4</td>
</tr>
<tr>
<td>Processing of Non-MCO</td>
<td>62.4</td>
<td>56.3</td>
</tr>
<tr>
<td><strong>Petroleum Products Retail</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic (including commercial)</td>
<td>76.8</td>
<td>74.4</td>
</tr>
<tr>
<td>International</td>
<td>63.6</td>
<td>65.4</td>
</tr>
<tr>
<td><strong>Trading</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>37.2</td>
<td>28.7</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>57.4</td>
<td>50.3</td>
</tr>
</tbody>
</table>

Tanker delivering PETRONAS’ new generation PRIMAX 3 fuel
CRUDE OIL AND PETROLEUM PRODUCTS MARKETING

PETRONAS exported 102.7 million barrels of its share of MCO during the year. Of this, about 85.2% was exported to the Asian region with the balance sold to markets in Australia, USA and New Zealand. The Group also exported 53.5 million barrels of petroleum products from its domestic refineries, a slight increase compared to last year’s export of 52.5 million barrels, largely due to an increase in LPG sales.

The Group’s sales of Foreign Equity Crude Oil (FEC) increased by 34.4% to 52.4 million barrels following the introduction of several new crudes from its international E&P ventures, including Diyarbekir from Turkmenistan operations and Dar Blend from Sudan.

REFINING

The Group’s refineries played a strategic role in adding further value to the nation’s resources while capitalising on the strong global demand for petroleum products.

The Group’s three domestic refineries in Melaka and Terengganu processed an average of 362,500 barrels per day (bpd) of crude oil, about 15.3% higher than its combined nameplate capacity of 314,300 bpd. The Group’s Engen refinery in Durban, South Africa also continued to perform strongly with an average production of 102,500 bpd, a 15.4% increase from the previous year.

Operational efficiency and higher reliability enabled the Group to improve the capacity utilisation of its refineries to 91.4% compared to 86.6% previously, while successfully reducing cost.

In line with its value adding strategy, the Group embarked on several projects during the review period to increase capacity of its refineries. The Terengganu refinery is currently being debottlenecked to increase its capacity by 9,000 bpd with expected completion in late 2007. The Melaka refinery is also undergoing a revamp to
increase its capacity by about 40,000 bpd with target completion in 2008. Further upgrading of the Melaka refinery is being undertaken to enhance its ability to process High Acid Crudes from the Group’s international operations.

The Group’s other strategic projects remained on track with the Group III Base Oil plant in the Melaka refinery scheduled for completion by mid-2008. The new plant will supply 6,500 bpd of base oil to top tier automotive and industrial lubricants manufacturers in the domestic and international markets. The Group’s planned complex refinery in Port Sudan, jointly developed with the Government of Sudan, also continued to progress. Expected to be operational in 2010, the refinery will process the Dar Blend crude oil from Sudan’s Melut Basin Blocks 3 & 7 to produce high quality petroleum products to meet the Euro 4 specifications.

PETROLEUM PRODUCTS RETAIL

The Group’s domestic retail arm, PETRONAS Dagangan Berhad (PDB), registered another successful year with higher sales volume of 76.8 million barrels of petroleum products compared to 74.4 million barrels last year. This further strengthened its leadership position in the domestic market with a 42.4% market share. PDB’s retail network expanded with the addition of 47 new stations during the year to bring the total to 832 stations nationwide. The successful launch of the new generation PRIMAX 3 fuel also
One of the premium synthetic lubricants from the PETRONAS Syntium range launched in Japan helped strengthen the PETRONAS brand in the local market.

In South Africa, the Group’s subsidiary Engen Ltd retained its leadership position in the South African petroleum products retail business with a 24.4% market share. Engen currently has 1,386 service stations across the African continent with 1,230 stations in South Africa.

The Group’s retail operation in Sudan increased its sales volume by 15.6% during the year and expanded its retail network to 63 stations, an increase of 21.2% from the previous year. In Indonesia, PETRONAS added three retail stations, expanding its retail network to four stations, and acquired 27 land sites for future expansion. The Group also continued to strengthen its position in Thailand’s petroleum products market with 117 retail stations and successfully entered the aviation business at Suvarnabhumi Airport during the year.

In the lubricants business, the introduction of PETRONAS Syntium 3000 LL in the domestic market marked a new level of technological advancement in the development of high quality long-life engine oil.

The Group successfully entered the lubricants markets of Japan and Singapore during the year while aggressive marketing in China resulted in an increase of 208% in lubricants sales volume in that market compared to the previous year. The Group also forged a strategic alliance with FL SELENIA SpA of Italy for the marketing and distribution of both parties’ lubricant products that will see PETRONAS’ lubricants enter several European markets.

**CRUDE OIL AND PETROLEUM PRODUCTS TRADING**

The Group continued to be active in crude oil and petroleum products trading to optimise its position in the market and to enhance its value-adding capability. During the year, the Group’s crude oil and petroleum products trading volume increased by 19.7% from 79.0 million barrels to 94.6 million barrels.
Egyptian LNG staff in front of a mural of the plant
Gas Business

Reliable supplier to domestic and international gas markets

The Gas Business sector sustained its reputation as a reliable supplier of gas in Malaysia and abroad. The gas processing and transmission business consistently operated at a world-class standard to support Malaysia’s increasing demand for gas. Meanwhile, the LNG business further strengthened its global portfolio with growing production from its jointly operated Egyptian LNG project contributing to higher LNG sales volume for the Group. The Group sustained its position in its traditional LNG markets and achieved a major breakthrough in the new Chinese LNG market.

Sarawak is home to the Iban people of Malaysia, and also to the PETRONAS LNG Complex, the world’s largest LNG production facility at a single location.
Highlights
✦ Domestic sales gas volume increased by 4.7% to 2,222 million standard cubic feet per day (mmscfd)
✦ Higher sales volume of 24.1 million tonnes of LNG
✦ Breakthrough into the growing and important Chinese LNG market with the signing of a long-term contract with Shanghai LNG Company Ltd

GAS PROCESSING AND TRANSMISSION
During the review period, the Group sold an average volume of 2,222 mmscfd of sales gas as a result of higher demand for gas from the industrial and petrochemical sectors, a 4.7% increase compared to the previous year’s 2,122 mmscfd.

Of this amount, 2,128 mmscfd was transported by the Peninsular Gas Utilisation (PGU) system. The power sector continues to be the largest consumer of gas – taking up 62.5% of the total sales gas. Independent Power Producers (IPPs) take up two-thirds of the total gas supplied to the sector. Demand from the non-power sector, comprising industrial, petrochemical and other users, experienced a significant increase of 19.2% from 558 mmscfd to 665 mmscfd to account for 31.2% of total gas sales through the PGU. A further 6.3% of sales gas was exported to Singapore.

Although the bulk of supply is sourced from gas fields offshore Terengganu, the increase in gas demand during the review period was largely met by additional imports secured from the Malaysia-Thailand Joint Development Area (JDA), Indonesia and Vietnam. Gas imports increased by 16.7% from 426 mmscfd to 497 mmscfd, representing about 23% of total gas supplied by the PGU system.

Underscoring PETRONAS’ commitment to ensure reliable supply of gas to the nation, the PGU system’s gas processing plants and transmission pipeline network recorded an outstanding reliability rate of over 99%. The delivery reliability of sales gas to customers was also sustained at over 99%.

Higher plant extraction efficiency also contributed to a 4.2% improvement in ethane, propane and butane production to 3.6 million tonnes. These by-products were sold to the domestic and international markets to realise further value for the Group.

During the year, the Group renewed its existing Gas Sales Agreement (GSA) with long-term customer Senoko Power for a period of up
to 10 years, commencing from May 2008 and further enhances PETRONAS’ reputation as a reliable supplier to the Singapore gas market.

In Australia, the Group through PETRONAS Australia Pty Ltd (PAPL) increased its stake in the APA Group (formerly known as APT) from 10% to 14.12%, making PAPL the second largest shareholder in one of Australia’s biggest gas transmission/distribution company.

LIQUEFIED NATURAL GAS (LNG)

The Group’s global integrated LNG business continues to deliver strong results. LNG production volume registered an increase to 23.3 million tonnes from 22.8 million tonnes the previous year. The PETRONAS LNG Complex, currently the world’s largest LNG production facility at a single location, produced a total of 21.5 million tonnes of LNG compared to 21.6 million tonnes the previous year. After commencing operations in the previous year, the Group’s
share of production from the Egyptian LNG project increased from 1.2 million tonnes to 1.8 million tonnes during the year.

The PETRONAS LNG Complex exported 12.4 million tonnes or 58% of production to Japan, 5.3 million tonnes or 25% to South Korea and 3.6 million tonnes or 17% to Taiwan. The Group increased its market share in South Korea and Taiwan to 22% and 43% respectively, while in Japan, its market share declined to 19%, due to significant demand growth resulting in an expansion in the overall Japan LNG market.

During the year, two new long-term contracts were signed with Chubu Electric Power Co Inc and Saibu Gas Co Ltd. The year also saw the Group make a major breakthrough in the important and growing Chinese LNG market when it secured a long-term contract with Shanghai LNG Company Ltd.

In the spot market, the Group’s LNG trading arm, ASEAN LNG Trading Company Ltd (ALTCO), sold a total of 17 cargoes to customers in the USA, Spain, Belgium and South
Korea, as well as new customers in Turkey and India.

The foundation for the Group’s success and the strength of the PETRONAS brand in the LNG industry has been the reliability of its operations. The reliability of the Group’s LNG plants have consistently averaged at above 95%, ensuring a strong track record of deliveries to customers and permitting the Group to capitalise on the high LNG price environment during the year.

The debottlenecking of the MLNG Dua Plant is in progress and will eventually increase the combined production capacity of the PETRONAS LNG Complex by 1.2 million tonnes per annum to about 24 million tonnes per annum. The debottlenecking project is scheduled for completion in 2009.

In the United Kingdom, the Dragon LNG receiving and regasification terminal is expected to be completed in March 2008, providing the Group with access into the European and Atlantic Basin markets.
Aerial view from the vinyl chloride monomer plant of the PETRONAS Petroleum Industry Complex in Kertih, Terengganu
Petrochemical Business

Improved operational performance and favourable markets resulting in double-digit growth

The Petrochemical Business sector enjoyed another year of robust operational performance. Firm petrochemical product prices, as a result of the knock-on effect of high world energy prices and tight supply, coupled with improved plant reliability rates enabled the sector to achieve its highest-ever production volume and sales revenue.
The Group achieved its highest-ever production volume of petrochemical products during the year under review, with total production volume increasing by 11.4% from 8.8 million tonnes to 9.8 million tonnes.

This sterling performance was due to the sector’s continuous operational improvements, resulting in high reliability and utilisation rates of 94.6% and 95.2% respectively, compared to 93.3% and 88.3% in the previous year.

Sales volume, however, decreased by 8.6% to 6.4 million tonnes primarily due to lower third-party petrochemical products trading activities by the Group as a result of tight supply in the market arising from unplanned shutdowns of several petrochemical plants in the Middle East and Asia. Sales of petrochemical products produced by our own plants, however, rose by 12% from 5.0 million tonnes to 5.6 million tonnes during the year on the back of higher production volume.

The Group continues to invest to improve plant performance. Plant rejuvenation and debottlenecking projects at our polyvinyl chloride (PVC), methanol and ethylene plants in Malaysia will result in increased production capacity of between 10% and 20% within the next two years.

The year in review also saw the launch of three new polymer grades to meet evolving market needs. Of particular significance is the ECOPLUS™ 105, the first in the series of the ECOPLUS™ range of eco-friendly polymers. This Environmentally Degradable High-Density Polyethylene Resin (EDPR) was developed in-house and is patented by PETRONAS.

The Mega Methanol Project in Labuan is progressing as scheduled with the completion of the detailed engineering design and commencement of permanent site works. With a planned capacity of 1.7 million tonnes per year, the plant is set to strengthen the Group’s position as a major supplier of methanol worldwide.
Product warehouse at the PETRONAS polyvinyl chloride plant in Kerith
Through partnerships which enable us to learn from the best, PETRONAS has built its capabilities to engineer and operate all its facilities and businesses. Through education and training initiatives, we continue to build the pool of talent so crucial to sustaining PETRONAS’ growth and Malaysia’s nation-building efforts.
An LNG ship’s first officer consulting a gyroscope
Logistics and Maritime Business

Sustaining growth as a leading player in global energy transportation

Backed by solid fleet profiles, timely execution of long-term contracts and strategic business arrangements, the Group’s Logistics and Maritime Business, spearheaded by subsidiary MISC Berhad (MISC), delivered a strong performance during the year despite a challenging market environment. The year also saw MISC expanding its offshore and heavy engineering businesses, contributing to the development of the nation’s deepwater sector.
The Logistics and Maritime Business sector continued to sustain a strong performance amidst the challenging environment faced by the global shipping industry, which was characterised by softening freight rates, excess capacity and higher operating costs.

In the year under review, MISC continued to strengthen its position as the world’s largest single owner-operator of LNG carriers when it took delivery of two new LNG tankers, Seri Anggun and Seri Angkasa, bringing its LNG fleet size to 23. Seri Anggun was contracted to BG Group on a medium-term charter and Seri Angkasa to the Group’s subsidiary, MLNG, on a long-term charter. MISC also strengthened synergies within the Group through the establishment of two new 15-year contracts for Tenaga Tiga and Tenaga Lima with MLNG. In addition, the time charter contract for LNG tanker Tenaga Satu was extended for another year, with a two-year extension option with Gaz de France (GdF). These term contracts help to cushion MISC against the impact of falling freight rates and higher operating costs.

To further expand its petroleum shipping business, AET Inc Ltd (AET), a wholly-owned subsidiary of MISC, during the year ordered an additional six Aframax tankers to be delivered between 2009 and 2011. AET also entered into a joint venture with Golden Energy Tanker Holdings Corporation to co-own ten new Aframax tankers to further enhance its position in the European Aframax market. In addition, AET took delivery of its eighth Very Large Crude Carrier (VLCC) Bunga Kasturi 3.

Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) continues to make further progress in the marine and heavy engineering business. During the year, MMHE completed and delivered Malaysia’s first deepwater FPSO facility and the world’s first Truss Spar Floating Production Unit (FPU) outside of the Gulf of Mexico, for the Kikeh deepwater project. MMHE is further enhancing its heavy engineering capability in the deepwater sector with the construction of the Floating Production Unit (FPU) for the Gumusut project, Malaysia’s second deepwater development. MMHE’s marine business also grew significantly, with the completion of marine repairs and drydocking of ten LNG tankers compared to three in the previous year.

**Logistics and Maritime Business at a Glance**

<table>
<thead>
<tr>
<th>Fleet numbers by business</th>
<th>FY2007</th>
<th>FY2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNG</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>Petroleum</td>
<td>45</td>
<td>49</td>
</tr>
<tr>
<td>Chemical</td>
<td>17</td>
<td>18</td>
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<tr>
<td>FPSO / FSO</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Liner</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112</strong></td>
<td><strong>110</strong></td>
</tr>
</tbody>
</table>
In the offshore business, MISC expanded its international deepwater FPSO portfolio with the acquisition of a 49% stake in FPSO Espirito Santo in addition to its interest in FPSO Brasil, currently in operation in Brazil. FPSO Espirito Santo will be delivered in 2009 and will also be deployed offshore Brazil.

During the year, MISC Integrated Logistics Sdn Bhd (MILS), a subsidiary of MISC, entered into two joint venture agreements to provide operational services to MILS Logistics Hub (MLH), a newly completed 90,000 square meter multi-modal storage and processing facility at Pulau Indah in Westport, Port Klang. The joint venture agreements with ETB Seafrigo, France, Europe’s largest cold storage specialists, and SterilGamma (M) Sdn Bhd, will offer total cold chain logistics solutions, sterilisation and fumigation services. In its aim to become a global halal logistics service provider, MILS is currently working with JAKIM and JAIS, two of Malaysia’s Islamic enforcement bodies, to establish the Standard Operating Procedures of Halal Supply Chain.
The team of application technologists and researchers at PETRONAS Polymer Technology Centre innovated a cost-effective range of environmentally-degradable polymers under the name ECOPLUS™. The innovation is aimed at reducing the amount of plastic waste for a greener, cleaner environment.

PETRONAS focuses not only on harnessing technology for application, but also on creating a culture of continuous improvement and innovation to existing methods, processes and products, to sustain growth in all its activities.
New graduates and professionals alike use research facilities at the Universiti Teknologi PETRONAS in Perak, Malaysia for specialised learning support in the field of petroleum exploration and production.
Technology Development

Driving growth through innovation

The Group’s Research and Technology Division has moved ahead to identify new technology initiatives to address our short and long term technology challenges. In the meantime, the Group continues to make encouraging progress in technology utilisation to enhance performance and create additional value.

PRIMAX 3 employs the Sinar G-05 additive for technologically-superior engine performance and cleanliness.
PETRONAS formulated its Technology Agenda to focus on technologies for future positioning and to develop superior technical credentials. In the short term, our technology focus is to improve operational excellence through better plant and HSE performance. For the longer term, the thrust is to focus on developing niche technologies in our core business areas.

Our technology focus in the E&P business is on three niche areas covering geoscience, subsurface and surface technologies. This year we have had two successes with self-installed relocatable technology - our Mobile Offshore Production Unit installation in the landlocked Caspian Sea in Turkmenistan; and the commissioning of the Kikeh FPSO facility - Malaysia’s first deepwater FPSO.

In the Oil Business, we continue to pursue leading edge technologies to enhance our lubricants and fuels businesses. During the year, we unveiled PRIMAX 3, a superior quality fuel formulation innovated by optimising base fuel properties.
through the addition of the Sinar G-05 additive that was developed in-house. The fuel enhances engine performance and efficiency as well as meets environmental standards.

We have also successfully developed a top-tier lubricant that meets Volkswagen’s latest VW504.00/507.00 specifications, placing us among a handful of companies that will make available this technology to the global market.

In the Gas Business, our technology emphasis is on mercury management. We successfully installed an onshore mercury removal system - a technology that is among the first in the world in the field of mercury management - at the Kertih Oil and Gas terminal during the year. The system treats raw condensates at the terminal, eliminating possible Health, Safety and Environment (HSE) and operational hazards as well as assuring product quality.

We will continue to leverage on nano-technologies, nano-polymers and nano-compounds to enhance the performance of our Petrochemical Business. The launch of the ECOPLUS™ 105 during the year, an innovative and environmentally-degradable polymer is a testimony to this success. The technology has since been patented, and we continue to innovate new grades of environmentally-degradable polymers under the brand name ECOPLUS™.

We believe there are opportunities in new energy resources and continue to explore the potential of unconventional hydrocarbon resources as well as biomass and solar energy. In building a long term sustainable energy business, we look toward Green Technologies to prepare us for a low carbon economy of the future.
The Khartoum Vocational Training Centre in Sudan provides hands-on training in automotive and refrigeration technology
PETRONAS subscribes to the philosophy of conducting business in a socially responsible and holistic manner for long-term growth and sustainability. We are guided by the PETRONAS Guidelines for Business Conduct and the PETRONAS Corporate Sustainability Framework, both of which focus on the responsible management of petroleum resources that takes into account the interest of internal and external stakeholders. While responding to society’s growing demand for energy, we strive to balance and integrate economic, environmental and social considerations into our business decisions. These considerations include, among other things, strong HSE management and performance, continuous development of our people, and our long-term and holistic contribution to society.
Health, Safety and Environment
Caring for people and planet

In conducting our activities, we take every reasonable and practicable step to prevent and eliminate the risk of injuries, health hazards, and damage to property, and take proactive measures towards the conservation of the environment. To this end, PETRONAS has always been and continues to be guided by a comprehensive HSE Management System (HSEMS) that is implemented Groupwide.

Our emphasis on HSE continued to be manifested through various initiatives Groupwide to uphold high HSE standards. As a result, we received numerous awards from various authorities and regulatory bodies in recognition of our efforts, including those from the Chemical Industries Council of Malaysia (CICM), the Malaysian Society for Occupational Safety and Health (MSOSH) and the National Institute of Occupational Safety and Health (NIOSH).

HEALTH AND SAFETY

Throughout the year in review, continuous effort was made to strengthen the PETRONAS HSE Management System (HSEMS) across the Group. This emphasis resulted in further reduction of Group Lost Time Injury Frequency per million man-hours to 0.48 from 0.60 recorded in the previous year. Emergency exercises were also carried out to update and improve Emergency Response Plans at all operating units as part of the HSE calendar year programme.

We continue to carry out regular checks and improvement activities that are strategically complemented by HSE experiences, best practices and lessons learnt. In turn, these are constructively shared across the Group and with our contractors, as well as 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.
ENVIRONMENT

PETRONAS continues to formulate and implement measures to address global environmental concerns. One of our key initiatives on climate change is the successful establishment of the Group Greenhouse Gas (GHG) Inventory for our Malaysian operations. This inventory consolidates all sources of GHG emissions in our operations and the tracking of emission levels. Our operating units are encouraged to undertake GHG emission reduction measures, leveraging on the Clean Development Mechanism under the Kyoto Protocol that fits their businesses strategically.

We continue to improve plant efficiency and a major thrust is the Energy Loss Management System (ELMS) aimed at reducing energy cost and GHG emission across the Group. The ELMS is currently being implemented in stages in 12 PETRONAS operating units, already resulting in energy savings.

These measures are all embedded in our philosophy which entails delivery of sound business results in a socially-responsible manner.
PETRONAS actively encourages its employees to realise their aspirations by creating opportunities for development. We believe that all our people, at all levels within the organisation, have the innate potential to be leaders. Superiors are charged with the development of these skills through formal as well as personal engagement. Besides nurturing the fulfilment of potential, we sustain the growth of future captains of industry for the nation.

Staff are prepared for bigger leadership roles through internal programmes at our own PETRONAS Management Training Centre and also at notable institutions like Harvard, Wharton, Henley and INSEAD to gain deeper knowledge and insights into the art of leadership.
Our People
Continuous pursuit of excellence through people development

PETRONAS drives its employees to achieve excellent results both as a team and as individual leaders. Our investments in professional development are aimed at cultivating the necessary traits of proactive behaviour and improving capability to deliver breakthrough performance.

During the year in review, we continued to focus our people development efforts on strengthening core competencies and instilling a high performance culture. Increased emphasis was placed on technical professionalism and the deepening of leadership attributes to drive performance across the managerial, professional and technical staff categories to support sustainable business growth.

We continue to invest in professional development and skills training to increase capability and competency. For technical staff, competency building includes up-scaling technical professionals and specialists in key technologies. Training programmes were also developed to produce technical trade specialists for intensified performance across all levels.

PETRONAS believes that widespread embodiment of leadership behaviour must exist for effective leadership to take place. Towards this end, coaching and mentoring programmes are widely implemented to develop new leaders. Employees at all levels undergo a PETRONAS Leadership Learning Series, while those at the managerial and senior management levels are provided opportunities to attend the Leadership Excellence Series and the Advance Management Programmes respectively.

PETRONAS is also mindful of staff retention issues as is evident in the engagement sessions carried out Groupwide to communicate the
Employee Value Proposition (EVP) initiative. The tight human resource situation has raised industry-wide concern given the increased mobility of and greater demand for skilled oil and gas personnel. The EVP sessions drive home the true value of a career in PETRONAS in monetary as well as personal development terms. Coupled with these measures to attract and retain quality manpower, PETRONAS has also launched a talent sourcing portal for a global reach in its recruitment activities. In addition, we continue to implement and upgrade recruitment procedures in accordance with best practices worldwide.
Values and Integrity

PETRONAS is strongly guided by a moral code of values and integrity which tolerates no compromise on honesty and upright conduct in every aspect of our operations. We are equally passionate about contributing to the well-being of the people and nations wherever we operate in a sustainable manner, for today and for generations to come.

PETRONAS believes in education as the main driver of economic and social growth. In Sudan, we have built vocational schools, run mobile libraries and sponsored students to further their education abroad as a means of advancing the pool of talent contributing to the growth of the country.
Bakti Pendidikan PETRONAS programme participants of SK Bukit Pantai primary school, Kuala Lumpur enjoy learning in the Creative Space set up in their school.
Corporate Social Investments
Positive contributions to the community

PETRONAS strives to contribute to the well-being of the communities within the sphere of its influence. Focusing on education and capability building as the key drivers of progress, the Group drove various initiatives in these areas by working closely with partner nations as well as relevant bodies to achieve sustainable long-term results.

We are dedicated to empowering communities wherever we operate primarily through education and capability building initiatives as we believe that these are the integral components of sustainable development and the key to a better future. Whilst we strive towards business excellence, our actions today also shape the future, and thus we move towards achieving a balance between economic, social as well as environmental aspects.

EDUCATION AND CAPABILITY BUILDING

SCHOOLS-BASED PROGRAMMES
During the year under review, we continued our commitment to various education programmes for school-going children, including our ‘Adopt-a-School’ project, Bakti Pendidikan PETRONAS, the PETROSAINS Science Discovery Centre, the Our World environmental education programme, the Malaysian Philharmonic Orchestra’s Outreach activities and our collaboration with the National Association for the Prevention of Drugs (PEMADAM).

In Sudan this year, 14 new PETRONAS Mobile Libraries as well as permanent school libraries were constructed, benefitting more than 20 schools in Khartoum and Juba.

SPONSORSHIPS
Also, during the year under review, a total of 1,457 students were awarded scholarships based on academic and professional merit under the PETRONAS Education Sponsorship Programme, to pursue

Adorable little girl attending the launch of a PETRONAS Mobile Library in Khartoum, Sudan.
Malaysian Maritime Academy (ALAM) welcomed its first batch of female cadets in the financial year.

MMHE has its own Invar welding training facility to develop local capability in LNG repair works.

tertiary studies in Malaysia and abroad. Of these, 113 were foreign students enrolled into our own Universiti Teknologi PETRONAS (UTP), now well known as a premier engineering and technology institution of higher learning. This brought the number of foreign students at UTP to 572 from 21 countries.

ADVANCING HIGHER LEARNING INSTITUTIONS

Additionally, we continued to work closely with local academic institutions to design and improve the petroleum engineering and geosciences curriculum in Malaysia. This is in line with our business objective of developing the right talent in geosciences and petroleum engineering amidst the globally tight labour market. To that end, grants were awarded to five public institutions of higher learning, namely Universiti Kebangsaan Malaysia (UKM), Universiti Malaya (UM), Universiti Malaysia Sabah (UMS), Universiti Sains Malaysia (USM) and Universiti Teknologi Malaysia (UTM).
To support our research and development (R&D) efforts, UTP started a number of R&D projects to spur innovation and incubate innovative ideas. This resulted in UTP winning Gold Awards at the 17th International Exhibition on Invention, Innovation, Industrial Design and Technology (ITEX’06). In addition, UTP has partnered with Queen’s University of Belfast, paving the way for collaborative research in the area of green technology involving the use of green chemistry.

Continuous improvement of our training facilities had been undertaken to ensure that we met technical training requirements to develop our pool of resources for operational requirements both locally and abroad. For instance, with the acquisition of the Full Mission Ship Handling Simulator and associated engine and control systems simulators, our Malaysian Maritime Academy (ALAM) has evolved into a one-stop centre for maritime training in the region.

Besides running technical assistance programmes for the Malaysian government and Yemen LNG Company Ltd's shipping line, ALAM made history during the year by running training programmes for female cadets for the first time. Our subsidiary MISC Berhad became the first shipping company to sponsor Malaysia’s first female cadets in the July intake of 2006.

INDUSTRIAL TRAINING
Also during the financial year, we conducted on-the-job training for technicians of Oman’s Sohar Refinery Company. In Sudan, we continued to build capability in the fields of automotive technology, electrical, air-conditioning, building and plumbing skills with new programmes offered at the Khartoum Vocational Training Centre.

In addition, we also recruited 11 Sudanese graduates to undergo a structured capability training programme under a Seeding Programme with PETRONAS in Malaysia and Sudan in promoting technological capabilities.
MEETING SOCIETAL NEEDS

In addition to education and capability building, PETRONAS also continues to provide assistance to humanitarian efforts. We also support programmes to assist local communities in a meaningful and sustainable manner.

During the year, our volunteer teams and care packages were dispatched to flood-hit areas in Johor, Malaysia to aid relief efforts, followed by similar initiatives in Jakarta, Indonesia. We continued to run crisis and disaster relief training programmes for PETRONAS Volunteer Opportunity Programme participants throughout the year, so that they may be equipped with the right knowledge and skills to assist in emergency situations.

In Indonesia, we continue our rehabilitation efforts of tsunami-ravaged Aceh, including the construction and handing over of a nursing block at the Universitas Syiah (Unsyiah) Kuala’s medical faculty to address the shortage of nurses in the province. The PETRONAS Adventure Team’s
Nusantara Expedition 2006 also conducted various initiatives in Banda Aceh and throughout the expedition.

Elsewhere across the globe, in Egypt, Indonesia, Myanmar, Pakistan, Sudan, Turkmenistan and Vietnam, we continue to monitor the social and educational programmes we have committed to, ensuring that the benefits garnered from our initiatives are long-term and sustainable in developing a progressive, well-rounded society.
Main Events
(1 April 2006 - 31 March 2007)

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
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<tbody>
<tr>
<td>28 April 2006</td>
<td>In Vietnam, PETRONAS and its partner Chevron were awarded a deepwater exploration block, the company’s first deepwater acreage in the country.</td>
</tr>
<tr>
<td>17 July 2006</td>
<td>PETRONAS and its partner BG Group signed a joint concession agreement with the Egyptian Petroleum Ministry and the Egyptian Natural Gas Holding Company for offshore exploration block North Sidi Kirir Deep in the Nile Delta.</td>
</tr>
<tr>
<td>30 August 2006</td>
<td>The Uzbekistan Government awarded joint exploration and development rights to the Uzbek part of the Aral Sea to a consortium comprising Uzbekneftegaz (UNG), Lukoil Overseas Holdings Ltd, Korea National Oil Corporation, CNPC International Limited and PETRONAS.</td>
</tr>
<tr>
<td>13 September 2006</td>
<td>In the Republic of Cuba, PETRONAS signed a Production Sharing Agreement for blocks N44/45/50/51 in the offshore deepwater area. PETRONAS is sole operator of the block.</td>
</tr>
<tr>
<td>22 September 2006</td>
<td>Through its wholly owned subsidiary PC (Lampung II) Ltd, PETRONAS was awarded a new offshore block in Indonesia.</td>
</tr>
<tr>
<td>30 October 2006</td>
<td>PETRONAS and its partners Korea Gas, Samsung and LG International were awarded a PSC by the Timor Sea Designated Authority for an offshore exploration block in the Joint Petroleum Development Area between Timor Leste and Australia.</td>
</tr>
<tr>
<td>15 February 2007</td>
<td>The Honourable Datuk Seri Abdullah Ahmad Badawi, Prime Minister of Malaysia, officiated at the groundbreaking ceremony for the Sabah Oil and Gas Terminal and the associated Sabah-Sarawak Gas Pipeline to be constructed and operated by PETRONAS.</td>
</tr>
<tr>
<td>23 March 2007</td>
<td>Two PSCs were awarded to BHP Billiton Petroleum Sabah Corporation and PETRONAS for ultra-deepwater Blocks N and Q, offshore Sabah.</td>
</tr>
</tbody>
</table>
**5 JUNE 2006**

PRIMAX 3, a revolutionary new generation fuel that cleanses the engine for more power and better fuel economy was launched by PETRONAS Dagangan Berhad for the domestic market.

**29 JUNE 2006**

PETRONAS held a ceremony to launch its liquefied petroleum gas (LPG) bottling plant in Dong Nai Province, its second LPG facility in Vietnam.

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**30 JUNE 2006**

White Nile (5B) Petroleum Operating Company Ltd - a partnership between PETRONAS, ONGC Videsh Ltd, and Sudapet – celebrated the first commercial lifting of crude oil produced from its Thar Jath field, Block 5A in the south of Sudan.

**20 SEPTEMBER 2006**

A groundbreaking ceremony was held by PETRONAS for the construction of its Group III Base Oil plant, the first of its kind in Malaysia and Southeast Asia. The plant will produce 6,500 barrels per day of base oil to domestic and international top-tier automotive and industrial lubricant manufacturers.

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**28 SEPTEMBER 2006**

PETRONAS Retail Thailand Co Ltd commenced its aviation business operations at Bangkok’s Suvarnabhumi International Airport.

**12 JANUARY 2007**

The PETRONAS SYNTIUM range of premium grade automotive engine oils was launched in Japan, officially entering the country’s lubricants market.

**MARCH 2007**

PETRONAS and FL SELENIA SpA of Italy signed a strategic alliance agreement allowing both companies to market and distribute each other’s lubricant products. The agreement will see PETRONAS’ lubricants debut in several European markets.
Main Events
(1 April 2006 - 31 March 2007)

25 APRIL 2006
Malaysia LNG Sdn Bhd (MLNG), a subsidiary of PETRONAS, signed a Sale and Purchase Agreement (SPA) with Chubu Electric Power Co to supply up to 540,000 metric tonnes per annum of LNG for 20 years beginning 2011.

31 JULY 2006
Shanghai LNG Company Ltd signed SPAs with Malaysia LNG Tiga Sdn Bhd (MLNG Tiga), marking PETRONAS’ first LNG supply contract to China. MLNG Tiga will supply up to 3.03 million metric tonnes of LNG annually for 25 years, commencing in 2009.

30 OCTOBER 2006
Senoko Power Ltd of Singapore renewed its existing 15-year Gas Sales Agreement (GSA) with PETRONAS for a period of up to 10 years, commencing May 2008.

JANUARY 2007
PETRONAS Australia Pty Ltd increased its stake to become the second biggest shareholder of APA Group (formerly known as Australian Pipeline Trust), one of Australia’s biggest energy transmission and distribution company.

8 MARCH 2007
MLNG extended an existing SPA and signed a new SPA with Saibu Gas Co Ltd to supply up to 390,000 metric tonnes per annum of LNG for 15 years beginning October 2013.
20 SEPTEMBER 2006

PETRONAS launched its new ECOPLUS™ 105 environmentally-degradable polymer. The polymer is manufactured using a world’s first PETRONAS-patented technique that allows the prodegradant additive to be impregnated into the resin.

28 NOVEMBER 2006

PETRONAS Ammonia Sdn Bhd received the Prime Minister’s Quality Award 2006, the highest national accolade awarded for quality management.

2 JUNE 2006

AET Inc Ltd, a subsidiary of MISC, entered into a joint venture agreement with Golden Energy Tanker Holdings Corporation for the expansion of its petroleum shipping business.

31 OCTOBER 2006

MISC takes delivery of its 8th Very Large Crude Carrier (VLCC) Bunga Kasturi 3, increasing its fleet size in its bid to become the preferred energy-based shipping company.

27 NOVEMBER 2006

MISC held the naming ceremony of its 22nd LNG tanker Seri Anggun at its shipyard in Pasir Gudang.

29 MARCH 2007

Malaysia Marine and Heavy Engineering Sdn Bhd, a subsidiary of MISC, held the naming ceremony of its first deepwater production facility FPSO Kikeh at its shipyard in Pasir Gudang.
# Main Events

## (1 April 2006 - 31 March 2007)

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td><strong>JULY 2006</strong></td>
<td>PETRONAS acquired equity stake in OAO Rosneft worth USD1.1 billion pursuant to the Russian oil company’s Initial Public Offering (IPO).</td>
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<td><strong>30 OCTOBER 2006</strong></td>
<td>China’s carmaker Nanjing Automobile Corporation and Brilliant Culture Group Limited reached an agreement with PETRONAS to jointly manufacture PETRONAS’ EO1 engine for commercial use.</td>
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<td><strong>NOVEMBER 2006</strong></td>
<td>Through its wholly owned subsidiary PETRONAS International Company Limited (PICL), PETRONAS acquired a 10% stake in Cairn Energy’s subsidiary Cairn India Limited.</td>
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<td><strong>16-18 SEPTEMBER 2006</strong></td>
<td>PETRONAS Adventure Team’s Nusantara Expedition 2006 culminated in the gift of aid and manpower to refurbish three orphanages in Aceh, Indonesia.</td>
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<td><strong>DECEMBER 2006 - MARCH 2007</strong></td>
<td>PETRONAS presented 14 mobile libraries and conducted educational programmes at schools around Khartoum, Sudan.</td>
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<tr>
<td><strong>JANUARY 2007- FEBRUARY 2007</strong></td>
<td>Staff volunteers from PETRONAS were mobilised to support flood relief and rehabilitation efforts in Segamat, Johor, Malaysia.</td>
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</table>
Glossary of Terms

- **Additives**
  Chemicals added in small quantities to fuel 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.

- **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.

- **Deepwater**
  In offshore exploration, deepwater is demarcated at water depths exceeding 200 metres. Unique methods are required to produce the oil and gas from the ocean bed at such depths. See ‘Floating Production Unit’.

- **Development**
  Drilling, construction and related activities following discovery that are necessary to begin production and transportation of crude oil and natural gas.

- **Downstream**
  All activities that add value to the crude oil and natural gas produced, for example, oil refining, gas processing, gas liquefaction, petrochemical manufacturing, marketing of petroleum and petrochemical products, storage and transportation. See ‘Upstream’.

- **Exploration**
  The search for crude oil and/or natural gas by utilising geologic and topographical studies, geophysical and seismic surveys, and drilling of wells.

- **Exploration and Production (E&P)**
  See ‘Upstream’.

- **Floating Production Unit (FPU)**
  Floating structures of various designs used in deepwater production. These ‘floaters’ replace traditional offshore shallow water platforms that are able to sit on the ocean bed. See ‘Deepwater’.

- **Floating Production, Storage and Offloading (FPSO)**
  A converted or custom-built ship-like structure, with modular facilities to process oil and gas and for temporary storage of the oil prior to transfer to tankers.

- **Green chemistry**
  The design of chemical products and processes that reduces or eliminates the use and generation of hazardous substances and reduces the amount of resource and energy consumed in that process.

- **Greenhouse gases**
  Gases that trap heat in the Earth’s atmosphere e.g., carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.

- **Greenhouse gases**
  A company engaged in all aspects of the oil and gas industry: exploring for and producing crude oil and natural gas; petrochemicals; refinery and processing; gas liquefaction, petrochemical products, storage and transportation. See also ‘Downstream’.

- **Integrating 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; petrochemicals; refinery and processing; gas liquefaction, petrochemical products, storage and transportation. See also ‘Downstream’.

- **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.

- **Nameplate capacity**
  A refinery or plant’s maximum rated output under specific conditions designated by the design engineer.

- **Petrochemicals**
  Organic and inorganic compounds and mixtures derived from petroleum; used principally for the manufacture of chemicals, plastics and resins, synthetic fibers, detergents, adhesives, and synthetic motor oils.

- **Production sharing contract (PSC)**
  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 Replacement Ratio (RRR)**
  The ratio of new reserves discovered to volume of production, an indication of a company’s track record in maintaining a stable reserve of oil and gas.

- **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.

- **Seismic data**
  Visual rendering of the sub-surface geology of an area composed by reflecting sound waves off underground strata. Useful in determining the possible existence of hydrocarbons.

- **Upstream**
  All activities concerned with finding and producing crude oil and natural gas. These include oil and gas exploration, development and production operations. Also known as Exploration and Production (E&P). See also ‘Downstream’.

- **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.