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PETRONAS GROUP RESULTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2008

	FINANCIAL YEAR ENDED 31 MARCH			
	2008	**+/-**	**2007**	**2006**
		(in RM billion)		
Revenue	**223.1**	21.2%	184.1	167.4
Profit Before Tax	**95.5**	25.2%	76.3	69.4
EBITDA	**109.9**	23.9%	88.7	80.9
Profit After Tax and Minority Interests	**61.0**	31.5%	46.4	43.1
Total Assets	**339.3**	15.2%	294.6	273.0
Shareholder's Funds	**201.0**	17.6%	170.9	147.0
		(in USD billion)		
Revenue	**66.2**	29.8%	51.0	44.4
Profit Before Tax	**28.4**	34.6%	21.1	18.4
EBITDA	**32.6**	33.1%	24.5	21.5
Profit after Tax and Minority Interests	**18.1**	40.3%	12.9	11.4
Total Assets	**106.0**	24.4%	85.2	74.1
Shareholder's Funds	**62.8**	27.1%	49.4	39.9
Average RM/US$ exchange rate	**3.3690**		*3.6100*	*3.7688*

KEY FINANCIAL AND OPERATIONAL RATIOS

	FINANCIAL YEAR ENDED 31 MARCH	
	2008	**2007**
Return on Revenue (PBT/Revenue)	42.8%	41.4%
Return on Assets (PBT/Total Assets)	28.1%	25.9%
Return on Average Capital Employed	45.5%	40.9%
Debt / Assets Ratio	0.11x	0.12x
Reserves Replacement Ratio		
- Domestic	0.9x	1.4x
- International	0.6x	3.2x
- Total	0.9x	1.8x

OVERVIEW

The financial year ended 31 March 2008 was yet another highly challenging year for the PETRONAS Group as it continues to strive to generate value amidst an increasingly volatile and uncertain global oil and gas industry environment beleaguered with escalating cost and an acute shortage of experienced personnel as well as equipment.

The year saw sustained growth in demand for oil on the back of strong global economic expansion particularly in China and India. Global demand, which grew at an average of 86.1 million barrels per day, outstripped supply during the period. The higher demand over supply, coupled with recurring supply disruptions in some producing countries and continuing geopolitical uncertainties particularly in the Middle East, escalated concerns over security of supply.

All these developments, compounded by speculative activities, drove crude oil prices to historic highs during the year with the average price of West Texas Intermediate (WTI) and Brent crude oils increasing by 26.7% and 26.5% to USD82.24 per barrel and USD82.31 per barrel respectively. The weighted average price of Malaysian Crude Oil (MCO) also rose in tandem to USD86.81 per barrel, an increase of 26.7%. Strong demand from the transportation sector drove prices of gasoline up by 37.7% to an average of USD102.50 per barrel and diesel by 22.6% to an average of USD94.97 per barrel.

The sustained high oil price environment and strong demand growth over the last few years have resulted in intensification of industry activities. This has driven up costs, in most cases, higher than the increase of crude prices. For example, over the past five years, WTI crude prices recorded a cumulative increase of 182%. In comparison, the daily charter rates for drilling rigs (a significant component of upstream costs) increased by almost 300% and the average price of steel (a significant component of both upstream and downstream costs) increased by 225%. In general, the increase in cost has resulted in oil and gas companies incurring higher capital expenditures to sustain operations.

The cost escalation was compounded by the scarcity of and harder-to-find new hydrocarbon reserves located mainly in deeper waters, harsher climatic conditions and environmentally sensitive regions, making access to the reserves more difficult, riskier and technologically more challenging. Worsened by the lack of engineering and construction capacity as well as the acute shortage of experienced personnel, the cost escalation had also led to many projects being delayed and deferred during the year.

In short, the year saw oil and gas companies globally continuing to operate in a highly challenging environment where escalating costs have eclipsed gains from high prices. More significantly, the combined effects of high prices and high costs have had a more negative than positive impact on the industry and the global economy, particularly for developing economies.

Against this scenario, the PETRONAS Group recorded a revenue of RM223.1 billion, an increase of 21.2%, primarily due to higher prices and higher sales volume. The Group successfully contained the impact of high costs and posted a 25.2% increase in profit before tax from RM76.3 billion to RM95.5 billion. Profit after tax and minority interests increased by 31.5% from RM46.4 billion to RM61.0 billion. Apart from the Group's ability to contain costs, this achievement was also largely due to the improved operational efficiency and higher plant reliability achieved across the Group's businesses.

The higher profit has enabled PETRONAS to provide higher payment to governments. For the year, PETRONAS Group paid out RM67.6 billion to governments, bringing the Group's total payments to governments to RM403.3 billion since its incorporation in 1974.

Of the RM67.6 billion payment for the year, RM62.8 billion was paid to the Federal Government comprising RM30 billion dividend which includes a RM6 billon special dividend, RM20.6 billion in the form of petroleum income tax, RM5.4 billion in corporate income tax, RM2.1 billion in export duties and RM4.7 billion of royalty payment. A total of RM4.8 billion was paid as royalty payments to the state governments of Terengganu, Sarawak and Sabah.

PETRONAS Group's payment to the Federal Government for the year represents 44% of the Federal Government's revenue.

The RM67.6 billion total payment to governments for the year represents 63.1% of the PETRONAS Group profits for the same period. PETRONAS Group retained only 29.2% of its profits during the year for reinvestments and the balance 7.7% was used to pay foreign taxes and minority interests. The reinvestment is necessary to ensure the Group's sustainable operations and growth in order to be able to continue to generate value for its stakeholders.

Higher prices during the year also resulted in PETRONAS incurring a higher subsidy to the nation's gas sector. PETRONAS' subsidy to the gas sector rose to RM19.7 billion, up by 26.2% from RM15.6 billion previously. This brought the cumulative gas subsidy to RM77.9 billion since 1997.

Gas subsidy to the power sector grew to RM13.8 billion, an increase of 17.9%, of which RM8.1 billion or 58.7% went to the Independent Power Producers. The higher prices have also driven the non-power sector to switch more of their fuel source to subsidised gas, resulting in a 51.3% increase in subsidy to the non-power sector to RM5.9 billion.

The year saw the Group's capital expenditure increase by 33.3% to RM37.6 billion, largely as a result of the escalation in cost. Of this, RM20 billion was spent in Malaysia, an increase of 36% compared to RM14.7 billion the year before. About 55% of the Group's total capital expenditure was spent in the Exploration and Production (E&P) sector.

The Group's balance sheet continued to strengthen with total assets rising by 15.2% to RM339.3 billion while shareholder's funds grew to RM201 billion, an increase of 17.6%.

Return on Total Assets (Pre-tax Profit over Total Assets) rose to 28.1% compared to 25.9% in the previous year, while Return on Average Capital Employed (ROACE) remained strong at 45.5%.

The Group's performance despite the challenges is a reflection of its resilience and ability to efficiently generate returns and profits that compare favourably with the more established major players in the industry. It was also a testimony to the success of the Group's overall strategy of integration, value adding and globalisation. Had PETRONAS not embarked on this strategy and remained as a manager and regulator of Malaysia's hydrocarbon resources, it would have only been able to generate cumulative profits of RM175 billion, less than half the cumulative amount of RM403 billion paid to governments.

The Group's continuous emphasis on operational efficiency and reliability, as well as the integrated nature of its operations has successfully cushioned the impact of cost escalation and enabled the Group to optimise the benefits of higher prices. Indeed, higher prices would not yield much benefit to the Group if was not able to operate efficiently and reliably.

REVIEW OF FINANCIAL RESULTS

Highlights

- **Group revenue increased by 21.2% to RM223.1 billion, driven by higher prices and sales volume**
- **Revenue from international operations increased by 33.1% to RM90 billion, making it the biggest contributor to group revenue for the first time - demonstrating the Group's increasing returns from global investments**
- **Profit before tax increased by 25.2% to RM95.5 billion, as a result of successful containment of cost impact and enhanced efficiency**
- **Stronger balance sheet with total assets increasing to RM339.3 billion**
- **Return on Total Assets and Return on Average Capital Employed of 28.1% and 45.5% respectively**
- **Revenue from domestic manufacturing activities represents about 30% of the manufacturing sector's contribution to Malaysia's GDP**
- **Export revenue represents about 14% of Malaysia's total exports**

The higher revenue of RM223.1 billion recorded during the year was driven not only by higher prices and sales volume but also improved operational efficiency and reliability achieved across the Group's businesses.

- Sales of refined petroleum products generated a revenue of RM76.9 billion, an increase of 22.6% from RM62.7 billion last year. Sales volume grew by 7% from 215.9 million barrels to 231.1 million barrels in line with higher global demand.
- Revenue from the sales of crude oil and condensates rose to RM59 billion, compared to RM45.4 billion in the previous year, as a result of higher sales volume as well as higher MCO weighted average prices. Sales volume increased from 192.4 million barrels to 200.9 million barrels.
- Liquefied natural gas (LNG) sales contributed RM35.1 billion to the Group's revenue. Sales volume increased by 4.1% from 24.1 million tonnes to 25.1 million tonnes on the back of higher off-take by Japanese and South Korean buyers. The Group also realised a higher average LNG price of USD415.07 per tonne during the year compared to USD328.97 per tonne last year.
- Revenue from the sales of petrochemical products was 6.5% lower at RM13.0 billion compared to RM13.9 billion in the previous year due to lower sales volume of 5.8 million tonnes compared to 6.4 million tonnes previously as a result of lower production due to maintenance activities.

SALES VOLUME AT A GLANCE

	2008	2007	2006	2005	2004
Crude Oil (million barrels)	200.9	192.4	184.9	207.1	194.2
Processed Gas (trillion btu)	724.3	720.8	690.6	622.0	560.8
LNG (million tonnes)	25.1	24.1	23.6	22.4	18.4
Petroleum Products (million barrels)	231.1	215.9	208.8	218.5	225.4
LPG (million tonnes)	3.9	3.2	3.2	2.6	2.3
Petrochemicals (million tonnes)	5.8	6.4	7.0	6.4	6.1

The Group remained focused on adding value to its operations through manufacturing activities comprising the manufacture of petroleum products, LNG, processed gas and petrochemicals. During the year, revenue from the Group's manufacturing activities increased from RM102.9 billion to RM120.5 billion.

The manufacturing activities have enabled the Group to add value to the nation's oil and gas resources. For example, PETRONAS would only be able to generate a revenue of RM49.1 billion if it had sold the crude oil and gas meant for manufacturing for the year in its raw form. Through manufacturing activities, PETRONAS was able add value by RM71.4 billion to generate a manufacturing revenue of RM120.5 billion.

The Group's revenue from domestic manufacturing activities represents about 30% of the manufacturing sector's contribution to Malaysia's GDP.

The Group's globalisation strategy continued to generate encouraging results. Revenue from international operations increased by 33.1% to reach RM90 billion. This represents 40.3% of the Group's total revenue and made international operations the biggest contributor to group revenue for the first time, overtaking exports. This signifies not only the growing importance but also the success of the Group's international operations.

Export revenue increased by 18.3% to RM86.8 billion and represented 38.9% of Group revenue. PETRONAS Group's export revenue represented about 14% of Malaysia's total exports over the same period, helped earned valuable foreign exchange revenue for the nation, and at the same time provided positive contribution towards the country's balance of payments.

Revenue from domestic market increased from RM43.1 billion to RM46.3 billion and represented only 20.8% of Group revenue.

REVIEW OF BUSINESS

EXPLORATION & PRODUCTION BUSINESS

Highlights

- **Strong total reserves at 26.37 billion barrels of oil equivalent (boe). International reserves account for 23.7% of the Group's total reserves**
- **Reserves Replacement Ratio (RRR) of 0.9 times for the Group, with an RRR of 0.9 times in Malaysia and 0.6 times internationally**
- **Total production of 1.77 million boe per day. International production rose to 615.1 thousand boe per day, equivalent to 34.7% of the Group's total production**
- **Commenced oil production from the Kikeh field, Malaysia's first deepwater project**
- **Awarded four new Production Sharing Contracts (PSCs) in Malaysia - including one deepwater and one onshore**
- **Secured 13 new PSCs abroad, bringing the number of international upstream ventures to 63 in 23 countries**

MALAYSIA'S RESERVES AND PRODUCTION AT A GLANCE

	2008	2007
Reserves (billion boe) As at 1 January	20.13	20.18
Crude oil and condensates	5.46	5.36
Natural Gas	14.67	14.82
	FY 2008	**FY 2007**
Production ('000 boe per day)	1,673.5	1,611.4
Crude oil and condensates	691.6	661.0
Natural Gas	981.9	950.4
Reserves Replacement Ratio	0.9x	1.4x

Domestic Exploration & Production

As at 1 January 2008, Malaysia's total reserves declined slightly to 20.13 billion barrels of oil equivalent (boe) from 20.18 billion boe last year as a result of downward revisions in gas reserves offshore Sarawak and higher production of crude oil and gas during the year despite additions through new discoveries. Crude oil and condensates reserves grew by 1.9% to 5.46 billion boe, while natural gas reserves declined 1.0% to 14.67 billion boe from 14.82 billion boe. The reserves replacement ratio (RRR) for the year was 0.9 times.

Malaysia's total average production increased by 3.9% to 1.67 million boe per day from 1.61 million boe per day previously, of which production of crude oil and condensates amounted to an average of 691.6 thousand barrels per day while gas production averaged at 5.9 billion cubic feet per day (equivalent to 981.9 thousand boe per day).

PETRONAS' entitlement accounted for 44.5% of the total average national production. Including PETRONAS Carigali's production, PETRONAS Group's entitlement stood at 69.2%.

Malaysia's E&P sector remained vibrant despite the increasingly challenging and costlier environment characterised by maturing hydrocarbon acreages and tightness in the supply of materials, equipment and experienced human capital.

Four (4) new PSCs were awarded during the year, namely for Block SB312, Block SK333, the Kebabangan Cluster Fields and the Kinabalu Deep & East Gas Fields. Block SK333 is located onshore Sarawak, which could signal the possible revival of active onshore exploration activities in Malaysia.

Two (2) new oil fields and one (1) gas field were brought onstream during the year, increasing the total number of producing fields in Malaysia to 88 (61 oil and 27 gas fields). This includes the first deepwater field, Kikeh, which came on stream on 17 August 2007. Apart from being the first deepwater development in Malaysia, the Kikeh project is also the first to apply the use of turret-moored Floating Production, Storage & Offloading (FPSO) vessel with a Truss Spar floating facility, the first to be installed outside of the Gulf of Mexico. The FPSO, converted from a supertanker, was the first such conversion done in Malaysia.

A total of RM21.54 billion was spent in Malaysia's upstream sector during the year, higher by about 12% compared to last year's expenditure of RM19.24 billion. Of this, RM12.06 billion or 56% was spent on development and production projects, RM1.52 billion or 7.1% was spent on exploration activities, and the balance on operations.

INTERNATIONAL RESERVES AND PRODUCTION AT A GLANCE

	2008	2007
Reserves (billion boe) As at 1 January	6.24	6.31
Crude oil and condensates	2.42	2.55
Natural Gas	3.82	3.76
	FY 2008	**FY 2007**
Production ('000 boe per day)	615.1	581.7
Crude oil and condensates	287.0	246.5
Natural Gas	328.1	335.2
Reserves Replacement Ratio	0.6x	3.2x

International Exploration & Production

The Group's international E&P business recorded another good year despite the challenging operating environment. The Group's international reserves stood at 6.24 billion boe, compared to 6.31 billion boe last year. Crude oil and condensates reserves were lower by 5.1% to 2.42 billion boe from 2.55 billion boe previously. Natural gas reserves, however, rose by 1.6% to 3.82 billion boe from 3.76 billion boe. The Group achieved an RRR of 0.6 times for its international E&P operations.

Total average production from the Group's international operations was 615.1 thousand boe per day, an increase of 5.7% from the previous year. Crude oil and condensates production increased to 287.0 thousand boe per day from 246.5 thousand boe per day mainly due to higher production from Sudan, especially from Block 5A and Block 3 & 7. However, average gas production declined by 2.1% from 335.2 thousand boe per day to 328.1 thousand boe per day, mainly due to shutdown of facilities for maintenance within the Malaysia-Thai Joint Development Area.

The Group secured 13 new international Production Sharing Contracts (PSCs) during the year, namely for the BHP AC/RL Argus and Evans Shoal acreages in Australia; the Calub Hilala Fields and Block 11 & 15 in Ethiopia; the Chinguetti, PSC A, PSC B, Block 2, Block 7 and Ta 11/12 acreages in Mauritania; the Randugunting acreage in Indonesia; Block OPL320 in Nigeria; and Block 103 & 107 in Vietnam. The new PSCs brought the total of the Group's international E&P ventures to 63 in 23 countries. Of this, PETRONAS is the operator for 29 ventures, joint operator for 14 and active partner in the other 20 ventures.

Six of the Group's international upstream projects began production during the year, namely in Chad's Maikeri acreage, the Gassab and Mala Satellite developments in Sudan's Block 3 & 7 and Block 5A respectively, Egypt's WDDM Phase 4, JDA Block A-18's Phase 2 and the Rehmat 3 development in Pakistan's Mubarak Block.

A total of RM14.11 billion was invested in international E&P ventures, of which 57.2% was for new exploration, development and production, while the remaining 42.8% for the operation of existing producing assets.

Overall, the Group's total reserves stood at 26.37 billion boe, of which 23.7% was from international ventures. The Group's total average production increased by 3.7% from 1.71 million boe per day to 1.77 million boe per day, with production from international operations accounting for 34.7% of the combined production. The contribution from international production is a reflection of the Group's growing success in the international E&P arena.

OIL BUSINESS

Highlights

- **The Group's crude oil marketing portfolio was expanded with the debut of two new Malaysian Crude Oil (MCO) types: the Abu Blend and Kikeh crude oils**

- **The capacity utilisation of the Group's refineries improved to 91.6% while reliability was at 98.2%, resulting in higher throughput**

- **The Group strengthened its petroleum products market leadership positions in Malaysia and South Africa at 44.1% and 26.7% shares respectively**

- **Completed the acquisition of FL Selenia SpA, which marks an important milestone in PETRONAS' continuous efforts to build and enhance its global lubricants business**

OIL BUSINESS AT A GLANCE

	FY 2008 (in million barrels)	FY 2007 (in million barrels)
Marketing		
Export of Malaysian Crude Oil (MCO)	94.6	102.7
Exports of Petroleum Products	62.2	53.5
Sale of Foreign Equity Crude Oil (FEC)	49.9	52.4
Crude Oil Refining		
Processing of MCO	94.3	86.4
Processing of non-MCO	56.6	62.4
Petroleum Products Retail		
Domestic (including commercial)	84.2	76.8
International	70.8	63.6
Trading		
Crude Oil	56.4	37.2
Petroleum Products	60.5	57.4

Crude Oil & Petroleum Products Marketing

PETRONAS exported 94.6 million barrels of its share of MCO (including condensates) during the year. Of this, 76.5% was exported to the Asian region with the balance sold to markets in Australia, New Zealand and the USA. The Group also exported 62.2 million barrels of petroleum products compared to last year's export of 53.5 million barrels, in line with the increase in the demand for diesel, jet fuel and LPG.

The year also saw the debut of two new MCOs namely the Abu Blend and Kikeh crude oils.

Crude Oil Refining

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

During the year, the Group's refineries collectively delivered a higher throughput of 150.9 million barrels compared to 148.8 million barrels previously. Continuous Operational Performance Improvement (OPI) initiatives resulted in an increase in the domestic refineries' utilisation rates to 96.7%, while plant reliability rose to 98.2% during the year.

Notably, the Group's domestic refineries namely PETRONAS Penapisan (Melaka) Sdn Bhd (PPMSB), PETRONAS Penapisan (Terengganu) Sdn Bhd (PPTSB) and Malaysian Refining Company Sdn Bhd (MRC) were ranked 1st, 2nd and 3rd places respectively for refinery utilisation in the latest Solomon Index. The Solomon Index is a biennial benchmarking exercise conducted by Solomon Associates on 60 refineries in Asia Pacific. Solomon Associates is one of the world's leading providers of benchmarking and consulting services to the energy industry. The refineries' emphasis on HSE also continued to be recognised through various prestigious awards and accolades won during the year.

The three refineries processed an average of 380,300 bpd of crude oil during the year, about 17.6% higher than their combined nameplate capacity of 323,300 bpd.

During the year, PPTSB successfully completed a de-bottlenecking project that increased its capacity from 40,000 bpd to 49,000 bpd. MRC is undergoing a revamp to increase its refinery capacity by about 40,000 bpd with target completion in 2009. The complex refinery is also being further upgraded to enhance its ability to process high acid crude oil from the Group's international operations.

The Group's refinery in Durban, South Africa, owned and operated by subsidiary Engen Ltd (Engen), recorded a 9.1% decline in production due to unplanned shutdowns as a result of fire.

Operational efficiency and higher reliability in all of the Group's refineries resulted in a higher combined utilisation rate of 91.6%.

The Group's Lubricant Base Oil plant in the Melaka refinery complex is on track and scheduled for completion by the end of 2008. The plant will supply 6,500 bpd of base oil to top tier automotive and industrial lubricant manufacturers in the domestic and international markets.

The Group's planned complex refinery in Port Sudan, which was proposed to be jointly developed with the Government of Sudan, however, has been deferred due to escalating costs.

Petroleum Products Retail

The Group's domestic retail arm, PETRONAS Dagangan Bhd (PDB), registered another successful year with higher sales volume of 84.2 million barrels of petroleum products compared to 76.8 million barrels last year. Amidst stiff competition, PDB strengthened its leadership position to secure a 44.1% share of the market compared to 42.4% previously. PDB added 60 new stations during the year, bringing the number of total stations in its retail network to 892.

Total sales volume from the Group's international retail operations increased from 63.6 million barrels to 70.8 million barrels, in line with the expansion of the Group's international retail networks from 1,606 to 1,683 outlets.

In South Africa, Engen maintained its position as market leader with a 26.7% share despite aggressive competition from other players. As part of its growth strategy in the African sub-Saharan territory, Engen acquired Shell's petroleum business in Congo and a 13% stake in another petroleum products distributor also in Congo. With the acquisitions, Engen currently has a total of 1,429 stations across the African continent.

The Group's retail operation in Sudan increased its market share from 11% to 14% and expanded its retail network in the country to 67 stations. The Group also secured a contract to supply diesel and jet fuel for the United Nations African Mission in Darfur.

In Indonesia, PETRONAS expanded its retail network to 15 stations and expanded its service stations network in the Philippines from 34 to 52 stations.

PETRONAS also completed the acquisition of FL Selenia SpA during the year, a significant step towards building and enhancing the Group's global lubricants business. FL Selenia is Europe's largest independent producer and marketer of branded automotive lubricants and specialist fluids. It brings a well-known brand to the Group's lubricants business and adds critical mass to its markets in Europe, with strong OEM relationships and world class R&D capabilities.

Crude Oil & Petroleum Products Trading

During the year, the total volume of crude oil traded by the Group increased by 51.6% from 37.2 million barrels to 56.4 million barrels, while petroleum products trading increased by 5.4% from 57.4 million barrels to 60.5 million barrels.

The Group's crude oil trading portfolio was significantly strengthened with higher trade volumes of Persian Gulf/Red Sea, West Africa and Mediterranean/Caspian crude grades.

In petroleum products trading, the Group entered new markets for naphtha (US West Coast), middle distillate (UK and Sudan), jet fuel (India) and gasoline (China, Taiwan and Tanzania).

GAS BUSINESS

Highlights

- **The volume of natural gas sold domestically increased by 3.8% to 2,543 million standard cubic feet per day (mmscfd)**

- **Gas pipeline network achieved a reliability rate of 99.99%, exceeding the world class standard of 99.90%**

- **Higher sales volume of 25.1 million tonnes of LNG, an increase of 1.0 million tonnes from the previous financial year**

- **Increased its equity in Australia's APA Group to 16.76% and became the single largest shareholder in APA Group**

- **Acquired 100% equity in Star Energy to strengthen position in the UK gas market**

- **Acquired of 50% of Milford Energy Ltd, marking entry into power business overseas**

GAS BUSINESS AT A GLANCE

	FY 2008	FY 2007
Total Average Sales Gas Volume (mmscfd)	2,543	2,449
Average Sales Gas through PGU (mmscfd)	2,170	2,128
LNG Sales Volume (million tonnes)	25.1	24.1
Malaysia LNG (MLNG)	22.5	21.3
Egyptian LNG (ELNG)	1.6	1.8
ASEAN LNG Trading Company Ltd (ALTCO)	1.0	1.0

Gas Processing & Transmission

During the review period, the Group sold an average volume of 2,543 mmscfd of gas in Malaysia, an increase of 3.8% compared to 2,449 mmscfd sold in the previous year. Of that, an average of 2,170 mmscfd was sold through the Peninsular Gas Utilisation (PGU) system, an increase of 2.0% from last year's average volume of 2,128 mmscfd.

To meet higher demand, gas supply from offshore Terengganu to the PGU system was increased by 6.6% to 1,738 mmscfd while almost 20% of the total supply was imported.

The power sector continued to be the largest consumer of gas, taking up an average of 1,310 mmscfd or 60.4% of the total volume, with the Independent Power Producers (IPPs) consuming almost 60% of the gas supplied to the sector. The non-power sector, comprising industrial, petrochemical and other users, consumed an average of 703 mmscfd or 32.4% of the total volume and the balance 7.2% was exported to Singapore.

The Group's gas processing and transmission arm PETRONAS Gas Berhad (PGB) sustained world class operations standards for its Gas Processing Plants and pipeline network with reliability rates of 99.7% and 99.99% respectively.

In Australia, the Group through PETRONAS Australia Pty Ltd (PAPL) became the largest shareholder of APA Group when PAPL increased its equity in APA Group to 16.76%. APA Group is the leading owner, manager and operator of natural gas pipelines in Australia with interests in over 10,000 km of gas transmission pipelines in that country.

Liquefied Natural Gas (LNG)

The Group's total LNG production increased to 24.1 million tonnes from 23.3 million tonnes previously as a result of higher production from the PETRONAS LNG Complex in Bintulu which increased from 21.5 million tonnes to 22.5 million tonnes.

Almost 60% of production from Bintulu amounting to 13.4 million tonnes was exported to Japan, about 28% or 6.3 million tonnes sold to South Korea and the balance 2.8 million tonnes was sold to Taiwan, mostly under long term contracts. The Group increased its market share in Japan and South Korea to 20% and 24% respectively. In Taiwan, its market share declined from 43% to 35% due to lower off-takes by its Taiwanese buyer.

Two new long term contracts were signed with Japanese buyers during the year, one with Osaka Gas Co. Ltd. and the other with Shikoku Electric Power Co. Inc. A short-term supply agreement with Shanghai Gas (Group) Company Ltd was also signed during the year.

The Group's LNG trading arm, ASEAN LNG Trading Company Ltd (ALTCO), sold a total of 17 LNG cargoes (equivalent to 1.02 million tonnes) from Egypt and Trinidad & Tobago during the year.

The Group successfully maintained its LNG plant's reliability, one of its hallmarks in the LNG business, at a high level of 97.6%, and ensured a strong track record of deliveries to customers to capitalize on the higher LNG prices during the year.

The de-bottlenecking of MLNG Dua's plant to increase the plant's capacity by 1.2 million tonnes per annum is progressing well. Upon completion in 2009, it will increase the combined capacity of the PETRONAS LNG Complex to 24.2 mtpa.

In the United Kingdom, the construction of the pipeline connecting the Dragon LNG receiving and re-gasification terminal to the UK gas network was completed towards the end of the year while the terminal has reached more than 90% completion. Once completed, the terminal will provide the PETRONAS Group access into the UK and European gas markets.

Other Downstream Gas Ventures

In March 2008, PETRONAS acquired 100% of Star Energy to expand and strengthen its position in the UK's downstream gas sector. Star Energy is one of the main developers of underground gas storage in the UK. The acquisition allows PETRONAS to enter into the gas storage business, participate in gas supply trading opportunities in the UK and build its capability in these areas.

PETRONAS also acquired 50% of Milford Energy Limited (MEL) during the year, marking its entry into the power business overseas. MEL is building a plant adjacent to the Dragon LNG re-gasification terminal to supply power and hot water to Dragon LNG. The plant is expected to be commissioned by end 2008, in line with the scheduled completion of the Dragon LNG terminal.

PETROCHEMICAL BUSINESS

Highlights

- **Total petrochemical products production marginally dropped to 9.3 million tonnes from 9.8 million tonnes due to maintenance activities**
- **Launched the latest polypropylene polymer grade *PROPELINAS H022***
- **Launched PETRONAS' own brand of premium quality fertiliser -- *Agrenas* -- formulated for higher crop productivity and yield to better support the growth of Malaysia's agriculture sector**

PETROCHEMICAL BUSINESS AT A GLANCE

	FY 2008	FY 2007
Production Volume (million tonnes)		
Total	**9.3**	**9.8**
Subsidiaries	6.9	7.1
Associates	2.4	2.7
Sales Volume (million tonnes)		
Total	**5.8**	**6.4**
Marketing	5.0	5.6
Trading of third-party volumes	0.8	0.8
Overall plant reliability rate	95.2%	94.6%

The Group produced 9.3 million tonnes of petrochemical products during the year, lower by 5.1% from 9.8 million tonnes previously due to maintenance activities at its plants. The overall plant reliability rate improved to 95.2% despite high downtime associated with maintenance.

Sales volume dropped from 6.4 million tonnes to 5.8 million tonnes in line with lower production.

The Group launched its latest polypropylene polymer grade, *PROPELINAS H022*, during the year in its continuous efforts to expand the range of its polymers to meet increasing sophistication in demand.

After more than two decades of producing and supplying granular urea fertiliser to customers in the domestic and export markets, the Group during the year launched its own brand of the fertiliser, *Agrenas,* to further enhance customer's confidence in the quality, accessibility and reliability of supply of the product.

The 1.7 million tonnes per year capacity Mega Methanol Project in Labuan is progressing well with commissioning scheduled for September 2008 and is set to strengthen the Group's position as a major methanol supplier.

LOGISTICS AND MARITIME BUSINESS

Highlights

- **Took delivery of three LNG tankers, two Very Large Crude Carriers (VLCC) and two Aframax tankers during the year**
- **Expansion of chemical and petroleum shipping business with order of eight 45,000 DWT chemical tankers and two Aframax tankers respectively**
- **Proposed reverse takeover of Ramunia Holdings Berhad, expected to be completed in the fourth quarter of 2008**

LOGISTICS AND MARITIME BUSINESS AT A GLANCE

Fleet Numbers by Business		
	FY 2008	**FY 2007**
LNG	26	23
Petroleum	44	45
Chemical	17	17
FPSO/FSO	6	6
Liner	19	21
Total	**112**	**112**

The Group's Logistics and Maritime Business, spearheaded by subsidiary MISC Berhad, sustained a strong performance during the year despite a challenging environment characterised by softening freight rates and higher operating cost.

MISC strengthened its position as the world's largest single owner-operator of LNG carriers when it took delivery of three new LNG carriers - *Seri Bakti, Seri Ayu* and *Seri Begawan* - bringing its LNG fleet size to 26. *Seri Bakti* was contracted to BG Group on a medium-term charter from August 2007. *Seri Ayu* was contracted to ALTCO on a 30-year term charter commencing October 2007, while *Seri Begawan* to MLNG on a short-term charter.

In the petroleum shipping business, MISC's subsidiary AET Inc. Ltd (AET) took delivery of two Very Large Crude Carriers (VLCC), increasing the Group's VLCC fleet to 10. AET also took delivery of two new Aframax tankers during the year but sold five older ones.

MISC also entered a niche segment along its petrochemical shipping business value chain through a joint-venture with Dialog Group Berhad for the development of an independent tankage facility for storage and break-bulking and a tank terminal at the Port of Tanjung Langsat in Johor.

MISC's subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE) continued to chart progress in the marine and heavy engineering business. During the year, MMHE completed five fabrication projects, as well as dry docking and repair works for 43 vessels.

MISC continued to expand its offshore business when its joint venture with Petroleum Technical Services Corporation of Vietnam was awarded a contract for the provision of an FPSO in Vietnam. The conversion of the FPSO will be undertaken by MMHE with delivery expected in 2009.

In January 2008, MISC announced the proposed reverse take-over of Ramunia Holdings Berhad through the disposal of its entire equity interest in MMHE to Ramunia. MISC will hold more than 70% of Ramunia upon completion of the exercise, expected in the fourth quarter of 2008. The proposed reverse takeover represents a significant step in the consolidation of the fabrication sector of the country's oil and gas support and services industry. The enlarged entity is expected to derive synergistic benefits of yard capacity expansion as well as sharing of expertise and resources, placing it in a better position to compete and expand both in Malaysia and internationally.

CONCLUSION

PETRONAS has indeed come a long way since its incorporation in 1974. Some of the highlights of this journey include :

- Grown from a regulator and manager of Malaysia's upstream oil and gas sector into a fully integrated oil and gas multinational with a presence in over 30 countries, and listed on the Fortune Global 500.
- Some 82% of PETRONAS Group employees are Malaysians operating the Group's global business.
- Started with a paid up capital of RM10 million and with no subsequent requirement for additional funds from its shareholder. Now, its Shareholder's Funds has grown to RM201 billion.
- From zero revenue in the first year of operations, to a revenue and profit before tax of RM223.1 billion and RM95.5 billion respectively this year.
- Entrusted with crude oil and gas reserves of 3.9 billion boe in 1974, now grown and accumulated total reserves of 26.37 billion boe, including 6.24 billion boe or about 24% of international reserves.
- Increased national average crude oil and gas production from 142.0 thousand boe per day in 1974 to an average production of 1.77 million boe per day this year, including 615.1 thousand boe per day or about 35% from international operations.
- Has so far paid a total of RM403 billion to government, representing more than 50% of the Federal Government's development expenditure spanning from the Third Malaysia Plan to the Ninth Malaysia Plan.

- Now contributes to more than 40% of Federal Government revenue – the biggest single contributor to national budget.
- Given back more than 60% of its profits to the government.
- Driven the overall growth and development of the Malaysian oil and gas industry from a fledgling sector dominated by foreign companies to a vibrant powerhouse well participated by local support and services companies, providing a significant contribution to the socio-economic growth of the nation.
- Provided significant contributions especially to Malaysians in the area of capability building through education and training. Provided scholarships worth more than RM2 billion to more than 30,000 students.
- Has reached out and touched the lives of many through its Corporate Social Responsibility programmes involving community relations, education, health, sports culture and the environment.

Credit is certainly due to the founders for their wisdom and foresight in setting the right foundation back then, by forming PETRONAS as a company to enable it to operate as a business entity from day one despite being wholly owned by the Government.

Entrusted with the responsibility to develop and add value to the nation's petroleum resources, PETRONAS from the onset shouldered the trust by developing the capability and leadership of its people to ensure successful discharge of the responsibility.

The strategy of integration, adding value and globalisation was pursued to compete in the highly challenging global oil and gas industry. The strategy was complemented by the philosophy of mutually beneficial partnerships and alliances anchored on long term relationships based on mutual trust, respect and understanding.

The employees of PETRONAS, firmly guided by the Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness in discharging their responsibility as trustees, are one of the key enablers to the successful implementation of the Group's strategy and philosophy. These Shared Values have become the soul of the organisation and instill in its people the resolve to deliver a superior performance, and to leave a legacy for future generations.

All these combined have enabled PETRONAS to deliver the desired results so far. The challenges going forward are far more daunting and PETRONAS certainly requires all the support to ensure its continued success for the benefit of all its stakeholders. On its part, PETRONAS remains committed to raise the level of its performance to not only meet, but exceed the expectations of all its stakeholders, present and in the future.

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