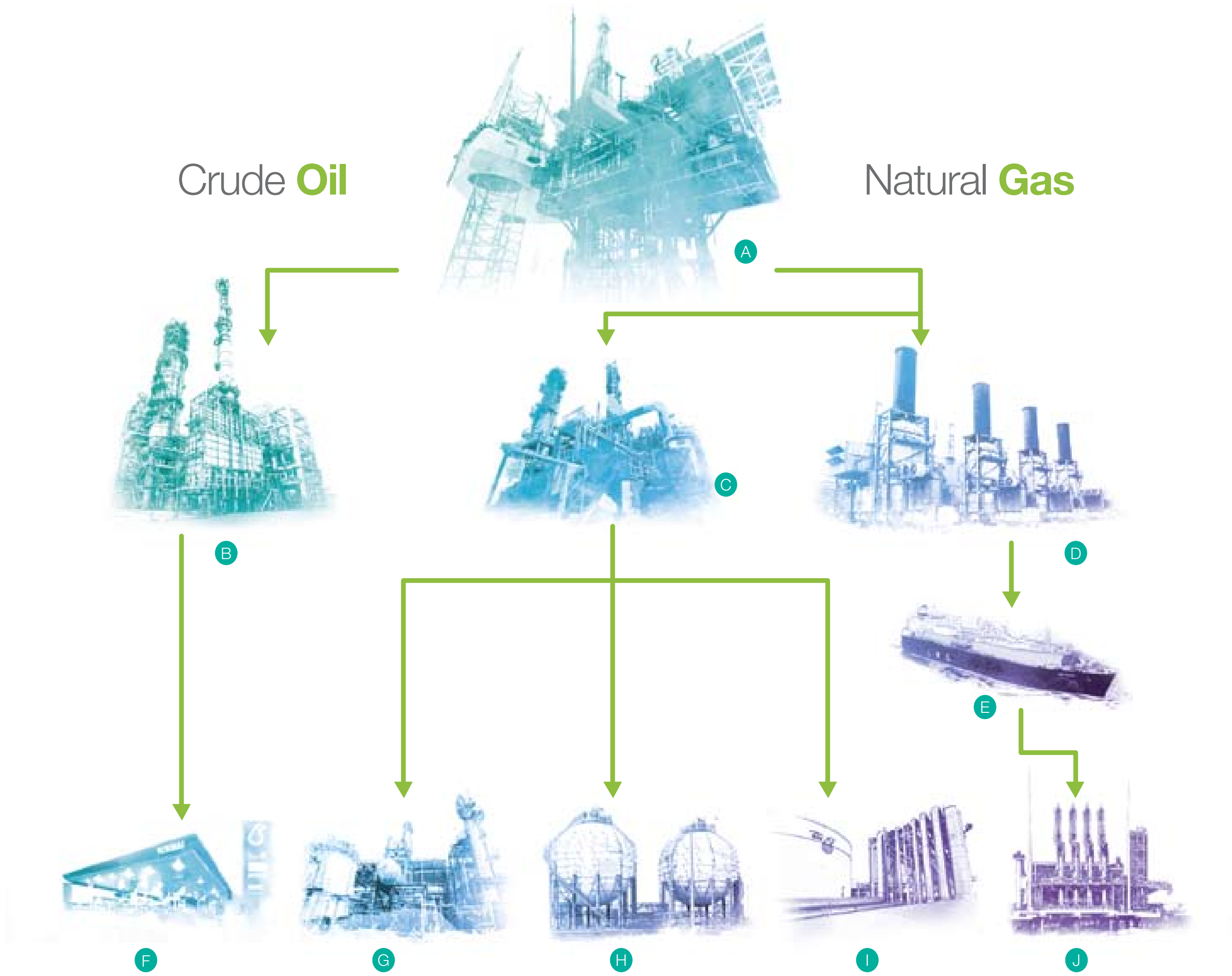
PETRONAS

REIMAGINING ENERGY

PE 2011 ANNUAL REPORT

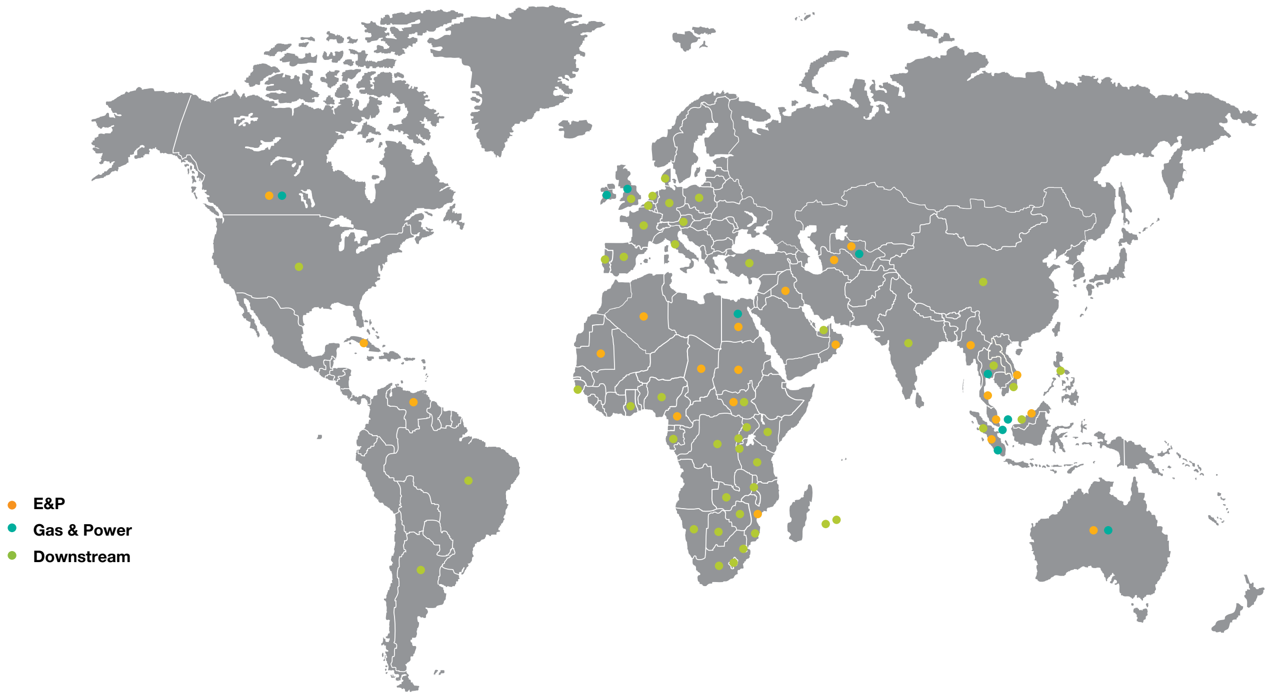
OUR BUSINESS



- A Exploration, Development and Production
- B Refining
- C Processing
- D Liquefaction
- E Liquefied Natural Gas (LNG)

- F Petroleum Products
  - Transportation Sector - Diesel, Gasoline, Jet Fuel and Lubricants
- G Petrochemical Plant
  - Industrial Sector - Ethylene, Methanol, MTBE, Polyethylene, Propylene, Urea and VCM
- H Liquefied Petroleum Gas (LPG)
  - Residential and Commercial Sectors
- I Processed Gas/ Peninsular Gas Utilisation (PGU) System
  - Power Sector
  - Industrial Sector
- J Regasification Terminal
  - Export Sector

OUR PRESENCE



Exploration & Production (E&P)

Africa	• **Algeria** – Development • **Cameroon** – Exploration & Development • **Chad** – Development & Production • **Egypt** – Exploration, Development & Production • **Mauritania** – Exploration & Production • **Mozambique** – Exploration • **Republic of South Sudan** – Exploration, Development & Production • **Republic of Sudan** – Exploration, Development & Production
Asia Pacific	• **Australia** – Exploration, Development & Production • **Brunei** – Exploration • **Indonesia** – Exploration, Development & Production • **Malaysia** – Exploration, Development & Production • **Malaysia-Thailand Joint Development Area** – Exploration, Development & Production • **Myanmar** – Exploration, Development & Production • **Vietnam** – Exploration, Development & Production
Central Asia	• **Turkmenistan** – Exploration, Development & Production • **Uzbekistan** – Exploration, Development & Production
Latin America	• **Cuba** – Exploration • **Venezuela** – Development
Middle East	• **Iraq** – Exploration, Development & Production • **Oman** – Exploration & Development
North America	• **Canada** – Development & Production

Gas & Power

Africa	• **Egypt** – LNG
Asia Pacific	• **Australia** – LNG & Infrastructure • **Indonesia** – Infrastructure • **Malaysia** – LNG, Infrastructure, Utilities & Power, Trading • **Singapore** – Power • **Thailand** – Infrastructure
Central Asia	• **Uzbekistan** – Gas-to-Liquid
Europe	• **Ireland** – Infrastructure • **United Kingdom** – Infrastructure, Utilities & Trading
North America	• **Canada** – LNG

Downstream*

Africa	• **Botswana** – Oil Business • **Burundi** – Oil Business • **Democratic Republic of the Congo** – Oil Business • **Gabon** – Oil Business • **Ghana** – Oil Business • **Guinea Bissau** – Oil Business • **Kenya** – Oil Business • **Lesotho** – Oil Business • **Malawi** – Oil Business • **Mauritius** – Oil Business • **Mozambique** – Oil Business • **Namibia** – Oil Business • **Nigeria** – Oil Business • **Réunion** – Oil Business • **Rwanda** – Oil Business • **Swaziland** – Oil Business • **South Africa** – Oil Business • **Republic of South Sudan** – Oil Business • **Tanzania** – Oil Business • **Uganda** – Oil Business • **Zambia** – Oil Business • **Zimbabwe** – Oil Business
Asia Pacific	• **China** – Oil & Petrochemical Businesses • **India** – Oil & Petrochemical Businesses • **Indonesia** – Oil & Petrochemical Businesses • **Malaysia** – Oil & Petrochemical Businesses • **Philippines** – Oil & Petrochemical Businesses • **Thailand** – Oil & Petrochemical Businesses • **Vietnam** – Oil & Petrochemical Businesses
Europe	• **Austria** – Oil Business • **Belgium** – Oil Business • **Denmark** – Oil Business • **France** – Oil Business • **Germany** – Oil Business • **Italy** – Oil Business • **Netherlands** – Oil Business • **Poland** – Oil Business • **Portugal** – Oil Business • **Spain** – Oil Business • **Turkey** – Oil Business • **United Kingdom** – Oil Business
Latin America	• **Argentina** – Oil Business • **Brazil** – Oil Business
North America	• **United States of America** – Oil Business

**Includes Engen subsidiaries and marketing and trading offices.*

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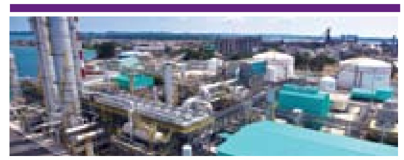

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VISION

TO BE A LEADING OIL AND GAS MULTINATIONAL OF CHOICE

Mission

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

Integrity
Honest and upright

Professionalism
Committed, innovative and proactive and always striving for excellence

Cohesiveness
United in purpose and fellowship

CORPORATE PROFILE

Petroliam Nasional Berhad is Malaysia's National Petroleum Corporation wholly-owned by the Malaysian Government. Established in 1974, PETRONAS is now ranked among the largest companies in the world with a proven track record in integrated oil and gas operations spanning the entire hydrocarbon value chain.

PETRONAS' business activities include (i) the exploration, development and production of crude oil and natural gas in Malaysia and overseas; (ii) the liquefaction, sale and transportation of Liquefied Natural Gas (LNG); (iii) the processing and transmission of natural gas, including power generation, and the sale of natural gas products; (iv) the refining and marketing of petroleum products; (v) the manufacturing and selling of petrochemical products; (vi) the trading of crude oil, petroleum, gas and LNG products and petrochemical products; and (vii) shipping and logistics relating to LNG, crude oil and petroleum products. Committed to ensuring business sustainability, PETRONAS also strives to responsibly manage natural resources in a way that contributes holistically to the well-being of the people and nations wherever it operates.

Exploration & Production

PETRONAS Exploration & Production (E&P) aims for Safe and Profitable Growth through effective domestic resource management and highgrading and acquiring assets/ventures across the exploration, development and production value chain.

The Petroleum Management Unit (PMU) of PETRONAS manages domestic oil and gas assets, by pioneering innovative solutions to drive business growth in the Malaysian oil and gas industry. This includes Enhanced Oil Recovery (EOR), small field development and intensifying exploration activities.

Its E&P subsidiary, PETRONAS Carigali Sdn Bhd (PCSB) is a hands-on operator with an established track record of successful oil and gas developments. Actively strengthening the nation's upstream resource base and production, PCSB works alongside a number of petroleum multinationals through Production Sharing Contracts (PSCs) to explore, develop and produce oil and gas in Malaysia. Abroad, PETRONAS continues to build on its E&P portfolio, securing new acreages while undertaking various development projects. These include deepwater and unconventional resources.

PETRONAS continues to harness and implement new technologies to reap the benefits of every hydrocarbon molecule recovered in its vision to become a leading global E&P player.

Gas & Power

PETRONAS aspires to be a leading integrated gas, LNG and power player through two major portfolios under its Gas and Power business; Global LNG business and Infrastructure, Utilities & Power business.

At present, its Global LNG business commands a sizeable LNG market share in the Far East. It aims to sustain its market position and preserve its reputation as a reliable supplier of LNG. PETRONAS is involved in LNG trading and is currently establishing its foothold in the European energy trading, which includes gas and electricity. Apart from conventional plays, the Group also expanded into unconventional plays such as Australia's Gladstone Coal Bed Methane (CBM) to LNG project in 2009, as well as shale gas to LNG venture in northeastern British Columbia, Canada.

Its Infrastructure, Utilities & Power business is focused on ensuring long-term security and sustainability of the gas market in Malaysia while continuing to expand its portfolio of infrastructure and power in high growth markets. PETRONAS Gas Berhad (PGB) owns and operates the Peninsular Gas Utilisation (PGU) system, that delivers gas to the power and non-power sectors in Peninsular Malaysia as well as the power industry in Singapore. The business has been operating the PGU system exceeding world class standards. PETRONAS is committed to further grow in the power and renewable business, leveraging on existing capabilities and capturing opportunities in key focus markets in Asia and the Middle East.

Downstream

PETRONAS' ambitious downstream expansion through its integrated operations in refining & trading, marketing & retailing as well as in the petrochemicals sector plays a strategic role to increase the value of every molecule extracted through its exploration activities.

PETRONAS owns and operates three refineries in Malaysia, two in Melaka and another in Kertih. The PETRONAS refining portfolio is also complemented by its refining presence in Africa through its 80% owned subsidiary, Engen Petroleum Limited (Engen), a leading African refining and marketing company which owns and operates a refinery in Durban, South Africa.

In the Malaysian market, PETRONAS Dagangan Berhad (PDB) manages all domestic marketing and retailing activities for a wide range of petroleum products. PETRONAS also operates service stations in various international markets including Indonesia, Thailand, South Africa and Sudan. PETRONAS Lubricants International Sdn Bhd (PLI) is the global lubricants manufacturing and marketing arm of PETRONAS. With a strong presence in more than 20 countries globally, the PLI product range includes lubricants and functional fluids for both the automotive and industrial markets as well as a range of car care products.

The integrated development of Malaysia's petrochemical industry is expected to promote the development of the country's industrial base, especially the plastics and chemical based component manufacturing industry. The Company's consolidated petrochemical business under the PETRONAS Chemicals Group Berhad (PCG) is the largest integrated petrochemicals producer in Malaysia and among the largest in South East Asia.

PETRONAS' robust development of its downstream portfolio is expected to further enhance Malaysia's economic, industrial and knowledge base. In the long-term, this augurs well to support Malaysia's growth agenda and the Company's integrated plan to become a key downstream player in the region.

BOARD OF DIRECTORS

Tan Sri Dato' Shamsul Azhar Abbas
Acting Chairman of the PETRONAS Board, President & Chief Executive Officer

Tan Sri Dr Wan Abdul Aziz Wan Abdullah
Non Independent Non Executive Director

Tan Sri Dato' Seri Hj Megat Najmuddin Datuk Seri Dr Hj Megat Khas
Independent Non Executive Director, Chairman of the PETRONAS Board Governance & Risk Committee

Datin Yap Siew Bee
Independent Non Executive Director, Chairperson of the PETRONAS Remuneration Committee

Dato' Mohammed Azhar Osman Khairuddin
Company Secretary

Datuk Muhammad Ibrahim
Non Independent Non Executive Director

Datuk Anuar Ahmad
Executive Director

Dato' Wee Yiaw Hin
Executive Director

Datuk Wan Zulkiflee Wan Ariffin
Executive Director

Tan Sri Amirsham A Aziz
Independent Non Executive Director

Dato' Mohamad Idris Mansor
Independent Non Executive Director

Datuk Mohd Omar Mustapha
Independent Non Executive Director

Krishnan CK Menon, FCA
Independent Non Executive Director, Chairman of the PETRONAS Board Audit Committee

Datuk Manharlal Ratilal
Executive Director

Faridah Haris Hamid
Joint Company Secretary

BOARD OF DIRECTORS

Tan Sri Dato' Shamsul Azhar Abbas

Acting Chairman of the PETRONAS Board, President & Chief Executive Officer

Tan Sri Dato' Shamsul Azhar Abbas was appointed to the PETRONAS Board as Acting Chairman and as President & Chief Executive Officer of PETRONAS on 10 February 2010. He began his career with PETRONAS in 1975 and prior to his current appointment held numerous senior management positions within the Group. Tan Sri Dato' Shamsul is also Chairman of the Board of PETRONAS Carigali Sdn Bhd, the Group's wholly-owned exploration and production arm. He also serves as Chairman of the National Trust Fund of Malaysia. On 2 June 2012, he was conferred the Darjah Panglima Setia Mahkota (PSM) which carries the title Tan Sri by His Majesty the Yang Di-Pertuan Agong.

Tan Sri Dr Wan Abdul Aziz Wan Abdullah

Non Independent Non Executive Director,
Member of the PETRONAS Board Audit Committee

Tan Sri Dr Wan Abdul Aziz is a member of the PETRONAS Board and currently serves as the Secretary-General of Treasury in the Ministry of Finance. He also sits on the Board of various organisations including Malaysian Airline System Berhad, Bintulu Port Holdings Berhad, Bank Negara Malaysia, MISC Berhad, Retirement Fund Incorporated and the Federal Land Development Authority (FELDA).

Datuk Muhammad Ibrahim

Non Independent Non Executive Director,
Member of the PETRONAS Board Audit Committee and Board Governance & Risk Committee

Datuk Muhammad Ibrahim was appointed to the PETRONAS Board in April 2010. He is currently the Deputy Governor of Bank Negara Malaysia. His areas of expertise include finance, banking, supervision and regulation, strategic planning, insurance and financial markets. He is a trustee of the Tun Ismail Ali Chair Council, a former commissioner of the Securities Commission of Malaysia and Senior Associate of the Institute of Bankers Malaysia. He sits on the Board of the Retirement Fund Incorporated and is a member of the Malaysian Institute of Accountants and member of the Investment Panel of National Trust Fund. On 2 June 2012, he was conferred the Darjah Panglima Jasa Negara (PJN) which carries the title Datuk by His Majesty the Yang Di-Pertuan Agong.

Tan Sri Amirsham A Aziz

Independent Non Executive Director,
Member of the PETRONAS Board Governance & Risk Committee

Tan Sri Amirsham A Aziz was appointed to the PETRONAS Board in October 2011. He joined the Maybank Group in 1977 and has held various senior positions within the Group. He served as President and Chief Executive Officer of Maybank for a period of 14 years from 1994 to 2008. He was Chairman of the National Economic Advisory Council (NEAC) and served as the Minister in the Prime Minister's Department in charge of the Economic Planning Unit and the Department of Statistics in 2008 to 2009. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and is a non-executive director on the Boards of international companies such as Lingui Developments Berhad, Samling Global Limited, and CapitaMall Asia Limited.

Tan Sri Dato' Seri Hj Megat Najmuddin Datuk Seri Dr Hj Megat Khas

Independent Non Executive Director,
Chairman of the PETRONAS Board Governance & Risk Committee

Tan Sri Megat Najmuddin was appointed to the PETRONAS Board in April 2010. He is currently the President of both the Federation of Public Listed Companies Berhad (FPLC) and the Malaysian Institute of Corporate Governance (MICG). He currently serves as the Non-Executive Chairman of several public listed companies and is active in non-governmental organisations (NGOs).

Krishnan CK Menon, FCA

Independent Non Executive Director,
Chairman of the PETRONAS Board Audit Committee and Member of the PETRONAS Board Governance & Risk Committee

Krishnan CK Menon was appointed to the PETRONAS Board in April 2010. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is currently Chairman of Putrajaya Perdana Berhad, SCICOM (MSC) Berhad, KLCC Property Holdings Berhad and KLCC (Holdings) Sdn Bhd. He is a non-executive director of MISC Berhad and is also the Chairman of the Board Audit Committee in MISC Berhad.

Datin Yap Siew Bee

Independent Non Executive Director,
Chairperson of the PETRONAS Remuneration Committee

Datin Yap Siew Bee was appointed to the PETRONAS Board in April 2010. She is currently Consultant to the firm of Mah-Kamariyah & Phillip Koh. She has advised as legal counsel on significant oil and petrochemical projects in Malaysia and has extensive oil and gas advisory experience including negotiation of international oil and gas ventures on behalf of PETRONAS. Her areas of expertise include mergers and acquisitions, corporate finance, corporate restructuring and commercial ventures.

Dato' Mohamad Idris Mansor

Independent Non Executive Director,
Member of the PETRONAS Board Audit Committee and the PETRONAS Remuneration Committee

Dato' Mohamad Idris Mansor was appointed to the PETRONAS Board in April 2010. He has extensive experience in the oil and gas industry, having held various senior management positions within the Group including as Senior Vice President, Exploration & Production Business. He is a Board member of PETRONAS Carigali Sdn Bhd. He was also the International Business Advisor to PTT Exploration and Production Company of Thailand prior to his current appointment.

BOARD OF DIRECTORS

Datuk Mohd Omar Mustapha

Independent Non Executive Director,
Member of the PETRONAS Remuneration Committee

Datuk Mohd Omar Mustapha was appointed to the PETRONAS Board in September 2009. He is the Founder and Chairman of Ethos & Company, a leading Malaysian-based management consulting firm and a General Partner of Ethos Capital, a regional private equity fund. He is an independent director of Air Asia Berhad and Symphony House Berhad, an Eisenhower Fellow, a founding member of the World Islamic Economic Forum's Young Leaders Roundtable and a YGL member of the World Economic Forum in Davos.

Datuk Wan Zulkiflee Wan Ariffin

Executive Director

Datuk Wan Zulkiflee Wan Ariffin is a member of the PETRONAS Board, the Executive Committee, Management Committee and serves on various Boards of several Joint Ventures and subsidiary companies in the PETRONAS Group. He is the Executive Vice President of Downstream Business and is the Chairman of two of PETRONAS' public listed subsidiaries namely PETRONAS Chemicals Group Berhad and PETRONAS Dagangan Berhad. He was also a member of the Board of Directors of MISC Berhad until end of November 2011 and is the Industry Advisor to the Engineering Faculty of Universiti Putra Malaysia. Datuk Wan Zulkiflee is also PETRONAS' Chief Operating Officer effective 1 April 2012.

Datuk Anuar Ahmad

Executive Director

Datuk Anuar Ahmad is a member of the PETRONAS Board, Executive Committee and Management Committee. He is the Executive Vice President of Gas & Power Business. Prior to this appointment, he served as Vice President of Human Resource Management Division and, earlier, as Vice President of Oil Business. He also sits on the Board of several companies within the PETRONAS Group.

Dato' Wee Yiaw Hin

Executive Director

Dato' Wee Yiaw Hin was appointed to the PETRONAS Board in May 2010. He is the Executive Vice President of Exploration & Production Business. He is also a member of the Executive Committee, Management Committee and serves on various Boards of subsidiary companies in the PETRONAS Group. Previously, he worked in Talisman and Shell where he held various senior management positions.

Datuk Manharlal Ratilal

Executive Director

Datuk Manharlal Ratilal is a member of the PETRONAS Board, Executive Committee and Management Committee. He is the Executive Vice President of Finance. He also sits on the Board of several subsidiaries of PETRONAS. He joined PETRONAS in 2003. He previously served as Managing Director of an investment bank involved in corporate finance, mergers and acquisitions, and the capital markets.

Dato' Mohammed Azhar Osman Khairuddin

Company Secretary

Dato' Mohammed Azhar Osman Khairuddin has been the Company Secretary of PETRONAS since 1 April 2000. He joined PETRONAS in 1979 as a Legal Officer and currently holds the position of Vice President, Legal. He is a member of the PETRONAS Management Committee and serves on the Board of Directors of several companies within the PETRONAS Group. He is also a member of the International Bar Association and Inter Pacific Bar Association.

Faridah Haris Hamid

Joint Company Secretary

Faridah Haris Hamid is the Head of Legal Finance & Corporate Secretariat, Legal Division. She spent 10 years in the banking sector before joining PETRONAS in 1992. She is the Joint Secretary to the PETRONAS Board of Directors and Secretary to the Executive Committee of PETRONAS. Her areas of legal expertise include corporate finance, capital markets and corporate governance and international compliance.

EXECUTIVE COMMITTEE

Tan Sri Dato' Shamsul Azhar Abbas
President & Chief Executive Officer

Dato' Wee Yiaw Hin
Executive Vice President Exploration & Production Business

Datuk Anuar Ahmad
Executive Vice President Gas & Power Business

Datuk Wan Zulkiflee Wan Ariffin
Executive Vice President Downstream Business

Datuk Manharlal Ratilal
Executive Vice President Finance

Faridah Haris Hamid
Secretary

MANAGEMENT COMMITTEE

Tan Sri Dato' Shamsul Azhar Abbas
President & Chief Executive Officer

Datuk Wan Zulkiflee Wan Ariffin
Executive Vice President
Downstream

Datuk Anuar Ahmad
Executive Vice President
Gas & Power

Dato' Wee Yiaw Hin
Executive Vice President
Exploration & Production

Datuk Manharlal Ratilal
Executive Vice President
Finance

Ramlan Abdul Malek
Vice President
Petroleum Management

Dr Colin Wong Hee Huing
Vice President
Technology & Engineering

Datuk Nasarudin Md Idris
President & CEO
MISC Berhad

Juniwati Rahmat Hussin
Vice President
Human Resource Management

Md Arif Mahmood
Vice President
Corporate Strategic Planning

Dato' Mohammed Azhar Osman Khairuddin
Vice President
Legal

Dato Mohammad Medan Abdullah
Senior General Manager
Group Corporate Affairs Division

Hazleena Hamzah
Secretary

VICE PRESIDENTS

Effendy Cheng Abdullah
Vice President & Chief Executive Officer
Exploration

Datuk Abdullah Karim
Vice President & Chief Executive Officer
Development & Production

Ramlan A Malek
Vice President
Petroleum Management

Adnan Zainol Abidin
Vice President
Global LNG

Pramod Kumar Karunakaran
Vice President
Infrastructure & Utilities

Amir Hamzah Azizan
Vice President
Downstream Marketing

M Farid Adnan
Vice President
Refining & Trading

Ir Kamarudin Zakaria
Vice President
Downstream Operations

Nuraini Ismail
Vice President
Treasury

M Rashid Yusof
Vice President
Supply Chain & Risk Management

Dr Colin Wong Hee Huing
Vice President
Technology & Engineering

Juniwati Rahmat Hussin
Vice President
Human Resource Management

Md Arif Mahmood
Vice President
Corporate Strategic Planning

Dato' Mohammed Azhar Osman Khairuddin
Vice President
Legal

PRESIDENT & CEO AND ACTING CHAIRMAN'S MESSAGE

TAN SRI DATO' SHAMSUL AZHAR ABBAS
President & CEO and Acting Chairman

Financial Period Ended 2011 (PE2011) was a watershed for PETRONAS — a pivotal nine-month period in which the Group delivered strong operating results and made substantial progress in bringing key objectives of the Corporate Enhancement Programme (CEP), critical for the long-term sustainability of its business, closer to realisation.

These accomplishments, the result of the Group's determination to explore new solutions and push performance boundaries, reflect its continuing resolve to uphold its duties as custodian of the Nation's hydrocarbon resources and to honour the trust of its stakeholders, even in the face of today's volatile and fundamentally-changing industry environment.

Financially, the Group's performance for PE2011 was strong. Notwithstanding the shorter transitional nine-month financial period to a 31 December year-end, the results are comparable to what would normally have required a full 12-month period to achieve. Group Revenue strengthened to RM222.8 billion, 27% higher than the previous corresponding period, while Net Profit attributable to Shareholders rose 10% to reach RM48.9 billion. This enabled the Group to meet its demanding dividend obligations, fund its ambitious CAPEX programme and achieve a RM24.6 billion increase in Shareholder's Funds, which strengthened to RM288.3 billion. Reflecting this more robust performance, the Group's Return on Average Capital Employed (ROACE) climbed to 21.8%. Higher sales volumes in selected segments of the Group's value-chain, particularly in LNG, as well as a favourable price environment were key drivers behind these improved results.

What proved more encouraging, however, were the operational and strategic milestones achieved during the Financial Period which will now enable PETRONAS to at last address numerous long-standing growth challenges and transcend the confines of its legacy assets. In the Exploration & Production Business, the prospect of mitigating the decline in domestic upstream production is in sight, even if not yet at hand, thanks to the three-pronged domestic upstream sector strategy we adopted two years ago now beginning to produce the desired results. A more determined push to optimise recovery from currently-producing fields through Enhanced Oil Recovery (EOR) and Improved Oil Recovery (IOR) techniques has yielded an additional 380 million barrels of oil equivalent to count towards future development and production. A second Risk Service Contract (RSC) for the Balai Cluster of fields was also successfully awarded, the granting of which continues to underscore the necessity of pushing for innovative commercial arrangement solutions in providing the right commercial framework to unleash the potential of our domestic marginal fields.

At the same time, we are confident that the successful development of our integrated gas project in Turkmenistan will pave the way for other initiatives in the Caspian Area to potentially allow us to grow a new “heartland” in the Central Asian region.

Through a more aggressive exploration campaign, PETRONAS has also succeeded in proving up new play types once dismissed by some as holding little promise, which will potentially enhance the future prospects of Malaysia's upstream sector even further. In an effort to shorten lead time-to-monetisation, we continued to explore new solutions and methods — reconceptualising workflows, processes, as well as field development design and planning. The results were evident from our ability to bring the Tangga Barat cluster onstream five months faster than planned and the Sepat Field, more than one year ahead of the original schedule.

Internationally, through further highgrading efforts, our upstream portfolio continued to rebalance in favour of quality assets which we expect will provide us better risk-adjusted returns moving forward. At the same time, we are confident that the successful development of our integrated gas project in Turkmenistan will pave the way for other initiatives in the Caspian Area to potentially allow us to grow a new “heartland” in the Central Asian region.

In this same spirit of progress, our Gas & Power and Downstream Businesses are also on the move. Previously stable, mature operations whose performance were tied to legacy assets, each can now speak of an ambitious multi-billion dollar growth agenda. In Gas & Power, work on Malaysia's first LNG Regasification terminal (RGT1) in Melaka continued to progress. At press time, RGT1 has already achieved mechanical completion and remains on track to be commissioned during the later half of 2012.

Together with numerous upstream gas developments such as Tangga Barat, Berantai and the North Malay Basin — and coupled with the potential construction of a second LNG Regasification terminal (RGT2) in Pengerang, Johor — the additional gas supplies made available from the import of LNG through RGT1 will go a long way towards enhancing the security of gas supply in the Peninsular and also allow for growth in premium gas demand. A third Regasification terminal, currently being pursued as an integrated gas-to-power development project in Lahad Datu, Sabah, is now being targeted for commissioning in 2015. We are also confident of being on track to deliver the world's first Floating LNG (FLNG) facility by that year and at the time of writing, subsequent to the close of the Financial Period, Final Investment Decision (FID) on the facility has already been taken.

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Abroad, further progress was made to develop new LNG supply positions to complement our existing facilities in driving forward our Global LNG aspirations. During the Financial Period, we entered into a strategic partnership with Progress Energy Resources Corporation to develop shale gas assets in northeastern British Columbia, Canada — a venture that will not only allow us to position ourselves to capitalise on the emergence of a trans-Pacific energy trade into Asia, but is also consistent with the aim of shifting our global gas presence in favour of geopolitically more stable regions in a bid to better serve our customers' needs for safe, secure and reliable supplies of energy. This venture will also complement our involvement in the GLNG project in Queensland, Australia, as we seek to grow our presence in the unconventional gas business further.

Key growth projects in our Downstream Business also achieved their respective major progress milestones during the Financial Period. We completed the Detailed Feasibility Study (DFS) of our RM60 billion Refinery and Petrochemical Integrated Development (RAPID) and Front-End Engineering Design (FEED) works have been commissioned. We also took a Final Investment Decision (FID) on the Sabah Ammonia and Urea (SAMUR) project and the contract for its Basic & Detailed Engineering, Procurement, Construction and Commissioning (BEPCC) has been awarded.

When completed, both projects will not only strengthen PETRONAS' ability to capitalise on the growing inputs of energy and chemicals Asia requires to support its rapid economic expansion and industrialisation, but will also enable the Group to diversify its product offerings into higher value-added and specialty petrochemicals.

Viewed in their totality, I believe what these milestone achievements signify is that the pillars of PETRONAS' next growth phase are now at last beginning to take shape. To this end, I am confident that they will not only enable the Group to address long-standing structural challenges and push for growth, but will also create the distinctive foundations to uphold its aspiration of being a "Global Energy Champion known for its Resilience and Distinctiveness".

Equally important, the accomplishments also reflect the determination as well as commitment of our people, particularly those men and women who proved themselves worthy by embracing change and living up to the spirit of "Reimagining Energy" — continuously challenging accepted norms, exploring new solutions and driving breakthrough execution; exemplifying, in the process, that level of performance PETRONAS will need to consistently demonstrate across the entire Group in confronting future challenges.

None of these accomplishments would have been possible without the improvements and changes the CEP has ushered in. A more determined, conscious effort to focus on our core businesses helped concentrate vital resources and energies to where they were most critical. The adoption of measures enhancing governance and transparency created a stronger impetus to outperform. Better talent and performance management practices, including an infusion of external talent, also generated a stronger drive of business performance. At the same time, a greater sense of ownership and accountability also propelled our people to give their best.

Equally important, the accomplishments also reflect the determination as well as commitment of our people, particularly those men and women who proved themselves worthy by embracing change and living up to the spirit of "Reimagining Energy" — continuously challenging accepted norms, exploring new solutions and driving breakthrough execution; exemplifying, in the process, that level of performance PETRONAS will need to consistently demonstrate across the entire Group in confronting future challenges.

Indeed, looking ahead, the industry environment looks set to remain extremely challenging. The recent resurgence of downside risks appears to be unfolding in line with those projections forecasting an extended period of macroeconomic volatility. In the near term, global growth momentum looks set to slow, with growth prospects expected to remain subdued and fragile. In tandem with these circumstances, both energy demand and prices are expected to soften.

At the same time, rising industry costs, an intensifying competition for talent and major structural changes within the industry unleashed by the growing mainstreaming of unconventional hydrocarbons and the advent of new exploration frontiers - the precise nature, extent and speed of whose implications remains as yet highly uncertain - will severely test the agility, resilience and resourcefulness of all industry players, favouring those that prove themselves distinctive on all fronts.

To this end, PETRONAS resolves to remain vigilant and will seek to enhance its resilience to weather these risks while seeking to be at the forefront of efforts to capitalise on the emerging trends. In so doing and guided by the CEP, we will continue to be driven by our long-standing commitment to uphold the trust our stakeholders have accorded us - the people and the Nation, foreign host governments, partners and customers alike - to be a partner they all know will consistently return greater value and contribute to the meaningful development of nations and peoples wherever it operates.

Lastly, I would like to take this opportunity to put on record my appreciation to the Government of Malaysia for its continued support, allowing us to remain a strong international competitor and Malaysia's corporate flagship. I would also like to put on record my appreciation to our Board of Directors, whose stewardship and guidance ensured that PETRONAS remains focused in delivering results in an extremely competitive environment.

To the PETRONAS Executive and Management Committees, as well as the broader senior leadership team, thank you for exhibiting the spirit of change and renewal, as well as driving and constantly communicating these precepts in your respective areas of responsibility. Thanks to the collective leadership of the Board and the leadership team, we are able to improve our delivery momentum and present ground breaking achievements through the implementation of innovative ideas.

Finally, to our numerous customers, partners, stakeholder, regulators, as well as the host governments in our various countries of operations, our sincere appreciation for your continued support and association with the PETRONAS Group. May we continue to reimagine the endless possibilities we can achieve together.

TAN SRI DATO' SHAMSUL AZHAR ABBAS
President & CEO and Acting Chairman

STATEMENT OF CORPORATE GOVERNANCE

Corporate Governance & Transparency

PETRONAS believes that good Corporate Governance is fundamental to ensuring the organisation's competitiveness, growth and sustainability. Implementing best practices in Corporate Governance is important to PETRONAS given the Group's strong global orientation and the growing expectations of stakeholders worldwide for good corporate citizenship.

Enhanced standards of governance and transparency serves to strengthen the Group's organisational effectiveness and drive a high-performance culture within the organisation, and are both essential for PETRONAS to compete successfully in today's challenging industry environment.

The Board maintains and requires the Management to uphold the high standards of governance, transparency and ethical conduct. Today, with a well-established global footprint, PETRONAS continues to pave the way towards ensuring the sustainability of good corporate governance based on international standards.

Since its inception in 2011, the newly established Corporate Governance & International Compliance Unit, Legal Division has launched a series of governance programmes to further enhance the application of governance standards across the Group in line with best global practices. These efforts include the revision of the PETRONAS Code of Conduct and Discipline (renamed as PETRONAS Code of Conduct and Business Ethics) and the adoption of a Whistle-blowing Policy, together with training on competition law compliance in light of the coming into force of the Malaysian Competition Act 2010.

Business Ethics

PETRONAS is committed to complying with high ethical standards and applicable anti-corruption laws. This is in line with PETRONAS' core values, business principles and various internal policies which reflect the continuous focus on making ethics and anti-corruption an integral part of PETRONAS' business operations. Such focus has helped to promote strong ownership in relation to compliance and ethics at all levels. In keeping with this initiative, PETRONAS has adopted new policies on gifts and entertainment and has made enhancements to its Code of Conduct and Discipline to accommodate the development of local and international laws and customs.

PETRONAS Board Governance Framework

The Board directs the Company's strategic planning, financial, operational and resource management, risk assessment and provides effective oversight of the executive management. Certain functions are delegated to Board Committees consisting of Non-Executive Directors as detailed in later sections.

The Chairman leads the Board, and the President & Chief Executive Officer (CEO) leads the executive management of the Company and provides direction for the implementation of the strategies and business plans as approved by the Board and the overall management of the business operations Groupwide.

In this regard, the President & CEO has the support of the Executive Committee and Management Committee which he chairs. The Executive Committee's role is to assist the President & CEO in his management of the business and affairs of the Company particularly in relation to strategic business development, high impact and high value investments and cross-business issues of the Group. It also serves as a platform for the structured succession planning for the President & CEO in the Company.

The Management Committee continues to act as the advisory and deliberative body that supports the President & CEO and the Executive Committee and implements all the Board resolutions and policies, as well as supervise all management levels in the PETRONAS Group.

The Board

For the period ended (PE) 2011, the Board was made up of the Acting Chairman and President & CEO, four Executive Directors and eight Non-Executive Directors. A list of the current Directors, with their biographies, is provided on pages 8 to 13.

Currently, the position of the Chairman is vacant, and the President & CEO is assuming the responsibility until such time as the shareholder makes an official appointment. The Chairman's role is to provide leadership to the Board, facilitate the meeting process and ensure that the Board and its committees function effectively. Together with the Company Secretary, he ensures that the Board members receive regular and timely information regarding the Company prior to Board meetings. The Board members also have access to the Company Secretary for any further information they may require.

The Board met a total of eight times (which included three Special Board Meetings) during the period with a formal schedule of matters reserved to the Board. These include the consideration of the Company's long term strategy, plan and budget, monitoring of Management Performance, introduction of CEO's and Executive Vice Presidents' (EVPs) Performance Scorecards, Talent Management and the Company's Performance Review. In addition to managing the Company's financial reporting, the Board monitors and identifies material risks to PETRONAS and ensures that internal systems of risk management and control are in place to mitigate such risks.

The Special Board Meetings, which were held three times during the period, had also given the directors the opportunity to engage in intensive deliberation on PETRONAS' long term strategy, plan and budget and talent management. These meetings were used as a platform for the induction and orientation of the Independent Non-Executive Directors. Such induction and orientation practice is crucial as it provides an informative environment for the Independent Non-Executive Directors to understand the business more closely.

In July 2011, a Special Board meeting was held in Turkmenistan in conjunction with the First Gas Celebration. The Board was given the opportunity to gain a better understanding and appreciation of the business challenges and issues faced in Turkmenistan as well as to foster greater collaboration and networking with the management and staff of our Turkmenistan office.

Board Balance and Independence

The current Board composition reflects a good mix of experience, backgrounds, skills and qualifications and is considered to be of an appropriate size. This diversity is identified by the members as one of the strengths of the Board.

The Non-Executive Directors combine broad business and commercial experience with independent and objective judgment. The balance between the Non-Executive and Executive Directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the Company's business activities. The Company recently welcomed another Non-Executive member bringing the total to eight Non-Executive Directors for the period ended 2011.

In accordance with the provisions of the Company's Articles of Association, at least one-third of the Directors shall retire from office once every subsequent year but shall be eligible for re-election. This retirement by rotation shall only be applicable to Non-Executive Directors.

Board Committees

There are three Board Committees made up primarily of Non-Executive Directors, namely the Audit Committee, the Governance and Risk Committee and the Remuneration Committee.

Audit Committee

Established in 1985, the PETRONAS Board Audit Committee assists the Board in fulfilling its oversight functions in relation to internal controls, risk management and financial reporting of the Company. The Committee provides the Board with the assurance of the quality and reliability of the financial information issued by the Company whilst ensuring the integrity of the Company's assets.

Governance & Risk Committee

The Committee continues to be responsible in assessing the performance of the Board, reviewing management succession planning as well as identifying, nominating and orientating new Directors. With the recent enhancement of the scope of the Committee, it also reviews the Group's Enterprise Risk Management, Country Risk Profile as well as Financial Risk Management Development & Updates.

The Committee also continues to review and recommend to the Board the appropriate corporate governance policies and procedures in accordance with international governance and best practices. Among the programmes which were reviewed by the Committee include the Code of Conduct and Business Ethics and the new Whistle-Blowing Policy. The Committee has direct access to the Corporate Governance & International Compliance Unit, Legal Division, which promotes a structured, consistent and centrally-driven integrated approach to global governance and compliance for the PETRONAS Group.

Remuneration Committee

The Remuneration Committee was established to assist the Board in discharging its responsibilities in the determination of the remuneration and compensation of the Executive Directors and certain Senior Management of the Company. The Committee determines and agrees with the Board on the remuneration policy for the President & CEO, the Executive Directors and certain Senior Management of the Company. The Committee also determines and agrees with the Board on the matter of the President & CEO's Performance Scorecard.

STATEMENT OF ANTI-CORRUPTION

PETRONAS is committed to complying with high ethical standards and applicable anti-corruption laws of the relevant jurisdictions. The PETRONAS Code of Conduct and Business Ethics expressly prohibits the giving and acceptance of bribes by PETRONAS employees.

This is in line with PETRONAS' core values, business principles and various internal policies which reflect its focus on making ethics and anti-corruption an integral part of PETRONAS' business operations.

PETRONAS' management is committed to communicating the vital importance of strong ethics and anti-corruption practices to all levels of the organisation. The signing of the Corporate Integrity Pledge further underpins PETRONAS' commitment towards addressing and prohibiting bribery and corruption.

STATEMENT ON INTERNAL CONTROL

The Board is pleased to provide the following statement which outlines the nature and scope of internal control of Petroliam Nasional Berhad and its subsidiaries (PETRONAS Group) during the period in review.

Board's Responsibilities

The Board recognises the importance of sound internal control and risk management practices to good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. The Board affirms its overall responsibility for the Group's system of internal controls and for reviewing the adequacy and integrity of those systems including financial and operational controls, compliance with relevant laws and regulations and risk management.

The Group has in place an ongoing process for managing significant risks affecting the achievement of its business objectives throughout the period, which includes identifying, evaluating, managing and monitoring these risks that has been in place for the period and up to the date of approval of the Annual Report and Financial Statements.

The Group's system of internal control seeks to manage and control risks appropriately, rather than eliminate the risk of failure to achieve business objectives. Because of the inherent limitations in all control systems, these internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss or the occurrence of unforeseeable circumstances.

Risk Management

Having regard to managing risk as an inherent part of the Group's activities, risk management and the ongoing improvement in corresponding control structures in all significant risk areas including among others, financial, health, safety and environment, operations, geopolitics, trading and logistics, remain a key focus of the Board in building a successful and sustainable business.

A Risk Management Committee (RMC) is in place to serve as a central platform of the Group to assist the Management in identifying principal risks at the Group level and providing assurance on effective implementation of risk management on a Groupwide basis. The RMC also promotes sound risk management practices through sharing of information and best practices to enhance the risk culture across the Group. The RMC seeks advice and direction from the Executive Committee and Board Governance and Risk Committee.

Group risks are being managed on an integrated basis and their evaluation is incorporated into the Group's decision-making process such as strategic planning and project feasibility studies. Separate risk management units or functions also exist within the Group at various operating unit levels, particularly for its listed subsidiaries, to assess and evaluate the risk management processes for reporting to their respective Board and Management levels.

Internal Audit Function

The Board recognises that the internal audit function is an integral component of the governance process. One of the key functions of PETRONAS' Group Internal Audit (GIA) Division is to assist the Group in accomplishing its goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Group. GIA maintains its impartiality, proficiency and due professional care, as outlined in its Internal Audit Charter, by having its plans and reports directly under the purview of the Board Audit Committee (BAC).

The internal audit function performs independent audits in diverse areas within the Group including management, accounting, financial and operational activities, in accordance with the annual internal audit plan which is presented to the BAC for approval.

The BAC receives and reviews reports on all internal audits performed including the agreed corrective actions to be carried out by the Management. GIA monitors the status of agreed corrective actions through the Quarterly Audit Status Report in which they are recorded and assessed. The consolidated reports are submitted and presented to the BAC for deliberations.

GIA adopts the principles of the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.

Other Elements Of Internal Control

The other elements of the Group's system of internal control are as follows:

Organisational Structure

The internal control of the Group is supported by a formal organisation structure with delineated lines of authority, responsibility and accountability. The Board has put in place suitably qualified and experienced management personnel to head the Group's diverse operating units into delivering results and their performance are measured against approved performance indicators.

Budget Approval

Budgets are an important control mechanism used by the Group to ensure an agreed allocation of Group resources and that the operational managers are sufficiently guided in making business decisions. The Group performs a comprehensive annual planning and budgeting exercise including the development and validation of business strategies for a rolling five-year period and establishment of performance indicators against which business units and subsidiary companies are evaluated.

Variances against the budgets are analysed and reported to the Board on a quarterly basis. The Group's strategic directions are also reviewed at reasonable intervals taking into account changes in market conditions and significant business risks.

Limits of Authority

The Limits of Authority (LOA) defines expenditure spending limits for each level of management within the Group. These limits cover among others, authority for payments, capital and revenue expenditure spending limits and budget approvals. This LOA manual provides a framework of authority and accountability within the organisation and facilitates decision making at the appropriate level in the organisation's hierarchy.

Procurement

The Group has clearly defined authorisation procedures and authority limits set for awarding tenders and all procurement transactions covering both capital and revenue expenditure items. Tender committees with cross functional representation have been established to provide the oversight functions on tendering matters prior to approval by the approving authorities as set out in the LOA approved by the Board.

Financial Control Framework

The Group has developed a Financial Control Framework (FCF) with the principal objective of enhancing the quality of the Company's financial reports through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the Company at all times. FCF requires among others, documentation of key controls, remediation of control gaps as well as a regular conduct of testing of control operating effectiveness.

On a semi-annual basis, each key process owner at various management levels is required to complete and submit a Letter of Assurance which provides confirmation of compliance to key controls for the areas of the business for which they are accountable.

Corporate Financial Policy

The Corporate Financial Policy prescribes the Group's governing policies in effecting the practice of financial risk management. The policy stipulates a consistent framework in which financial risk exposures of entities within the Group are identified and strategies developed to mitigate such risks. The policies contained in the Corporate Financial Policy are intended to provide clear communication of the policy stance governing financial and risk management throughout the PETRONAS Group of Companies and consequently seeks to provide a foundation upon which financial risk management is practised across the Group.

Group Health, Safety and Environment

The Group Health, Safety and Environment (GHSE) Division drives various HSE sustainable initiatives and defines the framework that exemplifies the Group's effort to continuously meet legal compliance and industry best practices. GHSE also drives strategies and monitors and reports performance to the Executive Committee to ensure HSE risks are reduced to as low as reasonably practicable.

Crisis Management

The Group has in place a Contingency Planning Standard which is designed to provide guidelines for responding to any major emergency or crisis by defining the framework and delineation of roles and responsibilities which enable support and assistance where required. The Group has implemented a three-tier response system which seeks to provide a clear demarcation of roles and responsibilities between emergency site management, operating unit management, corporate and authorities. In the event of major emergency or crisis, the response system will be activated and the Group's priority is the protection of people, environment, asset and reputation.

Business Continuity Management

The Group is currently enhancing its Business Continuity Management for implementation across the Group. These integrated business continuity strategies shall provide comprehensive and clear plans and procedures to enhance the Group's preparedness in managing disasters that may disrupt business operations.

The main objective is to respond and reduce impact of crisis as well as recover and restore the Group's critical functions within a reasonable period of time towards sustaining the Group's operational survival thus protecting businesses, partners and customers during crisis or disaster.

Employees

Senior Management sets the tone for a nurturing culture in the organisation through the Group's Shared Values, developed to focus on the importance of these four key values – loyalty, integrity, professionalism and cohesiveness. The importance of the Shared Values is manifested in the Code of Conduct and Discipline. Employees are required to strictly adhere to the Code in performing their duties.

Employees undergo structured training and development programmes and potential entrants or candidates are subject to a structured recruitment process. A performance management system is in place, with established performance indicators to measure employee performance and the performance review is conducted on a semi-annual basis. Action plans to address employee developmental requirements are in place. The Group believes that this will enable employees to deliver their performance indicators so that the Group can meet its business requirements.

CONCLUSION

The Board is of the view that the system of internal control instituted throughout the Group is sound and provides a level of confidence on which the Board relies for assurance. In the period under review, there is no significant control failure or weakness that would have resulted in material losses, contingencies or uncertainties requiring separate disclosure in the Annual Report.

The Board provides for a continuous review of the internal control system of the Group to ensure ongoing adequacy and effectiveness of the system of internal control and risk management practices to meet the changing and challenging operating environment.

This statement is made in accordance with the resolution of the Board of Directors dated 29 February 2012.

FINANCIAL RESULTS

DATUK MANHARLAL RATILAL

As announced, we changed our financial year end from 31 March to 31 December to synchronise our corporate planning cycle with our ongoing transformation efforts and to realign systems and processes to support PETRONAS' enhanced blue print and strategies. At the same time, this change also facilitated alignment of the Group's financial year end with the statutory filing requirements of the various countries in which we operate.

Led by better prices and LNG sales volume, our financial results for this nine month transition period from 1 April 2011 to 31 December 2011 were much better than the previous corresponding period.

We recorded net profit attributable to shareholders of the Company of RM48.9 billion, representing approximately 90% of that achieved in the full 12 month period ended 31 March 2011. Excluding gains from the IPO recorded in 2010, results in the nine month period under review was 7% higher than that achieved for the full 12 month period ended 31 March 2011.

During the period, we also divested our interest in Cairn India Limited and recorded a gain of RM2.6 billion. Closing balance of our Cash, Fund and Other investments was RM164.3 billion, a 5% growth from the balance as at 31 March 2011.

Our strong overall performance was reflected in the improvement of our Return on Average Capital Employed of 22% compared to 18% in FY2011.

HIGHLIGHTS

27% increase in Revenue

Revenue of RM222.8 billion for the period, up by 27% on the back of stronger prices for all products

10% increase in Profit

Net profit attributable to shareholders of the Company of RM48.9 billion increased by 10% on the back of higher prices and better Liquefied Natural Gas (LNG) sales volume

22% ROACE

Return on Average Capital Employed (ROACE) of 22%, an improvement from 18% in FY2011

REVIEW OF FINANCIAL RESULTS

PETRONAS Group delivered strong financial performance in PE2011 compared to the previous corresponding period. Revenue increased by 27% and net profit attributable to shareholders of the company increased by 10%. The increase in revenue, from RM175.6 billion to RM222.8 billion, was mainly driven by higher realised prices and higher LNG sales volume.

On average, realised prices in PE2011 were significantly higher compared to the same period last year. Benchmark crude prices remained elevated due to supply concerns arising from continuing geopolitical tensions in the Middle East and North Africa Region. Average Dated Brent for PE2011 was USD113 per barrel compared to USD81 per barrel in the previous period, an increase of 40%.

LNG sales volume in PE2011 was 20.6 million metric tonnes, led by the highest ever production from the PETRONAS LNG Complex (PLC) in Sarawak, Malaysia over a nine month period.

Revenue was however offset by a weaker US Dollar against the Ringgit Malaysia and, to some extent, crude oil production challenges faced by the Group. The US Dollar weakened from an average of RM3.17 to an average of RM3.06, a drop of 11 sen during the period.

Group Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Profit Before Taxation (PBT) were both higher by 19%.

The Group recorded a gain of RM2.6 billion arising from the divestment of our interest in Cairn India Ltd during the period. Excluding this gain and Initial Public Offerings (IPO) gains recorded in the previous corresponding period, EBITDA and PBT improved significantly by 30% and 33%, respectively.

The Group's total assets increased by RM38.6 billion or 9% from 31 March 2011. Property, Plant and Equipment increased by 8% as a result of further investments in major growth projects and improvements to maintain the integrity of our existing assets.

The Group generated RM72.0 billion in cash from operations. This was sufficient to sustain the current period capital investments and dividends. Capital investments spent in PE2011 was RM30.8 billion with most of it allocated to our Exploration & Production (E&P) business to support exploration as well as to intensify efforts to develop new fields and enhance recovery from maturing existing fields. Out of the RM30.8 billion, close to 60% was spent in Malaysia. Cash, Fund and Other Investments ended higher at RM164.3 billion as at 31 December 2011 from RM156.4 billion as at 31 March 2011.

In line with higher profits, the Group's Return on Total Assets (ROTA) and ROACE increased to 23% and 22% respectively. The Gearing Ratio was relatively unchanged at about 15%.

PETRONAS' Key Financial Indicators
In RM billion

	PE2011	+/- (%)	9M*	FY2011	FY2010	FY2009	FY2008
Revenue	**222.8**	26.9	175.6	241.2	210.8	264.2	223.1
EBITDA	**95.5**	18.5	80.6	107.9	83.3	105.7	105.9
Profit Before Taxation	**82.7**	18.7	69.7	90.5	67.3	89.1	95.5
Net Profit Attributable to PETRONAS Shareholders	**48.9**	10.4	44.3	54.8	40.3	52.5	61.0
Total Assets	**477.6**	8.8**		439.0	410.9	389.8	339.3
Shareholders' Funds	**288.3**	9.3**		263.8	242.9	232.1	201.7

PETRONAS' Key Financial Ratios

	PE2011	FY2011	FY2010	FY2009	FY2008
Return on Revenue	**37.1%**	37.5%	31.9%	33.7%	42.8%
Return on Total Assets	**22.9%*** **	20.6%	16.4%	23.0%	28.1%
Return on Average Capital Employed	**21.8%*** **	17.5%	15.9%	22.0%	28.0%
Debt/Assets Ratio	**0.11x**	0.11x	0.13x	0.11x	0.11x
Gearing Ratio	**15.4%**	15.3%	17.6%	15.9%	15.8%
Dividend Payout Ratio	**61.3%**	54.7%	74.4%	57.1%	39.3%
Overall Resource Replenishment Ratio	**1.7x**	2.5x	1.1x	1.8x	0.9x

* 9M - unaudited nine month 1 April 2010 to 31 December 2010. Included for comparative purposes with audited PE2011 result

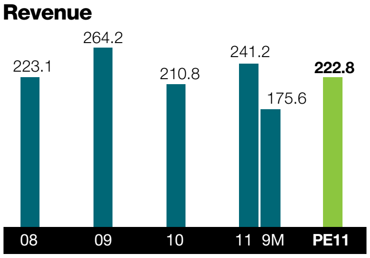
** % change from 31 March 2011 to 31 December 2011

*** calculated based on annualised figures

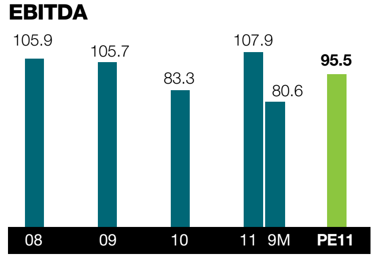
Note: See Glossary on page 112

In RM billion

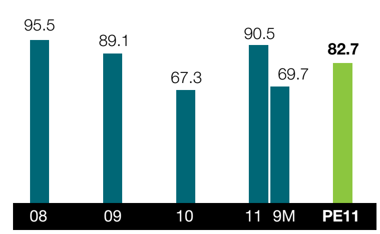
Revenue



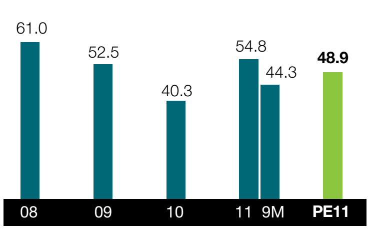
EBITDA



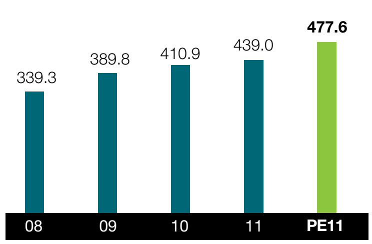
Profit Before Taxation



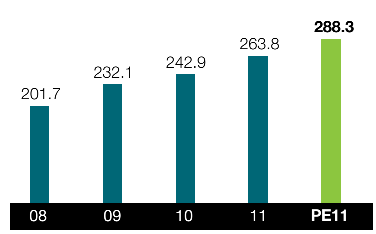
Net Profit Attributable to PETRONAS Shareholders



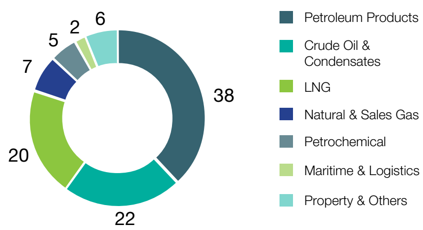
Total Assets



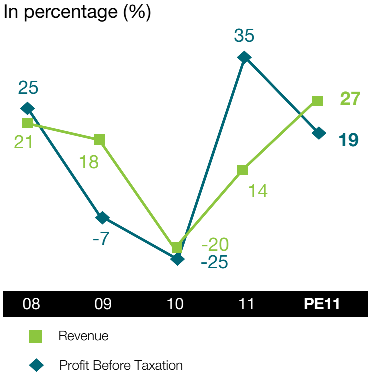
Shareholders' Funds



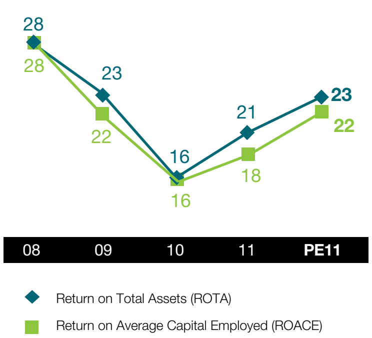
Revenue by Products
In percentage (%)



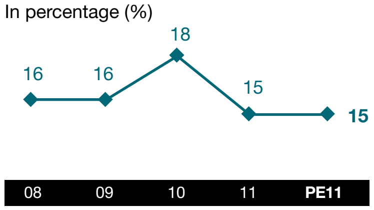
Year-On-Year and Period Percentage Change
In percentage (%)



Key Profitability Ratios
In percentage (%)



Gearing Ratio
In percentage (%)



REVENUE BY PRODUCTS

In the period under review, revenue increased from all our core products in tandem with higher crude prices. However, the effect of higher prices was partially offset by the weaker US Dollar, operational challenges and demand weakness in some markets.

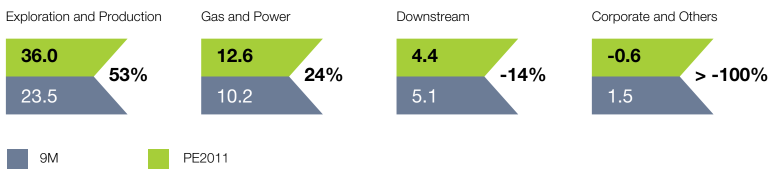
Revenue from petroleum products remained the largest revenue contributor for the Group at 38%. Compared to the same period last year, revenue for petroleum products increased by 25% on the back of higher realised prices and sustained volume of about 233 million barrels.

Revenue from sale of crude oil and condensates which accounted for 22% of the Group's revenue, increased by 28% to RM49.8 billion, supported by the higher oil price environment. This was in spite of the weakening of the US Dollar and upstream production challenges. Production challenges were due to natural field depletion, reservoir performance as well as operational challenges, including security issues in some international operations.

Stronger plant performance at PLC in Bintulu, Sarawak and higher realised LNG prices pushed revenue from the sales of LNG higher from RM32.5 billion to RM45.2 billion, an increase of 39%, the largest increase recorded for the nine month period.

Petrochemical sales volume reduced to 4.7 million metric tonnes mainly due to plant maintenance activities and weakening demand in some markets. However, overall favourable product prices cushioned the impact of lower sales volume. As a result, revenue from the sales of petrochemical products rose by 6% to RM11.4 billion.

Gross NOPAT by Business Segment
In RM billion



REVENUE BY GEOGRAPHICAL TRADE

PETRONAS recorded higher revenue in all of its geographical segments. Increases were recorded in both international and export segments where realised prices moved in tandem with the market.

International Operations recorded an increase of 32% in its revenue to RM90.6 billion supported by higher prices realised for the sale of crude oil and petroleum products. This translated to a 41% share of Group total revenue, an increase of 2% compared to the previous corresponding period.

Our exports also recorded a significant increase of 31% in revenue to RM87.1 billion, mainly due to higher revenue earned from export of LNG and crude oil and condensates. This translated to a 39% share of Group total revenue.

In domestic operations where prices of petroleum products and sales gas are subjected to government regulated pricing, revenue increased by a relatively modest RM4.7 billion or 12% compared to the previous corresponding period.

SEGMENT EARNINGS

During PE2011, E&P business recorded Net Operating Profit After Tax (NOPAT) of RM36.0 billion compared to RM23.5 billion in the corresponding period last year, an increase of 53%. The increase was mainly due to higher realised prices of crude oil and condensates and lower operating costs.

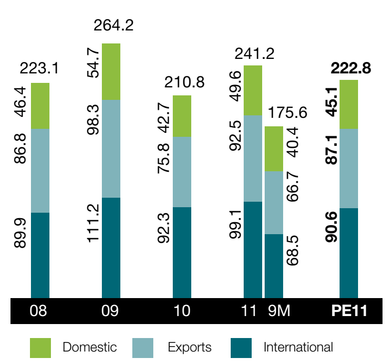
Gas & Power business also recorded higher NOPAT of RM12.6 billion compared to RM10.2 billion in the corresponding period last year, an increase of 24%. The increase was driven by improved LNG sales volume and LNG trading margins but was partially offset by losses incurred from sales gas delivered in Peninsular Malaysia due to regulated gas pricing, not keeping up with costs.

Collectively, E&P and Gas & Power businesses contributed 93% to the Group's gross NOPAT.

Downstream business recorded lower NOPAT of RM4.4 billion, a drop of 14% from RM5.1 billion. This was due to lower realised refining margins despite recording higher revenue for the period and improved product spreads in the petrochemical business.

The Corporate & Others (C&O) segment comprising mainly Maritime & Logistics and the Property business, recorded a loss of RM0.6 billion. The shipping industry's oversupply conditions exerted further downward pressure on shipping rates, which necessitated our shipping arm, MISC Berhad, to exit the liner business. The move resulted in an accelerated provision of losses resulting in an overall loss for the C&O segment.

Revenue by Geographical Trade
In RM billion



SEGMENT CAPEX

During PE2011, the Group spent RM30.8 billion on capital investments, an increase of 26% from the corresponding period last year.

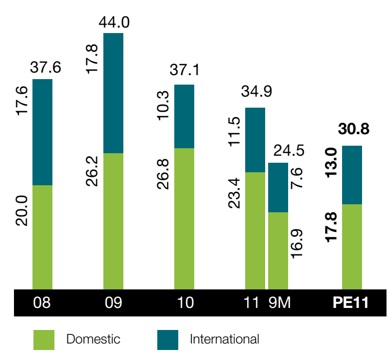
E&P business accounted for 68% of the total investment to sustain and grow production both in Malaysia and internationally. RM12.1 billion was spent in Malaysia to reverse declining production by focusing more on increasing the recovery rate of producing fields and developing new fields. Among the key projects in Malaysia are the Gumusut-Kakap and Kinabalu Non-Associated Gas projects in Sabah and the Tangga Barat project in Peninsular Malaysia. In terms of capital investments made internationally, key countries included Iraq, Egypt and Turkmenistan. This also included the acquisition of equity in the Montney Shale Gas Asset in Canada, from Progress Energy Resources Corporation.

Gas & Power business investments increased by almost twofold to RM4.5 billion in PE2011. Key projects included the GLNG project in Australia and the Melaka LNG Regasification Terminal project. Both projects are important to meet the nation's growing energy needs.

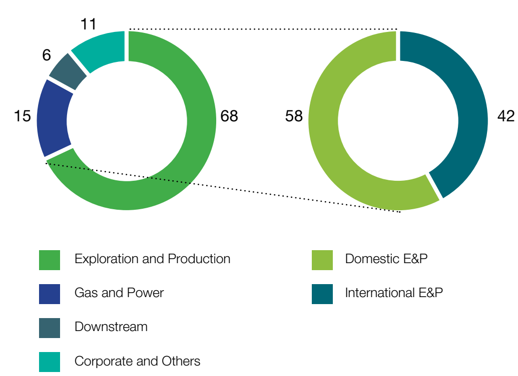
Similarly, Downstream business also recorded an increase in its capital investments by RM0.5 billion to RM1.8 billion. Most of the spending was made by PETRONAS Chemicals Group Berhad and Engen Limited on plant facilities and asset acquisitions respectively, during the period under review.

C&O segment spent RM3.5 billion during the period with MISC accounting for 66% of the total spending. The bulk of capital investments for MISC were spent on new petroleum tankers and offshore floating facilities. The remainder was spent mostly by KLCC Group which undertook significant investments in the commercial development of PETRONAS Tower 3 and government buildings in Putrajaya.

Domestic and International CAPEX Breakdown
In RM billion



CAPEX Allocation for PE2011
In percentage (%)



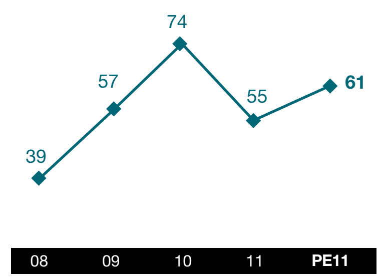
PAYMENTS TO GOVERNMENTS AND SUBSIDIES

During PE2011, PETRONAS paid RM58.4 billion to the Federal and State Governments in Malaysia which comprised dividend payments of RM30 billion, taxes of RM21.9 billion, petroleum proceeds of RM5.4 billion and export duties of RM1.1 billion. Dividend at RM30 billion translated to a dividend payout ratio of 61%.

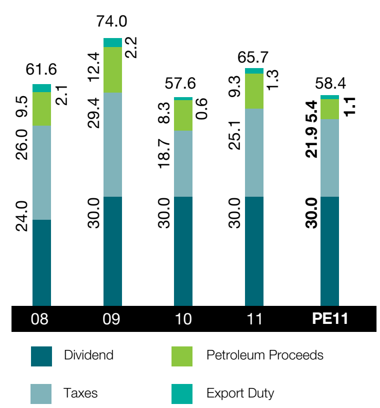
Potential revenue foregone as a result of the regulated pricing imposed on the supply of gas to customers in Peninsular Malaysia's power and non-power sectors was RM18.4 billion with the power and non-power sectors accounting for RM10.3 billion and RM8.1 billion respectively. This was after taking into account the increase of RM3 per mmBtu in the sales price announced by the Government commencing 1 June 2011.

Since its inception, PETRONAS has paid a total of RM653 billion to both Federal and State Governments and foregone potential revenue of RM154.9 billion since regulated gas prices came into effect in May 1997.

Dividend Payout Ratio
In percentage (%)



Payments to the Malaysian Government
In RM billion



Potential revenue foregone (Subsidies)	PE2011	+/- (%)	FY2011	Cumulative total since 1997
In RM billion				
POWER SECTOR	**10.3**	-11.2	11.6	108.5
- Tenaga Nasional Berhad	**3.9**	-20.4	4.9	46.1
- Independent Power Producers	**6.4**	-4.5	6.7	62.4
NON-POWER SECTOR - including industrial, commercial, residential users and NGV	**8.1**	-4.7	8.5	46.4
Total	**18.4**	-8.5	20.1	154.9

28.4 **billion boe**

Group Total Discovered Resources of 28.4 billion boe and contribution of over 25% from international assets.

1.7 **x**

oRRR of 1.7 times for the Group, for total oil and gas resources.

2,047 **thousand boe per day**

Total production of 2,047 thousand boe per day with contribution from international production of 519 thousand boe per day, equivalent of 25% of the Group's total production.

maximising resources for growth

EXPLORATION & PRODUCTION

DATO' WEE YIAW HIN

E&P Business has set clear and challenging goals with strategies in place which are being executed and are progressing as planned. These imperatives have helped drive the transformation of the E&P Business through enhanced Structure, Process & Systems as well as embed a Culture of Accountability, Delivery and Performance. With these in place, the period under review was an eventful one for us. My leadership team and I are very pleased that the organisation was able to focus on delivery and performance, including venturing into new and innovative methods to achieve notable results. In many ways, these are the results of the aggressive transformation being pursued.

Testimony to this transformation, a number of records were attained including the number of project start ups within record time, exploration discoveries in Malaysia, including in areas disregarded by others for many years, record high number of PSCs concluded and rigorous production enhancement with notable volumes achieved. Over the next year or two, we aim to arrest the decline in domestic production due to depleting fields with production enhancement and new aggressive developments.

Our international position was strengthened with portfolio highgrading efforts and focus on delivering high quality assets. The disciplined portfolio management system that has been put in place for all projects in Malaysia and abroad helped strengthen the business fundamentals of PETRONAS E&P Business.

As the number of activities grow and risk levels elevate, safety management will become a priority. Nevertheless, we remain committed to the challenging goals we have set for ourselves on our operational and financial fronts. As expected, the challenges are daunting especially in the initial years of driving towards achieving these aggressive goals. However, we are confident that the business and organisation fundamentals as well as the transformation efforts we have embarked on will continue to propel us to our aspired goals. Delivery and Performance will be the critical success factors going forward.

HIGHLIGHTS

Innovative, Out of the Box Approach

Sepat fast track development - record of 12 months project execution to first production and Tangga Barat smart options in gas production to support national gas supply needs

Intensified Exploration Efforts

Successful exploration programme with 19 discoveries and proved-up new play in shallow oil Sarawak and Vietnam basement

Aggressive Investment in Malaysia

Concluded 10 new exploration Production Sharing Contracts (PSCs) and awarded the second Risk Service Contract (RSC) for the Balai Cluster fields

Growing International Ventures

Achieved first gas production in Turkmenistan and successful acquisition of shale gas asset in Canada

OVERVIEW

PETRONAS' Exploration and Production (E&P) business is focused on enhancing the value and growing PETRONAS' oil and gas resource base. This is done by driving and carrying out exploration, development and production of oil and natural gas resources within the country and overseas, leveraging on both the resource owner role in Malaysia and as a reputable operator globally.

PETRONAS Group continues to play an enabler role as the host authority for the oil and gas industry in Malaysia to maximise upstream value, sustain production and enhance prospectivity of the nation's acreages. PETRONAS also carries out upstream efforts through partnerships with leading international oil and gas companies and its wholly-owned E&P subsidiary, PETRONAS Carigali Sdn Bhd (PCSB).

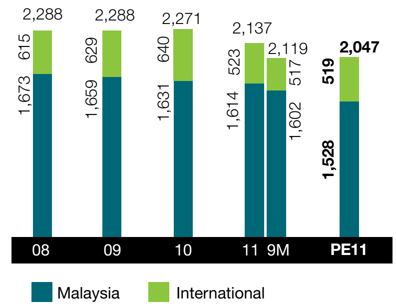
As Malaysian basins become more mature, PETRONAS faces considerable challenges in sustaining production. To address this, three key strategies were adopted namely rejuvenation of existing fields through Enhanced Oil Recovery (EOR), development of marginal fields through innovative solutions and intensified exploration activities, all of which complement the Malaysian Economic Transformation Programme (ETP). This involves extending the lifecycle of existing resources by optimising exploration, development and production activities.

Significant efforts were made in the period under review, not only by PETRONAS, but also by the PSC and RSC contractors, as well as a multitude of Malaysian service industries with the Government's support.

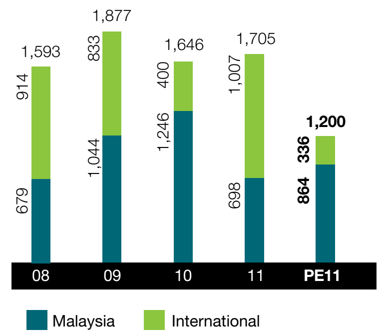
In line with its first strategy to maximise the recovery of producing fields through EOR and Improved Oil Recovery (IOR), PETRONAS approved more than 380 million barrels of oil equivalent (mmboe) additional oil and gas resources to be developed. Through its second strategy to unlock the monetisation potential of marginal fields through innovative solutions, the development of Balai Cluster fields was awarded under a RSC arrangement, the second of its kind, following Berantai RSC which was awarded last year. This innovative commercial solution continues to enable the development of challenging marginal fields. In its efforts to support long term growth by intensifying exploration activities, proving up new play types and exploiting remaining potential, more than 530 mmboe of new resources was discovered. PETRONAS' future positioning was further strengthened through new investments, with 10 new exploration PSCs concluded by the period end. These conscious efforts will revitalise the domestic oil & gas industry by helping to attract and sustain upstream investments, which will in turn help Malaysia to sustain its production and grow its resource base.

In the international arena, the key areas of focus was in highgrading the E&P portfolio, as well as to ensure successful delivery of development and exploration business objectives. Achieving first gas production, together with the signing of a Gas Sales Agreement (GSA) for Block 1 in Turkmenistan were key highlights of delivery success. This signifies PETRONAS' perseverance to operate in challenging international operations as well as provide confidence for future major commitments in Iraq, Venezuela and Canada. Divestment and dilution of six existing assets were undertaken driven by profitability and

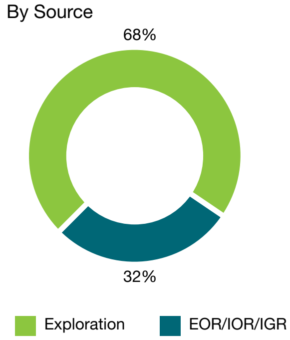
PETRONAS' Group Oil and Gas Production
'000 boe per day



PETRONAS' Group Resource Addition
MMboe



PETRONAS' Group Resource Addition
By Source



prudent risk management. In driving growth, a successful major acquisition of a shale gas asset in Canada increased the resource and production potential in the portfolio. This has provided PETRONAS with a foothold in a new country and continent, and also signifies PETRONAS taking the first major step in venturing into shale gas opportunities.

Overall, total production for PETRONAS was lower at 2,047 thousand barrels of oil equivalent (kboe) per day compared to 2,119 kboe per day in the previous corresponding period, despite aggressive production efforts. The difference was largely due to continued natural field depletion in maturing fields, major reservoir issues and operational uncertainties in international ventures. Of this, PETRONAS Group's share of total production amounted to 1,424 kboe per day.

In terms of its resource base, PETRONAS successfully maintained a healthy three-year rolling average Overall Resource Replenishment Ratio (oRRR) of 1.7x for the Group with domestic oRRR at 1.6x and international at 1.97x. New resource addition was recorded at 1.2 billion boe which was contributed by exploration discoveries, accounting for 70%, with the balance resulting from EOR, IOR and Improved Gas Recovery (IGR) efforts from both Malaysia and international operations. This brings the Group's hydrocarbon resource base for 2P and 2C to 13.5 and 14.9 billon boe respectively. Liquids resources stand at 4.9 billion barrels, and 3.9 billion barrels for 2P and 2C respectively, while natural gas for 2P and 2C stands at 8.4 and 10.8 billion boe, respectively. Unconventional resources stand at 0.2 and 0.1 billion boe for 2P and 2C respectively. In total, the Group's oil and gas resources remained relatively stable with close to 75% residing in Malaysia.

PETRONAS' Group Petroleum Resources
Bboe (billion barrels of oil equivalent)

		1 January 2012	%	1 January 2011
	Reserves (2P)	**4.853**	3.5%	4.689
Crude Oil & Condensates	Contingent Resources (2C)	**3.878**	0.0%	3.879
	Entitlement	**3.125**	8.1%	2.89
	Reserves (2P)	**8.396**	-1.3%	8.508
Natural Gas	Contingent Resources (2C)	**10.844**	0.5%	10.789
	Entitlement	**6.465**	18.0%	5.479
	Reserves (2P)	**0.239**	2.6%	0.233
Unconventional	Contingent Resources (2C)	**0.145**	-22.9%	0.188
	Entitlement	**0.235**	14.1	0.206
Total Discovered Resources		**28.355**	0.2%	28.286
PETRONAS Entitlement		**9.825**	14.6%	8.575
Overall Resource Replenishment Ratio (3 yrs ave)		**1.7x**		2.5x

IN FOCUS

RISK SERVICE CONTRACTS
Is a new petroleum arrangement by PETRONAS for the development of marginal fields. Instead of trying to improve the PSC terms, this model strikes a balance in the sharing of risks with fair returns. Under this arrangement, PETRONAS is the project owner while contractors are service providers with equity share in the RSC. Upfront investment of the capital is contributed by the contractors according to their equity share. Contractors will receive payment only upon first production

MALAYSIA'S EXPLORATION AND PRODUCTION

As a resource owner, PETRONAS is responsible for managing and sustaining the production of oil and gas in Malaysia. For the period under review, Malaysia's total production decreased by 5% to 1,528 kboe per day from 1,602 kboe per day in the previous corresponding period.

The challenge to sustain oil production levels is expected to persist for the next one to two years. This is mainly due to maturing fields and is compounded by reservoir issues from both deepwater and shallow water fields. Additionally, major scheduled maintenance and shutdown programmes were carried out during this period, involving over 70 fields and 10 pipelines. These shutdowns were planned to coincide with tie-in work for new field development facilities expected to come onstream in the next few years. Concerted efforts to ensure the integrity of assets and safe operations remain the highest priority.

The production of crude oil and condensates amounted to an average of 557 thousand barrels per day. This is 12% lower than the previous corresponding period of 630 thousand barrels per day.

Natural gas production remained stable averaging at 5.826 billion cubic feet per day (equivalent to 971 kboe per day), compared to 5.832 billion cubic feet per day (972 kboe per day) in the corresponding period last year. Nevertheless, fulfilling domestic gas demand remains a major upstream challenge.

On the back of higher average oil prices, PETRONAS' share of total average domestic production, inclusive of PCSB, accounted for 1,069 kboe per day or 72% of Malaysia's total average production, which is comparable to the previous year's share of 69%.

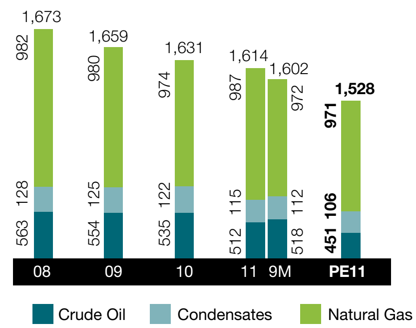
Overall production was maintained by the addition of three new gas fields (Cilipadi, F9 and Melor & Laho) and three new oil fields (Dana, East Piatu and Sepat) that were brought onstream during the period under review. This increased the total number of producing fields in Malaysia to 124, comprising 76 oil fields and 48 gas fields.

An inventive and novel approach to field development is integral in efforts to sustain business delivery in PETRONAS. Two Malaysian projects that merit recognition are the Tangga Barat cluster and Sepat field developments. Fields in the Tangga Barat cluster were brought onstream five months earlier than planned, through 'smart' recognition of opportunities from the reservoir potential and modification of the design facilities. This was instrumental in alleviating the challenging situation of the gas supply requirements for Peninsular Malaysia. In the Sepat oil project, leveraging on innovative workflow and processes, as well as effective framing in the development design and planning, enabled faster procurement and project execution. This resulted in significant cost and schedule benefits, leading to the achievement of first oil production more than one year ahead of the original schedule.

Malaysia's Petroleum Resources
Bboe (billion barrels of oil equivalent)

		1 January 2012	%	1 January 2011
Crude Oil & Condensates	Reserves (2P)	**3.739**	**4.7%**	3.572
	Contingent Resources (2C)	**2.215**	**-3.1%**	2.286
Natural Gas	Reserves (2P)	**6.815**	**2.3%**	6.660
	Contingent Resources (2C)	**8.539**	**2.4%**	8.337
Total Discovered Resources		**21.308**	**2.2%**	20.855
Overall Resource Replenishment Ratio (3 yrs ave)		**1.6x**		1.5x

Malaysia's Average Oil and Gas Production
'000 boe per day



Enabling technical and commercial development for marginal fields was also a focus for PETRONAS. In the period under review, the RSC for Balai Cluster was signed on 16 August 2011 with Roc Oil Malaysia (Holdings) Sdn Bhd, Dialog D&P Sdn Bhd and PCSB. The underlying principle for this arrangement was the sharing of commercial and technical risks between the host authority and contractors which was viable and mutually acceptable by both parties. The commercial arrangement caters for the appraisal of the reserves, thus managing the technical risks involved. In recognition of the evolving landscape of upstream opportunities in Malaysia, PETRONAS' future direction continues to encourage attractive arrangements of mutual risk-sharing and innovative development approaches.

For longer term production, harnessing EOR potential is a key strategy. Two EOR projects were approved, affirming 141 millon stock tank barrels (mmstb) of oil to be developed under recovery maximising efforts. Additionally, the Heads of Agreement for two new EOR and further reserve development PSCs, for Baram Delta and North Sabah, were signed in November 2011. With this, the total reserves to be developed under EOR grew by 750 mmstb, with investments of USD12 billion over the next 20 to 30 years. These milestones are timely with PETRONAS' establishment of the E&P Technology Centre (EPTC) in September 2011, which focuses on the development and deployment of EOR and high carbon dioxide (CO_2) management technologies, and provides a "One Stop Shop" to institutionalise these core capabilities within the PETRONAS Group. The seamless integration of R&D, field development planning and deployment in the monetisation of EOR and high CO_2 gas fields leverages on technical collaboration and sharing of resources with PSCs undertaking these projects in Malaysia. PETRONAS aspires to position EOR and CO_2 management as value propositions in its partnerships and international operations in the future.

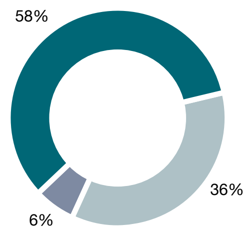
As at 1 January 2012, Malaysia's total discovered resources increased by over 2% to 21.3 billion boe from 20.9 billion boe last year. The oRRR for the year was 1.6x for total oil and gas in Malaysia. Exploration discoveries contributed to over 60% of the new resources added in Malaysia with the remaining added from efforts in IOR and EOR.

For the period, exploration efforts continued to be encouraging with 14 out of 22 exploration wells drilled showing positive results. In the drive to intensify exploration activity, key efforts include ensuring the availability of a complete inventory of technically-ready prospects for drilling, fast drilling execution and close integration in common rig utilisation. This practical initiative ensured that the targeted number of wells were drilled. Exploration activities were also supported by the drive to prove-up new plays for resource growth, which in some cases involved initiatives to overcome previous skepticism of exploration targets.

Additionally, two exploration PSCs were awarded while eight were finalised, giving promise that exploration investments and activities will be sustained. The exploration PSCs awarded included deepwater Blocks R & S. Block R was awarded to JX-Nippon-Inpex Consortium (75% equity) and PCSB (25% equity). Block S was awarded to Inpex (75% equity) and PCSB (25% equity).

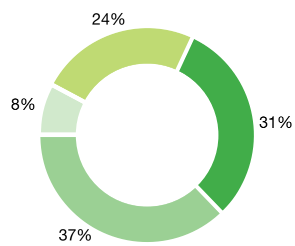
Overall, a total of RM30.1 billion was spent in Malaysia's upstream sector during the period. Of this, RM16.4 billion or 54% was for development activities, RM2.4 billion or 8% for exploration and RM11.3 billion or 38% for operational expenditure.

Breakdown of International Production
by Region



Note: South East Asia excludes Malaysia

Breakdown of International Resources
by Region



IN FOCUS

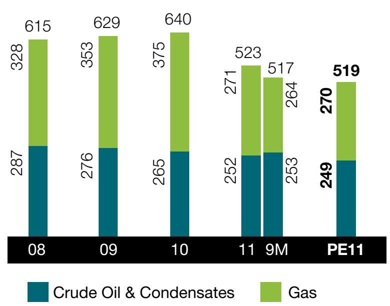
THE THREE STAGES OF OIL FIELD DEVELOPMENT

Primary Recovery — Oil is forced out by pressure generated from gas present in the oil reservoir

Secondary Recovery — The reservoir is subjected to water flooding or gas injection to maintain a pressure that continues to move oil to the surface

Tertiary Recovery — Also known as Enhanced Oil Recovery (EOR), introduces fluids that reduce viscosity and improve flow. These fluids could consist of gases that are miscible with oil (typically carbon dioxide), steam, air or oxygen, polymer solutions, gels, surfactant-polymer formulations, alkaline-surfactant-polymer formulations, or microorganism formulations

PETRONAS International Oil and Gas Production
'000 boe per day



INTERNATIONAL EXPLORATION AND PRODUCTION

The Group's international E&P business performance remains healthy. Total average production from the Group's international operations stood at 519 kboe per day, a slight increase from 517 kboe per day for the same period last year. Liquids production remained at 249 kboe per day, marginally lower than the same period in the previous year of 253 kboe per day, while gas production increased to 270 kboe per day from 264 kboe per day for the corresponding period in the previous year, mainly due to the Turkmenistan gas project coming onstream.

The achievement of first gas and the conclusion of the GSA for Turkmenistan's Block 1 in July 2011 were significant milestones for PETRONAS E&P due to its considerable reserves and production potential. With these achievements, the Onshore Gas Terminal (OGT) in Kiyanly is now commissioned and fully operational to support the future gas production increase from Block 1 at the capacity of 500 mmscfd. This period also saw first production from two fields in Sudan (Blocks 3&7 and Blocks 1,2,4) and one field in Indonesia (Gajah Baru). Additionally, international operations were strengthened

PETRONAS' International Petroleum Resources
Bboe (billion barrels of oil equivalent)

		1 January 2012	%	1 January 2011
Crude Oil & Condensates	Reserves (2P)	**1.114**	-0.3%	1.117
	Contingent Resources (2C)	**1.663**	4.4%	1.593
	Entitlement	**0.587**	24.6%	0.471
Natural Gas	Reserves (2P)	**1.581**	-14.4%	1.848
	Contingent Resources (2C)	**2.305**	-6.0%	2.452
	Entitlement	**1.005**	61.7%	0.766
Unconventional	Reserves (2P)	**0.239**	2.6%	0.233
	Contingent Resources (2C)	**0.145**	-22.9%	0.188
	Entitlement	**0.235**	0.0%	0.206
Total Discovered Resources		**7.047**	-5.2%	7.431
PETRONAS' Entitlement		**1.827**	40.8%	1.443
Overall Resource Replenishment Ratio (3 yrs ave)		**1.97x**		5.6x

with the opening of a new PETRONAS office in Juba, the capital of the Republic of South Sudan. This supported production operations while facilitating stakeholder management in the newly formed country post the Sudan Referendum and the country's independence. In Iraq, both the Garraf Base Camp and the PETRONAS representative office in Baghdad were successfully operationalised.

PETRONAS' international resource base continued to grow with new resource additions from both exploration and improved recovery efforts. Notable discoveries were made in Vietnam and Turkmenistan. Vietnam's Diamond-4X well made oil discovery, extending PETRONAS' success in exploiting the country's basement potential in Block 01/02. Turkmenistan's Garagyol Deniz West-1 discovery in Turkmenistan Block 1 assures the promise of further oil resource potential of over 80 mmboe.

In continuing efforts to high grade the E&P portfolio, a notable milestone was achieved through the successful acquisition of 50% equity in the Montney Shale Gas Asset in Canada, from Progress Energy Resources Corporation. This was concluded in August 2011, which gives PETRONAS rights to exploit the shale gas potential, in collaboration with the existing operator, Progress. It also signifies a critical milestone in PETRONAS' intent to pursue and grow in unconventional plays, while complementing its existing portfolio with the Gladstone CBM and LNG integrated development in Australia. Meanwhile, dilutions and divestments were concluded for six assets, driven by profitability, prudent risk management and the greater objective of enhancing portfolio value return and strategic alignment. Farm-outs included assets in Cuba, Mauritania and Uzbekistan while relinquished assets included exploration blocks in Sudan and Uzbekistan.

This brings PETRONAS' international resource total to 7.0 billion boe, a decrease of 5% compared to the previous year; with 2.9 billion boe of 2P and 4.1 billion boe of 2C resources as at 1 January 2012. The decrease reflects the result of de-booking resources for relinquished assets in 2010 and 2011 namely in Ethiopia, Pakistan and Sudan. The three-year rolling average oRRR achieved for the review period for international was 1.97x. On the whole, the resource base continued to be heavy in gas which are mainly located in Turkmenistan, Malaysia-Thailand Joint Development Area, Australia and Egypt. More than 80% of the oil and gas resources are located in Middle East and Asia, Africa and South East Asia region.

A total of RM11.8 billion was invested in international E&P ventures, of which 52% was for development, 12% for exploration and the rest for operations of existing assets.

IN FOCUS

THE MONTNEY SHALE GAS ASSET
play is in east-central British Columbia. The Montney Formation has sandy facies in Western Alberta, where oil is produced in the Sturgeon Lakes and Saddle Hills areas. Major facies include fine-grained shoreface sandstones, shelf siltstones and shales, fine-grained turbidites and organic-rich phosphatic shale. Natural gas is extracted from siltstone reservoir in the Dawson Creek and Pouce Coupe areas and gas rich silty shales occur in the northern and western fringes of the deposit.

» EXPLORATION AND PRODUCTION OPERATIONS
PETRONAS continues to place strong emphasis on HSE in all aspects of our operations through integrating essential practices into our business activities in line with international standards and practices.

OUTLOOK

The global upstream sector is expected to remain exciting in 2012, driven by dynamic business drivers such as oil price, energy demand outlook, global economic recovery and geopolitical uncertainties.

While many parties are reaping the benefits from current oil prices, the question remains, whether the high price levels can be sustained. The volatile nature of oil prices further emphasises the need for rigorous risk considerations and robust business decisions. Nevertheless, it is expected that investments will continue to be seen from E&P companies. PETRONAS anticipates that international oil companies and national oil companies will continue to pursue business expansion and growth while financial results will be highly dependent on hydrocarbon demand.

The competition for resources is anticipated to heighten interest in unconventional resource opportunities, especially with the dramatic shift of importance to unconventional gas seen in North America. This will surely drive capability development and required services regionally and globally for unconventional activities.

PETRONAS' strategies are on track for Malaysia, having reaffirmed its marginal field development strategy through the two awarded RSCs, with new RSCs expected to be signed in 2012. Both efforts in IOR and exploration are expected to be sustained with the recent deals, securing future activities for exploration drilling and EOR implementation. Key institutional capability development with the establishment of the EPTC promises results for future EOR and high CO_2 gas projects.

In the international arena, focus on project delivery and operational excellence will continue in major countries namely Iraq, Turkmenistan and Venezuela. Simultaneously, PETRONAS will continue to relentlessly pursue growth through acquisition of new assets to enhance the portfolio for long term asset quality and sustainable profitability.

The over arching priority will continue to be in sustaining and realising production. Nevertheless, operating in countries with geopolitical uncertainties like Sudan and Iraq may affect achievement of production targets. This will be an area of great challenge for the Group in the future.

PETRONAS is fully committed to HSE excellence. Internal transformation in the E&P organisation continues to be implemented to elevate and enhance HSE leadership drive, which focuses on operational HSE and structural needs to ensure systems robustness. Process Safety Management and Behavioural Safety practices will be the key for seamless integration in work culture, to support the journey of achieving HSE excellence.

Disclaimer on forward-looking statements: Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialise, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in capacity, performance or profit levels might not be fully realised. Although PETRONAS believes that the expectations of its management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, you are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they are made. PETRONAS undertakes no obligation to update or revise any of them, whether as a result of new information, future developments or otherwise.

24 %

Higher NOPAT by 24% compared to the previous corresponding period on the back of higher LNG sales volume and price, which contributed 21% to the overall Group profit for the period under review.

20.6 million tonnes

Higher LNG sales volume on the back of higher PLC production and PLL trading volume during the period under review.

99.98 %

PGB achieved a reliability rate of 99.98% for the PGU system exceeding the world class standard of 99.90% during the period under review.

expanding the horizon

GAS & POWER

DATUK ANUAR AHMAD

Last year, Gas and Power Business was challenged to meet the domestic gas demand especially to the Malaysian power sector. Fortunately, through close cooperation amongst all parties, the nation did not experience any untoward incident. The gas supply constraint will ease with the completion of the Melaka LNG Regasification Terminal in the third quarter of 2012.

It was nevertheless an exciting year on all other fronts for us. We increased our equity in Dragon LNG terminal, aligning ownership with capacity off-take. A review of our European gas business resulted in PETRONAS divesting the Star Energy Group. The year also saw PETRONAS taking the first step into the international power business scene by acquiring a 30% equity in GMR Energy (Singapore) Pte Ltd. We secured 10.02MW of Feed-in-Tariff allowing PETRONAS to participate in the Malaysian solar power business.

In the LNG business, we reorganised the marketing and trading functions to optimise our LNG portfolio and to enhance the PETRONAS brand. The MLNG Companies performed extremely well and recorded the highest level of production ever for the nine month period.

HIGHLIGHTS

GLNG

The GLNG project ground breaking ceremony in May 2011 which was attended by the Australian Prime Minister Julia Gillard, marked the official commencement of its construction. The Coal Bed Methane (CBM) to Liquefied Natural Gas (LNG) project in Australia is expected to produce a total of 7.8 million tonnes per annum (mtpa).

Shale Gas Venture

PETRONAS International Corporation Ltd (PICL) formed a strategic partnership with Canada-based Progress Energy Resources Corporation in June 2011 to develop the shale gas assets in northeastern British Columbia, Canada. The venture will allow for accelerated upstream growth and monetisation via LNG exports.

Network Code

In December 2011, PETRONAS Gas Berhad (PGB) announced the Network Code under a Third Party Access (TPA) scheme to Bursa Malaysia. The code provides access to all parties subscribing to the Peninsular Gas Utilisation (PGU) system through wide, transparent and uniform principles.

Power Business

In December 2011, PICL acquired a 30% stake in GMR Energy Singapore Pte Ltd's (GESPL) 800 megawatt (MW) Combined Cycle Gas Turbine Power Plant on Jurong Island, Singapore. This represents PETRONAS' maiden foray into the international power business.

OVERVIEW

A strong year driven by the LNG segment despite continued challenges in domestic gas supply

The year continued to see strong performance from the Gas & Power Business, which maintained its position as the second largest contributor to the Group's Net Operating Profit After Tax (NOPAT) at 24%, supported mainly by higher realised LNG sales volume and price.

During the period, PETRONAS LNG Complex (PLC) continued to achieve record production for the nine month period on the back of improved plant performance and completion of the MLNG Dua debottlenecking.

On the domestic front, meeting sales gas demand from customers in Peninsular Malaysia remained a challenge due to feedgas supply shortage from offshore Terengganu. Nevertheless, measures were put in place to address the nation's growing energy needs.

Short-term gas supply arrangements were made with the Malaysia-Thailand Joint Development Area (MTJDA) for additional volumes in 2012. With the expected completion of the country's first LNG Regasification Terminal in Melaka, the nation's long-term gas requirements will be addressed through LNG importation at market prices. Development works of regasification terminals in Pengerang, Johor and Lahad Datu, Sabah are also in progress.

With the Bursa Malaysia's Network Code announcement, PGB introduced third party access to the PGU system. This will provide transparent and uniform principles for the PGU system subscribers thus facilitating LNG importation by third parties.

» GLNG, QUEENSLAND, AUSTRALIA

Is a joint venture between PETRONAS (27.5%), Santos (30%), Total (27.5%) and Kogas (15%).
The project includes the development of CBM resources in the Bowen and Surat Basins in south-east Queensland, construction of a 420-kilometre gas transmission pipeline from the gas fields to Gladstone, and two LNG processing trains with a combined nameplate capacity of 7.8 mtpa.

Going beyond business as usual, the Group made its maiden entry into the international power business with the acquisition of a 30% stake in GESPL. Concurrently, the construction of the 300MW Kimanis Power Plant project is also on track for completion by 2013 to meet the increasing power needs in Sabah.

In growing its renewable energy business, the Group managed to secure a 10.02MW of Feed-in-Tariff (FiT) quota from Sustainable Energy Development Authority (SEDA) which will allow the development of PETRONAS' first Solar Independent Power Producer project in the country.

Since the Group's venture into the GLNG project in 2009, its unconventional play expanded with a joint venture with Canada-based Progress Energy Resources Corporation, to develop shale gas to LNG in northeastern British Columbia, Canada.

As part of its European Energy business portfolio rationalisation, Star Energy Group Limited was divested to IGas Energy plc whilst retaining the Humbly Grove gas storage facilities. Business growth will now be focused on enhancing energy trading activities through PETRONAS Energy Trading Ltd.

GLOBAL LNG

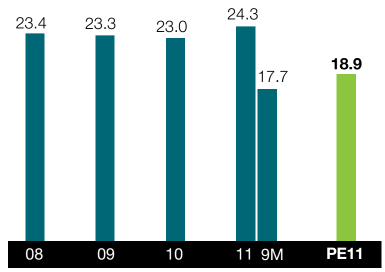
During the review period, the Group's total LNG sales of 20.6 million tonnes was higher by 8% compared to 19.1 million tonnes in the previous corresponding period. This was driven by higher PLC volume and PETRONAS LNG Ltd (PLL) trading volume.

LNG volume from PLC was mainly exported to traditional customers in Japan (59%), South Korea (15%), Taiwan (13%) and China (6%).

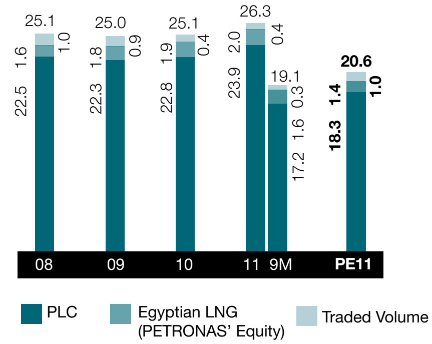
The period saw PLC outperforming its previous year's success, with another record production at 18.9 million tonnes for the nine month period. The increased output in PLC was attributed to improved plant performance and completion of MLNG Dua's debottlenecking coupled with various optimisation efforts.

PLL effectively played its role as a system balancer having handled 1.01 million tonnes of excess volumes from PLC. Over and above this, PLL managed to more than double its trading volume compared to the previous corresponding period. Moving forward, the Group aims to increase its trading positions in Europe.

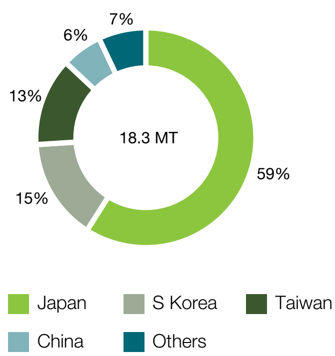
PLC Production Volume
In million tonnes



LNG Sales Volume
In million tonnes



PLC Sales Volume for PE 2011



» PLC, BINTULU, SARAWAK, MALAYSIA
Has sold more than 7,300 cargoes since its establishment in 1983. PLC remains one of the world's largest LNG production facilities in a single location with a combined capacity of about 25.7 mtpa

INFRASTRUCTURE, UTILITIES & POWER

On the domestic front, feedgas supply to Peninsular Malaysia remains a challenge due to upstream issues from offshore Terengganu. During the period under review, 2,304 million standard cubic feet per day (mmscfd) of gas was delivered to customers in Peninsular Malaysia, Sabah and Sarawak, compared to 2,563 mmscfd in the previous corresponding period. Of that, 81% or an average of 1,873 mmscfd was delivered through the PGU system, a decrease of 10% from the previous corresponding period at 2,082 mmscfd. Sales gas delivery to the power sector and exports dropped by 17% and 19% respectively as a result of the supply shortfall in Peninsular Malaysia.

Delivery to the power sector was approximately 49% (927 mmscfd) of the total volume delivered through the PGU system. Non-power sector and exports to Singapore constituted the remaining 44% (831 mmscfd) and 6% (115 mmscfd) respectively.

In addition to supply from offshore Terengganu, gas was also sourced from Indonesia at 225 mmscfd and MTJDA at 348 mmscfd bringing it to a total of 573 mmscfd, higher by 5% than the previous corresponding period of 544 mmscfd. The increase was contributed by the additional, temporary supply of gas from MTJDA.

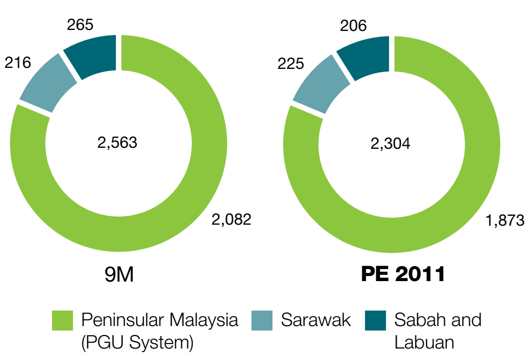
The Group's gas processing and transmission arm, PGB, sustained world class performance with reliability rates of 99.60% for its gas processing plants and 99.98% for its pipeline network.

IN FOCUS

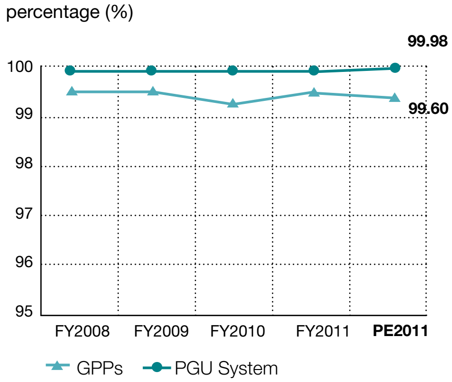
THE PGU SYSTEM

Is the longest pipeline in Malaysia. The 2,505 kilometres of pipeline connects the Kertih and Paka Gas Processing Plants in Terengganu to power and non-power sectors in Peninsular Malaysia as well as power customers in Singapore.

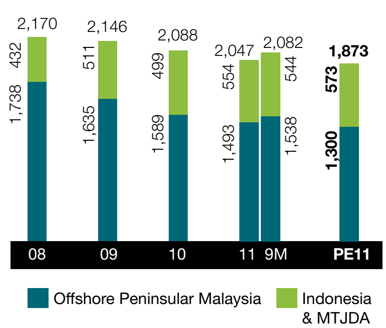
Average Sales Gas Volume Delivery
In mmscfd



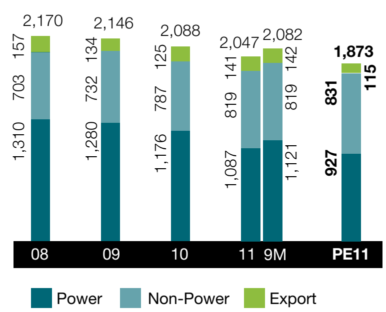
GPP and PGU System Reliability Rate
In percentage (%)



PGU System Supply Sources
In mmscfd



Average Sales Gas Through the PGU System
In mmscfd



» PGU SYSTEM

In Malaysia, PETRONAS supplies natural gas largely through the PGU system, which was developed to spearhead the use of natural gas in Malaysia

OUTLOOK

Gas demand is growing in every region of the world. The share of natural gas in the global energy mix is expected to increase from 21% in 2011 to 25% in 2035, pushing the share of coal into decline and overtaking it by 2030.

Although currently LNG only accounts for less than 10% of gas traded, this is expected to increase in the future due to its abundance and flexibility of supply. The global LNG market will remain tight over the next two to three years due to the Fukushima incident in March 2011 and the uncertainty over Japan's nuclear policy.

The world has seen an extraordinary number of LNG projects reaching Final Investment Decision in Australia last year. However, Australia is expected to take a breather due to rising costs and shortage of skilled labour. The next wave of growth is expected to be from North America. Nonetheless, the uncertainty with government policies and environmental issues will determine the success of North America's LNG projects. PETRONAS is strengthening its LNG position in the medium-and-long-term by venturing into shale gas to LNG project in Canada, tapping the opportunities of abundant shale gas in North America.

Gas pricing remains non-uniformed based on geographical market dynamics, with gas contracts in Asia and much of Europe to be

» PGB RGT

In 2012, PETRONAS is poised to write Malaysian history with the completion of Malaysia's first LNG regasification terminal in Melaka, targeted for August 2012. This will facilitate the importation of LNG by PETRONAS and third parties towards ensuring security of gas supply for the nation in the future.

oil-indexed while North America and to some extent Europe hub prices will be heavily influenced by the regional price benchmark. This situation is expected to remain in the foreseeable future. Hub prices will only take form in the Asia Pacific region when there are among others, sufficient liquidity and appropriate enabling regulation. Amidst this gas price fragmentation, PETRONAS will continue to leverage on the long-term oil-indexed LNG supply contracts supplying primarily to traditional buyers in East Asia. At the same time, PETRONAS strives to become a global LNG player through trading activities, diversification of supply sources and market expansion. This includes increasing its presence in the Atlantic Basin.

On the domestic front, ensuring the security of gas supply remains our primary focus. LNG imports are inevitable in meeting rising demand due to depleting offshore resources. However the domestic gas demand will be affected by the Government's gas pricing policy.

The demand for power generation is expected to rise in emerging nations on the back of economic growth.

The push for renewable energy to generate power is gaining momentum, driven by environmental and energy security considerations as more governments are promoting green policies.

PETRONAS will continue to explore opportunities in the power and renewable energy sectors whilst enhancing its capabilities in the solar power generation business.

98.4%

98.4% overall reliability rate of the domestic refineries.

59.5%

PDB retains its position as a market leader for Commercial Business with 59.5% market share.

142.1 million barrels

Group's petroleum product sales volume grew by 12% against the same period last year, testimony of the aggressive growth and portfolio management of retail and marketing arm operations domestically and on international fronts.

strengthening the building blocks

DOWNSTREAM

DATUK WAN ZULKIFLEE WAN ARIFFIN

The period under review was indeed another exciting period for Downstream Business as our focus was on strengthening our business foundation through preserving quality assets with active portfolio management, strengthening governance by improving hygiene factors as well as compliance to process and procedures. We also focused on talent management by placing the right people in the right job and conducted performance measurement through benchmarking with best practices.

For growth initiatives, we have completed a Detailed Feasibility Study for a Refinery and Petrochemical Integrated Development (RAPID) project and awarded the Front-End Engineering Design (FEED) contract amidst a very tight schedule. The Sabah Ammonia Urea (SAMUR) project achieved a key milestone with a Final Investment Decision and the award of the Basic and Detailed Engineering, Procurement, Construction and Commissioning (BEPCC) contract. We also incorporated PETRONAS Lubricant Africa Ltd (PLAL) to spearhead our lubricant business expansion in Africa.

Moving forward for 2012 we will continue to focus on key areas to achieve our targets. We will pay more attention to growth and operational performance while talent management, governance and quality assets remain important elements to achieve our targets. In growing our business further, we will be securing partners for the RAPID project and expanding our lubricants business mainly by pursuing acquisition opportunities.

I would like to take this opportunity to thank our dedicated teams in the Downstream business for all their professionalism, determination and commitment in making this period a significant success. I hope we will continue to strive to be a merit-based high performing business.

HIGHLIGHTS

Sub-Saharan Africa

Establishment of PLAL in growing the lubricant business in African countries.

SAMUR

PETRONAS Chemicals Fertiliser Sabah Sdn Bhd through PETRONAS Chemicals Group Berhad (PCG) formally awarded the BEPCC Alliance contract for the SAMUR project.

OVERVIEW

PETRONAS Downstream business plays a strategic role in enhancing the value of Malaysia's oil and gas resources through its integrated operations in refining and trading, marketing of crude oil and petroleum products locally and internationally, as well as through manufacturing and marketing of petrochemicals products.

PETRONAS owns and operates three refineries in Malaysia and one in South Africa. Two of the Malaysian refineries are located in Melaka and comprises PETRONAS Penapisan (Melaka) Sdn Bhd (PP(M)SB), a 100% owned PETRONAS entity and Malaysian Refining Company Sdn Bhd (MRC), a joint venture refinery with Conoco Philips. The third refinery, PETRONAS Penapisan (Terengganu) Sdn Bhd (PP(T)SB) is located on the East Coast of Malaysia in Kertih. PETRONAS owns a refinery in Durban, South Africa through its majority shareholding in Engen Petroleum Limited (Engen). Through its wholly-owned global trading and marketing subsidiary PETRONAS Trading Corporation Sdn Bhd (PETCO), PETRONAS further enhances the value of its own equity crude and petroleum products.

In Malaysia, PETRONAS Dagangan Berhad (PDB) manages all domestic marketing and retailing activities of a wide range of petroleum products. PETRONAS also operates service stations in various international markets including Indonesia, South Africa, Sudan and Thailand. PETRONAS is the leading marketer of petroleum products in Malaysia with a total market share of 41.6% and is the leading retailer and marketer of petroleum products in Southern Africa through Engen. PETRONAS Lubricants International Sdn Bhd (PLI) is the global lubricants arm of

PETRONAS with a presence in more than 20 countries encompassing manufacturing and marketing infrastructure. The PLI product range includes lubricants and functional fluids for the automotive and industrial markets as well as a range of car care products.

PCG is the leading petrochemicals producer in Malaysia and one of the largest producers in South East Asia. It primarily manufactures, markets and sells a diversified range of petrochemical products which include olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products. PCG has over 25 years of combined experience in the petrochemicals industry.

REFINING & TRADING

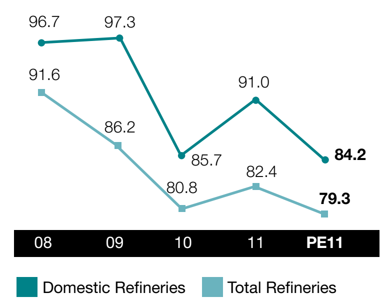
PETRONAS owns and operates four refineries with a total refining capacity of about 500,000 barrels a day. The Group's crude oil and petroleum products marketing and trading activities span the globe and our crude oil portfolio includes a range of grades from various regions.

CRUDE OIL REFINING

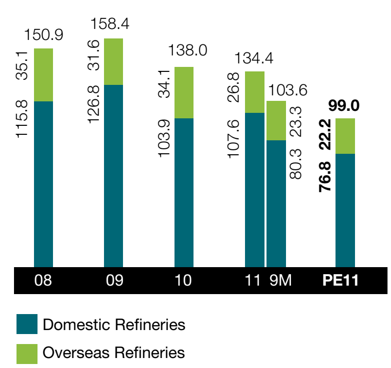
The Group's domestic refineries continue to play a strategic role in adding value to the nation's petroleum resources, as well as enhancing the security of its energy supplies. In the period under review, the Group's domestic refineries collectively recorded a lower throughput volume of 76.8 million barrels as compared to the total throughput volume during the same period last year of 80.3 million barrels. This is due to planned maintenance shutdowns at both MRC and PP(T)SB and is reflected in the lower utilisation rate of 84.2%.

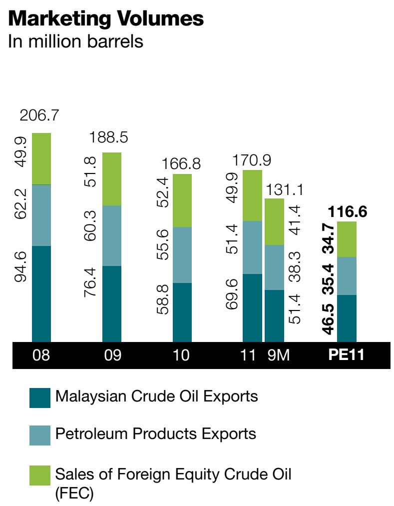
The overall reliability rate of the domestic refineries increased to 98.4%, testimony to the Group's continued commitment to operational excellence. The strong emphasis on safe operations was recognised with both PP(M)SB and PP(T)SB winning major awards in the oil and gas sector namely the Chemical Industries Council of Malaysia (CICM) Award 2010, the Prime Minister's Hibiscus Award 2010/11. PP(M)SB was also recognised in the Malaysian Society of Occupational Safety & Health (MSOSH) Awards 2010 and the Royal Society for the Prevention of Accidents (RoSPA) Award 2011.

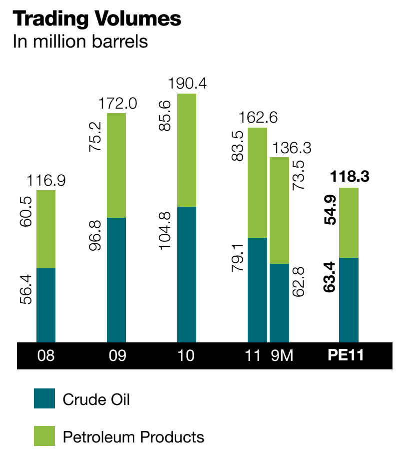
Utilisation Rate for Group's Refineries
In percentage (%)



Refining Throughput
In million barrels







CRUDE OIL & PETROLEUM PRODUCTS MARKETING

The Group's crude oil and petroleum products marketing activities decreased for the period under review at 116.6 million barrels against the total volume for the same period last year of 131.1 million barrels attributable to lower production of Malaysian Crude Oil (MCO). PETRONAS MCO entitlement reduced by 9.5% to 46.5 million barrels from 51.4 million barrels during the period due to production challenges.

The Group's sales of Foreign Equity Crude Oil (FEC) decreased by 16.2% to 34.7 million barrels from 41.4 million barrels during the same period last year reflecting lower entitlements from the Group's International Operations amid higher global crude oil prices.

The Group also exported lower volumes of petroleum products of 35.4 million barrels against the total volume for the same period last year of 38.3 million barrels mainly due to lower products available for export as a result of planned maintenance shutdowns at domestic refineries coupled with higher domestic consumption.

CRUDE OIL & PETROLEUM PRODUCTS TRADING

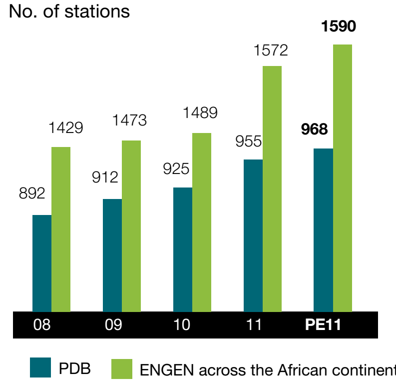
The Group's crude oil and petroleum products trading activities for the period under review decreased by 13.2% to 118.3 million barrels.

The total volume of crude oil traded during the year increased to 63.4 million barrels resulting from higher third party trades to cover for the shortfall of equity marketing volumes and increased opportunistic trading due to the volatile crude oil market. However, the total volume of petroleum products traded decreased to 54.9 million barrels mainly due to lower trading risk appetite as a result of global macroeconomics and financial exposure concerns. This was further aggravated by geopolitical events that affected global supply and demand.

» ENGEN SERVICE STATION

Engen has re-positioned its retail destination beyond the typical petrol station outlets by introducing "driving & shopping" experiences under one roof concept. In South Africa, the convenience stores continues to deliver incomparable "Service Excellence" by offering more value to the customers by the continuous upgrading of selected stores to the Engen 1-Plus Store model; a model that offers "all in one basket" convenient shopping experience from groceries to movies to fast foods and to a cup of coffee.

Retail Stations
No. of stations



DOWNSTREAM MARKETING

Downstream Marketing oversees the retail and marketing activities for the full range of petroleum products which include diesel, Jet A1, lubricants and motor gasoline as well as Liquefied Petroleum Gas (LPG) for home and commercial use.

In the period under review, the Group's petroleum products' sales volume grew by 12% to 142.1 million barrels against the same period last year. This was testimony to the aggressive growth and portfolio management of the retail and marketing arm operations domestically and on international fronts.

RETAIL BUSINESS

Petroleum products are marketed to the consumer through a network of over 2,558 retail stations in Indonesia, Malaysia, South Africa, Sudan, Thailand and across Sub-Saharan African countries as well as to the various industrial and commercial markets.

PDB is the domestic retail arm while internationally the business is managed by Engen, PETRONAS Marketing Sudan Limited (PMSL), PT PETRONAS Niaga Indonesia (PTPNI) and PETRONAS Retail Thailand Co Ltd (PRTCL).

For the period under review, PDB registered 31% retail market share.

Active involvement and years of strategic partnership with the Formula 1 team allowed PDB to build a strong capability in fuel technology. This experience has enabled the R&D team to develop the PETRONAS Fluid Technology Solutions™ which benefits everyday customers.

PDB successfully launched PRIMAX 95 Xtra in April 2011, a new fuel inspired by F1™ technology, proven to deliver superior power, better acceleration and savings for customers. On top of that, PDB also became the first fuel operator in the country to introduce the mobile fuel dispenser launched and operated at the Sepang International Circuit in November 2011. This is for the convenience of customers to fuel up with PETRONAS' high-powered PRIMAX fuels at the circuit.

PDB also increased its retail station network to 968 and has the largest network of convenience stores at retail stations in Malaysia with 630 *Kedai Mesra* convenience stores.

Taking customer service to the next level, PDB introduced its car spa outlets offering premium car washing and detailing services complete with comfortable waiting rooms. The pilot phase was rolled out at selected PETRONAS stations in Kuala Lumpur and Johor. As part of PDB's efforts to go "All The Way" for its customers, PDB will launch the PETRONAS Durance and Arexons, a range of high quality car care products and air fresheners developed by its Italy based sister company, PLI.

IN FOCUS

Expansion of LPG Terminals from four to five with the construction of a new terminal in Cebu further strengthens the downstream marketing portfolio

Engen continues on its journey towards becoming a Champion in South Africa and Sub-Saharan Africa with a retail network of 1,590 retail stations. This includes 714 convenience stores and in excess of 300 fast food outlets and corner bakeries.

In the period under review, Engen successfully completed the acquisition of Chevron's downstream business in seven countries including Mozambique and Zimbabwe. Engen also completed the re-branding of 66 selected former Chevron service stations.

PETRONAS continues to strengthen its position in the LPG market under the brand name of "Gas PETRONAS" in Malaysia, Philippines and Vietnam. Regionally, PETRONAS LPG marketing companies include PETRONAS Energy Philippines Inc. (PEPI) and PETRONAS (Vietnam) Co Ltd (PVL). Both business units have extended their nationwide logistics and distribution system for seamless supply of products to the customers.

COMMERCIAL BUSINESS

The commercial business covers the marketing and sales of petroleum products in bulk to the various industrial and commercial sectors. PETRONAS through its domestic and international marketing arms, continues to strengthen its market leadership through personalised and differentiated services while persistently securing new contracts.

PDB currently is the market leader in the commercial business with 59.5% market share and its commercial presence is prominent in the aviation and bitumen sectors with 73% market share respectively. In the period under review, PDB successfully secured new aviation contracts with prominent customers and improved their market share with Arab Air Carriers Organisation (AACO) namely Gulf Air, Jordan Aviation Company, Oman Air & Yemen Airways from 30% to 39%. PDB bitumen sales increased by 22.2% compared to the same period last year as a result of aggressive commercial strategies capturing demand from the 10th Malaysia Plan and the Economic Transformation Programme (ETP).

In South Africa and Sub-Sahara, Engen continues to accelerate the growth journey in transportation, mining, agriculture and other industries through sealing of contracts with several new customers.

PMSL maintained its position as the preferred supplier in the market it operates in. The company made great strides by securing new contracts with several new international airlines. PMSL's outstanding performance in delivering the UN-African Union Mission peacekeeping force in Darfur (UNAMID) contract by providing quality and reliable product supply at stringent HSE standards resulted in the contract being extended to December 2012.

PETRONAS also has commercial business presence in Indonesia and Thailand which is managed by PTPNI and PRTCL respectively. Both companies continued their path of growth by improving their nationwide logistics and distribution capability for seamless supply of products to their customers.

» PETRONAS IS THE OFFICIAL LUBRICANTS PARTNER FOR LOTUS MOTORSPORT CARS

PETRONAS was announced as Lotus' official lubricants partner for GT Motosport. The newly forged partnership will work on many levels including a comprehensive technical and business collaboration agreement with PLI and Lotus Motorsport.

LUBRICANTS

PETRONAS' lubricants business through PLI formulates, manufactures and sells a wide range of lubricants for the automotive, industrial and marine industries. Its lubricants are marketed under various brands which include Selenia, Syntium and Urania.

To strengthen its market leadership, PLI is committed to its role as a company that offers Fluid Technology Solutions™ which entails a structured and focused approach to design, develop and deliver the right fluid to the right user to realise better value from PETRONAS Group's product offerings.

In the period under review, PLI signed a multi-year premium partnership agreement as Lotus' official lubricants partner for GT Motorsport. PETRONAS is the official lubricants partner for Lotus Motorsport cars competing in various high profile GT categories and will also collaborate with Lotus to become the official and exclusive supplier of lubricants for aftermarket servicing worldwide.

Another achievement is a sponsorship and supply, technical and commercial collaboration agreement with OTK KART Group for five years based in Brescia, Italy. OTK is one of the most prominent karting companies in the world, that manufactures and distributes karts and engines. It is also active in motorsport competitions.

PETRONAS also became the first technical and title sponsor to Industrial Vehicle Corporation S.p.A (Iveco) in Dakar and will be the supplier for functional fluids and lubricants namely, Paraflu, Tutela and Urania, for all its competitions.

IN FOCUS

PETRONAS LUBRICANTS INTERNATIONAL

Is set to invest Euro 50 million to build a state-of-the-art Research & Development centre in Turin, Italy which will be Europe's biggest centre scheduled to be completed in 2015. This is amidst efforts to enhance its technical and product capability in providing branded quality fluid solutions.

PETROCHEMICAL BUSINESS

The period under review saw the global economy growing more slowly at 3.9% compared to 5.3% in 2010. The European economies particularly Greece, Portugal, Spain and Ireland continued to falter, while the United States showed marginal growth. Asian economies were also impacted by the slowdown in the US and Europe as evidenced in China and India where their GDP growth were reported at lower levels in 2011.

The petrochemical industry had its own challenges in 2011, as energy prices escalated amidst a slowdown in the economy. Increased geopolitical tensions between the US and Iran throughout 2011 saw crude prices staying above USD100 per barrel, pushing the naphtha feedstock costs to reach a high of USD957 per metric tonne. Several naphtha based crackers were reported reducing their throughput rates as margins were squeezed. However, PCG's ability to leverage on its advantageous gas feedstock position coupled with increases in average market prices for olefins and derivatives as well as fertilisers and methanol have helped it weather some of the headwinds faced during the period.

The average market prices under Olefins and Derivatives (O&D) Business Segment registered an increase of 18% compared to the same period last year. Products such as paraxylene (PX) and monoethylene glycol (MEG) showed impressive gains of about 40% due to increasing demand and major plant outages in Japan, Singapore and Taiwan.

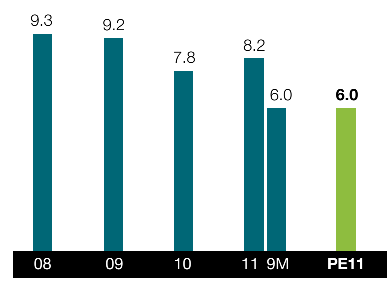
The Fertiliser and Methanol (F&M) Business Segment saw strong market prices throughout the period, averaging higher than 2010 by about 44% and 43% for urea and ammonia respectively whilst methanol prices were higher by 21%. This segment was well supported by strong demand from the agriculture sector in countries such as India and Pakistan, as well as in Latin America, whilst persistent supply tightness due to plant outages supported the methanol market in South East Asia.

The domestic market, in particular, contributed 41% to PCG's revenue, reaffirming its leadership position in Malaysia as the largest olefins manufacturer and the sole producer of methanol and urea.

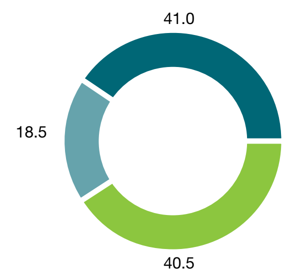
Total production remained at about 6.0 million tonnes compared to the same period last year. PCG sold 2.3 million tonnes of olefins and derivatives and 2.3 million tonnes of fertilisers and methanol, representing decrease of 7.1% and 6.0% respectively compared to the corresponding period.

Overall, plant utilisation rate for the period under review was lower at 78.6% compared to 79.7% due to heavy plant maintenance activities carried out in various plants and constrained gas supply availability.

Production Volumes
In million tonnes



Revenue Contribution
In percentage (%)



» MEGAMETHANOL PLANT, SABAH

The largest producer of methanol by volume in South East Asia and fourth largest in the world.

OUTLOOK

The intensified economic strain in the Euro zone and instabilities in other countries will continue to plague global economic growth throughout 2012. In the current climate, emerging economies have also shown signs of growth moderation primarily due to a deteriorating external environment and the impact of tightening monetary policy, especially in China. Despite a rather gloomy economic outlook, global oil demand is still projected to grow at a revised rate of 1.2% in 2012 compared to 1.5% as projected in 2011. This downward revision is primarily attributed to weaker demand from Europe as well as the higher oil prices. The majority of global oil demand growth will emanate from emerging economies, with China contributing 25% of this growth in 2012.

Volatility stemming from the persistent political turmoil in the Middle East and North African regions continues to impose risk premiums on crude prices. However, physical crude supplies are not expected to be affected even with Iran sanctions as other OPEC countries have already committed to increase production, if necessary in order to compensate for the shortfall. Furthermore, the gradual return of roughly 1.2 million barrels per day of disrupted Libyan crude as well as a 900 thousand barrels per day increase in non-OPEC oil production will offset minor declines in the other oil producing countries.

As such, the recovery of the global economy remains fragile largely due to the risk of recession in the EU, the slowdown of the US and Chinese economies and sustained high oil prices.

On the refinery front, Asian refiners will experience better margins, albeit at slightly lower levels than in 2011, compared to its Western counterparts. However, in Europe, improved crude supplies will alleviate pressure on refiners while refinery closures will contribute to improved margins in the region. The outlook for US refining margins will be fragmented based on their crude diets as well as logistical challenges in certain regions. Refineries processing West Texas Intermediate (WTI) crude will enjoy wider discounts while others may benefit from some refinery rationalisation.

A positive outlook on Asia's product demand and the rationalisation and upgrade of inefficient refineries in the region will keep margins relatively strong. Refinery capacity additions in the Middle East is only anticipated to come on stream by 2015, and as such will not have an effect on product supply, which in turn will support relatively strong refining margins. Overall, complex refineries will continue to enjoy higher margins compared to hydro skimming refineries, and this will prompt refiners to pursue upgrading of existing refineries to be able to process heavier crudes.

Chemical demand in emerging economies will continue to support growth in the industry amidst high feedstock prices and a bearish outlook on the global economy. It is estimated that demand in emerging markets will grow at an expected 6.2% in 2012, compared to 5.4% in 2011. Asian countries such as China and India, as well as other emerging markets such as Brazil will remain the main focus for chemical exporters in 2012. However, exporters to Asia and Brazil will see fierce competition as product flows will begin to be redirected into the region. This will be brought about by the emergence of the US as a low-cost gas-fed petrochemical producer coupled with the exports from the new capacity additions in the Middle East. It is thus expected that margins will remain under pressure, especially for naphtha-based producers.

Growth in Asia, albeit at a lower rate than in 2011 will bode well for PETRONAS which is strategically well positioned in this region. Through its expansion plans in Asia Pacific especially in the petrochemical and lubricant businesses, PETRONAS will capitalise on the growth in the region while adding value to its downstream portfolio. PETRONAS is also making good progress with the RAPID project to be undertaken in Pengerang, Southern Johor. During the period under review, PETRONAS completed the detailed feasibility study for RAPID and the project aims to reach its Final Investment Decision in the middle of 2013. Subject to its viability, RAPID presents the opportunity to significantly grow the petrochemical product portfolio, moving into high value specialty chemicals. It will also diversify the feedstock base from predominantly gas to naphtha.

In addition to its Asia Pacific focus, Africa remains a key component of the portfolio where expansion will be pursued on an opportunistic basis. The growth and optimisation of the global lubricants business remains a priority for PETRONAS, albeit the mature markets will pose a greater challenge for this business.

In order to secure the value creation from the growth initiatives and existing businesses, a strong focus will be placed on disciplined project execution, performance enhancement, molecule optimisation supported by continuous portfolio management, governance and HSE compliance. Strengthening product brand across downstream will also be emphasised to enhance the brand equity. Talent management and high attrition rates pose a challenge, but will be addressed through dedicated initiatives. The organisational climate in the Downstream Business is also enhanced by working towards common goals in line with the PETRONAS' Shared Values and striving for it to be a "Merit-Based High Performing Business".

MARITIME & LOGISTICS

HIGHLIGHTS

Customised Solution

AET to supply two Marine Capture Vessels (MCVs) for hydrocarbon containment in the event of a deep water well control incident

Liner Business Exit

First in a series of bold steps to reconstruct MISC Berhad's (MISC) business portfolio

FSUs

Conversion of two liquefied natural gas (LNG) tankers into Floating Storage Units (FSUs) for Malaysia's first regasification terminal in Melaka, targeted for August 2012

OVERVIEW

Led by subsidiary MISC, PETRONAS' maritime and logistics business is involved in owning and operating of ships, tank terminals and offshore floating facilities as well as in marine repair, marine conversion and engineering and construction works.

MISC, with more than 160 owned and in-chartered vessels and a combined tonnage of more than 15 million deadweight tonnes (dwt), is one of the world's leading owner-operator of LNG carriers and the third largest owner of Aframax fleet in the world.

FLEET SIZE

MISC-Owned Fleet by Business	As at 31 December 2011	As at 31 March 2011
LNG Carriers	27	**29**
Petroleum Tankers	53	**50**
Chemical Tankers	19	**19**
Liner	16	**18**
Offshore Facilities		
FPSO	5	**5**
FSO	5	**5**
MOPU	2	**1**
TOTAL	127	**127**

*Note: Excluding Tenaga Satu and Tenaga Empat, which are currently undergoing conversion works into Floating Storage Units (FSUs)

» Seri Anggun
MISC's LNG carrier

Business conditions in the maritime industry continued to be extremely challenging for MISC for the period under review. Uncertainty in macroeconomic direction and protracted geopolitical tensions across the globe did little to bolster demand growth for shipping services that had weakened considerably since the onset of the global financial crisis in 2008. Supply growth continued to outstrip demand growth, further exacerbating an already oversupply situation dating back to 2009.

The period under review saw record deliveries in terms of newbuilds. In the Very Large Crude Carrier (VLCC) space, the market witnessed a third straight year of double-digit tonnage addition. Sixty VLCCs totalling 18.5 million dwt or 11.2% of the global VLCC fleet were delivered in 2011, dwarfing the 15 VLCCs with four million dwt capacity that were scrapped. The Aframax segment added a slower 6.4% of tonnage or 4.2 million dwt.

Meanwhile, competitors in the containership market continued to push the boundaries with orders of giant size Triple-E ships with capacity of up to 18,000 Twenty Foot Equivalent Units (TEUs), the largest container vessel ever built. These Triple-E vessels are designed to give the operators an estimated 40% fuel efficiency and 30% overall cost reduction, assuming that these vessels can be filled to a targeted level of utilisation. While this may serve the owners and operators of the vessels well from a cost and possible profit standpoint, it is detrimental from an industry perspective given the aggravation to an already oversupplied market.

With over capacity of more than 20%, freight rates inevitably suffered and this was most evident in the petroleum tanker market. Rates plummeted below operating cost per day in 2011, serving as a grim reminder of the severity of the downturn on the shipping industry, compared to previous cycles.

Despite the very depressed outlook for the shipping industry in general, there remains growth opportunities for MISC. The LNG shipping space was a bright spot in 2011. The earthquake in Japan early 2011 led to the shutdown of nuclear power plants and raised LNG import demand from Japan as a substitute fuel. This bodes well for demand in the short to medium term LNG shipping. Meanwhile, the emerging demand for fast track gas importing facilities such as Floating Storage Regasification Units (FSRUs) and FSUs provided product diversification opportunities in the LNG space. Two of MISC's first generation conventional LNG ships are undergoing conversion works into FSUs and will form an integral part of the first regasification terminal in Malaysia.

MISC's fully owned subsidiary AET Tanker Holdings Sdn Bhd scored a first when it was selected by the Marine Well Containment Company (comprising leading oil companies in the US) to supply two Marine Capture Vessels (MCVs) for hydrocarbon capture services in the event of a deepwater well control incident in the US Gulf of Mexico. The service contract for these two MCVs will run for 20 years.

Despite the challenges to the shipping industry brought about by the high oil price environment, it also presented new opportunities to MISC's offshore division and heavy engineering division (through Malaysia Marine & Heavy Engineering Holdings Bhd or MHB). Enhanced Oil Recovery (EOR) activities and the development of unconventional sources of energy such as marginal and deepwater fields, create sustained demand for larger and more complex offshore structures which both businesses could exploit. During this period, MISC's offshore division awarded the conversion of FPSO Cendor to MHB, which will replace the existing FSO Cendor once completed in 2013. For the period under review, MHB inked RM2.9 billion in new contracts encompassing construction and installation of offshore structures under ExxonMobil's EOR projects and Telok Gas Development.

» AET

One of the largest tanker operators in the world with more than 80 petroleum vessels

Following MHB's listing in October 2010, the Company announced the acquisition of Sime Darby Engineering Sdn Bhd's yard in Pasir Gudang. The enlarged yard space will allow MHB to deliver increasingly challenging projects of larger scale and complexity. A joint venture formed during the period between MHB and Technip in the area of hull design engineering services will further build on the expertise and value proposition of the yards.

The trying times in the shipping industry also highlighted the need for MISC to continuously revisit the resilience and robustness of its business portfolio. Following a deliberate review of the long-term strategic fit of the liner business within the Group's portfolio, a decision was taken in November 2011 for MISC to exit the liner business. This will be the first in a series of bold steps that MISC will undertake in the coming year or two in rebalancing its business portfolio to ensure greater resilience and robustness of income and growth.

» FABRICATION YARD IN PASIR GUDANG, JOHOR, MALAYSIA
The newly-acquired yard by MHB offers a unique docking facility, having one of the largest shiplift in the world to cater for vessels of up to 50,000 dwt on its land berth.

TECHNOLOGY & ENGINEERING

HIGHLIGHTS

Technology breakthroughs

Enhanced Oil Recovery (EOR), carbon dioxide (CO_2) management, contaminants removal, green and sustainable technologies were pursued during the period under review.

RM1.6 billion

Provision of technical solutions and services by in-house technical expertise achieved a value creation of about RM1.6 billion for PETRONAS through optimisation, yield improvement and cost avoidance.

ISO 9001:2008

The Integrated Plant Operations Capability System and the management of PETRONAS Technical Standards achieved ISO 9001:2008 certification (Quality Management System) from SIRIM QAS International Sdn Bhd.

OVERVIEW

TECHNOLOGY & ENGINEERING FOR SUPERIOR PERFORMANCE

In the ever competitive oil and gas industry, technology is one of the key enablers that sets industry leaders apart from the rest. With the days of 'easy-oil' fast disappearing, PETRONAS is faced with various challenges such as depleting resources and ageing facilities, gas fields containing high CO_2 and other contaminants such as mercury, acid and sulphur.

PETRONAS is intensifying efforts in EOR to sustain oil production and simultaneously explore technologies to economically develop gas fields containing high CO_2. Continuous efforts are also being pursued to develop technologies to manage contaminants in oil and gas.

PETRONAS filed nine patents in the period under review, bringing a total of 273 patents filed to date.

In view of the complex and technically demanding oil and gas industry, engineering expertise and technical solutions are essential for safe and efficient operations. As such, PETRONAS has developed a group of technical experts to provide innovative and value-adding technology solutions as well as institute technical standards and governance. They will also drive the technical capability development for effective implementation of Capital expenditure (CAPEX) projects towards achieving Plant Operational Excellence.

» CHEMICAL EOR LABORATORY EVALUATION: POLYMER THERMAL STABILITY OBSERVATION

ENHANCED OIL RECOVERY

Ageing assets and declining production have warranted the need for PETRONAS to explore and develop EOR technologies. EOR is an efficient recovery mechanism to maximise asset performance through field life extension and adding of more reserves. Through the Exploration & Production Technology Centre, PETRONAS intends to highlight its expertise and enhance its international reputation in offshore EOR.

EOR technology programmes developed by PETRONAS focus on Water Alternating Gas (WAG), Enhanced WAG (addition of suitable chemical to the WAG system), Thermal EOR, Chemical EOR and cost reduction initiatives, all of which have been planned for implementation at both domestic and foreign oil fields. To date, 20 fields have been studied under the EOR initiative, at different stages of maturity.

PETRONAS signed a Heads of Agreement with PETRONAS Carigali Sdn Bhd (PCSB) and Shell Malaysia for two 30-year Production Sharing Contracts to the tune of RM37 billion for EOR projects offshore Sabah and Sarawak, with PETRONAS expertise working alongside their Shell counterparts on these projects. EOR technology will be employed at nine oil fields in the Baram Delta, and at four oil fields in the North Sabah development area. The success of these projects, potentially could lead to the world's first offshore Alkaline Surfactant Polymer EOR application in Horizontal Wells. This is in addition to the existing 2008 PSC extension with ExxonMobil Malaysia on the EOR implementation in Guntong and Tapis fields, offshore Peninsular Malaysia.

During the period under review, a total of 185 million standard tank barrels (mmstb) of oil has been sanctioned as additional reserves from the Angsi, Baram, Bokor and Guntong fields, which is 2.5 times higher than the targeted amount. The EOR programme is expected to create significant value for PETRONAS, as a majority of existing oil fields in Malaysia are technically suitable for EOR applications.

CO_2 MANAGEMENT

PETRONAS is pursuing CO_2 management technology which is focused not only on the development of high CO_2 gas fields, but also ensures that natural gas is produced in a cost-effective manner with minimal environmental impact. The CO_2 management concentrates on the entire value chain, from carbon capture to transportation and storage.

PETRONAS, in collaboration with Cameron Process Solutions USA, has successfully developed and tested a new multi-fibre membrane technology for more efficient and cost-effective removal of CO_2 from natural gas production. Field trials of this new PN-1 Multi-Fibre Membrane were performed at the Scurry Area Canyon Reef Operators (SACROC), testing facility in the United States, and at CPOC-Muda platform at the Malaysia-Thailand Joint Development Area (MTJDA). This provided valuable data to validate the technology and prepare it for commercialisation. The multi-fibre membrane technology will be deployed at the JDA-Gas Balancing Evacuation project at the PETRONAS Onshore Slug Catcher in Kertih, Terengganu.

PETRONAS is also in partnership with University Teknologi Malaysia (UTM) for the development of advanced membrane technology for bulk removal of CO_2. The developed proprietary technology has the potential to improve CO_2 and hydrocarbon selectivity, allowing for better performance and separation efficiency. The membrane material and process for CO_2 removal is patented by PETRONAS.

» MEMBRANE FIBRES POTTING FOR SCREENING STUDY

» HYCAPURE Hg™ FOR MERCURY REMOVAL

15 tonnes of HycaPure Hg™ for mercury removal in gas was successfully commissioned at PGB

CONTAMINANTS REMOVAL

PETRONAS made a breakthrough in collaboration with Queen's University of Belfast in Northern Ireland and Universiti Teknologi PETRONAS, to develop HycaPure™ which is capable of removing impurities to improve product quality and refining processes.

During the period, the first commercial 15 tonnes of HycaPure Hg™ for mercury removal in gas was successfully commissioned at PETRONAS Gas Bhd (PGB). At the same time, HycaPure Hg™ to remove mercury from condensates was developed. The pilot plant will be commissioned at the Oil and Gas Terminal (OGT) in Kertih by 2012. Proof-of-concept on mercury removal from produced water is currently in progress.

PETRONAS also developed a novel process to remove naphthenic acid from crude oil using HycaPure™. The pilot plant will be commissioned at PETRONAS Penapisan (Melaka) Sdn Bhd by 2013.

GREEN & SUSTAINABLE

As environmental deterioration and natural resource depletion is a concern, green and sustainable initiatives are being pursued by PETRONAS. This is an important objective where PETRONAS continues to research, develop and apply green technologies and solutions in its operations.

SOLAR

PETRONAS took its first step into renewable energy with the Suria KLCC Solar Photovoltaic (PV) Demonstration project, a joint effort between PETRONAS and Mitsubishi Corporation Japan. The installation at Suria KLCC is Malaysia's single largest PV installation on a shopping mall rooftop with a capacity of 685 kilowatt-peak (kWp). It is estimated to produce 500 megawatt-hours of solar energy annually, equivalent to 10% of Suria KLCC's energy requirement. The electricity produced could power 200 households, and will contribute to a greenhouse gas reduction of about 300,000 kg of CO_2 per annum.

The PETRONAS Green Station project is another renewable energy initiative that will install a PV system at a selected PETRONAS service station with an estimated peak capacity of 190 kWp. Detailed engineering work is currently ongoing and is slated for completion by the end of 2012.

BIOCHEMICAL

PETRONAS successfully developed palm-based biopolyols technology for biolubricant and bio-polyurethane applications. Biopolyols are designed to replace petroleum-based polyols, the primary ingredient in making polyurethane foams a more eco-friendly product. Biolubricants are the preferred choice especially in environmentally sensitive applications, where requirements for biodegradability are becoming more important. Pilot trials are currently being conducted and thus far the trials have successfully produced biopolyols for flexible and coating applications such as adhesive and sealants. Pilot trials on the polyol esters for lubricant applications showed very promising results with product quality meeting specifications.

» THE SURIA KLCC SOLAR PHOTOVOLTAIC (PV) DEMONSTRATION PROJECT is Malaysia's single largest photovoltaic installation on a 9,000m^2 shopping mall rooftop.

WASTE GAS CONVERSION

In advancing our technological capabilities and repertoire, PETRONAS invested in LanzaTech, a company pursuing the conversion of waste gases such as Carbon Monoxide (CO) and CO_2 into valuable chemicals and low carbon fuels using proprietary microbes. As a strategic investor, PETRONAS will collaborate with LanzaTech in the up-scaling of CO and CO_2 conversion technology as part of continuous efforts to reduce greenhouse gas emissions from PETRONAS operations.

PROJECT MANAGEMENT & DELIVERY

PETRONAS continues to pursue growth in the oil and gas industry through the implementation and delivery of strategic and sound capital projects. PETRONAS Project Management System employs a 'gated' approach; ensuring project delivery is cost effective and competitive in compliance with stringent Health, Safety & Environment (HSE) Standards, PETRONAS Technical Standards and other international standards.

The majority of capital project deliveries in PETRONAS such as the Refinery and Petrochemical Integrated Development (RAPID) project, Sabah Ammonia and Urea (SAMUR) project, PETRONAS Floating LNG (PFLNG) project and Sabah Oil and Gas Terminal (SOGT) project are centrally managed by experienced technical personnel with project performances constantly benchmarked against international standards.

PETRONAS is leveraging on these Greenfield projects to develop Front End Engineering Design (FEED) capabilities and also to deploy PETRONAS' proprietary technologies and technical solutions. In the period under review, PETRONAS technical personnel successfully completed FEED for some major capital projects across the Group.

PETRONAS has adopted category management to strategically source for high value and high impact materials and equipment for projects and operational needs to meet competitive cost and delivery schedules. For the period under review, the category management for equipment and materials has contributed to about 15% cost savings.

TECHNICAL SOLUTIONS AND SERVICES

Group Technical Solutions (GTS) was formed in 2006 as the central hub for technical solutions and services for the PETRONAS Group. The focus of this centre of excellence is to ensure PETRONAS attains plant operational excellence by institutionalising technical standards and governance, provide value-adding technology solutions and drive technical capability development. During the period under review, the provision of technical solutions and services by in-house technical experts achieved a value creation of about RM1.6 billion for the Group through optimisation, yield improvement and cost avoidance.

Current operations with ageing assets are technically challenging and the focus on asset integrity management and process optimisation are key factors to ensure operational excellence. To address this, the Integrated Plant Operations Capability System (iPOCS) was established to assess plant performance. The first round of iPOCS assessment for all plants was completed and efforts are ongoing to close the gaps. The iPOCS Assessment Methodology and PETRONAS Technical Standards management are ISO 9001:2008 accredited.

» PFLNG

Front End Engineering Design (FEED) for Floating LNG has been completed and it is gearing up for Engineering, Procurement, Construction, Installation and Commisions (EPCIC) execution.

ASSET INTEGRITY MANAGEMENT

Both upstream and downstream operating units have conducted aggressive Asset Integrity Management programmes. To address the issue of ageing assets, PETRONAS developed its own methodology and technology products which include Asset Life Studies (P-ALS), Pipeline Integrity Performance Monitoring (PiPeM), Process Safety Management (PSM), PETRONAS Risk-Based Inspection (P-RBI™) and PIPEASSURE™.

P-ALS was developed to study asset integrity and to optimise equipment replacement outlay. During the period under review, it was deployed in four clusters of offshore production platforms and three downstream sites.

In ensuring pipeline integrity for upstream operations, PiPeM is an online web-based pipeline management system that monitors the integrity and health of 7,600 km of oil and gas pipeline infrastructure in Malaysia.

PSM has further strengthened the implementation of asset integrity management. During the period, PSM was mainly deployed at upstream facilities and efforts are currently ongoing to close identified gaps.

P-RBI™, a risk-based inspection management system to determine the inspection requirements of equipment and facilities for safe operations was also implemented. P-RBI™ allows extended 'safe run' between major turnarounds. The online web-based system has been recognised and adopted by the Department of Occupational Safety and Health (DOSH) for issuance and renewal of Certificates of Fitness for DOSH-registered equipment. In November 2011, DOSH signed a Memorandum of Understanding with PETRONAS for the use of this system. During the period under review, P-RBI™ was successfully deployed at 15 upstream offshore platforms and several other operating units such as Ethylene/Polyethylene (Malaysia) Sdn Bhd (EPEMSB), Malaysia LNG (MLNG) and PGB.

PIPEASSURE™ is a novel pipeline repair system using composite materials to strengthen and repair leaks. This PETRONAS proprietary technology was deployed and commercialised at risers for offshore platforms and gas plants.

PROCESS OPTIMISATION

Following the successful optimisation efforts of offshore platforms since 2009, PETRONAS developed the Inflow/Outflow Performance Relationship (IPR) modelling tool that maximises production via topside operating pressure optimisation. IPR was successfully implemented at four platforms, which contributed to an additional production of 538 barrels per day for the period under review.

Clogged wells are a common issue which compromised production. PETRONAS' in-house chemical formulation such as SolidClenz™ was developed to remove organic and inorganic solid deposits in well bores and production tubing.

To date, SolidClenz™ has been applied in 20 wells offshore Sabah and Sarawak with a success rate of 75%. This is equivalent to an oil production increase of 800 barrels per day for the period under review.

Sand issues also emerged as a key hindrance to production. Two sand research projects were initiated to develop new tools to resolve these issues. PETRONAS is also collaborating with Shell on sand management for Sarawak Operations.

For downstream production and distillation optimisation, the deployment of PETRONAS' Advanced Dispersion Valve Pinnacle (ADV-P) high performance trays and Vapour Horn device at Melaka Refinery (PSR2 Revamp) have resulted in favourable performance. The ADV-P trays will also be used for MLNG and MLNG Dua plant acid-gas removal columns and for all distillation columns in the SOGT project.

TECHNICAL CAPABILITY MANAGEMENT

PETRONAS is aggressively building a pool of competent technical personnel through a structured Technical Capability Development Programme (TCDP) which was implemented locally. The Accelerated Capability Development programme under the TCDP, established since January 2009, also enables young engineers to gain skills and experience in their engineering fields to achieve time-to-autonomy of seven to eight years as compared to an average of 10-12 years previously.

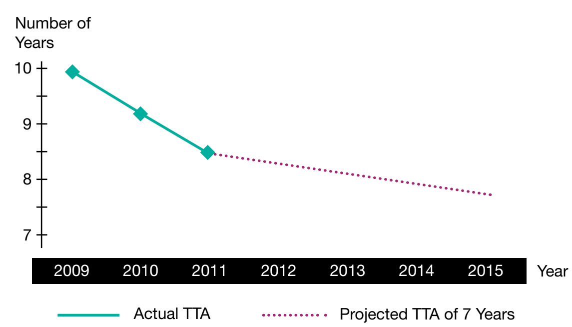
The development of Technical Professionals (TPs) and Technical Trade Specialists (TTSs) remains robust in its implementation with a total of 551 TPs and 92 TTSs qualified and appointed to date.

The successful implementation of structured capability management gained recognition from PETRONAS operations overseas. Similar programmes are being adopted by Engen and PCSB Operations in Vietnam, Myanmar and Turkmenistan. In addition, the Department of Skills Development (Ministry of Human Resources) has also adopted one of the TCDP programmes such as PETRONAS' Occupational Skills Standard as the national occupational skills standard for the oil and gas sector nationwide.

IN FOCUS

The developments of TPs and TTSs remain robust in its implementation with a total of 551 TPs and 92 TTSs qualified and appointed to date

Time to Autonomy (TTA) for Technical Executives



OUR PEOPLE

HIGHLIGHTS

43,266 staff

For the period under review, PETRONAS employees Groupwide increased by 3.9% to 43,266.

Strengthening High Performance Culture

In our quest to strengthen a high performance culture that pervades throughout the organisation, we collaborated with top industry players for staff exchange, internship and scholarship programmes to enable our talents to broaden their knowledge and experiences in the oil and gas industry.

OVERVIEW

Our People Remain Our Greatest Asset

The Company credits the success of its business to the commitment, dedication and capabilities of its people. As PETRONAS continues to expand its presence across the globe, it is equally committed to create the right work environment that matches the capabilities of its employees, while challenging them to push their performance boundaries and deliver results.

For the period under review, through its Human Resource Management Division (HRMD), PETRONAS implemented several key initiatives to drive strategic talent management across the Group.

RECRUITMENT & TRAINING

Business Heads drove talent sourcing at their respective Business Units to enable timely, effective and focused recruitment for their business needs. The Company's competitive Employment Value Proposition (EVP) is crucial in attracting, developing and retaining talent in support of PETRONAS' business growth strategies.

During the period, PETRONAS actively embarked on various talent management initiatives to nurture and develop its workforce. To further support its international business operations, the Company enhanced the remuneration package, in line with global market practices to ensure that it remains competitive globally.

A total of 932 candidates were recruited as permanent hires, comprising 839 Malaysians and 93 international hires during the period.

DEVELOPING OUR PEOPLE

The Company restructured its People Development Committees (PDCs) at various levels to provide greater line ownership and better talent management. A total of six Executive Committee (EXCO) PDCs, chaired by the President, and over 40 PDCs, chaired by the respective Business Heads, were successfully conducted. The PDCs focused essentially on strategic decisions regarding talent development, performance and consequence management, as well as staff mobility.

Succession Planning remained a high priority to identify potential leaders for Corporate and Business Critical Positions. To this end, the Company conducted an aggressive succession planning exercise, which resulted in an increase in the ratio of Leaders to the Critical Positions.

As part of the Company's effort to develop potential top talents, the Development Workshop (DW) continues to assess the career potential of these nominated talents. This effort saw an increase of 30% in the top talent pool by period end.

Taking a sustainable approach in developing future leaders in the technical discipline, PETRONAS introduced the Techno-Commercial Leaders Development Programme this period. Selected technical talents were nominated to pursue the comprehensive programme that focuses on developing and cultivating top performing technical staff in the areas of strategic thinking and commercial competency. The programme includes an MBA in Finance at Ivy League universities in the United States.

In addition, PETRONAS continues to leverage on its relationships with its business partners through strategic collaborations that enable our top talents to participate in staff exchange programmes.

Various talent engagement programmes were also conducted during the period, such as the Emerging Leaders Programme (ELP) and the Bean Bag Circle of Conversation. The Bean Bag engagement programme, for example, provided a platform for top talents to informally interact with Vice Presidents and Executive Vice Presidents on current issues. The experience gained seeks to instill a sense of belonging within the talents and inculcate greater understanding of the expectations and their role in the Company. Both programmes received notable reviews from the participants.

ENHANCED HR OPERATING MODEL

In shaping a new way of managing the Company's human resources, PETRONAS rolled out several key initiatives to improve the efficiency and effectiveness of managing its workforce. The implementation of the Enhanced HR Operating Model, rolled out in the previous year, had progressively shifted HR's role, from transactions and administration to strategy formulation. This enables HR Professionals to be more business-focused, as well as enabling them to develop HR solutions and capabilities that will support the business in achieving their goals.

In the period under review, the technological and administrative infrastructure of Project Sapphire, a key component of the Enhanced HR Operating Model was undertaken. Project Sapphire is an innovative global integrated system, which will allow efficient and seamless data reconciliation, ensuring superior management in global talent sourcing and sophisticated management of a global workforce.

Project Sapphire also introduced the HR Shared Services Centre (HR SSC) and 'my PETRONAS Advanced Self-Service Portal' (myPASSPORT). HR SSC will perform and execute 'transactional' HR activities and address basic HR queries, issues, and concerns to manage HR services, applications, processes, and people. On the other hand, myPASSPORT, will act as a self-service portal for all employees, providing a single platform for them to manage individual HR related matters. Additionally, this integrated platform is equipped with a Manager Self-Service tool allowing managers to efficiently and effectively manage their workforce.

EDUCATION & SPONSORSHIP

The Company recognises the value of education and capability development to ensure long-term growth and sustainability of the workforce.

PETRONAS continued with its Education Transformation initiative in line with its aspiration to become a 'Regional Education and Learning Hub for the Oil & Gas Industry'. The Education Transformation focuses on three key dimensions, namely, industry engagements, academic positioning, and Research & Development (R&D) stewardship.

Our Group Learning Institutions will focus on their niche areas to support their respective aspirations. They are:

1. **PETRONAS Leadership Centre (PLC)**
   - The Leadership Centre That Transforms Leaders
2. **Institut Teknologi Petroleum PETRONAS (INSTEP)**
   - A Centre of Technical Excellence
3. **Universiti Teknologi PETRONAS (UTP)**
   - An Internationally Recognised Research University
4. **Akademi Laut Malaysia (ALAM)**
   - A Centre of Excellence for Maritime Education and Training

INSTITUT TEKNOLOGI PETROLEUM PETRONAS (INSTEP)

PETRONAS Technical Training Sdn Bhd (PTTSB), the holding company of INSTEP, signed a Memorandum of Understanding with SIRIM QAS International Sdn Bhd to institute a 'Scheme for Certification of Competent Personnel for Explosive Atmosphere' at INSTEP. The scheme is the first of its kind in Asia, and is envisaged to be led by Malaysia in accordance with the International Electrotechnical Commission for Explosion Proof (IECEx) standards.

PETRONAS also launched the Kimanis Petroleum Training Centre (KTC) project in Sabah, which will be operated by INSTEP upon its completion in 2013. INSTEP continues to engage with industry players to explore collaboration opportunities in technical training and capability development. For this period, INSTEP produced a total of 414 graduates from its campus in Batu Rakit, Terengganu, Malaysia.

PETRONAS LEADERSHIP CENTRE (PLC)

The PLC was launched in line with its aspiration to become a regional leadership learning hub. Formerly known as PETRONAS Management Training Centre (PERMATA), the leadership centre offers integrated learning solutions and consultancy services to both PETRONAS Group and industry players in Malaysia and abroad.

PLC aims to be a Leadership Centre dedicated to advancing the strategic insights, knowledge and experiences of leaders to enable them to transform these values into real action for superior business performance and growth. Its core divisions are Advanced Leadership Development, Core Leadership Development and Learning Consultancy. A total of 11,437 employees from the PETRONAS Group and its affiliates attended the various leadership development programmes organised throughout the period.

UNIVERSITI TEKNOLOGI PETRONAS (UTP)

UTP is on track in its bid to achieve Research University (RU) status by 2013. The RU status is granted by the Malaysian Ministry of Higher Education and it paves the way for funding and grants for research, development and commercialisation activities. UTP offers undergraduate and postgraduate courses related to the oil and gas industry.

For the period under review, UTP added the following to its learning offerings:

1. Establishment of a Geosciences & Petroleum Engineering Faculty, consisting of the Department of Geosciences and the Department of Petroleum Engineering.
2. Finalisation of the MBA programme in Energy Management with PLC and international institutions, as learning partners.

Several other industry collaborations were also established for Research & Developement (R&D), student/staff exchange, internships and sponsorships for undergraduate and postgraduate students.

A total of 1,333 students graduated, out of which 444 graduates (33.3%) were immediately absorbed into the PETRONAS workforce. The remaining 889 (66.7%) graduates were employed across various industries in the country.

AKADEMI LAUT MALAYSIA (ALAM)

ALAM is among the top 10% of the world's Maritime Education and Training institutions with world class infrastructure and training standards; validated through the Det Norske Veritas's annual benchmarking exercise.

In the period under review, ALAM enhanced its course syllabus to meet the new training requirements as stipulated in the Manila Amendment on 'Standards of Training Certification & Watchkeeping' (STCW).

ALAM also became the official training provider for the Offshore Petroleum Industry Training Organisation (OPITO). Additionally, ALAM provides both training and consultancy services in supporting projects that include PETRONAS' Regasification Terminal Project in Melaka, as well as the ATB/Vitol Tanjung Bin Oil Terminal and yard optimisation project for Malaysia Marine and Heavy Engineering (MMHE). ALAM acquired 26 new customers for both its academic and consultancy services, demonstrating its calibre and capabilities towards realising its vision as a centre of excellence in maritime education and training.

ALAM also collaborated with government agencies namely Majlis Amanah Rakyat (MARA), the Federal Land Development Authority (FELDA) and the Public Services Department (JPA) in sponsoring a total of 109 cadets to study at ALAM.

Collaboration and partnership with key industry players remain a priority in ALAM's strategic growth agenda. In the period under review, three Memorandums of Understanding were signed with Nantong Shipping College (China), Jefri Bolkiah College of Engineering (Brunei) and FELDA.

PETRONAS SCHOLARSHIP PROGRAMME

PETRONAS believes that investing in education and human capital development today will ensure availability of a sustainable pool of motivated and knowledge-empowered talent for PETRONAS, our partners, our host nations and local communities.

PETRONAS sponsored 257 students to institutions of higher learning. A total of 99 scholarships were awarded for international universities and 158 scholarships for local universities in various disciplines relevant to PETRONAS' business needs.

A total of 469 PETRONAS scholars graduated during this period, with 238 (50.7%) recruited by PETRONAS and 231 (49.3%) employed by top industry players across the nation.

HEALTH, SAFETY & ENVIRONMENT

HIGHLIGHTS

HSE Governance and Risk Management

Rolled out Health, Safety & Environment (HSE) Mandatory Control Framework (MCF) and established best practices for Mercury and Asbestos Management

Process Safety Leadership

Cascaded Process Safety Leadership (PSL) programme to management and personnel Groupwide

18% Decrease

The Group's Lost Time Injury Frequency (LTIF) decreased by 18%

24.9 million mmBtu

Energy savings in our domestic Downstream and Gas & Power operations

OVERVIEW

Committed to being a responsible corporate citizen, PETRONAS continues to reinforce its HSE management at all levels. For the period in review, the Company set up the PETRONAS HSE Executive Council which serves as a platform to set targets, review and recommend industry-driven strategies or initiatives across the Group. The Council also reviews existing HSE performance, measures the effectiveness of the Company's annual HSE strategy and makes recommendations. In addition, the PETRONAS HSE Technical Council was established to strengthen HSE leadership, mindset and culture. Collectively, these initiatives will elevate HSE technical standards based on industry best practices across the Group.

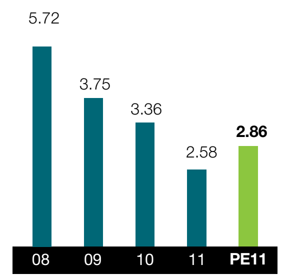
The Company also completed a Corporate Sustainability Study to embed sustainable development in the business. PETRONAS' Corporate Sustainability Council (CSC), which was formed in 2010, comprises Heads and Vice Presidents of businesses and corporate functions. Chaired by the Company's Executive Vice President for Exploration and Production Business, the CSC continued to drive sustainability across PETRONAS in the period under review by providing strategic direction for Corporate Sustainability implementation.

SAFETY
PERFORMANCE

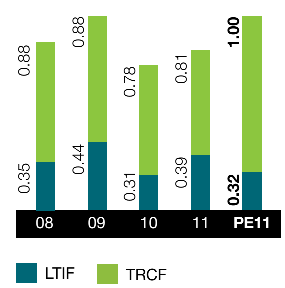
Throughout the review period, six fatalities were reported. Three contractors lost lives in a single aviation incident and another three in project construction activities.

A reduction trend was observed for the Group's LTIF, which decreased by 18% from 0.39 during the Financial Year 2011 to 0.32 in the period under review. On the other hand, the Group's Total Reportable Case Frequency (TRCF) rose to 1.00 in the period under review compared to 0.81 in the previous year, attributed to improved reporting.

Fatal Accident Rate
Reportable Fatalities per 100 million man hours



LTIF and TRCF for the Group
No. of cases per one million man hours



HSE MANDATORY CONTROL FRAMEWORK (MCF)

PETRONAS developed and rolled out its HSE MCF to strengthen the Group's HSE governance and compliance. The HSE MCF sets mandatory requirements with clearly identified accountabilities covering monitoring, supervision and assessment for implementation across the Group.

The HSE MCF's high level integrated framework covers 10 key risk areas for the Group, in particular, technical and operational integrity of facilities and equipment.

The Company is confident that consistent and disciplined implementation of the HSE MCF will strengthen HSE risk management and governance as well as reinforce HSE mindset throughout the organisation.

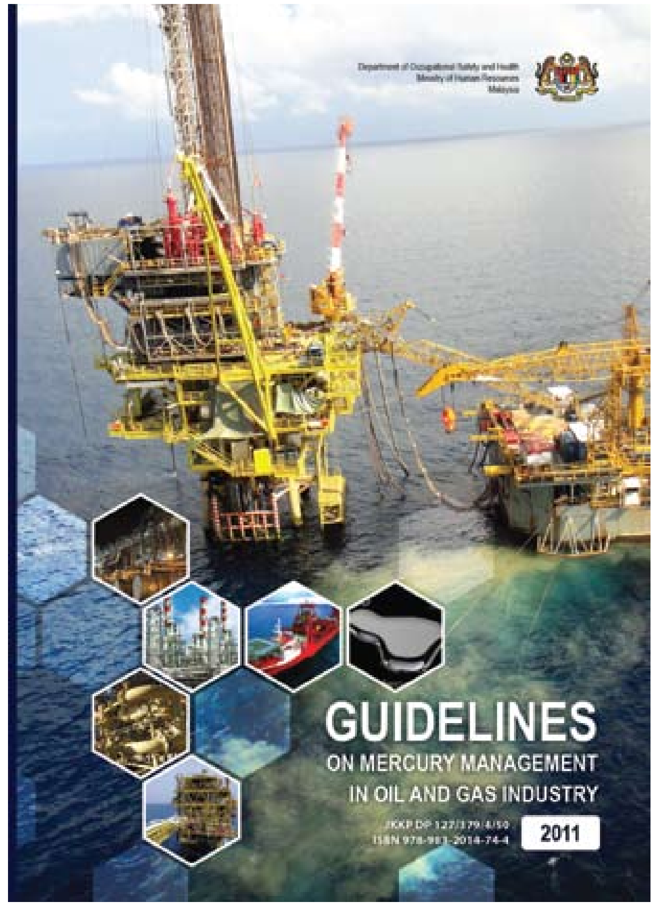
FORTIFYING HSE & SUSTAINABLE DEVELOPMENT (SD) LEADERSHIP, CULTURE AND MINDSET

Among our key focus for the last two years was establishing and inculcating strong PSL and practices in PETRONAS. Various PSL workshops were held with participation from our senior leaders. The leaders made personal pledges towards bringing effective changes in their businesses and workplaces. Similar workshops were rolled out to Operating Units (OPUs) piloted by PETRONAS Penapisan (Melaka) Sdn Bhd (PP(M)SB).

» **Communication is an effective means to cultivate safety culture.**

» THE GUIDELINES ON MERCURY MANAGEMENT IN OIL AND GAS INDUSTRY

The guideline was published in September 2011 and provides information and recommendations on how to manage mercury in the oil and gas industry



HSE RISK MANAGEMENT

Group HSE Risk Profiling was developed in July 2011 and incorporated into the current Group Enterprise Risk Management. This was rolled out and adopted by OPUs in August 2011. In line with our strategy to strengthen HSE risk management, HSE Tier 3 assurance schedules were developed based on OPU's Risk Profiles.

With the aim to further improve safety awareness and performance, an interactive online courseware, iZeTo, and two animation videos were developed. Comprising 11 modules, iZeTo features the animated Lat cartoon characters, Tuah and ZeTo, and includes an interactive quiz to assess the users' knowledge and understanding of the rules. The two PETRONAS ZeTo Rules Animation Video showcase the ZeTo rules and its importance and the requirements of Permit to Work. As the response to both learning aids have been positive, more educational tools will be developed to elevate safety awareness.

In line with our strategy to strengthen HSE regulation, the PETRONAS HSE Executive Council consisting of PETRONAS senior management from respective businesses was established during the period. The Council approved the HSE MCF at its first bi-annual meeting in November 2011.

HEALTH

At PETRONAS we are committed to support our employees in reducing health risks and maintaining good physical and mental health through the implementation of workplace health programmes.

With this in mind, several measures have been institutionalised to improve workplace conditions and minimise risk at work.

Leveraging on our good practices, PETRONAS has been tasked to lead the development of a national guideline for the oil and gas industry.

NATIONAL MERCURY MANAGEMENT GUIDELINES FOR THE OIL & GAS INDUSTRY

PETRONAS was benchmarked for its Mercury Management Guidelines (PHgMG) to effectively manage mercury issues. The Group was tasked by the Department of Occupational Safety and Health (DOSH) to lead the development of the National Mercury Management Guidelines for the oil and gas industry.

The guideline was published in September 2011 and provides information and recommendations on how to manage mercury in the oil and gas industry in accordance with the Occupational Safety and Health (Use and Standards of Exposure of Chemicals Hazardous to Health) Regulations 2000.

» **ETHYLENE/POLYETHYLENE MALAYSIA SDN BHD**
Staff monitoring personal mercury exposure during gas compressor cleaning activity

HEALTH RISK ASSESSMENT (HRA)

HRA was rolled out Groupwide, with 85% completion in domestic operations. To ensure successful implementations of HRA, efforts were taken including the development of a Health Risk Profiling methodology. In Malaysia, a series of PETRONAS–DOSH engagement sessions were held after PETRONAS obtained approval from the Director General (DG) of DOSH for PETRONAS HRA methodology in conducting both DOSH's Chemical HRA (CHRA) and HRA. For international operations, HRA workshops were organised with our Downstream Business, particularly in Italy, Spain and Belgium.

ASBESTOS MANAGEMENT INTERVENTION PROGRAMME (AMIP)

PETRONAS established the AMIP in 2011. The programme aims to assist OPUs and joint ventures in asbestos identification, risk assessment and prioritisation in addition to removal work.

The Company also issued a directive to ban any introduction of asbestos to the businesses, at the end of 2010, with the aim to achieve an asbestos-free workplace within five years. An 'Asbestos Ban' statement was included in all procurement documents and incorporated into PETRONAS' Technical Standards. A series of workshops were also held with OPUs apart from presenting the requirements to the Plant Engineering Panel and during the HSE Managers' Meeting.

ENVIRONMENT

In our continuous effort to operate in an environmentally-responsible manner, PETRONAS has developed a product carbon footprint during the period under review, based on established guidelines. There were also various engagement sessions on oil spill response and preparedness to ensure that our operations are governed by industry best practices.

PRODUCT CARBON FOOTPRINT DEVELOPMENT

PETRONAS developed and compiled preliminary product carbon footprint data for key products namely, composite crude oil, natural gas, methyl tertiary butyl ether (MTBE) and propylene. The creation of the product carbon footprint was based on the Company's internally developed Life Cycle Inventory guideline with special regards to carbon footprint accounting. These guidelines provide step-by-step assistance in establishing the carbon footprint of the product processed, manufactured and distributed by the Group.

OIL SPILL RESPONSE AND PREPAREDNESS

PETRONAS headed the Production Sharing Contracts' (PSCs) Oil Spill Response Task Force in Malaysia. The task force plays a key role in streamlining technical, procedural and regulatory aspects in oil spill response.

CUMULATIVE ENERGY SAVINGS IN DOMESTIC DOWNSTREAM AND GAS & POWER OPERATIONS

PETRONAS OPUs continued to achieve energy savings resulting in lower resource consumption in the review period. These savings were realised through long-term initiatives such as Strategic Energy Review (SER) and Energy Loss Management (ELM). In the period under review, PETRONAS achieved savings of 2.7 million mmBtu in our domestic Downstream and Gas & Power operations, bringing the cumulative energy savings total to 24.9 million mmBtu since Financial Year 2007.

GREENHOUSE GAS (GHG) EMISSIONS

To effectively manage operational carbon footprint, ongoing efforts are being made to assess performance and strengthen processes across businesses. In the period under review, total GHG emissions for PETRONAS' operations in Malaysia was 40.42 million tonnes of CO_2 equivalent.

PRODUCT STEWARDSHIP

PETRONAS continued to fortify its product stewardship practices to minimise potential HSE impacts across the product value chain. A Product Stewardship Framework was developed and is currently being implemented by PETRONAS Chemicals Group's (PCG) value chain.

» **MALAYSIA LNG (MLNG)**

SER was carried out at MLNG, contributing to the cumulative energy savings

AWARDS & RECOGNITIONS

PETRONAS Group was recognised for its accomplishments and continuous pursuit of excellence with numerous awards and recognitions received in 2011.

Royal Society for the Prevention of Accidents (RoSPA) Awards

One of the top awards in the health and safety calendar, the annual RoSPA Awards offer organisations a prime opportunity to prove their ongoing commitment to raising health and safety standards. Among the longest running and highly respected occupational safety award programmes today, the awards recognise excellence in work-related health and safety performance by private and public sector organisations.

Sector Awards

Oil and Gas Sector Award

- PETRONAS Penapisan (Melaka) Sdn Bhd

Gold Award

- PETRONAS Ammonia Sdn Bhd

Silver Award

- PETRONAS Fertilizer (Kedah) Sdn Bhd

Malaysian Society for Occupational Safety and Health (MSOSH) Awards

The annual MSOSH Awards recognise companies in Malaysia that demonstrate outstanding occupational safety and health performance.

Grand Award

- MTBE/Polypropylene Malaysia Sdn Bhd
- PETRONAS Fertilizer (Kedah) Sdn Bhd
- PETRONAS Gas Berhad – Centralised Utility Facilities (CUF), Gebeng
- PETRONAS Gas Berhad – Segamat Regional Operations Office
- PETRONAS Gas Berhad – Gas Processing Plant Complex B

Gold Merit Award

- PETRONAS Ammonia Sdn Bhd
- PETRONAS Methanol (Labuan) Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd
- PETRONAS Gas Berhad – Centralised Utility Facilities (CUF), Kertih
- PETRONAS Gas Berhad – Export Terminal

Gold (Class I)

- PETRONAS Carigali Sdn Bhd – Sabah Gas Terminal
- PETRONAS Gas Berhad – Gas Processing Plant Complex A

Gold (Class II)

- PETRONAS Carigali Sdn Bhd – Labuan Gas Terminal
- PETRONAS Gas Berhad – Pasir Gudang Regional Operations Office

Chemical Industries Council of Malaysia (CICM) Responsible Care Awards 2010

CICM is the governing body representing the various sub-sector chemical groups ranging from oleochemicals, paints, fertilisers, petrochemicals, agriculture chemicals, industrial gases, coating resins and biodiesel sectors. The CICM Responsible Care Awards, introduced in 2001, recognise organisations that have made the most significant and measurable progress in implementing Responsible Care's Six Codes of Management Practices in Malaysia. The Codes encompass Distribution, Process Safety, Pollution Prevention, Product Stewardship, Community Awareness & Emergency Response as well as Employee Health & Safety.

Category – Petrochemicals

Gold Award

Product Stewardship

- MTBE/Polypropylene Malaysia Sdn Bhd
- Ethylene/Polyethylene Malaysia Sdn Bhd

Community Awareness & Emergency Response

- MTBE/Polypropylene Malaysia Sdn Bhd

Process Safety

- OPTIMAL Chemicals (Malaysia) Sdn Bhd
- Ethylene/Polyethylene Malaysia Sdn Bhd

Distribution

- Ethylene/Polyethylene Malaysia Sdn Bhd

Employee Health and Safety

- PETRONAS Penapisan (Melaka) Sdn Bhd

Silver Award

Distribution

- OPTIMAL Chemicals (Malaysia) Sdn Bhd

Employee Health and Safety

- Ethylene/Polyethylene Malaysia Sdn Bhd

Community Awareness & Emergency Response

- PETRONAS Fertilizer (Kedah) Sdn Bhd

Pollution Prevention Code

- BASF PETRONAS Chemicals Sdn Bhd

Process Safety

- BASF PETRONAS Chemicals Sdn Bhd

Product Stewardship

- BASF PETRONAS Chemicals Sdn Bhd

Merit Award

Community Awareness & Emergency Response

- PETRONAS Ammonia Sdn Bhd
- OPTIMAL Chemicals (Malaysia) Sdn Bhd
- Ethylene/Polyethylene Malaysia Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd
- Petlin (Malaysia) Sdn Bhd

Pollution Prevention

- PETRONAS Ammonia Sdn Bhd
- Aromatics Malaysia Sdn Bhd
- MTBE/Polypropylene Malaysia Sdn Bhd
- Petlin (Malaysia) Sdn Bhd
- OPTIMAL Chemicals (Malaysia) Sdn Bhd
- Ethylene/Polyethylene Malaysia Sdn Bhd
- PETRONAS Fertilizer (Kedah) Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Process Safety

- PETRONAS Ammonia Sdn Bhd
- Aromatics Malaysia Sdn Bhd
- MTBE/Polypropylene Malaysia Sdn Bhd
- Petlin (Malaysia) Sdn Bhd
- PETRONAS Fertilizer (Kedah) Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Employee Health & Safety

- Aromatics Malaysia Sdn Bhd
- MTBE/Polypropylene Malaysia Sdn Bhd
- Petlin (Malaysia) Sdn Bhd
- OPTIMAL Chemicals (Malaysia) Sdn Bhd
- BASF PETRONAS Chemicals Sdn Bhd
- PETRONAS Ammonia Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd
- PETRONAS Fertilizer (Kedah) Sdn Bhd

Product Stewardship

- Petlin (Malaysia) Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd

Distribution

- Petlin (Malaysia) Sdn Bhd

National Council for Occupational Safety and Health (NCOSH) Excellence Award

The Award is an initiative by the NCOSH, Ministry of Human Resources to give recognition to organisations, employers and employees in various sectors in the industry that achieved excellence in managing safety and health systems in their workplace.

Category - Petroleum/Gas/Chemicals

- PETRONAS Ammonia Sdn Bhd

Category - Power Facility

- PETRONAS Gas Berhad – Centralised Utility Facilities (CUF), Gebeng

Category - Gas Facility

- PETRONAS Gas Berhad – Negeri Sembilan

Category - Property

- KLCC Urusharta Sdn Bhd (PETRONAS Twin Towers)

Prime Minister's Hibiscus Award

The Prime Minister's Hibiscus Award is the premier private sector environmental award for businesses and industries in Malaysia. The Award is jointly organised by four of Malaysia's leading private sector non-profit organisations concerned with corporate environmental management and performance, namely Business Council for Sustainability and Responsibility Malaysia (BCSRM), Environmental Management & Research Association of Malaysia (ENSEARCH), Federation of Malaysian Manufacturers (FMM) and Malaysian International Chamber of Commerce & Industry (MICCI).

Exceptional Achievement in Environmental Performance

- PETRONAS Carigali Sdn Bhd - Onshore Gas Terminal

Notable Achievement in Environmental Performance

- Aromatics Malaysia Sdn Bhd
- MTBE/Polypropylene Malaysia Sdn Bhd
- Petlin (Malaysia) Sdn Bhd
- PETRONAS Carigali Sdn Bhd - Onshore Gas Terminal
- PETRONAS Penapisan (Melaka) Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Melaka State Award

- PETRONAS Penapisan (Melaka) Sdn Bhd

Terengganu State Award

- PETRONAS Carigali Sdn Bhd - Onshore Gas Terminal

Challenge Trophy

- PETRONAS Carigali Sdn Bhd - Onshore Gas Terminal

Malaysian Occupational Safety and Health Professionals' Association (MOSHPA) Awards

The MOSHPA Awards recognise the outstanding achievements of companies in the field of Occupational Safety and Health in improving safety at the workplace. The awards encourage the implementation and improvement of strategies in managing Occupational Safety and Health.

Occupational Safety and Health Award for Project Management and Consultancy

- KLCC Projeks Sdn Bhd

Turnaround and Project (TANP) 2011

Recognition

PETRONAS Penapisan (Terengganu) Sdn Bhd successfully recorded the biggest turnaround exercise in history (more than 700,000 safe manhours) without any major incidents, in addition to completing it ahead of schedule while registering a final budget of 13% below the initial cost.

Solomon Benchmarking Result

Recognition

For 2010 Solomon Benchmarking, both PETRONAS Penapisan (Melaka) Sdn Bhd and Malaysian Refining Company Sdn Bhd achieved top quartile performance in TCOE & Mechanical Availability. Both plants also achieved better rating for Enegy Intensity Index, Maintenance Index and Personnel Index compared to their 2008 results.

Kancil Awards 2011

The Kancil Awards recognise home-grown Malaysian creative excellence in endorsing the highest standards of creativity in advertising. The winning advertisements were produced by Leo Burnett Advertising Sdn Bhd.

Silver Kancil

Cinematography

- PETRONAS Hari Raya/Merdeka 2011 advertisement entitled 'Hands'

Bronze Kancil

Film (Single)

- PETRONAS Chinese New Year 2011 advertisement entitled 'Their Hope'
- PETRONAS Motorsports Formula One advertisement entitled 'F1 for Everyone'
- PETRONAS Deepavali 2010 advertisement entitled 'Giant'

Film (Direction)

- PETRONAS Motorsports Formula One advertisement entitled 'F1 for Everyone'

Film (Editing)

- PETRONAS Motorsports Formula One advertisement entitled 'F1 for Everyone'

Cinematography

- PETRONAS Motorsports Formula One advertisement entitled 'F1 for Everyone'

Merit Kancil

Film (Single)

- PETRONAS Hari Raya/Merdeka 2011 advertisement entitled 'Hands'
- PETRONAS Motorsports Formula One advertisement entitled 'F1 Carwash'

Film (Campaign)

- PETRONAS Motorsports Formula One advertisement entitled 'F1 for Everyone'

Copywriting

- PETRONAS Hari Raya/Merdeka 2011 advertisement entitled 'Hands'
- PETRONAS Deepavali 2010 advertisement entitled 'Giant'

Film (Direction)

- PETRONAS Deepavali 2010 advertisement entitled 'Giant'

Film (Editing)

- PETRONAS Hari Raya/Merdeka 2011 advertisement entitled 'Hands'

CORPORATE SOCIAL RESPONSIBILITY

HIGHLIGHTS

10%

Increase in the number of borderline students scoring at least 1A in their Ujian Penilaian Sekolah Rendah (UPSR) exams as a result of Program Bakti Pendidikan PETRONAS

Promoting Biodiversity

Launch of partnership with Yayasan Sabah pledging support for the Imbak Canyon Conservation Area

COMMUNITY

PETRONAS is committed to making a positive, meaningful and long-term difference to the lives and communities where it operates. By providing the opportunity and means to benefit the people, community and nation, its long-term engagement programmes are carried out in partnerships with relevant stakeholders that include local communities, industries, government and Non-Governmental Organisations (NGO). Adopting a more dynamic and creative approach by embodying the spirit of 'reimagining energy™' in touching the hearts of many, PETRONAS is committed to business sustainability in developing natural resources responsibly via a holistic approach in its Corporate Social Responsibility initiatives.

This underscores the importance of how we believe the business community should contribute, not just through philanthropy, but to act in a way a company should in a community, by building trust and becoming 'a partner of choice'.

Our investments in a broad range of community-based programmes, both at home and abroad include:

PROGRAM BAKTI PENDIDIKAN PETRONAS (PBPP)

Introduced in 2002 in partnership with schools nationwide, this outreach programme aims to build a strong academic foundation for borderline students from underprivileged families in the communities where PETRONAS operates.

In support of the Government's efforts to improve the level of academic achievement in English, Mathematics and Science among students, the programme focuses on teaching these subjects through weekly academic and non-academic activities conducted by full-time teachers and PETRONAS staff facilitators.

In the period under review, 42 schools participated in this programme. Over 1,000 academic and fun learning sessions were held in schools nationwide, benefiting over 3,000 Year 4 to Year 6 students.

The programme saw the participation of over 700 PETRONAS staff facilitators. There was a 10% increase in the number of students who achieved at least 1A in their UPSR examinations compared to the corresponding period.

In addition, one of the PBPP schools achieved best school status as seven out of the 12 borderline students achieved 5As in the UPSR exams, helping to elevate the position of the school.

» **PROGRAM BAKTI PENDIDIKAN PETRONAS (PBPP)**
PBPP reached out to over 3,000 Year 4 to Year 6 students in 2011

NATIONAL CONSUMER DAY

In support of the Federation of Malaysian Consumers Association's (FOMCA) efforts to educate and raise consumer awareness about smart and sustainable consumerism, PETRONAS contributed RM100,000 towards National Consumer Day activities.

PROGRAM KENALI ANAK KITA (KAK)

In partnership with PENGASIH, a NGO and self-help group affiliated with the World Federation of Therapeutic Communities, PETRONAS organised a series of seminars and workshops involving about 4,600 parents.

The programme helped raise awareness on the dangers of substance abuse and equipped parents with the knowledge to prevent substance abuse among their children while promoting a healthy lifestyle.

PETRONAS launched this programme in 2009 to support the Government's efforts to combat substance abuse.

PROGRAM PENCEGAHAN DADAH PETRONAS (SAHABAT PPDa)

While the Group works closely with parents through KAK, Sahabat PPDa PETRONAS aims to raise awareness of substance abuse among students and teachers.

Sahabat PPDa PETRONAS continues to be Malaysia's Ministry of Education's (MOE) sole nationwide drug awareness and prevention programme. In this period, seminars and workshops held under this programme were organised in collaboration with MOE.

The programme reached out to more than 10,000 students and teachers who play the role of change agents for drug awareness in their respective schools.

PROGRAM SENTUHAN HARAPAN PETRONAS

Launched in 2010, the Sentuhan Harapan Programme (A Touch of Hope) is a community outreach initiative by PETRONAS in collaboration with MyKasih Foundation, a non-profit organisation. The programme provides food aid to eligible underprivileged families through designated PETRONAS service station convenience stores *(Kedai Mesra)*.

In 2011, PETRONAS contributed RM2 million in food aid to about 5,000 families in 10 states namely Johor, Kedah, Kelantan, Melaka, Pahang, Perak, Sabah, Sarawak, Selangor and Terengganu.

PETRONAS also conducted awareness programmes for the recipients on financial literacy, health management and youth development to help these families transform their lives for the better. These supplementary programmes were conducted in collaboration with the National Population and Family Development Board.

» IMBAK CANYON CONSERVATION AREA, SABAH

The Imbak Canyon's rainforest acts as a wildlife corridor linking the Danum Valley and Maliau Basin

PROGRAM SENTUHAN KASIH PETRONAS

In conjunction with the annual Hari Raya, Chinese New Year, Deepavali, Hari Gawai and Tadau Ka'amatan celebrations in 2011, PETRONAS hosted a series of gatherings for underprivileged children from orphanages and shelter homes in and around its areas of operations. During the period, between 300 and 500 staff volunteered to engage with more than 1,000 children who participated in these programmes.

REACHING OUT THROUGH MEDIA

As testimony to PETRONAS' commitment to reach out to the community, its Hari Raya/ Merdeka, Chinese New Year and Deepavali 2011 advertisements were accorded recognition in the prestigious Kancil Awards in 2011. Notable among the achievements was the 'Hands' television advertisement conveyed through a visual poetry concept, showcasing a metaphor of togetherness and forgiveness. These were the main values embodied in the twin festivities of Hari Raya Aidilfitri and Hari Merdeka.

PETRONAS harnessed the popularity of social media platforms to launch the 'Saya Suka Malaysia Contest' held in conjunction with Malaysia's Independence Day and reached out to over one million page views. The exposure also boosted PETRONAS' Facebook page with 30,000 new fans and reached over 7.5 million Malaysians through the Internet.

As a powerful engagement platform, the initiative was consistent with the Group's spirit of reimagining energy™, which is to do things differently in reimagining our engagements with key stakeholders to communicate what PETRONAS represents.

IMBAK CANYON CONSERVATION AREA

In June 2011, PETRONAS launched its partnership with Yayasan Sabah (Sabah Foundation) and pledged RM6 million to support the Imbak Canyon Conservation Area, a region of unexplored rainforest with a potential for new scientific discoveries due to its rich biodiversity. The contribution will be used to establish the Imbak Canyon Study Centre which will manage the area and conduct various activities including research, environmental education and outreach programmes. Together, PETRONAS and Yayasan Sabah aim to develop long-term research collaborations to increase the awareness on Imbak Canyon as well as to educate the public and the communities living in the surrounding areas on how to preserve and protect this natural treasure.

Imbak Canyon serves as a wildlife corridor linking Danum Valley and Maliau Basin, which falls under the purview of Yayasan Sabah. Imbak Canyon is expected to play a key role in future forest rehabilitation, while promoting greater interest in environmental education and nature tourism for Sabah and Malaysia in general.

» RECIPIENTS OF THE MERDEKA AWARD WITH THE PATRON AND FOUNDING MEMBERS

The Merdeka Award is presented annually to Malaysians as well as non-Malaysians for their outstanding achievements and lasting contributions to the nation

MERDEKA AWARD

The Merdeka Award was established in 2007 by PETRONAS, ExxonMobil and Shell as a symbol of the oil and gas industry's contribution to Malaysia's enduring legacy and to celebrate half-a-century of our growth and progress as an independent nation.

Each year, the Award is presented for outstanding achievements in five categories:

1. Education and Community
2. Environment
3. Health, Science and Technology
4. Outstanding Scholastic Achievement
5. Outstanding Contribution to the People of Malaysia.

These categories represent key areas which are critical to Malaysia's continuous growth and development. These categories also portray the development areas supported by the Founding Members through their various Corporate Social Responsibility initiatives in this country.

This year, the award was conferred to Dato' Dr Kenneth Yeang for his outstanding contribution to the development of design methods for the ecological design and planning of the built environment; Professor Dato' Dr Goh Khean Lee for his outstanding contribution in elevating the study and practice of gastroenterology and hepatology in Malaysia to global standards; and Professor Dr Mak Joon Wah for his outstanding fundamental and applied research in parasitology and parasitic diseases, public health and pathology.

PETRONAS continues to actively contribute to community projects abroad through our international operations.

MYANMAR

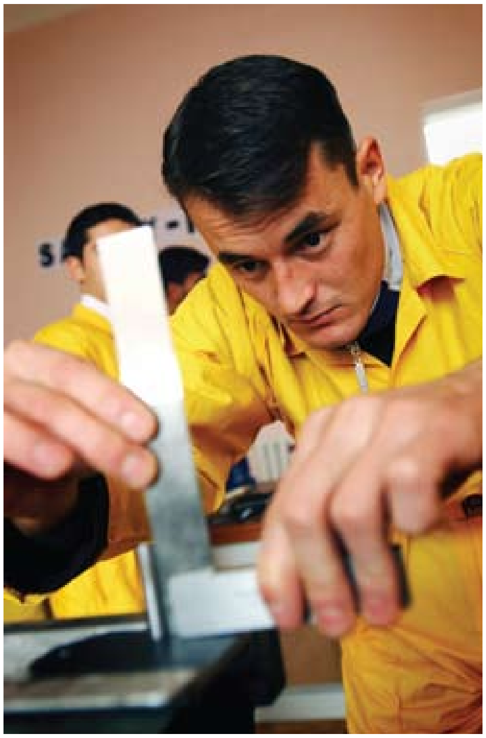
In Myanmar, PETRONAS continued to manage its socio-economic and humanitarian projects under the Yetagun Socio-Economic Development Programme. During the period, under the Early Childhood Care & Development (ECCD) Programme, 70% of the children passed their matriculation examinations.Through direct involvement with the communities, PETRONAS continuously improved this programme.

The ECCD was established in 1997 in collaboration with village committees and has nurtured more than 10,000 children living in 37 villages around the pipeline corridor.

During the period, PETRONAS also collaborated with a private vocational training centre to provide skills and build confidence among the youth living in the pipeline area to prepare them for better employment and career opportunities. So far, 107 have graduated and found employment or have started their own businesses.

TURKMENISTAN

As one of PETRONAS' key strategies in developing human capital in the country, PETRONAS continued to provide training and education opportunities to Turkmen nationals in 2011.



The fourth Universiti Teknologi PETRONAS (UTP) mini Convocation Ceremony for Turkmenistan graduates and the third Institut Teknologi Petroleum PETRONAS (INSTEP) Convocation Ceremony was successfully held at Kuvvat Hotel in Avaza, Turkmenbashy City on 30 June 2011.

Mindful of the value of giving back to the nation and together with the support of the Turkmenistan Government, PETRONAS sponsored 15 students during the period to study at UTP in a wide range of engineering and technology programmes relevant to the industry. A total of 60 Third Batch Operations Technicians and 36 Fire Technicians also completed their training at PETRONAS Carigali (Turkmenistan) Sdn Bhd (PC(T)SB) and INSTEP during the period.

In collaboration with the Government of Turkmenistan, PETRONAS launched its academic sponsorship in 1998 for degree programmes at UTP to eligible Turkmen students. PETRONAS has sponsored Turkmen students for technical degrees in Electrical & Electronic, Chemical Engineering, Mechanical, Civil, Information Technology and Petroleum Engineering. Some of these graduates are currently holding technical positions in PC(T)SB.

IRAQ

During the period, PETRONAS Carigali Iraq Holding BV (PCIHBV) rolled out three major CSR initiatives namely; bi-monthly Basic Health Care Services, school refurbishment and basic welding workshop programmes in Garraf.

Two schools were refurbished in October and November 2011.

A basic welding workshop programme was conducted. Two batches graduated in October and December. It is hoped that such skill-based initiatives will be able to provide a degree of independence to the participants when seeking employment opportunities.

The bi-monthly health care services involved visits to Garraf villages to offer basic health care and check-ups to those who could not afford to visit local clinics due to high travelling costs. PCIHBV also set up a mini clinic near village areas where a staff doctor examined the villagers. More than 600 people, primarily women and children were treated for a range of ailments. In addition to dispensing basic medical care and treatment, PCIHBV personnel also conducted programmes to educate the local communities about Health, Safety and Environment (HSE) issues.

MAIN EVENTS

CORPORATE

5 April 2011

PETRONAS' partnership with Mercedes GP PETRONAS Formula One Team reached another significant milestone with the supply of its Fluid Technology Solutions™ package. PETRONAS Fluid Technology Solutions™, which includes fuel, engine oils, hydraulic and gear oils as well as transmission fluids, will be supplied to the team through PETRONAS' subsidiary, PETRONAS Lubricants International (PLI).

3 May 2011

Mercedes-Benz announced an extension of its motorsports partnership with PETRONAS from Formula One to the German Touring Car Masters (DTM) series. The partnership between PETRONAS and Mercedes-Benz discovers and nurtures young talents in Formula 3 to the senior categories of DTM and Formula One.

19 June 2011

PETRONAS supported the Langkawi International Dialogue session with the aim of strengthening ties and building rapport with key officials from various participating nations. PETRONAS has been supporting the sessions since 1996.

29 June 2011

PETRONAS inked a three-year partnership with Yayasan Sabah, contributing RM6 million for the conservation of Sabah's Imbak Canyon, which is among the last remaining frontiers of pristine and natural equatorial rainforests in the region.

19 July 2011

PETRONAS improved its ranking to 86th from 107th in FORTUNE Magazine's annual ranking of the world's 500 largest companies by revenue. PETRONAS also improved its ranking to 11th from 25th place in the FORTUNE's list of the world's most profitable companies.

5 August 2011

PETRONAS signed separate Memorandums of Understanding with four major oil and gas players to collaborate in enhancing the industry's local workforce competency through a variety of capability development programmes and education activities.

9 September 2011

PETRONAS celebrated its 20th year in Vietnam. PETRONAS Carigali Vietnam Limited organised various activities involving staff and the community to commemorate the historic milestone.

27 September 2011

PETRONAS presented all proceeds from performances by the Asian Youth Orchestra (AYO) held at Dewan Filharmonik PETRONAS (DFP) in aid of Yayasan Jantung Malaysia (The Heart Foundation of Malaysia).

20 October 2011

Team PETRONAS unveiled the Moriwaki Moto2 bike that will be used by local riders, Mohd Zamri Baba and Hafizh Syahrin Abdullah, in the Malaysian Motorcycle Grand Prix (MotoGP).

9 November 2011

PETRONAS and the Department of Occupational Safety and Health (DOSH) signed a Memorandum of Understanding on Risk-Based Inspection to facilitate the introduction of an online approval system to issue certificates of fitness of DOSH-registered equipment at PETRONAS plants.

10 November 2011

The PETRONAS Leadership Centre (PLC), formerly known as PERMATA, was formally unveiled by Datuk Anuar Ahmad, Executive Vice President of Gas and Power business. The event marked PLC's transformation from being a key learning provider for the PETRONAS Group to a Leadership Centre offering learning solutions and consultancy services to both PETRONAS and industry players in Malaysia and abroad.

11 November 2011

PETRONAS signed an agreement with Mitsubishi Corporation marking its maiden solar project. Its Solar Photovoltaic Demonstration is a pilot project that will test different solar technologies and provide data on related performances in the context of Malaysia's climate. The project serves as a viable catalyst to explore further opportunities in renewable energy that can be applied in PETRONAS' existing core businesses.

15 November 2011

PETRONAS, in support of a national Humanitarian Relief Mission, sponsored 10 in-land trucks and extended logistical assistance to transport aid for the victims of Thailand's worst flooding in 50 years.

3 December 2011

PETRONAS was awarded a Gold Medal at the European Salon of Inventions and International Innovation, Scientific Research and New Technologies MEDINNOVA 2011 Awards for its Aqua™ MTM, a non-intrusive subsea pipeline inspection technology. The technology is owned by PETRONAS and jointly developed with Transkor-K. The Aqua™ MTM is a tool that evaluates defects in pipelines based on relative changes of local stress levels.

12 December 2011

PETRONAS Technology Ventures Sdn Bhd (PTVSB), the technology commercialisation arm of PETRONAS, and Innovative Oil fields Solutions Sdn Bhd (IOSSB), signed an agreement for the commercialisation of PipeAssure™. It is a system that allows operations to continue while pipeline repair work is carried out. This enables repairs to be performed efficiently and in a cost effective manner while avoiding lengthy pipeline shutdowns.

EXPLORATION & PRODUCTION

16 January 2011

Garraf Base Camp was completed and has accommodated staff since January 2011, to support Iraq development work.

21 April 2011

PETRONAS signed an Unitisation Agreement with the Malaysia–Thailand Joint Development Authority (MTJDA) for the gas fields straddling across Block PM301 in the northeast coast of Peninsular Malaysia and for Block A-18 on the MTJDA. The Agreement augurs well with PETRONAS' efforts towards ensuring the sustainability and security of national gas production and supply.

22 May 2011

PETRONAS' Tangga Barat Cluster (offshore Peninsular Malaysia) Phase 1 Project achieved first gas production from the Laho field to supplement the gas supply for Peninsular Malaysia.

10 June 2011

PETRONAS Carigali Iraq Holding BV in partnership with Japan Petroleum Exploration Co Ltd and Iraq's State-owned North Oil Company commenced their First Commercial Production Drilling Campaign after spudding the first appraisal well in the Garraf Field.

29 June 2011

PETRONAS and PetroVietnam announced the successful discovery of basement oil offshore Vietnam from the Diamond-4X exploration well located in Blocks 01 & 02.

12 July 2011

Prime Minister Yang Amat Berhormat Dato' Sri Mohd Najib Tun Hj Abdul Razak and Turkmenistan President His Excellency Mr Gurbanguly Berdimuhamedov jointly launched PETRONAS' Kiyanly Gas Treatment Plant and Onshore Gas Terminal. This marked a high point in the history of bilateral relations between Malaysia and Turkmenistan.

20 July 2011

PETRONAS Carigali Sdn Bhd (PCSB) and Cameron Solutions Inc. developed a state-of-the-art CO_2 separation technology, the PN-1. The multi-fibre membrane technology significantly reduces the total deck footprint and weight of the membrane skids used offshore which will translate into lower costs.

16 August 2011

PETRONAS signed its second Risk Service Contract (RSC) for the Balai Cluster Small Field with ROC Oil Malaysia (Holdings) Sdn Bhd, Dialog D&P Sdn Bhd and PCSB as the service providers. The RSC will see the development and production of small fields located offshore Sarawak for oil and gas over a contract period of 15 years.

13 September 2011

PETRONAS Carigali Brunei Ltd successfully spudded its first deepwater well, Tualang North-1, just nine months after signing the Production Sharing Agreement. The well is the first spudded from two back-to-back drilling campaigns held in 2011.

18 September 2011

PCSB made a significant oil discovery offshore Sabah at its Wakid-1 well within Block 2G-2J, located about 100km northwest of Kota Kinabalu.

30 September 2011

The Bekok-C Mobile Offshore Production Unit delivered its first export of sales gas to the Onshore Gas Terminal and oil to the Terengganu Crude Oil Terminal.

27 October 2011

PETRONAS Carigali Mauritania signed a new Exploration Production Sharing Contract (PSC C-10) and secured extensions for its existing PSC A and PSC B.

10 November 2011

PETRONAS signed a Heads of Agreement (HOA) with Shell plc for two, 30-year Production Sharing Contracts for Enhanced Oil Recovery (EOR) projects offshore Sarawak and Sabah in East Malaysia. The project is expected to see several key benefits of national importance, including building local capabilities in a niche technology area, as well as increasing the average recovery factor in the Baram Delta and North Sabah fields from around 36% to 50%.

17 December 2011

PETRONAS Carigali Vietnam Ltd achieved first gas from its 4P well on the Ruby-B platform. The project also clocked 250,000 man-hours without Lost Time Injury Frequency.

29 December 2011

PCSB achieved commercial oil production for its Sepat Oil Development Project in a record breaking 12 months and nine days. The project set a new benchmark in meeting the aggressive schedule, tight cost and high quality standards. This was a joint effort with Petrofac Engineering & Construction (E&C) as the Engineering, Procurement, Construction, Installation and Commissioning Contractor. The project also achieved two million man-hours with zero Lost Time Injury Frequency.

GAS & POWER

16 May 2011

PETRONAS acquired 4Gas BV's 20% stake in the Dragon LNG Terminal in Wales. With the acquisition, PETRONAS' equity ownership stands at 50% and is aligned with its capacity off-take at the terminal.

27 May 2011

Australian Prime Minister Julia Gillard and Queensland Premier Anna Bligh officially launched the construction of the GLNG Project reflecting strong endorsement by the country's top leadership. The groundbreaking ceremony was held at the project site on Curtis Island, Queensland.

2 June 2011

PETRONAS, through its wholly-owned subsidiary PETRONAS International Corporation Ltd (PICL), reached an agreement to form a strategic partnership with Canada-based Progress Energy Resources Corporation to develop the Altares, Lily and Kahta shale gas assets in northeastern British Columbia. The proposed acquisition will mark PETRONAS' maiden entry into Canada and will allow for accelerated upstream growth for potential future Liquefied Natural Gas (LNG) exports.

4 October 2011

A delegation comprising representatives from the GLNG project team and the Port Curtis Coral Coast (PCCC) Native Title Claimant Group visited the PETRONAS Twin Towers in Kuala Lumpur and operation sites in Bintulu.

28 October 2011

PETRONAS LNG Sdn Bhd was incorporated on 1 September 2011, with focus on global LNG marketing and trading functions. It will enable optimisation of the Company's LNG portfolio across the value chain and enhance the PETRONAS brand.

11 November 2011

PETRONAS established PETRONAS Power Sdn Bhd (PPSB) a wholly-owned subsidiary of PICL to serve as a holding company for all PETRONAS' investments in power. PETRONAS through PPSB, is geared to establish itself as a player in the domestic and international power industry.

13 December 2011

PETRONAS LNG Ltd (PLL) celebrated its 200th traded cargo in an event attended by its management team and members of the LNG fraternity. The event also commemorated PLL's successful trading of the second 100 cargoes in three years, half the time it took to achieve its first 100 cargoes.

15 December 2011

PETRONAS completed the sale of the oil production business of its UK-based wholly-owned subsidiary, Star Energy Group Limited to IGas Energy plc. PETRONAS will continue to focus on its energy trading portfolio via its Humbly Grove Gas Storage Facility. PETRONAS also entered into a long-term gas supply agreement with IGas Energy through its London-based subsidiary PETRONAS Energy Trading Limited (PETL) to purchase natural gas produced by IGas Energy. The deal is in line with PETRONAS' strategy to focus on growing its European energy portfolio through market positioning and strategic trading.

23 December 2011

PETRONAS Gas Berhad (PGB) announced the publication of its PGB Network Code, a code of conduct which defines a standard of behaviour and disclosure with respect to Third Party Access of the Peninsular Gas Utilisation (PGU) system. The Network Code signifies another proactive measure by PGB to capitalise on the open access concept for gas transmission services, gearing for the liberalisation of the Malaysian gas market.

27 December 2011

PETRONAS, through its wholly-owned subsidiary, PICL signed a Shareholders' Agreement (SHA) and a Sale and Purchase Agreement (SPA) with GMR Infrastructure (Singapore) Pte Ltd and GMR Infrastructure Ltd (subsidiaries of India's GMR Group) for a 30% stake in GMR Energy Singapore Pte Ltd (GESPL). GMR Supply Singapore Pte Ltd, a wholly-owned subsidiary of GESPL, holds an electricity retail license in Singapore, which will carry out its electricity retail business in the Republic.

30 December 2011

PETRONAS' wholly-owned subsidiary, PPSB, secured 10.02MW Feed-in Tariff (FiT) quota from the Sustainable Energy Development Authority (SEDA). The allocated FiT quota will allow the development of PETRONAS' first Solar Independent Power Producer project, which is expected to be completed by the first quarter of 2014.

DOWNSTREAM

21 April 2011

PETRONAS and Malaysian automotive manufacturer PROTON launched an automatic transmission fluid (ATF), PETRONAS ATF-XP3, at the Putrajaya International Convention Centre. Jointly developed by PETRONAS and PROTON, PETRONAS ATF-XP3 was uniquely formulated and extensively field-tested for PROTON cars. It is the only automatic transmission fluid approved in accordance with PROTON's PES-1133 standard.

13 May 2011

Malaysian Prime Minister, Yang Amat Berhormat Dato' Sri Mohd Najib Tun Hj Abdul Razak, announced PETRONAS' Refinery And Petrochemical Integrated Development (RAPID) complex located in Southern Johor.

16 May 2011

PETRONAS' Syntium Workshop was selected as a pilot site for the National Automotive Workshop Modernisation (ATOM) project led by the Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK). The initiative is part of the Malaysian Government's Economic Transformation Programme (ETP) for the implementation of the National Key Economic Areas (NKEA) projects for the wholesale and retailing sectors.

1 June 2011

PETRONAS' subsidiary, Engen Ltd reinforced its commitment to education with the development of two school blocks in Cibitoke Province, Burundi, which was later handed over to the community at a ceremony attended by the President of Burundi, His Excellency Pierre Nkurunziza. The initiative is in line with the Company's commitment to the economic and social development of the people in countries where it operates.

30 June 2011

PETRONAS Chemicals Group Bhd (PCG) announced that it would build a new world-scale fertiliser plant in Sipitang, Sabah at an estimated development cost of USD1.5 billion. Also known as the Sabah Ammonia-Urea or SAMUR Project, it would be one of PETRONAS' key initiatives to monetise natural gas obtained from Sabah's offshore fileds.

21 July 2011

PETRONAS Dagangan Bhd (PDB) launched its Online Sales Ordering Service on its Mesralink e-Service website.

22 September 2011

The effort of PETRONAS Penapisan (Melaka) Sdn Bhd (PP(M)SB) employees and contractors in demonstrating good Health Safety and Environment (HSE) system and practices was duly recognised when it won the Oil & Gas Sector award at the prestigious Royal Society for the Prevention of Accidents (RoSPA) Occupational Safety and Health Awards 2011.

1 October 2011

PDB kick-started the next phase of its PETRONAS PRIMAX 95 XTRA campaign with the PETRONAS XTRA Challenge, targeting 300 customers nationwide over a three-month period. The PETRONAS XTRA Challenge is one of PDB's efforts to engage with its customers on an interactive platform.

6 October 2011

PCG awarded the Basic and Detailed Engineering, Procurement, Construction and Commissioning (BEPCC) Alliance contract for the SAMUR project to a consortium of contractors comprising Mitsubishi Heavy Industries Ltd, Apex Energy Sdn Bhd and PT Rekayasa Industries.

10 October 2011

PP(M)SB received the inaugural 'Grow Your Own Leaders' award from Development Dimensions International (DDI), a well recognised global corporation that specialises in talent development and management.

28 October 2011

PDB signed a lubricant supply contract with Boon Siew Honda Sdn Bhd to be its official partner and exclusive supplier of customised motorcycle lubricants.

20 November 2011

As part of celebrating the success of its PRIMAX line of fuels, PDB unveiled Malaysia's First Mobile Fuel Dispenser at the Sepang International Circuit. The mobile fuel dispenser will enable cars within the circuit to fill up with PETRONAS high-powered PRIMAX fuels at the track.

7 December 2011

PETRONAS' subsidiary Engen Ltd toasted the phenomenal success of its Klevakids Paraffin Safety Campaign. Three years after its inception, the campaign has reached more than 78,000 learners (190 schools) in seven provinces across South Africa and neighbouring Lesotho.

18 December 2011

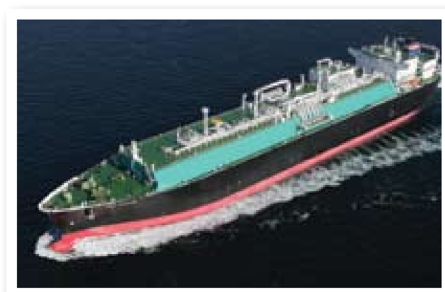
PETRONAS Energy Philippines Inc (PEPI) lent their support in the relief operation for those affected by Typhoon Washi. PEPI contributed food and clothing at MSU IIT Gymnasium in Tibanga, a large evacuation centre, and in San Lorenzo Parish Church in Hinaplanon.

MARITIME & LOGISTICS

25 April 2011

MISC Bhd (MISC) signed a Contract of Affreightment (COA) Renewal with PETRONAS Base Oil (M) Sdn Bhd (PBOM), which sees MISC's Melati Class vessels continue to ship base oil from PBOM's refinery in Sungai Udang, Melaka to Europe for another year.

17 May 2011



MISC's LNG Carrier Seri Anggun commenced her maiden loading for the North West Shelf Ventures, Australia at Withnell Bay Terminal, signifying the start of a four-year contract with International Gas Transportation Company Limited. This is MISC's maiden entry into Australia's LNG market, with Australia set to potentially supply 127.2 mtpa of LNG post 2015.

31 May 2011

Malaysia Marine and Heavy Engineering Holdings Bhd (MHB) through its subsidiary, Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE), signed a contract with MISC Bhd for the Repair, Life Extension and Conversion of MT Onozo into a Floating Production, Storage and Offloading Facility (FPSO) for the Cendor Phase 2 development in Malaysia.

2 June 2011

AET Tanker Holdings Sdn Bhd (AET) received the 2011 Devlin Safety Awards for 33 ships and four workboats in its fleet at the annual safety awards reception held in New Orleans, Louisiana – an industry recognition of AET's commitment to safety. To be eligible for the safety award, a vessel must achieve at least two consecutive years without Lost Time Injury Frequency (LTIF).

16 June 2011

MMHE was awarded a conversion project for the Repair, Life Extension and Conversion of MISC's SS Tenaga Satu, a Liquefied Natural Gas (LNG) vessel, into a floating storage unit (FSU) facility, FSU Lekas. Upon completion, FSU Lekas will be moored at the Melaka LNG Regasification Terminal.

24 June 2011

AET signed a 20-year contract with Marine Well Containment Company (MWCC) to supply two modular capture vessels (MCVs) for hydrocarbon capture services in the event of a deepwater well control incident in the US Gulf of Mexico. The MCVs will be converted from two newbuild Aframax tankers constructed for AET at the Tsuneishi Tadotsu shipyard in Japan. AET will manage and implement all marine aspects of the tanker conversion work.

30 June 2011

The Malaysian Maritime Academy (ALAM) signed a Memorandum of Cooperation with the Federal Land Development Authority (FELDA) to promote collaboration of common interests in maritime education. This includes collaboration to train young school leavers from FELDA under ALAM's sponsorship programme for cadetship and able seafarers.

6 July 2011

MHB entered into a Joint Venture Agreement with Technip Geoproduction (M) Sdn Bhd to establish a jointly controlled entity, Technip MHB Hull Engineering Sdn Bhd. The company will perform hull engineering services on floating structures for the oil and gas industry.

8 August 2011

In collaboration with the Royal Malaysian Navy (RMN) and the National Security Council, MISC Bhd launched Bunga Mas Enam as a RMN Auxiliary Vessel. The 699 TEU containership is the second Malaysian-registered merchant ship to be modified as an Auxiliary Vessel for Tentera Laut Diraja Malaysia (TLDM) to escort and protect MISC's vessels plying the Gulf of Aden and its surrounding waters. The modification work for Bunga Mas Enam was carried out by MMHE at their shipyard in Pasir Gudang, Johor.

9 August 2011

MISC and MHB launched 'Program Sentuhan Harapan PETRONAS' in Johor, jointly sponsoring 200 underprivileged families in the areas of Kukup and Pasir Gudang in Johor. The programme is a community outreach initiative by PETRONAS in collaboration with MyKasih Foundation. Under the two year programme, MISC and MHB will contribute a total of RM500,000 towards improving the lives of the 200 families.

25 August 2011

MHB announced that MMHE had entered into a definitive sale and purchase agreement for the proposed acquisition of the Sime Darby Engineering Sdn Bhd's yard in Pasir Gudang, Johor.

18 October 2011

MMHE was awarded a contract for the Telok Gas Development Project by ExxonMobil Exploration and Production Malaysia Inc. MMHE's scope of work includes the procurement, fabrication, onshore testing, load-out and offshore hook-up and commissioning of two topsides and two jackets to support the platforms. The Telok Gas Development Project will provide additional gas supplies for the country's power and industrial needs and at the same time promote the overall growth of the natural gas sector. It is identified as one of the Entry Point Projects (EPP) under the Economic Transformation Programme (ETP).

3 November 2011

MISC was honoured with the 'Green Certification Award' by Green Award Foundation at the 2011 Seatrade Tanker Industry Conference for the company's commitment and dedication in displaying high Safety and Environmental standards. A Green Award was also extended to its LNG vessel, Seri Balhaf, which is the second LNG vessel in the world to date to be Green Award certified. These awards serve as an acknowledgement of the successful green initiatives implemented by MISC.

24 November 2011

MISC announced its decision to exit the liner business (container shipping) due to the radical change in the operating dynamics of the container business, which is driven by high operating costs with prevailing high energy prices and rapid changes in global trade patterns.

CORPORATE SOCIAL RESPONSIBILITY

24 August 2011

Over 40 participants of the PETRONAS Graduates Employability Enhancement Scheme shared a special day with the residents of Pusat Jagaan Nur Hasanah and Rumah Rose in Beranang and Rinching in Selangor respectively. This community project was jointly organised with Badan Kebajikan dan Riadah PERMATA (BAKRI).

8 September 2011

In line with environmental conservation efforts, PC Myanmar (Hong Kong) Ltd (PCML) organised two tree planting initiatives that saw PCML staff and their family members plant over 1,200 trees. The first effort took place near Hlaw Gar Nature Reserve and Water Reservoir in Yangon.

1 November 2011

PETRONAS extended its Sentuhan Harapan community outreach programme to Sabah and Melaka to provide basic assistance to the country's identified hardcore poor families. The programme was launched in July 2010 by Prime Minister Yang Amat Berhormat Dato' Sri Mohd Najib Tun Hj Abdul Razak in Miri, Sarawak as part of PETRONAS' Corporate Social Responsibility (CSR) efforts to contribute to the Government's poverty eradication efforts in the country.

3 November 2011

PETRONAS East Coast Regional Office, in collaboration with Group HRM and Group Corporate Affairs Division organised the first Majlis Sekalung Budi 2011 for the East Coast region. The annual event is aimed at recognising long-serving and loyal staff of the Company.

19 November 2011

PETRONAS' Legal Division participated in the University of Malaya Law Career Convention 2011, drawing throngs of people to its booth at the Law Faculty in Kuala Lumpur. The PETRONAS business lounge attracted an estimated 400 people including visitors, law students and graduates who did not miss the opportunity to converse with 12 of our PETRONAS in-house lawyers.

21 November 2011

Upholding the spirit of giving and sharing, The Association of Wives and Female Staff of PETRONAS (PETRONITA), participated in two CSR initiatives to assist the underprivileged members of society. These efforts complemented PETRONAS' various community efforts aimed at giving back to societies in areas where its operates.

24 November 2011

More than 20 PETRONAS staff volunteers were presented with certificates of appreciation in recognition of their commitment, dedication, volunteerism and patriotic spirit at the 54th Merdeka Day Parade this year.

27 December 2011

PETRONAS hosted a pre-departure dinner for 25 Sudanese participants of the PETRONAS-Khartoum Vocational Training Academy Training-of-Trainers Programme who had embarked on a month-long skills enhancement course in Malaysia. The programme is an extension of PETRONAS' long-standing collaboration with the State Government of Khartoum's Supreme Council of Vocational Training on skills training of Sudanese youths.

GLOSSARY

Industry terms as generally understood

Additives
Chemicals added in small quantities to fuel or lubricants to control engine deposits and improve lubricating performance.

Barrel
A standard unit of measurement for oil production. One barrel contains 159 litres of oil.

Barrels of oil equivalent (boe)
A unit of measurement to quantify the amount of crude oil, condensates and natural gas. Natural gas volumes are converted to barrels on the basis of energy content.

Base oil
An oil to which other oils or additives are added to produce a lubricant. This includes Group III base oil that has been subjected to the highest level of refining of the base oil groups, offering very high viscosity index to produce premium quality lubricants.

Basin
A low-lying area beneath the Earth's surface filled with thick layers of sediment, often a source of valuable hydrocarbons.

Brent price
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 price.

CO_2
Carbon dioxide, one of the primary greenhouse gases.

Coal Ced Methane
A form of natural gas extracted from coal beds, as opposed to the conventional natural gas found in reservoirs.

Condensates
Liquid hydrocarbons produced with natural gas, separated by cooling and other means.

Deadweight tonne (dwt)
A ship's maximum carrying capacity in tonnes of cargo, including passengers, crew, stores, ballast and fuel.

Deepwater
In Malaysia offshore exploration, deepwater is demarcated at water depths exceeding 200 m. 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.

Dividend Payout Ratio
Percentage of net profit attributable to PETRONAS shareholders paid as dividend in the period.

Downstream
All segments of a value chain 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.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)
Profit before taxation with the addition of amounts previously deducted for depreciation, amortisation and impairment loss on property, plant and equipment and intangible assets and financing costs and the exclusion of interest income.

Energy Loss Management (ELM)
An initiative to improve energy efficiency and reduce greenhouse gas (GHG) emissions.

Enhanced Oil Recovery (EOR)
Any method(s) applied to productive reservoirs in order to increase production rates and to improve the overall recovery factor.

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

Feed-in-Tariff (FiT)
Malaysia's FiT system is a policy mechanism designed to accelerate investment in renewable energy technologies. It requires Distribution Licensees (DLs) to buy electricity produced from renewable resources from Feed-in Approval Holders (FIAHs) and sets the rate. The DLs will pay for renewable energy supplied to the electricity grid for a specific duration. The goal of FiT is to offer cost-based compensation to renewable energy producers, providing the price certainty and long-term contracts that help finance renewable energy investments.

Field
A geographical area overlying a hydrocarbon reservoir.

Floating Liquefied Natural Gas (FLNG)
Either a ship or barge that can sail or be towed to offshore gas fields, extract gas, freeze it to Liquefied Natural Gas (LNG) and offload the LNG to tankers for shipping.

Floating Production Unit (FPU)
Floating structures of various designs used in offshore production. These 'floaters' replace traditional fixed platforms and they are moored to the ocean bed. FPU is more commonly used in deepwater. 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.

Floating, Storage and Offloading (FSO)
A converted or custom-built ship-like structure for temporary storage of the oil prior to transfer to tankers.

Floating Storage Unit (FSU)
A converted or custom-built ship-like structure to receive and store LNG.

G

Gas Processing
An activity to turn streams of natural gas into commercial products, in addition to treating gas deposits.

Gas To Liquids (GTL)
A refinery process to convert natural gas or other gaseous hydrocarbons into longer chain hydrocarbons, such as gasoline or diesel fuel. It is used predominantly in the creation of high-quality transportation fuels.

Gearing ratio
Total borrowing expressed as a percentage of total borrowing plus equity attributable to shareholders of PETRONAS.

Greenhouse gases (GHG)
Gases that trap heat in the Earth's atmosphere, e.g. carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

H

Heavy Oil/Bitumen
Unlike conventional crude oil that can be pumped without being heated or diluted, heavy oil is oil that cannot be extracted in its natural state via a well and conventional production methods. This definition is also applicable to bitumen.

High Pressure High Temperature well
Well with a surface shut-in pressure greater than 10,000 psi and a bottomhole temperature greater than 150ºC.

Heads of Agreement (HOA)
A non-binding document outlining the main issues relevant to a tentative partnership agreement. HOA represents the first step on the path to a full legally binding agreement or contract, and serves as a guideline for the roles and responsibilities of the parties involved in a potential partnership before any binding documents are drawn up.

I

Integrated oil and gas company
A company that engages in all aspects of the oil and gas industry - exploring for and producing crude oil and natural gas (upstream); refining, marketing and transporting crude oil, natural gas and refined products (downstream); as well as manufacturing and distributing petrochemicals.

Ionic liquids
Liquids that comprise entirely of positive and negatively charged ions. Ionic liquids are being explored for an array of applications, e.g. as environmentally friendly substitutes for volatile organic compounds in the oil and gas industry.

Improved Oil Recovery (IOR)
Improved Oil Recovery that is commonly used to describe any process, or combination of processes, that may be applied to economically increase the cumulative volume of oil that is ultimately recovered from the reservoir at an accelerated rate. IOR may include chemical, mechanical, physical, or procedural processes.

Improved Gas Recovery (IGR)
Refers to recovery of gas by injection of fluids beyond the normal recovery through conventional methods. In recent times, carbon dioxide is used as a lubricant fluid to recover additional gas from the reservoir and thereby provides an avenue for storing the captured carbon dioxide.

J

Joint venture
A partnership between two or more companies to undertake a specific project and share the resulting profit and loss.

L

Liquefied Natural Gas (LNG)
Natural gas that is liquefied under extremely cold temperatures of about minus 260 degrees Fahrenheit 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.

Lost Time Injury (LTI)
This is defined as an occurrence that resulted in a fatality, permanent disability or time lost from work including days off, off shift, weekends or public holidays.

Lost Time Injury Frequency (LTIF)
This refers to the total LTI cases per million exposure hours worked during the period.

Lubricant
A substance to reduce friction and wear among moving surfaces, resulting in improved efficiency. It contains about 90% base oil and about 10% additives.

M

mmBtu
Million metric British thermal unit. It measures the energy content in fuel and is used in the power, steam generation, heating and air conditioning industries.

mmscfd
Million metric standard cubic feet per day. It is a unit of measurement for natural gas. Liquefied Petroleum Gas (LPG), compressed natural gas and other gases that extracted, processed or transported in high quantities.

Mobile offshore Production Unit (MOPU)
Self installing and re-usable production jack-ups.

mtpa
Million tonnes per annum. A standard measurement of output for the year.

Natural gas
A clean burning, odourless, colourless, highly compressible mixture of hydrocarbons found occurring naturally in gaseous form. Natural gas is made up of methane but can also include ethane, propane and butane.

NOPAT
Net operating profit after tax is derived from net profit after tax excluding financing cost, share of profits of associates and jointly controlled entities and other non-operating income and expenses.

Naphtha
Usually an intermediate product between gasoline and benzene, naphtha is a colourless and volatile petroleum distillate used as a solvent or fuel.

OEM
Original Equipment Manufacturer. Refers to a company that acquires a product or component, then reuses or incorporates it into a new product with its own brand name.

Olefins
Any from a class of unsaturated open-chain hydrocarbons such as ethylene, having the general formula CnH2n; an alkene with only one carbon-carbon double bond.

Operational Performance Improvement (OPI)
A set of tools and methodologies that emphasise on instilling operational discipline, with the aim of improving operational excellence of PETRONAS' producing assets.

Peninsular Gas Utilisation (PGU)
The PGU system was developed to spearhead the use of natural gas in Malaysia. The natural gas produced from offshore Terengganu is processed in six Gas Processing Plants in Kertih and are then fed into a 2,505 km pipeline system that delivers natural gas to the power, industrial, petrochemical and other sectors throughout Peninsular Malaysia and Singapore.

Petrochemicals
Organic and inorganic compounds and mixtures derived from petroleum, used principally to manufacture chemicals, plastics and resins, synthetic fibres, 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.

Regasification Terminal (RGT)
Also known as a receiving terminal, an RGT is usually a coastal plant that accepts deliveries of LNG and processes it back into gaseous form for injection into a pipeline system.

Refining
A purification process for natural resources which includes hydrocarbons, using distillation, cooling and/or compression.

Renewable energy
Energy derived from natural sources that are replaceable.

Reserves
Hydrocarbons which are anticipated to be recovered from known accumulations of hydrocarbons.

Reservoir
Any porous and permeable rock (usually sandstone or limestone/chalk and occasionally a normally impermeable rock which has been heavily fractured), thus providing interconnecting spaces through which oil/gas can flow.

Resources
Resources are defined as the total estimated quantities of petroleum at a specific date to be contained in, or that have been produced from known accumulations of hydrocarbon.

Resource Replenishment Ratio
Figures reported are calculated based on a formula of (Difference of Resource Base of current year and previous year + Production Volume of previous year) / (Production Volume of previous year).

Return on Average of Capital Employed (ROACE)
NOPAT expressed as a percentage of average of equity attributable to shareholders of PETRONAS and long-term debt during the period.

Return On Revenue (ROR)
Profit before taxation expressed as a percentage of total revenue.

Risk Service Contract (RSC)
In the context of this report, RSC refers to a petroleum arrangement between PETRONAS and any other company for the appraisal, development and/or production of petroleum in a contract area on behalf of PETRONAS whereby the PA Contractors are remunerated on a set based on achieved Key Performance Indicators consisting of the agreed Cost, Schedule and Production level.

Return on Total Assets (ROTA)
Profit before taxation expressed as a percentage of total assets.

Seismic data
The collection of stratigraphic data obtained by creating shockwaves through the rock layers. Reflection of these waves from anomalies within the rock layers are electronically recorded at surface. These recordings are then analysed to produce a stratigraphic representation of the surveyed area, which helps to deduce the structure of the underlying rock layers.

Shale Gas
Natural gas found in shale rock derived from underground shale deposits that are broken up by hydraulic fracturing. The process is needed to produce gas in commercial quantities as shale has low matrix permeability.

Throughput
The amount of output produced by a system, e.g. a refinery, plant, or pipeline, in a given period of time.

Total Reportable Case (TRC)
The sum of injuries resulting in fatalities, permanent total disabilities, permanent partial disabilities, lost workday cases, restricted work cases and medical treatment cases, but excluding first aid cases.

Total Reportable Case Frequency (TRCF)
This refers to the number of total reportable cases per million exposure hours worked during the period.

Unconventional oil and gas
Oil and gas that cannot be produced or extracted using conventional methods.

Upstream
Segment of value chain pertaining to finding, developing and producing crude oil and natural gas. These include oil and gas exploration, development and production operations; also known as Exploration & Production (E&P).

WTI price
Stands for West Texas Intermediate, the benchmark crude oil price in the US measured in USD per barrel, which refers to a type of high quality light crude oil.

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DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2011

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the period ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial period remained unchanged and consist of exploitation of oil and gas through production sharing contracts, the marketing of petroleum and petroleum products and investment holding. The principal activities of significant subsidiaries, associates and jointly controlled entities are stated in note 45, note 46 and note 47 to the financial statements respectively.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the period	55,574	40,201
Attributable to:		
Shareholders of the Company	48,863	40,201
Non-controlling interests	6,711	-

DIVIDENDS

During the financial period, the Company paid:

(i) a third tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM60,000 per ordinary share amounting to RM6 billion in respect of the financial year ended 31 March 2011;

(ii) a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM220,000 per ordinary share amounting to RM22 billion in respect of the financial year ended 31 March 2011; and

(iii) a first tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM20,000 per ordinary share amounting to RM2 billion in respect of the financial period ended 31 December 2011.

The Directors propose a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM280,000 per ordinary share amounting to RM28 billion in respect of the financial period ended 31 December 2011 for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial period do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2012.

RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the period other than as disclosed in the financial statements.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Dato' Shamsul Azhar bin Abbas (Acting Chairman, President and CEO)
Datuk Anuar bin Ahmad (Executive Vice President)
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah
Datuk Wan Zulkiflee bin Wan Ariffin (Executive Vice President)
Datuk Mohd Omar bin Mustapha
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas
Dato' Muhammad bin Ibrahim
Dato' Mohamad Idris bin Mansor
Datin Yap Siew Bee
Krishnan C K Menon
Datuk Manharlal Ratilal (Executive Vice President)
Dato' Wee Yiaw Hin @ Ong Yiaw Hin (Executive Vice President)
Tan Sri Amirsham bin Abdul Aziz (appointed on 21 October 2011)
Dato' Siti Halimah binti Ismail (alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah)

In accordance with Article 68 of the Company's Articles of Association, Tan Sri Amirsham bin Abdul Aziz who was appointed during the period retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 71(1) of the Company's Articles of Association, Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas and Dato' Mohamad Idris bin Mansor retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 71(2) of the Company's Articles of Association, the Chairman, President and Executive Vice Presidents shall not be subject to retirement by rotation except in the first year of appointment where they are required to retire in accordance with Article 68.

DIRECTORS' INTERESTS

The Directors in office at the end of the period who have interests in the shares of the Company's related corporations other than wholly-owned subsidiaries (including the interests of the spouses and/or children of the Directors who themselves are not directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1.00 each in PETRONAS Gas Berhad			
Name	**Balance at 1.4.2011/ date of appointment**	**Bought**	**Sold**	**Balance at 31.12.2011**
Datin Yap Siew Bee	7,000	-	-	7,000
Tan Sri Amirsham bin Abdul Aziz:				
- others	2,000	-	-	2,000

DIRECTORS' INTERESTS (continued)

Name	Number of ordinary shares of RM1.00 each in PETRONAS Dagangan Berhad			
	Balance at 1.4.2011/ date of appointment	Bought	Sold	Balance at 31.12.2011
Datuk Anuar bin Ahmad	2,000	-	-	2,000
Tan Sri Amirsham bin Abdul Aziz:				
- others	2,000	-	-	2,000

Name	Number of ordinary shares of RM0.10 each in PETRONAS Chemicals Group Berhad			
	Balance at 1.4.2011	Bought	Sold	Balance at 31.12.2011
Dato' Shamsul Azhar bin Abbas	20,000	-	-	20,000
Datuk Anuar bin Ahmad	20,000	-	-	20,000
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah	20,000	-	-	20,000
Datuk Wan Zulkiflee bin Wan Ariffin	20,000	-	-	20,000
Datuk Mohd Omar bin Mustapha	10,000	-	-	10,000
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	20,000	-	(20,000)	-
Dato' Muhammad bin Ibrahim	20,000	-	-	20,000
Dato' Mohamad Idris bin Mansor	20,000	-	-	20,000
Datin Yap Siew Bee	20,000	-	-	20,000
Krishnan C K Menon	20,000	-	-	20,000
Datuk Manharlal Ratilal	20,000	-	-	20,000
Dato' Wee Yiaw Hin	20,000	-	-	20,000

Name	Number of ordinary shares of RM1.00 each in KLCC Property Holdings Berhad			
	Balance at 1.4.2011	Bought	Sold	Balance at 31.12.2011
Datuk Manharlal Ratilal	5,000	-	-	5,000

Name	Number of ordinary shares of RM1.00 each in MISC Berhad			
	Balance at date of appointment	Bought	Sold	Balance at 31.12.2011
Tan Sri Amirsham bin Abdul Aziz:				
- own	11,600	-	-	11,600
- others	4,000	-	-	4,000

DIRECTORS' INTERESTS (continued)

Name	Balance at 1.4.2011	Bought	Sold	Balance at 31.12.2011
	Number of ordinary shares of RM0.50 each in Malaysia Marine and Heavy Engineering Holdings Berhad			
Dato' Shamsul Azhar bin Abbas	10,000	-	(10,000)	-
Datuk Wan Zulkiflee bin Wan Ariffin	10,000	-	-	10,000

The other Director holding office at 31 December 2011 had no interest in the ordinary shares of the Company and of its related corporations during the financial period.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial period which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES

There were no changes in the issued and paid up capital of the Company during the financial period.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial period.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to realise, in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

OTHER STATUTORY INFORMATION (continued)

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial period and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial period.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial period ended 31 December 2011 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial period and the date of this report except as disclosed in note 40 to the financial statements.

AUDITORS

The auditors, Messrs KPMG Desa Megat & Co., have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

…………………………………………………………

Dato' Shamsul Azhar bin Abbas

…………………………………………………………

Datuk Anuar bin Ahmad

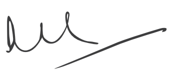
Kuala Lumpur,
Date: 29 February 2012

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 125 to 229, are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2011 and of their financial performance and cash flows for the period ended on that date.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

....
Dato' Shamsul Azhar bin Abbas



....
Datuk Anuar bin Ahmad

Kuala Lumpur,
Date: 29 February 2012

STATUTORY DECLARATION

I, **Datuk Manharlal Ratilal**, the Director primarily responsible for the financial management of **PETROLIAM NASIONAL BERHAD,** do solemnly and sincerely declare that the financial statements set out on pages 125 to 229 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Datuk Manharlal Ratilal at **Kuala Lumpur** in
Wilayah Persekutuan on 29 February 2012.

BEFORE ME:

PESURUHJAYA SUMPAH
No: W 287
Lim Heng Lin
AMP, AMN
MALAYSIA

4 Tkt. Mezzanine, Medan Pasar
50050 Kuala Lumpur
Tel: 03-20783299, 016-2099638

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

	Note	31.12.2011 RM Mil	31.3.2011 RM Mil
ASSETS			
Property, plant and equipment	3	**206,117**	191,575
Investment properties	4	**11,024**	10,561
Land held for development	5	**1,601**	1,641
Prepaid lease payments	6	**625**	551
Investments in associates	8	**5,381**	5,725
Investments in jointly controlled entities	9	**6,942**	5,836
Intangible assets	10	**22,604**	15,389
Long term receivables	11	**4,084**	3,289
Fund and other investments	12	**3,495**	11,824
Deferred tax assets	14	**3,880**	3,975
Cash and cash equivalents	15	**89**	108
TOTAL NON-CURRENT ASSETS		**265,842**	250,474
Property development costs	16	**507**	441
Trade and other inventories	17	**11,765**	9,700
Trade and other receivables	18	**37,364**	33,162
Tax recoverable		**762**	446
Assets classified as held for sale	19	**631**	346
Fund and other investments	12	**35,383**	37,869
Cash and cash equivalents	15	**125,358**	106,556
TOTAL CURRENT ASSETS		**211,770**	188,520
TOTAL ASSETS		**477,612**	438,994
EQUITY			
Share capital	20	**100**	100
Reserves	21	**288,210**	263,688
Total equity attributable to shareholders of the Company		**288,310**	263,788
Non-controlling interests	22	**32,869**	32,126
TOTAL EQUITY		**321,179**	295,914
LIABILITIES			
Borrowings	23	**39,674**	44,354
Deferred tax liabilities	14	**13,628**	13,258
Other long term liabilities and provisions	25	**23,977**	24,544
TOTAL NON-CURRENT LIABILITIES		**77,279**	82,156
Trade and other payables	26	**50,310**	38,039
Borrowings	23	**12,849**	3,457
Taxation		**15,995**	13,428
Dividend payable		**-**	6,000
TOTAL CURRENT LIABILITIES		**79,154**	60,924
TOTAL LIABILITIES		**156,433**	143,080
TOTAL EQUITY AND LIABILITIES		**477,612**	438,994

The notes set out on pages 136 to 229 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Revenue		222,797	241,228
Cost of revenue		(126,236)	(143,427)
Gross profit	27	96,561	97,801
Selling and distribution expenses		(3,585)	(4,291)
Administration expenses		(10,663)	(12,072)
Other expenses		(4,050)	(2,766)
Other income		5,135	13,221
Operating profit	28	83,398	91,893
Financing costs		(2,028)	(3,473)
Share of profit after tax and non-controlling interests of equity accounted associates and jointly controlled entities		1,317	2,076
Profit before taxation		82,687	90,496
Tax expense	30	(27,113)	(27,488)
Profit for the period/year		55,574	63,008
Other comprehensive income/(expenses)			
Net movements from exchange differences		5,204	(7,417)
Available-for-sale financial assets			
- Changes in fair value		(1,875)	2,274
- Transfer to profit or loss upon disposal		(3,068)	-
Other comprehensive expenses		(33)	(171)
Total other comprehensive income/(expenses) for the period/year		228	(5,314)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		55,802	57,694
Profit attributable to:			
Shareholders of the Company		48,863	54,848
Non-controlling interests		6,711	8,160
PROFIT FOR THE PERIOD/YEAR		55,574	63,008
Total comprehensive income attributable to:			
Shareholders of the Company		48,558	50,871
Non-controlling interests		7,244	6,823
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		55,802	57,694

The notes set out on pages 136 to 229 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2011

		Attributable to shareholders of the Company			
		Non-distributable			
	Note	**Share Capital RM Mil**	**Capital Reserves RM Mil**	**Foreign Currency Translation Reserve RM Mil**	**Available-for-sale Reserve RM Mil**
Balance at 1 April 2010		100	13,318	(7,512)	4,658
Net movements from exchange differences		-	-	(6,065)	-
Changes in fair value of available-for-sale financial assets		-	-	-	2,251
Other comprehensive expenses		-	(163)	-	-
Total other comprehensive income/ (expenses) for the year		-	(163)	(6,065)	2,251
Profit for the year		-	-	-	-
Total comprehensive income/ (expenses) for the year		-	(163)	(6,065)	2,251
Share of reserves of associates and jointly controlled entities		-	15	-	-
Transfer to capital reserves		-	271	-	-
Redemption of preference shares		-	9	-	-
Additional issuance of shares to non-controlling interests		-	-	-	-
Additional equity interest in a subsidiary		-	-	-	-
Dividends	31	-	-	-	-
Total contribution from/ (distribution to) shareholders		-	295	-	-
Balance at 31 March 2011		100	13,450	(13,577)	6,909

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2011 (continued)

		Attributable to shareholders of the Company				
		Distributable				
	Note	**General Reserve RM Mil**	**Retained Profits RM Mil**	**Total RM Mil**	**Non-controlling Interests RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2010		12,000	220,338	242,902	24,972	267,874
Net movements from exchange differences		-	-	(6,065)	(1,352)	(7,417)
Changes in fair value of available-for-sale financial assets		-	-	2,251	23	2,274
Other comprehensive expenses		-	-	(163)	(8)	(171)
Total other comprehensive income/ (expenses) for the year		-	-	(3,977)	(1,337)	(5,314)
Profit for the year		-	54,848	54,848	8,160	63,008
Total comprehensive income/ (expenses) for the year		-	54,848	50,871	6,823	57,694
Share of reserves of associates and jointly controlled entities		-	-	15	-	15
Transfer to capital reserves		-	(271)	-	-	-
Redemption of preference shares		-	(9)	-	(28)	(28)
Additional issuance of shares to non-controlling interests		-	-	-	7,180	7,180
Additional equity interest in a subsidiary		-	-	-	(292)	(292)
Dividends	31	-	(30,000)	(30,000)	(6,529)	(36,529)
Total contribution from/ (distribution to) shareholders		-	(30,280)	(29,985)	331	(29,654)
Balance at 31 March 2011		12,000	244,906	263,788	32,126	295,914

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The notes set out on pages 136 to 229 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2011 (continued)

		Attributable to shareholders of the Company			
		Non-distributable			
	Note	**Share Capital RM Mil**	**Capital Reserves RM Mil**	**Foreign Currency Translation Reserve RM Mil**	**Available-for-sale Reserve RM Mil**
Balance at 1 April 2011		100	13,450	(13,577)	6,909
Net movements from exchange differences		-	-	4,649	-
Available-for-sale financial assets:					
- Changes in fair value		-	-	-	(1,867)
- Transfer to profit or loss upon disposal		-	-	-	(3,068)
Other comprehensive expenses		-	(19)	-	-
Total other comprehensive income/ (expenses) for the period		-	(19)	4,649	(4,935)
Profit for the period		-	-	-	-
Total comprehensive income/ (expenses) for the period		-	(19)	4,649	(4,935)
Share of reserves of associates and jointly controlled entities		-	(36)	-	-
Redemption of preference shares		-	10	-	-
Additional issuance of shares to non-controlling interests		-	-	-	-
Dividends	31	-	-	-	-
Total distribution to shareholders		-	(26)	-	-
Balance at 31 December 2011		100	13,405	(8,928)	1,974

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2011 (continued)

		Attributable to shareholders of the Company				
		Distributable				
	Note	**General Reserve RM Mil**	**Retained Profits RM Mil**	**Total RM Mil**	**Non-controlling Interests RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2011		12,000	244,906	263,788	32,126	295,914
Net movements from exchange differences		-	-	4,649	555	5,204
Available-for-sale financial assets:						
- Changes in fair value		-	-	(1,867)	(8)	(1,875)
- Transfer to profit or loss upon disposal		-	-	(3,068)	-	(3,068)
Other comprehensive expenses		-	-	(19)	(14)	(33)
Total other comprehensive income/ (expenses) for the period		-	-	(305)	533	228
Profit for the period		-	48,863	48,863	6,711	55,574
Total comprehensive income/ (expenses) for the period		-	48,863	48,558	7,244	55,802
Share of reserves of associates and jointly controlled entities		-	-	(36)	-	(36)
Redemption of preference shares		-	(10)	-	(36)	(36)
Additional issuance of shares to non-controlling interests		-	-	-	37	37
Dividends	31	-	(24,000)	(24,000)	(6,502)	(30,502)
Total distribution to shareholders		-	(24,010)	(24,036)	(6,501)	(30,537)
Balance at 31 December 2011		12,000	269,759	288,310	32,869	321,179

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CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		217,481	233,712
Cash paid to suppliers and employees		(121,351)	(134,410)
		96,130	99,302
Interest income from fund and other investments		2,046	2,466
Interest expenses paid		(1,699)	(2,388)
Taxation paid		(24,499)	(28,615)
Net cash generated from operating activities		71,978	70,765
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	32	(21,049)	(29,183)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	33	(34,229)	(36,613)
NET INCREASE IN CASH AND CASH EQUIVALENTS		16,700	4,969
DECREASE/(INCREASE) IN DEPOSITS RESTRICTED		232	(257)
NET FOREIGN EXCHANGE DIFFERENCES		1,274	(2,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		106,077	103,703
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR		124,283	106,077
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	15	125,447	106,664
Negotiable certificate of deposits	12	514	490
Bank overdrafts	23	(908)	(75)
		125,053	107,079
Less: Deposits restricted	15	(770)	(1,002)
		124,283	106,077

The notes set out on pages 136 to 229 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

	Note	31.12.2011 RM Mil	31.3.2011 RM Mil
ASSETS			
Property, plant and equipment	3	3,225	3,025
Investments in subsidiaries	7	46,479	45,778
Investments in associates	8	302	302
Investments in jointly controlled entities	9	1,385	1,385
Long term receivables	11	69,716	71,813
Fund and other investments	12	2,570	76
Deferred tax assets	14	2,558	2,108
TOTAL NON-CURRENT ASSETS		126,235	124,487
Trade and other inventories	17	24	49
Trade and other receivables	18	15,096	12,519
Fund and other investments	12	28,356	31,815
Cash and cash equivalents	15	75,608	58,164
TOTAL CURRENT ASSETS		119,084	102,547
TOTAL ASSETS		245,319	227,034
EQUITY			
Share capital	20	100	100
Reserves	21	173,126	156,877
TOTAL EQUITY		173,226	156,977
LIABILITIES			
Borrowings	23	21,612	26,591
Other long term liabilities and provisions	25	18,743	21,587
TOTAL NON-CURRENT LIABILITIES		40,355	48,178
Trade and other payables	26	14,284	6,712
Borrowings	23	6,357	-
Taxation		11,097	9,167
Dividend payable		-	6,000
TOTAL CURRENT LIABILITIES		31,738	21,879
TOTAL LIABILITIES		72,093	70,057
TOTAL EQUITY AND LIABILITIES		245,319	227,034

The notes set out on pages 136 to 229 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Revenue		92,229	96,540
Cost of revenue		(35,118)	(42,797)
Gross profit	27	57,111	53,743
Selling and distribution expenses		(217)	(351)
Administration expenses		(3,046)	(3,209)
Other expenses		(2,573)	(2,840)
Other income		3,779	19,609
Operating profit	28	55,054	66,952
Financing costs		(1,023)	(1,561)
Profit before taxation		54,031	65,391
Tax expense	30	(13,830)	(14,919)
Profit for the period/year		40,201	50,472
Other comprehensive income/(expenses)			
Changes in fair value of available-for-sale financial assets		48	(55)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR		40,249	50,417

The notes set out on pages 136 to 229 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2011

		Non-distributable		*Distributable*		
	Note	**Share Capital RM Mil**	**Available-for-sale Reserve RM Mil**	**General Reserve RM Mil**	**Retained Profits RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2010		100	156	12,000	124,304	136,560
Changes in fair value of available-for-sale financial assets representing other comprehensive expense for the year		-	(55)	-	-	(55)
Profit for the year		-	-	-	50,472	50,472
Total comprehensive income/ (expenses) for the year		-	(55)	-	50,472	50,417
Dividends representing total distribution to shareholders	31	-	-	-	(30,000)	(30,000)
Balance at 31 March 2011		100	101	12,000	144,776	156,977
Balance at 1 April 2011		100	101	12,000	144,776	156,977
Changes in fair value of available-for-sale financial assets representing other comprehensive income for the period		-	48	-	-	48
Profit for the period		-	-	-	40,201	40,201
Total comprehensive income for the period		-	48	-	40,201	40,249
Dividends representing total distribution to shareholders	31	-	-	-	(24,000)	(24,000)
Balance at 31 December 2011		100	149	12,000	160,977	173,226

The notes set out on pages 136 to 229 are an integral part of these financial statements.

STATEMENT OF CASH FLOW
FOR THE PERIOD ENDED 31 DECEMBER 2011

	Note	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		76,325	77,321
Cash paid to suppliers and employees		(37,489)	(40,954)
		38,836	36,367
Interest income from fund and other investments		2,062	2,285
Interest expenses paid		(809)	(987)
Taxation paid		(12,188)	(14,996)
Net cash generated from operating activities		27,901	22,669
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities	32	18,878	9,981
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	33	(30,000)	(30,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		16,779	2,650
NET FOREIGN EXCHANGE DIFFERENCES		689	(1,303)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		58,654	57,307
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR		76,122	58,654
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	15	75,608	58,164
Negotiable certificate of deposits	12	514	490
		76,122	58,654

The notes set out on pages 136 to 229 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRSs), generally accepted accounting principles and the Companies Act, 1965 in Malaysia.

At the beginning of the current financial period, the Group and the Company had adopted new and revised FRSs, amendments and IC interpretations (collectively referred to as “pronouncements”) that have been issued by the Malaysian Accounting Standards Board (“MASB”) as described fully in note 43.

The MASB has also issued new and revised pronouncements which are not yet effective and therefore, have not been implemented by the Group and the Company in these financial statements, as set out in note 44.

Following the announcement made by the MASB on 19 November 2011, the Group and the Company will prepare their financial statements in accordance with the Malaysian Financial Reporting Standards (“MFRS”) framework from 1 January 2012 onwards.

The financial statements were approved and authorised for issue by the Board of Directors on 29 February 2012.

1.2 Change of financial year end

The Group and the Company have changed their financial year end from 31 March to 31 December. Consequently, the current financial statements, being the Group and the Company’s first financial statements under the new financial year, are for a period of 9 months from 1 April 2011 to 31 December 2011. The comparative figures are for the previous 12-month period from 1 April 2010 to 31 March 2011.

1.3 Basis of measurement

The financial statements of the Group and of the Company have been prepared on historical cost basis except that, as disclosed in the accounting policies below, certain items are measured at fair value.

1.4 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The Group and the Company’s financial statements are presented in Ringgit Malaysia, which is the Company’s functional currency.

1.5 Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

1. BASIS OF PREPARATION (continued)

1.5 Use of estimates and judgments (continued)

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

(i) Note 3 : Property, Plant and Equipment;
(ii) Note 10 : Intangible Assets;
(iii) Note 14 : Deferred Tax;
(iv) Note 25 : Other Long Term Liabilities and Provisions; and
(v) Note 41 : Financial Instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

2.1 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

All inter-company transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from intercompany transactions are also eliminated unless cost cannot be recovered.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. From 1 April 2011, the Group has applied FRS 3, *Business Combinations (revised)* in accounting for business combinations. This change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have significant impact on the Group's reported income or net assets.

For acquisitions on or after 1 April 2011, the Group measures goodwill as the excess of the aggregate of consideration transferred, amount recognised for any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, the difference is recognised immediately in the profit or loss.

Costs related to the acquisition, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

For acquisitions between 1 April 2006 and 31 March 2011, goodwill represents the excess of the cost of acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities and contingent liabilities of the acquiree. When the excess was negative, the difference was recognised immediately in profit or loss.

Transaction costs that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

For acquisitions prior to 1 April 2006, goodwill represents the excess of the cost of acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities of the acquiree.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

Non-controlling interests

Non-controlling interests at the reporting date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of comprehensive income as an allocation of the profit or loss and the comprehensive income for the period between the non-controlling interests and the equity shareholders of the Company.

Since the beginning of the reporting period, the Group has applied FRS 127, *Consolidated and Separate Financial Statements (revised)* where losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. This change in accounting policy has been applied prospectively in accordance with the transitional provisions of the standard and does not have significant impact on the Group's reported income or net assets.

In the previous years, where losses applicable to the non-controlling interests exceed their interests in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reported profits, the Group's interest was allocated all such profits until the non-controlling interests' share of losses previously absorbed by the Group had been recovered.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

Loss of control

Upon implementation of the revised FRS 127, when control of a subsidiary is lost, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Prior to adopting the revised FRS 127, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

2.2 Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Associates (continued)

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

2.3 Jointly controlled entities

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting as described in note 2.2.

2.4 Property, plant and equipment and depreciation

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses and is not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The net book value of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property at cost.

Depreciation for property, plant and equipment other than freehold land, oil and gas properties and projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment and depreciation (continued)

Depreciation of producing oil and gas properties is computed based on the unit of production method using total proved and probable reserves for capitalised acquisition costs and total proved and probable developed reserves for capitalised exploration and development costs.

Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter. Leasehold land is depreciated over the lease term.

The estimated useful lives of the other property, plant and equipment are as follows:

Buildings	14	-	50	years
Plant and equipment	3	-	67	years
Office equipment, furniture and fittings	5	-	10	years
Computer software and hardware			5	years
Motor vehicles	3	-	5	years
Vessels	25	-	40	years

Estimates in respect of certain items of property, plant and equipment were revised during the year (refer note 3).

Property, plant and equipment individually costing less than RM5,000 are expensed off in the year of purchase.

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial period/year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2.5 Investment properties

Investment properties are properties which are owned either to earn rental income or for capital appreciation or for both. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Freehold land and projects-in-progress are stated at cost and are not depreciated. Other investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any, consistent with the accounting policy for property, plant and equipment as stated in note 2.4.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

Depreciation is recognised in the profit or loss on a straight-line basis over their estimated useful lives ranging between 10 and 50 years for buildings.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Land held for development and property development costs

Land held for development

Land held for development consists of land or such portions thereof on which no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified as non-current asset and is stated at cost less accumulated impairment losses, if any.

Cost includes acquisition cost of land and attributable development expenditure. Cost associated with the acquisition of land includes the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Where the Group had previously recorded the land at revalued amount, it continues to retain this amount as its surrogate costs as allowed by FRS 201_{2004}, *Property Development Activities*.

Land held for development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

Property development costs

Property development costs comprise costs associated with the acquisition of land, all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities and interest expenses incurred during the period of active development.

Property development cost not recognised as an expense is recognised as an asset and is stated at the lower of cost and net realisable value.

2.7 Leased assets

From 1 April 2011, the Group has applied IC Interpretation 4, *Determining whether an arrangement contains a lease*. This change in accounting policy has been applied retrospectively in accordance with the transitional provisions provided by the standard and does not have significant impact on the Group's reported income or net assets.

When the fulfillment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease although the arrangement does not take the legal form of a lease. Once determined to be a lease arrangement, it is accounted for as finance or operating lease in accordance with the accounting policy as stated below.

Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as borrowings.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leased assets (continued)

Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases and, the leased assets are not recognised on the Group's statement of financial position.

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Prepaid lease payments

Prepaid rental together with leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payment made on entering into a lease arrangement or acquiring a leasehold land is accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Leasehold land is classified into long lease and short lease. Long lease is defined as a lease with an unexpired lease period of fifty years or more. Short lease is defined as a lease with an unexpired lease period of less than fifty years.

2.8 Investments

Long term investments in subsidiaries, associates and jointly controlled entities are stated at cost less impairment loss, if any, in the Company's financial statements.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (note 2.12(i)).

2.9 Intangible assets

Goodwill

Goodwill arising from business combinations is initially measured at cost. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

Exploration expenditure

Intangible assets also include expenditure on the exploration for and evaluation of oil and natural gas resources (hereinafter collectively referred to as "exploration expenditure"). The accounting policy for exploration expenditure is described separately in note 2.10.

Other intangible assets

Intangible assets other than goodwill and exploration expenditure are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

Other intangible assets (continued)

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives. The amortisation method and the useful life for intangible assets are reviewed at least at each reporting date. Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.10 Exploration and development expenditure

The Group follows the successful efforts method of accounting for the exploration and development expenditure.

Exploration expenditure

Costs directly associated with an exploration well, including license acquisition and drilling costs, are initially capitalised as intangible assets until the results have been evaluated.

If a well does not result in successful discovery of economically recoverable volume of hydrocarbons, such costs are written off as a dry well. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development under prevailing economic conditions, the costs continue to be carried as intangible assets. All such carried costs are reviewed at least once a year to determine whether the reserves found or appraised remain economically viable. When this is no longer the case, the costs are written off.

Where development plan is commercially viable and approved by the relevant authorities, the related exploration and evaluation costs are transferred to projects-in-progress in property, plant and equipment.

Development expenditure

Development expenditure comprises all costs incurred in bringing a field to commercial production and is capitalised as incurred. The amount capitalised includes attributable interests and other financing costs incurred on exploration and development before commencement of production.

Upon commencement of production, the exploration and development expenditure initially capitalised as projects-in-progress are transferred to oil and gas properties, and are depreciated as described in the accounting policy for property, plant and equipment (note 2.4).

2.11 Non-current assets held for sale

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or all the assets and liabilities in a disposal group) are remeasured in accordance with the Group's applicable accounting policies. Thereafter, on initial classification as held for sale, the assets or disposal groups are measured at the lower of carrying amount and fair value less cost to sell.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Non-current assets held for sale (continued)

Any differences are charged to the profit or loss.

Property, plant and equipment and investment properties once classified as held for sale are not depreciated.

2.12 Financial instruments

A financial instrument is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

(i) Financial assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Purchases or sales that require delivery of financial assets within a timeframe established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group and the Company, including separated embedded derivatives, unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with gains or losses recognised in the profit or loss. The methods used to measure fair values are stated in note 2.12(vi).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortised cost, using the effective interest rate method (note 2.12(vii)), less impairment losses.

Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

(i) Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group and the Company have positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less impairment losses. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Subsequent to initial recognition, such financial assets are measured at fair value with unrealised gains or losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in the profit or loss.

(ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category includes derivative financial instruments entered into by the Group and the Company that do not meet the hedge accounting criteria.

Financial liabilities at fair value through profit or loss are carried on the statement of financial position at fair value with gains or losses recognised in the profit or loss.

Loans and borrowings

Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

(iii) Financial guarantee contracts

Financial guarantee contracts issued by the Group and the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as provision.

Financial guarantee contracts are amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee does not have a specific period, the guarantee will only be recognised in the profit or loss when the underlying facilities are withdrawn.

(iv) Derivative financial instruments

The Group and the Company use derivative financial instruments such as interest rate and foreign currency swaps, forward rate contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses taken to the profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(vi) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

(vi) Fair value of financial instruments (continued)

Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses.

(vii) Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(viii) Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2.13 Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Loans and receivables

For loans and receivables carried at amortised cost, individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount comprising the difference between its cost and its fair value is transferred from equity to the profit or loss.

If, in a subsequent period, the fair value of an available-for-sale financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in the profit or loss.

Impairment losses recognised in the profit or loss relating to investment in an equity instrument classified as available-for-sale is not to be reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of assets, other than inventories, property development costs, deferred tax assets and financial assets (financial assets in this context exclude investments in subsidiaries, associates and jointly controlled entities), are reviewed at each reporting date to determine whether there is any indication of impairment. For certain classes of assets, the carrying amounts are reviewed more frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in a subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

2.15 Amount due from contract customers

Amount due from contract customers on construction contracts is included in trade and other receivables and is stated at cost plus attributable profits less foreseeable losses and less progress billings. Cost includes all direct construction costs and other related costs. Where progress billings exceed the aggregate amount due from contract customers plus attributable profits less foreseeable losses, the net credit balance on all such contracts is included in trade and other payables as amount due to contract customers.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of crude oil and condensates includes costs of bringing the inventories to their present location and condition and is determined on a weighted average basis.

Cost of petroleum products includes crude oil costs, export duty, transportation charges and processing costs and is determined on a weighted average basis.

Cost of liquefied natural gas (“LNG”) and petrochemical products includes raw gas costs and production overheads and is determined on a weighted average basis.

Cost of material stores and spares consists of the invoiced value from suppliers and import duty charges and is determined on a weighted average basis.

Cost of developed properties held for sale consists of costs associated with the acquisition of land, direct costs and appropriate proportions of common costs attributable to developing the properties to completion.

2.17 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the net expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in note 25.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Employee benefits

Short term benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.

Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes and certain other independently-administered funds which are defined contribution plans.

Such contributions are recognised as an expense in the profit or loss as incurred.

2.19 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the period, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, and the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.20 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on retranslation of available-for-sale equity instruments, which are recognised in equity.

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia, are translated into Ringgit Malaysia at the exchange rates approximating those ruling at the reporting date. The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to the Group's foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are reclassified to other comprehensive income and accumulated under foreign currency translation reserve in equity. Upon disposal of the investment, the cumulative exchange differences previously recorded in equity are recognised in the consolidated profit or loss.

2.21 Borrowing costs and foreign currency exchange differences relating to projects-in-progress

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are completed.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to borrowings that are outstanding during the period, other than borrowings made specifically for the purpose of financing a specific qualifying asset, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowings, will be capitalised.

Exchange differences arising from foreign currency borrowings, although regarded as an adjustment to borrowing costs, are not capitalised but instead recognised in the profit or loss in the period in which they arise.

2.22 Revenue

Revenue from sale of oil and gas and their related products are recognised in the profit or loss when the risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the profit or loss based on actual and estimates of work done in respect of services rendered for long term project management contracts. Work done is measured based on internal certification of project activities. Full provision is made for any foreseeable losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue (continued)

Revenue arising from shipping activities are mainly from freight income and charter income. Freight income and the relevant discharged costs of cargoes loaded onto vessels up to the reporting date are accrued for in the profit or loss based on percentage of completion method. Charter income is accrued on time accrual basis.

Revenue from property development activities is recognised based on the stage of completion measured by reference to the proportion that property development costs incurred for work performed to-date, bear to the estimated total property development costs. Where the financial outcome of a property development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on the development units sold are recognised as an expense in the period in which they are incurred. Any expected loss on a development project, including costs to be incurred over the defects liability period, is recognised immediately in the profit or loss.

Revenue arising from assets yielding interest is recognised on a time proportion basis that takes into account the effective yield on the assets.

Revenue arising from investments yielding dividend is recognised when the shareholders' right to receive payment is established.

2.23 Financing costs

Financing costs comprise interest payable on borrowings and profit share margin on Islamic Financing Facilities, as well as accretion in provision due to the passage of time.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than that capitalised in accordance with the accounting policy stated in note 2.21. The interest component of finance lease payments is accounted for in accordance with the policy set out in note 2.7.

2.24 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other component. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the PETRONAS Executive Committee, to make decision about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

3. PROPERTY, PLANT AND EQUIPMENT

Group 31.12.2011	At 1.4.2011 RM Mil	Additions RM Mil	Acquisition/ (disposal) of subsidiaries RM Mil	Disposals/ write-offs RM Mil
At cost:				
Freehold land	2,513	20	11	(5)
Leasehold land	2,508	8	-	(3)
Lease properties	1,176	-	-	-
Oil and gas properties	112,092	1,689	(1,470)	(1)
Buildings	15,751	103	42	(29)
Plant and equipment	77,043	1,798	(1,186)	(553)
Office equipment, furniture and fittings	2,158	62	6	(23)
Computer software and hardware	2,317	95	(10)	(30)
Motor vehicles	522	77	(3)	(22)
Vessels	30,498	367	-	(188)
Projects-in-progress				
- oil and gas properties	53,905	16,146	-	(22)
- other projects	11,247	6,344	-	(181)
	311,730	26,709	(2,610)	(1,057)

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	At 1.4.2011 RM Mil	Charge for the period RM Mil	Acquisition/ (disposal) of subsidiaries RM Mil	Disposals/ write-offs RM Mil
Accumulated depreciation and impairment losses:				
Freehold land	22	-	-	-
Leasehold land	565	24	-	(3)
Lease properties	718	50	-	-
Oil and gas properties	50,530	6,674	(1,019)	-
Buildings	4,562	334	8	(17)
Plant and equipment	43,798	3,281	(1,169)	(446)
Office equipment, furniture and fittings	1,614	101	7	(18)
Computer software and hardware	1,832	136	(7)	(22)
Motor vehicles	319	38	1	(15)
Vessels	13,377	870	-	(126)
Projects-in-progress				
- oil and gas properties	2,724	-	-	-
- other projects	94	-	-	-
	120,155	11,508	(2,179)	(647)

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The fair value of property, plant and equipment of subsidiaries acquired during the period is presented on a gross basis, where cost is separately presented from accumulated depreciation and impairment losses.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group 31.12.2011	Transfers/ reclass/ adjustment RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
At cost:			
Freehold land	(52)	(5)	2,482
Leasehold land	(118)	5	2,400
Lease properties	49	(1)	1,224
Oil and gas properties	18,794	2,361	133,465
Buildings	(150)	(151)	15,566
Plant and equipment	416	509	78,027
Office equipment, furniture and fittings	(21)	(13)	2,169
Computer software and hardware	57	(57)	2,372
Motor vehicles	(6)	(24)	544
Vessels	(1,893)	1,617	30,401
Projects-in-progress			
- oil and gas properties	(20,748)	791	50,072
- other projects	306	459	18,175
	[ab] (3,366)	5,491	336,897

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	Impairment loss RM Mil	Transfers/ reclass/ adjustment RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
Accumulated depreciation and impairment losses:				
Freehold land	-	(22)	-	-
Leasehold land	-	(35)	3	554
Lease properties	-	7	(3)	772
Oil and gas properties	6	(126)	1,049	57,114
Buildings	18	(221)	(54)	4,630
Plant and equipment	175	(470)	275	45,444
Office equipment, furniture and fittings	2	(14)	(9)	1,683
Computer software and hardware	3	(7)	(37)	1,898
Motor vehicles	1	8	(9)	343
Vessels	666	(219)	751	15,319
Projects-in-progress				
- oil and gas properties	19	228	-	2,971
- other projects	-	(42)	-	52
	890	[ac] (913)	1,966	130,780

continued from previous page

[a] Includes revision to future cost of decommissioning of oil and gas properties amounting to (RM1,745 million) and corresponding depreciation charges of (RM147 million).

[b] Includes net transfers of (RM1,621 million) comprising transfer from intangible assets of RM118 million and transfers to assets held for sale of (RM1,253 million), long term receivables of (RM464 million), prepaid lease payments of (RM20 million) and investment properties of (RM2 million).

[c] Includes net transfers of (RM766 million) comprising transfer from prepaid lease payments of RM5 million and transfers to assets held for sale of (RM569 million) and long term receivables of (RM202 million).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group 31.3.2011	**At 1.4.2010 RM Mil**	**Additions RM Mil**	**Acquisition of subsidiaries RM Mil**	**Disposals/ write-offs RM Mil**
At cost:				
Freehold land	2,531	6	52	(8)
Leasehold land	2,495	36	8	(22)
Lease properties	1,188	-	2	(2)
Oil and gas properties	108,147	1,297	-	(3,290)
Buildings	14,969	652	212	(217)
Plant and equipment	74,532	1,274	756	(1,580)
Office equipment, furniture and fittings	1,988	144	11	(45)
Computer software and hardware	2,330	92	19	(152)
Motor vehicles	524	57	7	(64)
Vessels	34,803	349	-	(1,053)
Projects-in-progress				
- oil and gas properties	44,101	18,611	-	(649)
- other projects	11,836	6,884	7	(1,097)
	299,444	29,402	1,074	(8,179)

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	At 1.4.2010 RM Mil	**Charge for the year RM Mil**	**Acquisition of subsidiaries RM Mil**	**Disposals/ write-offs RM Mil**
Accumulated depreciation and impairment losses:				
Freehold land	22	-	-	-
Leasehold land	403	112	5	(12)
Lease properties	665	58	-	(1)
Oil and gas properties	45,396	6,108	-	(51)
Buildings	4,087	463	53	(80)
Plant and equipment	39,494	3,534	498	(1,039)
Office equipment, furniture and fittings	1,470	176	10	(38)
Computer software and hardware	1,772	191	18	(133)
Motor vehicles	308	58	7	(52)
Vessels	14,109	1,147	-	(734)
Projects-in-progress				
- oil and gas properties	2,128	-	-	-
- other projects	82	-	-	-
	109,936	11,847	591	(2,140)

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The fair value of property, plant and equipment of subsidiaries acquired during the year is presented on a gross basis, where cost is separately presented from accumulated depreciation and impairment losses.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group 31.3.2011	Transfers/ reclass/ adjustment RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
At cost:			
Freehold land	(53)	(15)	2,513
Leasehold land	-	(9)	2,508
Lease properties	(4)	(8)	1,176
Oil and gas properties	8,585	(2,647)	112,092
Buildings	191	(56)	15,751
Plant and equipment	3,723	(1,662)	77,043
Office equipment, furniture and fittings	74	(14)	2,158
Computer software and hardware	47	(19)	2,317
Motor vehicles	2	(4)	522
Vessels	(434)	(3,167)	30,498
Projects-in-progress			
- oil and gas properties	(7,316)	(842)	53,905
- other projects	(5,631)	(752)	11,247
	[ab](816)	(9,195)	311,730

continued from previous page

	Impairment loss RM Mil	Transfers/ reclass/ adjustment RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
Accumulated depreciation and impairment losses:				
Freehold land	-	-	-	22
Leasehold land	63	-	(6)	565
Lease properties	-	(1)	(3)	718
Oil and gas properties	528	(99)	(1,352)	50,530
Buildings	72	(14)	(19)	4,562
Plant and equipment	2,315	11	(1,015)	43,798
Office equipment, furniture and fittings	3	-	(7)	1,614
Computer software and hardware	2	(1)	(17)	1,832
Motor vehicles	1	(1)	(2)	319
Vessels	529	(286)	(1,388)	13,377
Projects-in-progress				
- oil and gas properties	596	-	-	2,724
- other projects	12	-	-	94
	4,121	[ac] (391)	(3,809)	120,155

continued from previous page

[a] Includes revision to future cost of decommissioning of oil and gas properties amounting to (RM684 million) and corresponding depreciation charges of (RM73 million).

[b] Includes net transfers of (RM132 million) comprising transfer from intangible assets of RM2,102 million and transfers to investment properties of (RM1,424 million), assets held for sale of (RM527 million) and other receivables of (RM283 million).

[c] Includes transfer to assets held for sale of (RM318 million).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company 31.12.2011	**At 1.4.2011 RM Mil**	**Additions RM Mil**	**Reclass/ adjustment RM Mil**	**At 31.12.2011 RM Mil**
At cost:				
Freehold land	53	-	-	53
Leasehold land	125	-	-	125
Lease properties	367	-	-	367
Oil and gas properties	7,147	686	(1,745)	6,088
Buildings	200	-	53	253
Plant and equipment	10	2	-	12
Office equipment, furniture and fittings	182	5	(74)	113
Computer software and hardware	422	7	21	450
Motor vehicles	22	3	-	25
Projects-in-progress				
- oil and gas properties	-	809	-	809
- other projects	411	410	-	821
	8,939	1,922	[a] (1,745)	9,116

	At 1.4.2011 RM Mil	**Charge for the period RM Mil**	**Reclass/ adjustment RM Mil**	**At 31.12.2011 RM Mil**
Accumulated depreciation:				
Freehold land	-	-	-	-
Leasehold land	35	1	-	36
Lease properties	321	7	-	328
Oil and gas properties	5,134	70	(147)	5,057
Buildings	52	2	1	55
Plant and equipment	9	-	-	9
Office equipment, furniture and fittings	72	6	(9)	69
Computer software and hardware	276	36	8	320
Motor vehicles	15	2	-	17
Projects-in-progress				
- oil and gas properties	-	-	-	-
- other projects	-	-	-	-
	5,914	124	[a] (147)	5,891

[a] Represents revision to future cost of decommissioning of oil and gas properties amounting to (RM1,745 million) and corresponding depreciation charges of (RM147 million).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company 31.3.2011	At 1.4.2010 RM Mil	Additions RM Mil	Disposals RM Mil	Reclass/ adjustment RM Mil	At 31.3.2011 RM Mil
At cost:					
Freehold land	53	-	-	-	53
Leasehold land	127	-	(2)	-	125
Lease properties	367	-	-	-	367
Oil and gas properties	7,825	68	-	(746)	7,147
Buildings	200	-	-	-	200
Plant and equipment	10	-	-	-	10
Office equipment, furniture and fittings	182	2	-	(2)	182
Computer software and hardware	408	12	-	2	422
Motor vehicles	16	6	-	-	22
Projects-in-progress					
- other projects	160	257	(6)	-	411
	9,348	345	(8)	(746)	8,939

	At 1.4.2010 RM Mil	Charge for the year RM Mil	Disposals RM Mil	Reclass/ adjustment RM Mil	At 31.3.2011 RM Mil
Accumulated depreciation:					
Freehold land	-	-	-	-	-
Leasehold land	35	1	(1)	-	35
Lease properties	311	10	-	-	321
Oil and gas properties	4,704	501	-	(71)	5,134
Buildings	49	3	-	-	52
Plant and equipment	9	-	-	-	9
Office equipment, furniture and fittings	48	24	-	-	72
Computer software and hardware	229	47	-	-	276
Motor vehicles	13	2	-	-	15
Projects-in-progress					
- other projects	-	-	-	-	-
	5,398	588	(1)	(71)	5,914

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group		Company	
		Carrying amount		Carrying amount
	31.12.2011	31.3.2011	31.12.2011	31.3.2011
	RM Mil	RM Mil	RM Mil	RM Mil
At cost:				
Freehold land	2,482	2,491	53	53
Leasehold land	1,846	1,943	89	90
Lease properties	452	458	39	46
Oil and gas properties	76,351	61,562	1,031	2,013
Buildings	10,936	11,189	198	148
Plant and equipment	32,583	33,245	3	1
Office equipment, furniture and fittings	486	544	44	110
Computer software and hardware	474	485	130	146
Motor vehicles	201	203	8	7
Vessels	15,082	17,121	-	-
Projects-in-progress				
- oil and gas properties	47,101	51,181	809	-
- other projects	18,123	11,153	821	411
	206,117	191,575	3,225	3,025

Security

Property, plant and equipment of certain subsidiaries costing RM8,266,550,000 (31.3.2011: RM8,175,757,000) have been pledged as security for loan facilities as set out in note 23 and note 24 to the financial statements.

Projects-in-progress

Included in additions to projects-in-progress of the Group is finance costs capitalised during the year of RM71,872,000 (31.3.2011: RM126,232,000). The interest rate on borrowings capitalised ranges from 1.25% to 3.18% (31.3.2011: 2.48% to 5.90%) per annum.

Restriction of land title

The titles to certain freehold land are in the process of being registered in the subsidiaries' name.

Change in estimates

During the period, the Company revised the estimated future cost of decommissioning of oil and gas properties. The revision was accounted for prospectively as a change in accounting estimates resulting in a decrease in net book value of oil and gas properties by RM1,598,000,000 and lower depreciation charges for the period by approximately RM280,000,000 (refer note 25).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group and the Company investment decision-making process. They are also an important element in testing for impairment. The term “reserves” describes the recoverable quantity of oil and gas volumes that are commercially viable for development given the prevailing economic situation present at the time of estimation. While it is crucial to know the quantity of these oil and gas reserves to the exact volume, in all cases, oil and gas reserves are only estimates.

Estimation of oil and gas reserves are normally conducted using industry-recognised method. Sufficient availability of key technical information are critical to ensure reserves estimates are technically sound while recognising the existence of uncertainties present in the oil and gas reservoirs. Reserves estimates are normally presented alongside the range of level of certainties namely the P1 (proved reserves; high level of certainty), P2 (probable reserves; mean level of certainty) and P3 (possible reserves; low level of certainty). The level of certainties depends on the availability and understanding of the geological and reservoir data available at the time of estimation and is normally represented in the form of probability distribution.

The Group adopts the 2P (or P1 + P2) reserves estimation approach for its reporting and investment decision making purposes. This approach is in line with the general industry-wide application supported by the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC) and Society of Petroleum Evaluators and Estimators (SPEE).

The reserves are further subdivided into developed and undeveloped categories. Developed reserves are reserves expected to be recovered through existing wells and facilities under the operating conditions that have been designed for. Whereas the undeveloped reserves are reserves to be recovered from approved and sanctioned projects and remain so until the wells are drilled and completed and ready for production which would by then be classified as developed.

In the annual reporting, these reserves may be revised based on new data that may become available (e.g. additional wells, actual production) or changes in economic parameters (e.g. cost, oil prices). These changes will eventually affect the financial and accounting measures such as the standardised measure of discounted cash flow, depreciation and amortisation charges and decommissioning provisions. Ultimately, these changes will also affect profit.

Impairment

As at 31 December 2011, the Group recognised net impairment losses on certain property, plant and equipment amounting to RM890,000,000 (31.3.2011: RM4,121,000,000). In arriving at the impairment loss amount, the carrying amount of each impaired cash generating unit is compared with the recoverable amount of the cash generating unit.

The recoverable amount is determined from the value in use calculations, using cash flow projections. The Group uses a range of long term assumptions including prices, volumes, margins and costs based on past performance and management’s expectations of market development. The projected cash flows were discounted using a discount rate between 9% and 10% (31.3.2011: 9% and 10%).

4. INVESTMENT PROPERTIES

Group 31.12.2011	At 1.4.2011 RM Mil	Additions RM Mil	Disposal RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
At cost:						
Freehold land	1,104	-	(1)	69	-	1,172
Buildings	10,404	7	(8)	1,409	11	11,823
Projects-in-progress	1,680	731	(12)	(1,437)	-	962
	13,188	738	(21)	[a] 41	11	13,957

	At 1.4.2011 RM Mil	Charge for the period RM Mil	Disposal RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
Accumulated depreciation:						
Freehold land	-	-	-	-	-	-
Buildings	2,627	305	(3)	(3)	7	2,933
Projects-in-progress	-	-	-	-	-	-
	2,627	305	(3)	[b] (3)	7	2,933

31.3.2011	At 1.4.2010 RM Mil	Additions RM Mil	Disposal RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
At cost:						
Freehold land	1,116	3	(152)	137	-	1,104
Buildings	9,968	616	(164)	1	(17)	10,404
Projects-in-progress	-	396	(27)	1,311	-	1,680
	11,084	1,015	(343)	[c] 1,449	(17)	13,188

	At 1.4.2010 RM Mil	Charge for the year RM Mil	Disposal RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
Accumulated depreciation:						
Freehold land	-	-	-	-	-	-
Buildings	2,294	364	(22)	-	(9)	2,627
Projects-in-progress	-	-	-	-	-	-
	2,294	364	(22)	-	(9)	2,627

[a] Comprises transfers from land held for development of RM37 million, property development cost of RM11 million and property, plant and equipment of RM2 million and transfer to asset held for sale of (RM9 million).
[b] Comprises transfer to assets held for sale of (RM3 million).
[c] Comprises transfers from property, plant and equipment of RM1,424 million and land held for development of RM25 million.

4. INVESTMENT PROPERTIES (continued)

Group	Carrying amount 31.12.2011 RM Mil	Carrying amount 31.3.2011 RM Mil
Freehold land	**1,172**	1,104
Buildings	**8,890**	7,777
Projects-in-progress	**962**	1,680
	11,024	10,561

The Directors have estimated the fair values of investment properties as at 31 December 2011 to be RM18,902,707,000 (31.3.2011: RM18,300,651,000). The fair values have been determined by discounting the estimated future cash flows or by reference to market evidence of transaction prices for similar properties.

Certain investment properties with net book value of RM3,352,481,000 (31.3.2011: RM3,465,042,000) have been pledged as securities for loan facilities as set out in note 23 and note 24 to the financial statements.

5. LAND HELD FOR DEVELOPMENT

Group 31.12.2011	Opening balance RM Mil	Additions RM Mil	Disposal/ write offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	Closing balance RM Mil
At cost:						
Freehold land	1,132	-	(29)	428	5	1,536
Leasehold land	50	-	-	-	-	50
Infrastructure development	459	33	(1)	(476)	-	15
	1,641	33	(30)	[a] (48)	5	1,601
31.3.2011						
At cost:						
Freehold land	1,186	-	(5)	(48)	(1)	1,132
Leasehold land	50	-	-	-	-	50
Infrastructure development	454	15	(5)	3	(8)	459
	1,690	15	(10)	[b] (45)	(9)	1,641

[a] Comprises transfers to investment properties of (RM37 million) and property development cost of (RM11 million).
[b] Comprises transfers to investment properties of (RM25 million) and property development cost of (RM20 million).

6. PREPAID LEASE PAYMENTS

Group 31.12.2011	At 1.4.2011 RM Mil	Additions RM Mil	Transfers from/(to) property, plant and equipment RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
At cost:					
Leasehold land					
- long lease	89	16	27	-	132
- short lease	58	-	-	-	58
Prepaid rental	630	54	(7)	-	677
	777	70	20	-	867

	At 1.4.2011 RM Mil	Charge for the period RM Mil	Transfer to property, plant and equipment RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
Accumulated amortisation and impairment losses:					
Leasehold land					
- long lease	7	2	-	-	9
- short lease	26	2	-	-	28
Prepaid rental	193	17	(5)	-	205
	226	21	(5)	-	242

31.3.2011	At 1.4.2010 RM Mil	Additions RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
At cost:					
Leasehold land					
- long lease	75	14	-	-	89
- short lease	55	3	-	-	58
Prepaid rental	598	33	-	(1)	630
	728	50	-	(1)	777

	At 1.4.2010 RM Mil	Charge for the year RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
Accumulated amortisation and impairment losses:					
Leasehold land					
- long lease	6	1	-	-	7
- short lease	24	2	-	-	26
Prepaid rental	171	22	-	-	193
	201	25	-	-	226

6. PREPAID LEASE PAYMENTS (continued)

Group	Carrying amount 31.12.2011 RM Mil	31.3.2011 RM Mil
Leasehold land		
- long lease	**123**	82
- short lease	**30**	32
Prepaid rental	**472**	437
	625	551

Restrictions of land title

The title to certain leasehold land is in the process of being registered in the subsidiary's name. Certain long term leasehold land of the Group cannot be disposed of, charged or sub-leased without the prior consent of the relevant authority.

7. INVESTMENTS IN SUBSIDIARIES

	Company 31.12.2011 RM Mil	31.3.2011 RM Mil
Investments at cost		
- quoted shares		
- in Malaysia	**16,284**	16,284
- unquoted shares	**25,107**	24,117
Fair value adjustments on loans and advances and financial guarantee	**6,044**	6,325
	47,435	46,726
Less: Impairment losses		
- unquoted shares	**(956)**	(948)
	46,479	45,778
Market value of quoted shares	**77,380**	84,756

Details of significant subsidiaries are stated in note 45 to the financial statements.

8. INVESTMENTS IN ASSOCIATES

	Group 31.12.2011 RM Mil	31.3.2011 RM Mil	Company 31.12.2011 RM Mil	31.3.2011 RM Mil
Investments at cost				
- quoted shares				
- in Malaysia	**256**	256	**302**	302
- unquoted shares	**2,622**	2,512	**-**	-
Share of post-acquisition profits and reserves	**2,593**	3,029	**-**	-
	5,471	5,797	**302**	302
Less: Impairment losses				
- unquoted shares	**(90)**	(72)	**-**	-
	5,381	5,725	**302**	302
Market value of quoted shares	**867**	852	**867**	852

8. INVESTMENTS IN ASSOCIATES (continued)

	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil	Company 31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Summary of financial information on associates:				
Total assets (100%)	**25,464**	25,320	**1,013**	1,021
Total liabilities (100%)	**(13,971)**	(13,092)	**(137)**	(176)
Revenue (100%)	**10,351**	12,659	**485**	455
Profit (100%)	**2,156**	4,512	**181**	150
Contingent liabilities:				
Guarantees extended to third parties	**(3,444)**	(3,757)	**-**	(2)

Details of significant associates are stated in note 46 to the financial statements.

9. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil	Company 31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Investments at cost				
- unquoted shares	**4,166**	4,116	**677**	677
Fair value adjustments on loans and advances and financial guarantee	**1,437**	1,275	**717**	717
Share of post-acquisition profits and reserves	**1,382**	492	**-**	-
	6,985	5,883	**1,394**	1,394
Less: Impairment losses	**(43)**	(47)	**(9)**	(9)
	6,942	5,836	**1,385**	1,385
Summary of financial information on jointly controlled entities:				
Total assets (100%)	**18,558**	18,038	**3,831**	3,875
Total liabilities (100%)	**(12,105)**	(11,733)	**(2,098)**	(2,139)
Revenue (100%)	**4,427**	3,091	**316**	615
Profit (100%)	**1,031**	592	**57**	249
Contingent liabilities:				
Guarantees extended to third parties	**-**	(2)	**-**	(2)

The Group's share of the current period and cumulative losses of certain jointly controlled entities amounting to RM18,562,000 (31.3.2011: RM3,383,000) and RM172,923,000 (31.3.2011: RM154,361,000) respectively have not been recognised in the Group's profit or loss as equity accounting has ceased when the Group's share of losses of these jointly controlled entities exceeded the carrying amount of its investment in these jointly controlled entities. The investments in these jointly controlled entities have been fully impaired in the respective companies' financial statements.

Details of significant jointly controlled entities are stated in note 47 to the financial statements.

10. INTANGIBLE ASSETS

Group **31.12.2011** **At cost:**	**At** **1.4.2011** **RM Mil**	**Additions** **RM Mil**	**Disposal/** **write-offs** **RM Mil**	**Transfer/** **Reclass** **RM Mil**
Goodwill	6,436	-	-	-
Exploration expenditure	7,799	8,024	(341)	98
Other intangible assets	4,131	254	(52)	(216)
	18,366	8,278	(393)	[a] (118)

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Accumulated amortisation **and impairment losses:**	**At** **1.4.2011** **RM Mil**	**Charge for** **the period** **RM Mil**	**Disposal/** **write-offs** **RM Mil**	**Reclass** **RM Mil**
Goodwill	542	-	-	-
Exploration expenditure	965	-	-	35
Other intangible assets	1,470	282	(43)	(35)
	2,977	282	(43)	-

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31.3.2011 **At cost:**	**At** **1.4.2010** **RM Mil**	**Additions** **RM Mil**	**Disposal/** **write-offs** **RM Mil**	**Transfer** **RM Mil**
Goodwill	6,551	-	(28)	(792)
Exploration expenditure	9,521	3,637	(2,777)	(2,200)
Other intangible assets	2,309	549	(50)	794
	18,381	4,186	(2,855)	[b] (2,198)

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Accumulated amortisation **and impairment losses:**	**At** **1.4.2010** **RM Mil**	**Charge for** **the year** **RM Mil**	**Disposal/** **write-offs** **RM Mil**	**Impairment** **loss** **RM Mil**
Goodwill	191	-	-	351
Exploration expenditure	121	-	(121)	965
Other intangible assets	1,147	305	(11)	47
	1,459	305	(132)	1,363

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[a] Comprises transfer to property, plant and equipment of (RM118 million).
[b] Comprises transfers to property, plant and equipment of (RM2,102 million) and assets held for sale of (RM96 million).

10. INTANGIBLE ASSETS (continued)

Group 31.12.2011 At cost:	Acquisition/ (disposal) of subsidiaries RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
Goodwill	(325)	27	6,138
Exploration expenditure	(55)	382	15,907
Other intangible assets	-	(40)	4,077
	(380)	369	26,122

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Accumulated amortisation and impairment losses:	Impairment loss/ (write-back) RM Mil	Acquisition/ (disposal) of subsidiaries RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
Goodwill	25	(341)	(4)	222
Exploration expenditure	688	-	4	1,692
Other intangible assets	(47)	-	(23)	1,604
	666	(341)	(23)	3,518

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31.3.2011 At cost:	Acquisition of subsidiaries RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
Goodwill	442	263	6,436
Exploration expenditure	-	(382)	7,799
Other intangible assets	569	(40)	4,131
	1,011	(159)	18,366

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Accumulated amortisation and impairment losses:	Acquisition of subsidiaries RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
Goodwill	-	-	542
Exploration expenditure	-	-	965
Other intangible assets	-	(18)	1,470
	-	(18)	2,977

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10. INTANGIBLE ASSETS (continued)

	Carrying Amount	
	31.12.2011	31.3.2011
	RM Mil	RM Mil
Group		
Goodwill	5,916	5,894
Exploration expenditure	14,215	6,834
Other intangible assets	2,473	2,661
	22,604	15,389

Impairment review of goodwill

For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the value in use is deemed to be the recoverable amount.

Included in goodwill is an amount of RM3,986,000,000 (31.3.2011: RM3,986,000,000) arising from the acquisition of PETRONAS Lubricants Italy S.p.A Group ("PLI Group"). The recoverable amount of PLI Group unit was based on its value in use and was determined with the assistance of independent valuers. The value in use was determined by using the discounted cash flow method based on management's business plan cash flow projections for 5 financial years from 2012 to 2016, adjusted with an estimated terminal value. The cash flow assumes a long term growth rate of 2.8% (31.3.2011: 2.9%) and is discounted to present value using discount rate of between 8.2% and 9.4% (31.3.2011: 8.1% and 8.4%).

Based on the above, the recoverable amount of the unit was determined to be higher than its carrying amount and therefore, no impairment loss was recognised. The above estimates are sensitive in the following areas:

(i) A decrease of a half percentage point in long term growth rate used would have reduced the recoverable amount by approximately RM318 million but would not result in impairment loss.

(ii) An increase of a one percentage point in discount rate used would have reduced the recoverable amount by approximately RM549 million but would not result in impairment loss.

The value in use of other goodwill is derived from the respective cash-generating units' business plan cash flow projections for 5 financial years and extrapolated using long term average growth rate of the respective industries those units are engaged in. These cash flows are discounted to present value using discount rate at 9% (31.3.2011: 7% to 9%).

Based on the above, the carrying amount of other goodwill of certain units were determined to be higher than their recoverable amount and impairment losses of RM25,000,000 (31.3.2011: RM351,000,000) was recognised. The impairment loss was allocated to goodwill and is included in administration expenses.

11. LONG TERM RECEIVABLES

	Group		Company	
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Term loans and advances:				
Loans and advances due from subsidiaries	-	-	65,207	67,151
Term loans due from subsidiaries	-	-	3,714	3,502
Loans and advances due from associates and jointly controlled entities	1,788	918	-	-
	1,788	918	68,921	70,653
Derivative assets (note 13)	491	433	1,298	1,663
Other receivables	2,309	2,317	-	-
	4,588	3,668	70,219	72,316
Less: Impairment losses				
- Term loans and advances	(2)	(68)	(503)	(503)
- Other receivables	(502)	(311)	-	-
	4,084	3,289	69,716	71,813

Included in the Company's loans and advances due from subsidiaries is an amount of RM46,735,665,000 (31.3.2011: RM44,436,480,000), which bears interest at rates ranging from 2.04% to 7.88% (31.3.2011: 3.10% to 7.88%) per annum.

Included in the Group's loans and advances due from associates and jointly controlled entities is an amount of RM1,242,935,000 (31.3.2011: RM538,809,000), which bears interest at rates ranging from 0.95% to 10.00% (31.3.2011: 3.22% to 10.00%) per annum.

Term loans due from subsidiaries were on-lending of term loans obtained by the Company, on terms and conditions similar as those of the principal loan agreements entered into by the Company.

12. FUND AND OTHER INVESTMENTS

	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil	Company 31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Non-current				
Loans and receivables				
Unquoted securities	715	682	-	-
Held-to-maturity				
Malaysian Government Securities	407	-	407	-
Corporate Private Debt Securities	2,087	-	2,087	-
	2,494	-	2,494	-
Available-for-sale				
Quoted shares				
- in Malaysia	72	373	-	-
- outside Malaysia	-	10,344	-	-
Unquoted shares	217	428	76	76
	289	11,145	76	76
Less: Impairment losses				
Unquoted shares	(3)	(3)	-	-
	286	11,142	76	76
Total non-current investments	3,495	11,824	2,570	76
Current				
Available-for-sale				
Quoted shares				
- in Malaysia	611	284	334	286
- outside Malaysia	9,035	6,731	-	-
Treasury Bills	16,073	18,450	16,073	18,450
	25,719	25,465	16,407	18,736
Fair value through profit or loss				
Designated upon initial recognition				
Quoted shares				
- outside Malaysia	-	104	-	-
Quoted securities				
- outside Malaysia	964	1,351	964	1,351
Malaysian Government Securities	5,876	6,286	5,814	6,193
Corporate Private Debt Securities	2,115	3,918	4,657	5,045
Negotiable Certificate of Deposits	514	490	514	490
Unquoted securities	195	250	-	-
Loan Stock	-	5	-	-
	9,664	12,404	11,949	13,079
Total current investments	35,383	37,869	28,356	31,815
Total fund and other investments	38,878	49,693	30,926	31,891
Representing items:				
At amortised cost	3,338	995	2,570	76
At fair value	35,540	48,698	28,356	31,815
	38,878	49,693	30,926	31,891

Included in corporate private debt securities of the Company are securities issued by subsidiaries amounting to RM2,542,000,000 (31.3.2011: RM1,127,000,000).

13. DERIVATIVE ASSETS/LIABILITIES

	Note	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil	Company 31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Derivative assets					
Non-current					
Forward foreign exchange contracts		491	433	1,298	1,663
Current					
Commodity swaps		4	4	-	-
Forward gas contracts		106	-	-	-
Forward foreign exchange contracts		38	74	16	17
		148	78	16	17
Included within:					
Long term receivables	11	491	433	1,298	1,663
Trade and other receivables	18	148	78	16	17
		639	511	1,314	1,680
Derivative liabilities					
Non-current					
Interest rate swaps		(281)	(303)	-	-
Forward foreign exchange contracts		-	-	(208)	(164)
		(281)	(303)	(208)	(164)
Current					
Commodity swaps		(4)	(51)	-	-
Interest rate swaps		(6)	(4)	-	-
Forward gas contracts		(18)	-	-	-
Forward foreign exchange contracts		(23)	(70)	(6)	(9)
Forward oil price contracts		(12)	(121)	-	-
		(63)	(246)	(6)	(9)
Included within:					
Other long term liabilities and provisions	25	(281)	(303)	(208)	(164)
Trade and other payables	26	(63)	(246)	(6)	(9)
		(344)	(549)	(214)	(173)

Included in the Company's non-current derivative assets and derivative liabilities are forward foreign exchange contracts entered into with certain subsidiaries in relation to loans due from the subsidiaries amounting to RM807,000,000 (31.3.2011: RM1,230,000,000) and RM208,000,000 (31.3.2011: RM164,000,000) respectively.

In the normal course of business, the Group and the Company enter into derivative financial instruments to manage their normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt, consistent with risk management policies and objectives.

The calculation of fair value for derivative financial instruments depends on the type of instruments. The fair value of interest rate swap agreements are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The fair value of forward foreign currency exchange contracts is based on the fair value difference between forward exchange rates and the contracted rate. The fair value of commodity swap and commodity forward contracts is based on the fair value difference between market price at the date of measurement and the contracted price.

13. DERIVATIVE ASSETS/LIABILITIES (continued)

Certain subsidiaries of the Group adopt hedge accounting whereby hedges meeting the criteria for hedge accounting are classified as cash flow hedges. The effective portion of the gain or loss on the hedging instruments is recognised directly in equity until the hedged transaction occurs, while the ineffective portion is recognised in the profit or loss. As at 31 December 2011, the balance recognised under capital reserves in equity amounts to RM274,000,000 (31.3.2011: RM255,000,000) while the ineffective portion recognised under other income in profit or loss amounts to RM800,000 (31.3.2011: Nil). As these amounts are not material to the Group, no full disclosure of hedge accounting is presented in the Group's financial statements.

14. DEFERRED TAX

The components and movements of deferred tax liabilities and assets during the financial period prior to offsetting are as follows:

Group 31.12.2011	At 1.4.2011 RM Mil	Charged/ (credited) to profit or loss RM Mil	Acquisition/ (disposal) of subsidiaries RM Mil	Equity RM Mil	Translation exchange difference RM Mil	At 31.12.2011 RM Mil
Deferred tax liabilities						
Property, plant and equipment	13,877	779	(285)	-	212	14,583
Other items	780	(272)	(9)	37	50	586
	14,657	507	(294)	37	262	15,169
Deferred tax assets						
Property, plant and equipment	-	(52)	-	-	-	(52)
Unused tax losses	(2,617)	(435)	158	-	(2)	(2,896)
Unabsorbed capital allowances	(631)	72	-	-	1	(558)
Unused reinvestment allowances	(23)	14	-	-	-	(9)
Unused investment tax allowances	(1,119)	119	-	-	-	(1,000)
Other items	(984)	143	(11)	-	(54)	(906)
	(5,374)	(139)	147	-	(55)	(5,421)

Group 31.3.2011	At 1.4.2010 RM Mil	Charged/ (credited) to profit or loss RM Mil	Acquisition of subsidiaries RM Mil	Equity RM Mil	Translation exchange difference RM Mil	At 31.3.2011 RM Mil
Deferred tax liabilities						
Property, plant and equipment	13,321	857	66	-	(367)	13,877
Other items	228	(13)	491	52	22	780
	13,549	844	* 557	52	(345)	14,657
Deferred tax assets						
Property, plant and equipment	48	(48)	-	-	-	-
Unused tax losses	(2,123)	(508)	(3)	-	17	(2,617)
Unabsorbed capital allowances	(480)	(100)	(36)	-	(15)	(631)
Unused reinvestment allowances	(40)	17	-	-	-	(23)
Unused investment tax allowances	(522)	(597)	-	-	-	(1,119)
Other items	(1,378)	412	(3)	-	(15)	(984)
	(4,495)	(824)	(42)	-	(13)	(5,374)

* Includes deferred tax liability of RM264,000,000 which relates to adjustment arising from finalisation of purchase price allocation on acquisition of certain subsidiaries in the previous year.

14. DEFERRED TAX (continued)

Company	Opening balance RM Mil	Charged/ (credited) to profit or loss RM Mil	Closing balance RM Mil
31.12.2011			
Deferred tax liabilities			
Property, plant and equipment	29	(25)	4
Others	120	(55)	65
	149	(80)	69
Deferred tax assets			
Unused tax losses	(2,210)	(383)	(2,593)
Others	(47)	13	(34)
	(2,257)	(370)	(2,627)
31.3.2011			
Deferred tax liabilities			
Property, plant and equipment	78	(49)	29
Others	14	106	120
	92	57	149
Deferred tax assets			
Unused tax losses	(1,717)	(493)	(2,210)
Others	(160)	113	(47)
	(1,877)	(380)	(2,257)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are as follows:

	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil	Company 31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Deferred tax assets				
Deferred tax liabilities	809	681	69	149
Deferred tax assets	(4,689)	(4,656)	(2,627)	(2,257)
	(3,880)	(3,975)	(2,558)	(2,108)
Deferred tax liabilities				
Deferred tax liabilities	14,360	13,976	-	-
Deferred tax assets	(732)	(718)	-	-
	13,628	13,258	-	-

No deferred tax has been recognised for the following items:

	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil
Deductible temporary differences	27	-
Unabsorbed capital allowances	1,100	771
Unused tax losses	6,617	3,885
Unused investment tax allowances	1,582	1,863
	9,326	6,519

14. DEFERRED TAX (continued)

The unabsorbed capital allowances, unused tax losses and unused investment tax allowances do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The Group and the Company have unused tax losses carried forward of RM18,201,000,000 (31.3.2011: RM14,353,000,000) and RM10,372,000,000 (31.3.2011: RM8,840,000,000) respectively which give rise to the recognised and unrecognised deferred tax assets above.

The Group also has unused investment tax allowances and unused reinvestment allowances of RM5,582,000,000 (31.3.2011: RM6,339,000,000) and RM36,000,000 (31.3.2011: RM92,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

15. CASH AND CASH EQUIVALENTS

		Group		Company
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Non-current				
Deposits placed:				
Banks	89	108	-	-
Current				
Cash and bank balances	4,084	2,510	2	2
Deposits placed:				
Banks	114,400	98,850	70,462	54,654
Finance companies	65	42	50	-
Other corporations	6,809	5,154	5,094	3,508
	125,358	106,556	75,608	58,164
	125,447	106,664	75,608	58,164

Included in cash and bank balances of the Group are interest-bearing balances amounting to RM3,595,102,000 (31.3.2011: RM1,901,221,000).

Included in cash and bank balances of the Group are amounts of RM23,222,000 (31.3.2011: RM26,692,000) held pursuant to the requirement of the Housing Development (Housing Development Account) Regulations 2002 and are therefore restricted from use in other operations.

Included in deposits placed with licensed financial institutions of the Group is an amount of RM769,891,000 (31.3.2011: RM1,001,700,000) being deposits held under designated accounts for repayment of term loan and redemption of Islamic Financing Facilities. Deposits held in respect of repayments which are not due within the next 12 months are presented as non-current.

16. PROPERTY DEVELOPMENT COSTS

Group 31.12.2011	Opening balance RM Mil	Costs incurred/ (charged) during the period/year RM Mil	Transfer RM Mil	Reversal of completed projects RM Mil	Translation exchange difference RM Mil	Closing balance RM Mil
Freehold land	39	-	60	(7)	-	92
Development costs	456	120	(21)	(103)	1	453
Less: Accumulated costs charged to profit or loss	(54)	(94)	-	110	-	(38)
	441	26	[a] 39	-	1	507
31.3.2011						
Freehold land	22	1	16	-	-	39
Development costs	453	68	4	(67)	(2)	456
Less: Accumulated costs charged to profit or loss	(2)	(119)	-	67	-	(54)
	473	(50)	[b] 20	-	(2)	441

Included in property development costs incurred is finance costs capitalised during the period of RM13,362,000 (31.3.2011: RM11,560,000).

The interest rate on the borrowings capitalised is 3.60% (31.3.2011: 5.77%) per annum.

17. TRADE AND OTHER INVENTORIES

	Group 31.12.2011 RM Mil	Group 31.3.2011 RM Mil	Company 31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Crude oil and condensate	**2,329**	2,072	**-**	-
Petroleum products	**4,885**	4,885	**24**	49
Petrochemical products	**582**	100	**-**	-
Liquefied natural gas	**883**	485	**-**	-
Stores, spares and others	**2,756**	1,809	**-**	-
Developed properties held for sale	**330**	349	**-**	-
	11,765	9,700	**24**	49

[a] Comprises transfers from land held for development of RM11 million and other receivables of RM49 million and transfers to investment properties of (RM11 million) and inventories of (RM10 million).

[b] Comprises transfer from land held for development of RM20 million.

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Trade receivables	**26,646**	24,451	**3,220**	3,066
Staff housing and vehicle loans	**233**	338	**232**	336
Other receivables, deposits and prepayments	**10,607**	7,330	**147**	328
Amount due from:				
- a shareholder	**1,000**	-	**1,000**	-
- contract customers	**573**	271	**-**	-
- subsidiaries*	**-**	-	**10,799**	9,090
- associates and jointly controlled entities*	**403**	1,147	**73**	28
Derivative assets (note 13)	**148**	78	**16**	17
	39,610	33,615	**15,487**	12,865
Less: Impairment losses				
Trade receivables	**(2,235)**	(428)	**(90)**	(90)
Amount due from subsidiaries	**-**	-	**(286)**	(238)
Other receivables, deposits and prepayments	**(11)**	(25)	**(15)**	(18)
	37,364	33,162	**15,096**	12,519

* Amount due from subsidiaries, associates and jointly controlled entities arose in the normal course of business.

Amount due from contract customers:

	Group	
	31.12.2011 RM Mil	31.3.2011 RM Mil
Aggregate costs incurred to date	**10,828**	2,246
Add: Attributable profit	**14**	311
	10,842	2,557
Less: Progress billings	**(10,269)**	(2,286)
	573	271

Included in trade receivables of the Group are rental receivables amounting to RM7,343,000 (31.3.2011: RM7,295,000), which have been pledged for loan facilities as set out in note 23 and note 24 to the financial statements.

19. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	31.12.2011 RM Mil	31.3.2011 RM Mil
Vessels	**520**	52
Land and building	**153**	5
Plant and equipment	**39**	152
Intangible assets	**-**	96
Other (liabilities)/assets	**(81)**	41
	631	346

The above amount represents carrying values of assets owned by the Group with the intention of disposal in the immediate future. The carrying amounts of these assets immediately before reclassification are not materially different from their fair values.

20. SHARE CAPITAL

	31.12.2011 RM Mil	Company 31.3.2011 RM Mil
Authorised:		
500,000 ordinary shares of RM1,000 each	**500**	500
Issued and fully paid:		
100,000 ordinary shares of RM1,000 each	**100**	100

21. RESERVES

Pursuant to Section 84 of the Petroleum (Income Tax) Act 1967, dividends paid out on income derived from petroleum operations are not chargeable to income tax. Subject to agreement by the Inland Revenue Board, the Company has sufficient income derived from petroleum operations, Section 108 tax credit and tax exempt income to distribute all its distributable reserves at 31 December 2011, if paid out as dividends.

The Financial Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the remaining Section 108 tax credit as at 31 December 2011 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

Capital Reserves

Capital reserves represent primarily reserves created upon bonus share issuance by subsidiaries, reserves created upon redemption of preference shares and the Group's share of its associate companies' reserves.

Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from that of the Group's presentation currency.

Available-for-sale Reserve

This reserve records the changes in fair value of available-for-sale investments. On disposal or impairment, the cumulative changes in fair value are transferred to the profit or loss.

General Reserve

General reserve represents appropriation of retained profits for general purposes rather than for a specific item of future loss or expense. In effect, it is a reserve for unspecified possible events.

22. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests proportion of share capital and reserves of partly-owned subsidiaries.

23. BORROWINGS

	Group		Company	
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Current				
Secured				
Term loans	743	602	-	-
Islamic financing facilities	300	679	-	-
Total current secured borrowings	1,043	1,281	-	-
Unsecured				
Term loans	675	536	-	-
Notes and Bonds	6,357	-	6,357	-
Islamic financing facilities	1,137	1,250	-	-
Revolving credits	2,729	274	-	-
Bankers' acceptances	-	41	-	-
Bank overdrafts	908	75	-	-
Total current unsecured borrowings	11,806	2,176	6,357	-
Total current borrowings	12,849	3,457	6,357	-
Non-current				
Secured				
Term loans	3,380	2,463	-	-
Islamic financing facilities	1,863	2,292	-	-
Total non-current secured borrowings	5,243	4,755	-	-
Unsecured				
Term loans	7,672	8,167	-	-
Notes and Bonds	19,039	24,195	16,815	22,055
Islamic financing facilities	7,720	7,237	4,797	4,536
Total non-current unsecured borrowings	34,431	39,599	21,612	26,591
Total non-current borrowings	39,674	44,354	21,612	26,591
Total borrowings	52,523	47,811	27,969	26,591

23. BORROWINGS (continued)

Terms and debt repayment schedule

Group	Total RM Mil	Under 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	Over 5 years RM Mil
Secured					
Term loans	4,123	743	541	2,004	835
Islamic financing facilities	2,163	300	518	1,123	222
	6,286	1,043	1,059	3,127	1,057
Unsecured					
Term loans	8,347	675	7,420	248	4
Notes and Bonds	25,396	6,357	653	4,210	14,176
Islamic financing facilities	8,857	1,137	96	7,316	308
Revolving credits	2,729	2,729	-	-	-
Bank overdrafts	908	908	-	-	-
	46,237	11,806	8,169	11,774	14,488
	52,523	12,849	9,228	14,901	15,545
Company					
Unsecured					
Notes and Bonds	23,172	6,357	653	1,986	14,176
Islamic financing facilities	4,797	-	-	4,797	-
	27,969	6,357	653	6,783	14,176

Islamic financing facilities

Details of Islamic financing facilities are included in note 24.

Unsecured term loans

The unsecured term loans obtained by the subsidiaries primarily comprise:

	31.12.2011	In million 31.3.2011
USD Term loan	US$1,104	US$1,098
RM Term loans	RM2,328	RM2,328
BAHT Term loans	-	BAHT714
EURO Term loans	€877	€859

These unsecured term loans bear interest at rates ranging from 1.2% to 9.1% (31.3.2011: 1.1% to 6.0%) per annum and are fully repayable at their various due dates from 2012 to 2023.

23. BORROWINGS (continued)

Unsecured Notes and Bonds

The unsecured Notes and Bonds comprise:

		In million
	31.12.2011	**31.3.2011**
USD Notes and Bonds:		
7% Notes due 2012^	**US$2,000**	US$2,000
6 1/8% Notes due 2014*	**US$700**	US$700
7 3/4% Bonds due 2015	**US$625**	US$625
5 1/4% Guaranteed Notes due 2019^	**US$3,000**	US$3,000
7 7/8% Notes due 2022^	**US$1,000**	US$1,000
7 5/8% Bonds due 2026	**US$500**	US$500
Samurai Bonds		
6th Series 3.4% due 2013	**¥16,000**	¥16,000

* Obtained by a subsidiary.
^ Obtained by the Company via a subsidiary.

Secured term loans

The secured term loans obtained by the subsidiaries primarily comprise:

			In million
	Securities	**31.12.2011**	**31.3.2011**
USD Term loans	Secured by way of a charge over certain vessels, property, plant and equipment and investment properties, together with assignments of earnings, charter agreements and insurance of the relevant vessels, property, plant and equipment of certain subsidiaries.	**US$1,735**	US$1,499
RM Term loans	Secured by way of a charge over certain vessels, property, plant and equipment and investment properties, together with assignments of earnings, charter agreements and insurance of the relevant vessels, property, plant and equipment of certain subsidiaries.	**RM1,539**	RM1,312

The secured term loans bear interest at rates ranging from 1.29% to 8.50% (31.3.2011: 1.05% to 7.00%) per annum and are fully repayable at their various due dates from 2012 to 2022.

Unsecured revolving credits, bankers' acceptances and bank overdrafts

The unsecured revolving credits, bankers' acceptances and bank overdrafts are obtained by the subsidiaries and primarily bear interest at rates ranging from 1.08% to 10.59% (31.3.2011: 2.57% to 6.74%) per annum.

23. BORROWINGS (continued)

Certain borrowings obtained by the Company are on-lent to subsidiaries, associates and jointly controlled entities. At the reporting date, the outstanding amounts on-lent to subsidiaries are as follows:

		Company
	31.12.2011 RM Mil	31.3.2011 RM Mil
Subsidiaries - repayable after twelve months (note 11)	**3,714**	3,502

In connection with the long term borrowing facility agreements, the Group and the Company have agreed on the following significant covenants with the lenders:

i. not to allow any material indebtedness (the minimum aggregate amount exceeding US$30,000,000 or its equivalent in any other currency) for borrowed money of the Company to become due or capable of being declared due before its stated maturity, any material guarantee of the Company is not discharged at maturity or when validly called or the Company goes into default under, or commits a breach of, any instrument or agreement relating to any such indebtedness for borrowed money or guarantee and such default or breach remains unpaid or unremedied for a period of 30 days;

ii. the Company (not including any of its subsidiaries) not to create, incur or have outstanding any mortgage, pledge, lien, charge, encumbrance or any other lien upon the whole or any part of its property or assets, present or future indebtedness of itself or any other person, unless the aggregate outstanding principal amount of all such secured indebtedness (other than indebtedness secured by the liens already in existence) plus attributable debt of the Company in respect of sales and leaseback transactions would not exceed 10% of the consolidated net tangible assets; and

iii. the Company (not including any of its subsidiaries) not to enter into any sale and leaseback transaction, unless the attributable debt in respect of such sale and leaseback transaction and all other sale and leaseback transaction plus the aggregate outstanding principal amount of indebtedness for borrowed money secured by security interests (other than permitted security interests) then outstanding which have not equally and rateably secured the total outstandings would not exceed 10% of the Company's tangible net worth provided that, within 12 months after such sale and leaseback transaction, it applies to the retirement of indebtedness for borrowed money the repayment obligations in respect of which are at least pari passu with its repayment obligations hereunder and which are not secured by any security interest, an amount equal to the greater of:

    - the net proceeds of the sale or transfer of the property or other assets which are the subject of such sale and leaseback transaction as determined by the Company; or

    - the fair market value of the property or other assets so leased as determined by the Company.

24. ISLAMIC FINANCING FACILITIES

Secured Islamic Financing Facilities

The secured Islamic financing facilities obtained by the subsidiaries comprise:

		RM Mil
	31.12.2011	31.3.2011
Al Bai'bithaman Ajil long term facilities	**2,410**	2,450
Bai' Al-Dayn Note Issuance Facilities	**200**	399
Al Murabahah Medium Term Notes	**2,200**	2,200

24. ISLAMIC FINANCING FACILITIES (continued)

The secured Islamic financing facilities bear a yield payable ranging from 3.4% to 7.2% (31.3.2011: 3.4% to 8.3%) per annum and are fully repayable at their various due dates from 2012 to 2023.

The Islamic financing facilities are secured by way of a charge over certain property, plant and equipment and investment properties.

Unsecured Islamic Financing Facilities

The unsecured Islamic financing facilities obtained by the subsidiaries comprise:

		In million
	31.12.2011	**31.3.2011**
Murabahah Note Issuance Facilities	**RM5,000**	RM5,000
Sukuk Musyarakah	**RM2,380**	RM1,500
Ijarah Muntahiyah Bit Tamleek	**RM95**	RM95
Trust Certificates^	**US$1,500**	US$1,500

^ Obtained by the Company via a subsidiary.

The unsecured Islamic financing facilities bear a yield payable ranging from 3.30% to 6.20% (31.3.2011: 3.08% to 6.20%) per annum and are fully repayable at their various due dates from 2012 to 2021.

The Company has obtained the above Trust Certificates financing via a subsidiary of the Group (referred to as special purpose vehicle or "SPV"). In relation to this financing arrangement, certain subsidiaries sold their beneficial ownership of property, plant and equipment ("sukuk assets") with a net book value of RM2,526,000,000 (31.3.2011: RM2,710,000,000) to the SPV to hold in trust for and on behalf of the Trust Certificate holders. The SPV then leased this beneficial ownership of the sukuk assets to the Company in accordance with Syariah Principles.

25. OTHER LONG TERM LIABILITIES AND PROVISIONS

		Group		Company
	31.12.2011	**31.3.2011**	**31.12.2011**	**31.3.2011**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Provision for decommissioning of:				
- oil and gas properties	**16,367**	22,517	**14,282**	20,743
- other property, plant and equipment	**229**	241	**-**	-
Financial guarantees	**464**	425	**647**	680
Derivative liabilities (note 13)	**281**	303	**208**	164
Others	**6,636**	1,058	**3,606**	-
	23,977	24,544	**18,743**	21,587

Provision for decommissioning of oil and gas properties and other property, plant and equipment is recognised when there is an obligation to decommission and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made.

The provision recognised is the present value of the estimated future costs determined in accordance with local conditions and requirements net of, in the case of oil and gas properties, amounts received and estimated future funds receivable from contractors pursuant to the terms of the various production sharing contracts that the Company has entered into.

25. OTHER LONG TERM LIABILITIES AND PROVISIONS (continued)

A corresponding asset of an amount equivalent to the provision is also created. This asset is depreciated in accordance with the policy set out in note 2.4. The increase in the present value of the provision for the expected costs due to the passage of time is included within finance costs.

Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal events actually occur are uncertain. Because actual timing and net cash outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, the carrying amounts of provisions, together with the interest rate used in discounting the cash flows and inflation rate, are regularly reviewed and adjusted to take account of such changes. The interest rate and inflation rate used to determine the obligation as at 31 December 2011 was 4.42% (31.3.2011: 4.42%) and 3.0% (31.3.2011: 3.0%) respectively. Changes in the expected future costs are reflected in both the provision and the asset.

The movement of provision for decommissioning during the financial period are as follows:

	Group RM Mil	Company RM Mil
At 1 April 2011	22,758	20,743
Net changes in provision	(6,737)	(6,988)
Provision utilised	(27)	-
Unwinding of discount	640	527
Translation exchange difference	(38)	-
At 31 December 2011	16,596	14,282

Net changes in provision includes foreign exchange gains or losses arising from retranslation of the provision and are adjusted against the carrying amount of the corresponding asset accordingly.

During the period, the Company revised its estimated future costs of decommissioning of oil and gas properties resulting from changes in estimated cash flows. The revision was accounted for prospectively as a change in accounting estimates resulting in the following:

i. decrease in other long term liabilities and provisions by RM4,921,000,000;
ii. decrease in net book value of property, plant and equipment by RM1,598,000,000; and
iii. increase in net profits by RM3,323,000,000.

26. TRADE AND OTHER PAYABLES

		Group		Company
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Trade payables	16,623	14,416	1,847	1,050
Other payables	33,055	23,034	10,268	4,187
Amount due to:				
- Subsidiaries*	-	-	2,163	1,447
- Associates and jointly controlled entities*	569	343	-	19
Derivative liabilities (note 13)	63	246	6	9
	50,310	38,039	14,284	6,712

26. TRADE AND OTHER PAYABLES (continued)

Included in other payables of the Group are security deposits of RM100,361,000 (31.3.2011: RM75,929,000) mainly held in respect of tenancies of a shopping centre and office buildings. These deposits are refundable upon termination of the respective lease agreements.

Also included in trade payables and other payables of the Group are retention sums on construction contracts amounting to RM182,216,000 (31.3.2011: RM188,180,000) and RM36,144,000 (31.3.2011: RM36,201,000) respectively.

* Amount due to subsidiaries, associates and jointly controlled entities arose in the normal course of business.

27. GROSS PROFIT

	Group		Company	
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Revenue				
- sales of oil and gas	204,951	222,269	65,698	70,506
- others	5,043	4,227	9,528	7,508
	209,994	226,496	75,226	78,014
- rendering of services	2,689	2,914	29	48
- shipping and shipping related services	5,306	6,726	-	-
- sale and rental of properties	1,746	1,945	-	-
	9,741	11,585	29	48
- dividend income				
in Malaysia (Quoted)				
- subsidiaries	-	-	2,918	2,190
- associates	-	-	49	49
- investments	5	13	5	13
in Malaysia (Unquoted)				
- subsidiaries	-	-	11,976	14,008
- associates	-	-	5	263
- investments	26	57	26	57
outside Malaysia (Quoted)				
- investments	350	285	-	-
	381	355	14,979	16,580
- interest income	2,681	2,792	1,995	1,898
	222,797	241,228	92,229	96,540
Cost of revenue				
- cost of sales	(117,788)	(136,189)	(35,118)	(42,797)
- cost of services	(8,448)	(7,238)	-	-
	(126,236)	(143,427)	(35,118)	(42,797)
Gross profit	96,561	97,801	57,111	53,743

28. OPERATING PROFIT

	Group		Company	
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Included in operating profit are the following charges:				
Audit fees	26	26	1	1
Amortisation of:				
- intangible assets	282	305	-	-
- prepaid lease payments	21	25	-	-
Bad debts written off:				
- trade and other receivables	-	73	-	56
- receivables from subsidiaries	-	-	15	-
Contribution to Tabung Amanah Negara	1,000	500	1,000	500
Depreciation of property, plant and equipment and investment properties	11,813	12,211	124	588
Goodwill written off	-	28	-	-
Impairment losses on:				
- trade receivables	1,845	-	-	-
- property, plant and equipment	1,564	4,267	-	-
- intangible assets	713	1,363	-	-
- long term receivables	191	-	-	-
- investments in associates and jointly controlled entities	18	34	-	-
- receivables from subsidiaries	-	-	48	-
- investments in subsidiaries	-	-	23	-
- loan and advances to associates, jointly controlled entities and subsidiaries	-	49	-	277
Inventories:				
- written down to net realisable value	16	61	-	-
- written off	10	46	-	-
Loss on disposal of property, plant and equipment	13	1,564	-	-
Net loss on foreign exchange	689	1,050	-	2,817
Operating lease rental	543	491	495	690
Property, plant and equipment:				
- expensed off	17	19	2	2
- written off	178	118	-	-
Rental of:				
- plant, machinery, equipment and motor vehicles	386	527	36	21
- land and buildings	322	442	26	36
Research and development expenditure	31	85	14	33
Staff costs				
- wages, salaries and others	5,956	7,008	782	624
- contributions to Employee's Provident Fund	631	760	121	128

28. OPERATING PROFIT (continued)

	Group		Company	
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
and credits:				
Gain on disposal of:				
- other investment	2,556	-	-	-
- subsidiaries	400	-	-	-
- property, plant and equipment	74	148	-	-
- associates and jointly controlled entities	-	291	-	7,200
Interest income - others	158	164	2,208	2,886
Reversal of write down of inventories to net realisable value	2	12	-	-
Rental income on land and buildings	173	160	179	130
Write back of impairment losses on:				
- property, plant and equipment	674	146	-	-
- intangible assets	47	-	-	-
- investments in associates and jointly controlled entities	4	15	-	84
- receivables from subsidiaries	-	-	-	161
- investments in subsidiaries	-	-	15	309
- loan and advances to associates, jointly controlled entities and subsidiaries	66	-	-	-
- other receivables	14	168	3	26
Net gain on foreign exchange	-	-	1,109	-
Net gain from subsidiaries' initial public offering	-	9,190	-	7,275
Negative goodwill	-	51	-	-
Reversal of contingent payment	-	607	-	-

29. OPERATING LEASES

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Less than one year	903	699	612	563
Between one and five years	3,355	2,846	2,376	874
More than five years	3,504	5,227	5,939	1,073
	7,762	8,772	8,927	2,510

30. TAX EXPENSE

	Group		Company	
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Current tax expenses				
Malaysia				
Current period/year	25,292	24,909	14,413	14,849
Prior year	(740)	215	(133)	393
Overseas				
Current period/year	2,207	2,321	-	-
Prior year	(14)	23	-	-
Total current tax expenses	26,745	27,468	14,280	15,242
Deferred tax expense				
Origination and reversal of temporary differences	(488)	296	(640)	(519)
Under/(over) provision in prior year	856	(276)	190	196
Total deferred tax expenses	368	20	(450)	(323)
Total tax expenses	27,113	27,488	13,830	14,919

30. TAX EXPENSE (continued)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	%	1.4.2011 to 31.12.2011 RM Mil	%	1.4.2010 to 31.3.2011 RM Mil
Group				
Profit before taxation		82,687		90,496
Taxation at Malaysian statutory tax rate	25	20,672	25	22,624
Effect of different tax rates in foreign jurisdictions	1	585	1	992
Effect of different tax rates between corporate income tax and petroleum income tax	8	6,320	5	4,672
Effect of changes in tax rates	-	66	-	37
Non deductible expenses, net of non assessable income	1	1,158	5	4,412
Net gain from initial public offering, non assessable income	-	-	(3)	(2,298)
Tax exempt income	(3)	(2,639)	(3)	(2,632)
Tax incentives	-	(58)	-	(134)
Effect of deferred tax benefits not recognised, net of utilisation of deferred tax benefits previously not recognised	1	702	-	88
Foreign exchange translation difference	-	205	-	(235)
	33	27,011	30	27,526
Under/(over) provision in prior years		102		(38)
Tax expense		27,113		27,488
Company				
Profit before taxation		54,031		65,391
Taxation at Malaysian statutory tax rate	25	13,508	25	16,348
Effect of different tax rates between corporate income tax and petroleum income tax	10	5,154	7	4,650
(Non assessable income, net of non deductible expenses)/ non deductible expenses, net of non assessable income	(2)	(1,303)	1	586
Tax exempt income	(7)	(3,586)	(6)	(3,635)
Net gain from initial public offering, non assessable income (including related gain on disposal)	-	-	(6)	(3,619)
	26	13,773	21	14,330
Under provision in prior years		57		589
Tax expense		13,830		14,919

31. DIVIDENDS

		Company
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Ordinary:		
Final:		
Tax exempt dividend of RM220,000 (31.3.2011 : RM100,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 March 2011 (31.3.2011: 31 March 2010)	22,000	10,000
Interim:		
First tax exempt dividend of RM20,000 (31.3.2011 : RM60,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial period 31 December 2011 (31.3.2011: 31 March 2011)	2,000	6,000
Second tax exempt dividend of RMNil (31.3.2011 : RM80,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial period 31 December 2011 (31.3.2011: 31 March 2011)	-	8,000
Third tax exempt dividend of RMNil (31.3.2011 : RM60,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial period 31 December 2011 (31.3.2011: 31 March 2011)	-	6,000
	24,000	30,000
Proposed:		
Final:		
Tax exempt dividend of RM280,000 (31.3.2011: RM220,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial period 31 December 2011 (31.3.2011: 31 March 2011)	28,000	22,000

The proposed tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM280,000 per ordinary share amounting to RM28 billion in respect of the financial period ended 31 December 2011, has not been accounted for in the financial statements.

32. NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES

The cash (used in)/generated from investing activities comprise:

		Group		Company
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Acquisition of subsidiaries, net of cash acquired (note 34)	(55)	(1,180)	-	-
Dividends received	381	355	14,821	15,592
Investment in:				
- associates, jointly controlled entities and unquoted companies	(146)	(2,688)	-	-
- securities	(3,640)	(13,951)	(6,085)	(13,732)
Long term receivables and advances repaid from/(to):				
- subsidiaries	-	-	3,243	(5,885)
- associates and jointly controlled entities	(861)	1,008	-	179
Net cost incurred in property development cost	(120)	(68)	-	-
Other long term receivables	135	(829)	-	-
Proceeds from disposal of:				
- investment in subsidiaries, net of cash disposed (note 34)	521	-	39	-
- investment in associates and jointly controlled entities	-	9	-	-
- property, plant and equipment, prepaid lease payments and intangible assets	287	3,560	-	-
- securities and other investment	13,425	2,677	7,220	2,573
Purchase of:				
- property, plant and equipment, prepaid lease payments and intangible assets	(30,800)	(34,877)	(428)	(18)
- other investments	(176)	(52)	-	-
Redemption of preference shares in:				
- subsidiaries	-	-	68	48
- associates	-	80	-	80
Proceeds from initial public offering	-	16,773	-	11,144
	(21,049)	(29,183)	18,878	9,981

33. NET CASH USED IN FINANCING ACTIVITIES

The cash used in financing activities comprise:

	Group		Company	
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Dividends paid	**(30,000)**	(30,000)	**(30,000)**	(30,000)
Dividends paid to non-controlling interests	**(6,502)**	(6,529)	**-**	-
Drawdown of:				
- Islamic financing facilities	**706**	1,193	**-**	-
- term loans, notes and bonds	**1,172**	1,030	**-**	-
- revolving credits and bankers' acceptances	**3,805**	3,020	**-**	-
Repayment of:				
- Islamic financing facilities	**(1,477)**	(1,046)	**-**	-
- term loans, notes and bonds	**(635)**	(984)	**-**	-
- revolving credits and bankers' acceptances	**(1,299)**	(3,269)	**-**	-
Payment to non-controlling interests on redemption of shares	**(36)**	(28)	**-**	-
Proceeds from shares issued to non-controlling interests	**37**	-	**-**	-
	(34,229)	(36,613)	**(30,000)**	(30,000)

34. SIGNIFICANT ACQUISITIONS AND DISPOSALS

Significant acquisition of assets

On 2 August 2011, the Group acquired 50% participating interest in the shale gas assets in Canada for a total consideration of approximately C$1.07 billion (approximately RM3.57 billion) via a sale and purchase agreement with Progress Energy Resources Corporation ("Progress"). This comprises an initial payment of C$267.5 million (approximately RM892.5 million) and a further payment of up to C$802.5 million (approximately RM2.68 billion) will be paid based on Progress' share of future capital expenditure.

Significant disposal of assets

On 19 April 2011, the Group via its subsidiary, PETRONAS International Corporation Ltd., disposed its entire 14.9% equity holdings in Cairn India Limited for a total cash consideration of USD2.08 billion (approximately RM6.73 billion), resulting in a net gain on disposal of USD846.8 million (approximately RM2.56 billion).

34. SIGNIFICANT ACQUISITIONS AND DISPOSALS (continued)

Acquisition of subsidiaries

During the financial period, the Group acquired several companies for a total purchase consideration of RM62 million. As a result, these companies became subsidiaries of the Group. The net profits contributed by these subsidiaries from the date of acquisition to 31 December 2011 is not material in relation to the consolidated net profit for the period.

The net effect of acquisitions of subsidiaries on the cash flows and fair values of assets and liabilities acquired are as follows:

	Carrying amount representing fair value at acquisition date RM Mil
Property, plant and equipment	59
Cash and cash equivalents	7
Other assets	56
Deferred tax liability	(13)
Other liabilities	(63)
	46
Add: Goodwill on acquisition	16
Purchase consideration	62
Less: Cash and cash equivalents of subsidiaries acquired	(7)
Cash flow on acquisition, net of cash acquired (note 32)	55

Disposal of subsidiaries

During the financial period, the Group also disposed several subsidiaries for a total consideration of RM644 million. The net profit contributed by these subsidiaries from 1 April 2011 to the date of disposal is not material in relation to the consolidated net profit of the Group for the period.

The net effect of the above disposals of subsidiaries on the cash flows and carrying amount of assets and liabilities disposed are as follows:

	Carrying amount at disposal date RM Mil
Property, plant and equipment	490
Intangible assets	55
Cash and cash equivalents	123
Assets classified as held for sale	292
Other assets	80
Deferred tax liability	(160)
Other liabilities	(636)
	244
Add: Gain on disposal of subsidiaries	400
Proceeds from disposal of subsidiaries	644
Less: Cash and cash equivalents of subsidiaries disposed	(123)
Cash flow on disposals, net of cash disposed (note 32)	521

35. COMMITMENTS

Outstanding commitments in respect of capital expenditure at the end of the reporting period not provided for in the financial statements are:

	Group		Company	
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Property, plant and equipment				
Approved and contracted for				
Less than one year	22,461	10,824	3,523	15
Between one and five years	23,098	16,086	9,229	337
More than five years	221	67	-	-
	45,780	26,977	12,752	352
Approved but not contracted for				
Less than one year	21,496	20,027	6,525	17
Between one and five years	153,736	37,338	70,081	23
More than five years	-	2,461	-	2,451
	175,232	59,826	76,606	2,491
	221,012	86,803	89,358	2,843
Share of capital expenditure of joint venture				
Approved and contracted for				
Less than one year	11,124	10,401	-	-
Between one and five years	4,697	6,121	-	-
	15,821	16,522	-	-
Approved but not contracted for				
Less than one year	11,530	5,354	-	-
Between one and five years	55,177	49,310	-	-
	66,707	54,664	-	-
	82,528	71,186	-	-
Investment in shares				
Approved and contracted for				
Less than one year	-	79	-	-
Approved but not contracted for				
Less than one year	-	547	-	-
	-	626	-	-
Total commitments	303,540	158,615	89,358	2,843

36. CONTINGENT LIABILITIES (UNSECURED)

		Group		Company
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Guarantees extended to third parties	285	155	-	-
Claims filed by/disputes with various parties	-	3	-	3
Contingent payments	301	258	-	-
	586	416	-	3

The Terengganu and Kelantan States Government filed legal suits against the Company in the year 2000 and 2010 respectively claiming that they were entitled to certain cash payments arising out of the production of crude oil and gas beyond the territorial waters of the States concerned. The amount of the cash payments has been fully accounted for in the financial statements. The legal suits are still on-going as at period end.

37. RELATED PARTY DISCLOSURES

Key management personnel compensation

		Company
	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Directors remuneration:		
- Fees	2	2
- Emoluments	15	15

The estimated monetary value of Directors' benefits-in-kind is RM183,000 (31.3.2011: RM152,000).

Significant transactions with related parties

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa. Related parties may be individuals or other entities.

37. RELATED PARTY DISCLOSURES (continued)

Significant transactions with related parties (continued)

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial period/year:

Group	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Associate companies:		
Sales of petrochemical products, processed gas and utilities	2,598	3,795
Lease and rental expenses	(222)	(247)
Other expenses	(46)	(174)
Other income	14	22
Jointly controlled entities:		
Sales of petrochemical products, processed gas, petroleum products and general merchandise	137	178
Purchase of petrochemical products, processed gas and utilities	-	(310)
Interest receivable from jointly controlled entities	54	91
Gas processing fee payable	(244)	(279)
Other income	323	141

Company	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Subsidiaries:		
Sales of crude oil, petroleum products and natural gas	40,434	43,597
Interest receivable from subsidiaries	1,948	2,135
Purchase of crude oil and natural gas	(17,803)	(18,489)
Gas processing fee payable	(2,137)	(2,747)
Research cess	101	107
Supplemental payments	4,377	3,127
Handling and storage fees	(23)	(41)
Associate companies:		
Sales of processed gas	1,276	1,375
Jointly controlled entities:		
Interest receivable from jointly controlled entities	-	5
Gas processing fee payable	(244)	(279)

37. RELATED PARTY DISCLOSURES (continued)

Significant transactions with related parties (continued)

Information regarding outstanding balances arising from related party transactions as at 31 December 2011 are disclosed in note 11, note 18 and note 26.

Information regarding impairment losses on receivables and bad debts written off during the financial period are disclosed in note 28.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis. The above has been stated at contracted amount.

38. OPERATING SEGMENTS

The Group has four reportable segments, as described below, which offer different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Exploration and Production - activities include oil and natural gas exploration, development and production, together with related pipeline and transportation activities.
- Gas and Power - activities include gas processing and marketing and trading of liquefied natural gas ("LNG") and sales gas.
- Downstream - activities include the supply and trading, refining, manufacturing, marketing and transportation of crude oil, petroleum and petrochemical products.
- Corporate and others - comprise primarily logistic and maritime segment, property segment and central treasury function.

For each of the reportable segment, the Group chief operating decision maker, which in this case is the PETRONAS Executive Committee, reviews internal management reports at least on a quarterly basis.

Performance is measured based on segment net operating profit after tax ("NOPAT"), which is derived from net profit after tax excluding financing cost, share of profits of associates and jointly controlled entities and other non-operating income and expenses, as included in the internal management reports. Segment NOPAT is used to measure performance as the Executive Committee believes that such information is the most relevant in evaluating the results of the segments.

Segment assets are measured based on total assets (including goodwill) of a segment, as included in the internal management reports and are used to measure the return of assets of each segment.

38. OPERATING SEGMENTS (continued)

Group 31.12.2011	Exploration and Production RM Mil	Gas and Power RM Mil	Downstream RM Mil	Corporate and Others RM Mil	Consolidation adjustments and eliminations RM Mil	Total RM Mil
Revenue						
Third parties	40,445	55,601	115,816	10,935	-	222,797
Inter-segment	46,547	5,751	1,395	3,685	(57,378)	-
Total revenue	86,992	61,352	117,211	14,620	(57,378)	222,797
Reportable segment profit/(loss)	36,043	12,558	4,377	(619)	(289)	52,070
Included in the measure of segment profit/(loss) are:						
Depreciation and amortisation	(5,984)	(1,857)	(2,358)	(1,917)	-	(12,116)
Impairment losses	(3,288)	(5)	(293)	(745)	-	(4,331)
Tax expense	(20,095)	(4,787)	(1,521)	(710)	-	(27,113)
Segment assets	155,649	54,183	83,895	204,643	(20,758)	477,612
Included in the measure of segment assets are:						
Investments in associates and JCEs	3,048	2,285	1,035	5,955	-	12,323
Additions to non-current assets other than financial instruments and deferred tax assets	22,394	5,577	2,475	5,382	-	35,828

38. OPERATING SEGMENTS (continued)

Group 31.3.2011	Exploration and Production RM Mil	Gas and Power RM Mil	Downstream RM Mil	Corporate and Others RM Mil	Consolidation adjustments and eliminations RM Mil	Total RM Mil
Revenue						
Third parties	43,263	57,027	128,466	12,472	-	241,228
Inter-segment	50,010	6,945	1,520	6,730	(65,205)	-
Total revenue	93,273	63,972	129,986	19,202	(65,205)	241,228
Reportable segment profit	33,969	11,229	7,175	1,385	(1,145)	52,613
Included in the measure of segment profit are:						
Depreciation and amortisation	(5,339)	(2,488)	(2,687)	(2,027)	-	(12,541)
Impairment losses	(1,796)	(1,898)	(1,339)	(631)	-	(5,664)
Tax expense	(20,116)	(4,744)	(1,582)	(1,046)	-	(27,488)
Segment assets	135,528	60,167	82,085	175,404	(14,190)	438,994
Included in the measure of segment assets are:						
Investments in associates and JCEs	2,278	4,587	1,018	3,678	-	11,561
Additions to non-current assets other than financial instruments and deferred tax assets	22,559	3,593	2,098	5,869	-	34,119

38. OPERATING SEGMENTS (continued)

Reconciliations of reportable segment profits

Group	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Total reportable segment profit	52,070	52,613
Financing cost, net of tax	(1,363)	(2,418)
Share of profits of associates and jointly controlled entities, net of tax	1,317	2,076
Unrealised foreign exchange (loss)/gains	(584)	1,264
Net gain from initial public offering	-	9,190
Other non-operating income, net of tax	4,134	283
Profit for the period/year	55,574	63,008

Products and services segments

The following are revenue from external customers by product and service:

Group	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Petroleum products	84,046	93,130
Crude oil and condensates	49,772	52,642
Liquefied natural gas	45,183	45,345
Sales and natural gas	14,506	16,609
Petrochemicals	11,444	14,543
Shipping services	5,306	6,726
Investment income	2,681	2,792
Others	9,859	9,441
	222,797	241,228

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including investment in associates and jointly controlled entities) and deferred tax assets.

		Revenue		Non-current assets
Group	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.4.2010 to 31.3.2011 RM Mil
Asia	114,680	121,955	25,616	22,730
Malaysia	52,535	52,394	174,619	162,892
South Africa	27,130	27,633	2,725	2,784
Rest of the world	28,452	39,246	39,011	31,311
	222,797	241,228	241,971	219,717

38. OPERATING SEGMENTS (continued)

Major customers

As at 31 December 2011, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

39. PETROLEUM ARRANGEMENTS

The Petroleum Development Act, 1974 vests the entire ownership, rights, powers, liberties and privileges of exploiting petroleum resources on land and offshore Malaysia in PETRONAS.

The exploitation by PETRONAS of petroleum resources is carried out primarily by means of production sharing contracts ("PSCs") with international oil and gas companies and with its subsidiaries. Under the terms of the various PSCs that PETRONAS has entered into, the PSC Contractors bear all costs. The PSC Contractors may recover their costs in barrels of crude oil or gas equivalent in accordance with the terms of their respective PSCs.

Certain terms of the PSCs are:

i. Research cess, supplemental payments and crude oil or gas entitlement

The determination of research cess, supplemental payments, and PETRONAS' and the contractors' entitlements to crude oil or gas produced subsequent to 31 December 1992 have been based on the returns submitted by contractors and is dependent on agreement being reached on the method of valuation of crude oil or gas and the quantum of costs incurred and claimed by contractors subject to the maximum rate provided under the production sharing contracts for the year. PETRONAS' entitlements to crude oil and natural gas are taken up as income on the basis of liftings and sales respectively made by the Company.

ii. Property, plant and equipment

Title to all equipment and other assets purchased or acquired by PSC Contractors exclusively for the purpose of petroleum operations, and which costs are recoverable in barrels of cost oil or gas equivalent, vested with PETRONAS. However, the values of these assets are not taken up in the financial statements of PETRONAS other than:

- the property, plant and equipment of a subsidiary which is also a contractor to PETRONAS under certain PSCs; and
- the estimated costs of decommissioning and removing the assets and restoring the site on which they are located where there is an obligation to do so.

iii. Inventories

Title to all crude oil held in inventories by the PSC Contractors lies with PETRONAS and title to the contractors' entitlement passes only upon delivery at point of export. However, the values of these inventories are not taken up in the financial statements of PETRONAS.

The exploitation of petroleum resources is also carried out by means of risk service contracts ("RSCs"). Under the terms of the RSCs, RSC Contractors provide services for the development and production of oil and gas resources on behalf of PETRONAS.

39. PETROLEUM ARRANGEMENTS (continued)

Certain terms of the RSCs are:

i. Cost reimbursement and remuneration fees

RSC Contractors incur all upfront costs and will be reimbursed upon first commercial production. Under the terms of the RSCs, PETRONAS owns the title to all equipment and other assets purchased or acquired by the RSC Contractors for the purpose of petroleum operations. The values of these assets are taken up in the financial statements of PETRONAS upon incurrence, together with the estimated costs of decommissioning the assets where there is an obligation to do so.

Contractors are also entitled to remuneration fees which commensurate with their performance under the contract. All payments of remuneration fees are recognised as expenditures in PETRONAS' financial statements.

ii. Production

All barrels of crude oil and gas produced belongs to PETRONAS and inventories, if any, are taken up in the financial statements of PETRONAS.

40. SIGNIFICANT AND SUBSEQUENT EVENTS

Upon the secession of the Republic of South Sudan ("RSS") from the Republic of Sudan ("RoS") on 9 July 2011, significant parts of Contract Areas under the Group's Exploration and Production Service Agreements ("EPSA") for Block 1,2&4, Block 3&7 and Block 5A signed with the RoS, now lie under the jurisdiction of the RSS. Subsequently, the RSS agreed to grant Foreign Oil companies ("FOCs") including the Group, rights to conduct petroleum operations in the original Contract Areas of these three blocks located in South Sudan through Transition Agreements ("TAs") which were signed on 13 January 2012. The TAs contain substantially the same fiscal and contractual terms and conditions.

Following disputes between the RSS and RoS, the Government of RSS through the Ministry of Petroleum and Mining has issued a Shut Down Order in respect of all petroleum operations in Block 1,2&4, Block 3&7 and Block 5A located in South Sudan. All producing wells in these blocks located in South Sudan were completely shut down on 23 January 2012, 24 January 2012 and 6 February 2012 respectively under close supervision by the RSS National Intelligence Security Services. As a consequence, no new oil production has since flowed from South Sudan.

Following the above shut downs, the Group has in consultation with other foreign parties undertaken various measures including preservation of the oil fields facilities as well as conducting ongoing discussions with senior officials of the RSS and RoS in order to minimise the adverse impact to the Group. The full impact of the above shut downs to the Group is not yet determinable and is largely dependent upon the outcome of the negotiations between the RSS and RoS.

41. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

i. Loans and receivables ("L&R")
ii. Fair value through profit or loss ("FVTPL")
   - Designated upon initial recognition ("DUIR")
   - Held for trading ("HFT")
iii. Available-for-sale financial assets ("AFS")
iv. Loans and borrowings ("L&B")
v. Held-to-maturity investments ("HTM")

41. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

i. Loans and receivables ("L&R")
ii. Fair value through profit or loss ("FVTPL")
 - Designated upon initial recognition ("DUIR")
 - Held for trading ("HFT")
iii. Available-for-sale financial assets ("AFS")
iv. Loans and borrowings ("L&B")
v. Held-to-maturity investments ("HTM")

Group 31.12.2011	Note	L&R/ (L&B) RM Mil	FVTPL - DUIR RM Mil	FVTPL - HFT RM Mil	AFS RM Mil	HTM RM Mil	Total carrying amount RM Mil
Financial assets							
Long term receivables	*	3,402	-	491	-	-	3,893
Fund and other investments	12	715	9,664	-	26,005	2,494	38,878
Trade and other receivables	*	36,334	-	148	-	-	36,482
Cash and cash equivalents	15	125,447	-	-	-	-	125,447
		165,898	9,664	639	26,005	2,494	204,700
Financial liabilities							
Borrowings	23	(52,523)	-	-	-	-	(52,523)
Other long term liabilities	*	(464)	-	(281)	-	-	(745)
Trade and other payables	*	(46,572)	-	(63)	-	-	(46,635)
		(99,559)	-	(344)	-	-	(99,903)
31.3.2011							
Financial assets							
Long term receivables	*	2,636	-	433	-	-	3,069
Fund and other investments	12	682	12,404	-	36,607	-	49,693
Trade and other receivables	*	32,794	-	78	-	-	32,872
Cash and cash equivalents	15	106,664	-	-	-	-	106,664
		142,776	12,404	511	36,607	-	192,298
Financial liabilities							
Borrowings	23	(47,811)	-	-	-	-	(47,811)
Other long term liabilities	*	(425)	-	(303)	-	-	(728)
Trade and other payables	*	(36,945)	-	(246)	-	-	(37,191)
Dividend payable		(6,000)	-	-	-	-	(6,000)
		(91,181)	-	(549)	-	-	(91,730)

* These balances exclude non-financial instruments balances.

Certain fund and other investments have been designated upon initial recognition as at fair value through profit or loss as management internally monitors these investments on fair value basis.

41. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Company 31.12.2011	Note	L&R/ (L&B) RM Mil	FVTPL - DUIR RM Mil	FVTPL - HFT RM Mil	AFS RM Mil	HTM RM Mil	Total carrying amount RM Mil
Financial assets							
Long term receivables	11	68,418	-	1,298	-	-	69,716
Fund and other investments	12	-	11,949	-	16,483	2,494	30,926
Trade and other receivables	*	14,590	-	16	-	-	14,606
Cash and cash equivalents	15	75,608	-	-	-	-	75,608
		158,616	11,949	1,314	16,483	2,494	190,856
Financial liabilities							
Borrowings	23	(27,969)	-	-	-	-	(27,969)
Other long term liabilities	*	(647)	-	(208)	-	-	(855)
Trade and other payables	*	(13,748)	-	(6)	-	-	(13,754)
		(42,364)	-	(214)	-	-	(42,578)
31.3.2011							
Financial assets							
Long term receivables	11	70,150	-	1,663	-	-	71,813
Fund and other investments	12	-	13,079	-	18,812	-	31,891
Trade and other receivables	*	12,499	-	17	-	-	12,516
Cash and cash equivalents	15	58,164	-	-	-	-	58,164
		140,813	13,079	1,680	18,812	-	174,384
Financial liabilities							
Borrowings	23	(26,591)	-	-	-	-	(26,591)
Other long term liabilities	*	(680)	-	(164)	-	-	(844)
Trade and other payables	*	(6,661)	-	(9)	-	-	(6,670)
Dividend payable		(6,000)	-	-	-	-	(6,000)
		(39,932)	-	(173)	-	-	(40,105)

* These balances exclude non-financial instruments balances.

Certain fund and other investments have been designated upon initial recognition as at fair value through profit or loss as management internally monitors these investments on fair value basis.

Categories of financial instruments

The fair value of borrowings is shown on page 224. For all other financial instruments, the carrying amount is either the fair value, or are not materially different from the fair value.

The fair value movements for financial assets categorised as at fair value through profit or loss are mainly attributable to changes in market price.

41. FINANCIAL INSTRUMENTS (continued)

Financial risk management

As an integrated oil and gas company, the Group and the Company are exposed to various risks that are particular to its core business of exploration and production, gas and power and downstream operations. These risks, which arise in the normal course of the Group's and of the Company's business, comprise credit risk, liquidity risk and market risk relating to interest rates, foreign currency exchange rates, equity prices and commodity prices.

The Group has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the PETRONAS Group.

The Group and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and of the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from their receivables from customers, investment securities and financial guarantees given to financial institutions for credit facilities granted to subsidiaries, jointly controlled entities and associates. Credit risks are controlled by individual operating units in line with PETRONAS' policies and guidelines.

Receivables

The Group and the Company minimise credit risk by entering into contracts with highly credit rated counterparties. Potential counterparties are subject to credit assessment and approval prior to any transaction being concluded and existing counterparties are subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group and the Company further mitigate and limit risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions. The Group's principal customers with which it conducts business are located throughout the world and there is no significant concentration of credit risk at reporting date.

41. FINANCIAL INSTRUMENTS (continued)

Receivables (continued)

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The ageing of trade receivables net of impairment amount as at the end of the reporting period is analysed below:

		Group		Company
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
At net				
Current	22,296	21,306	2,983	2,760
Past due 1 to 30 days	1,190	1,002	32	27
Past due 31 to 60 days	304	579	32	25
Past due 61 to 90 days	103	288	20	25
Past due more than 90 days	518	848	63	139
	24,411	24,023	3,130	2,976
Representing:				
Trade receivables (note 18)	26,646	24,451	3,220	3,066
Less: Impairment losses (note 18)	(2,235)	(428)	(90)	(90)
	24,411	24,023	3,130	2,976

With respect to the Group's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations except for impairment losses recognised below.

The movements in the allowance for impairment losses of trade receivables during the period/year are as follows:

		Group		Company
	31.12.2011 RM Mil	31.3.2011 RM Mil	31.12.2011 RM Mil	31.3.2011 RM Mil
Opening balance	428	868	90	489
Impairment loss/(reversal) recognised	1,845	(41)	-	-
Impairment written off	(38)	(399)	-	(399)
Closing balance	2,235	428	90	90

41. FINANCIAL INSTRUMENTS (continued)

Fund and other investment

The Group and the Company are also exposed to counterparty credit risk from financial institutions through fund investment activities comprising primarily money market placement and investments in bonds, and trade facilities. These exposures are managed in accordance with existing policies and guidelines that define the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters.

Investments are only made with approved counterparties who met the appropriate rating and other relevant criteria, and within approved credit limits, as stipulated in the policies and guidelines. The treasury function undertakes a credit risk management activities similar to the credit management and monitoring procedures for receivables.

As at the reporting date, the Group and the Company has invested 94% (31.3.2011: 97%) of the investments in domestic securities and 6% (31.3.2011: 3%) in foreign securities.

The fund and other investments are unsecured, however, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

Financial guarantees

The Group and the Company provide unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries, jointly controlled entities and associates ("Group entities"). The Group and the Company monitor on an ongoing basis, the results of the Group entities and repayments made by the Group entities.

The maximum exposure to credit risk amounted to RM4,639,000,000 (31.3.2011: RM4,890,000,000) which represents the outstanding banking facilities of the Group entities as at reporting date. As at reporting date, there was no indication that any Group entities would default on repayment. The fair value of the financial guarantee recognised is disclosed in note 25.

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. In managing its liquidity risk, the Group maintains sufficient cash and liquid marketable assets. The Company's current credit rating enables it to access banking facilities in excess of current and immediate future requirements of the Group and of the Company. The Group's borrowing power is not limited by its Articles of Association. However, certain covenants included in agreements impose limited restrictions on some of the debt level of PETRONAS' subsidiaries.

Maturity analysis

The table below summarises the maturity profile of the Group's and of the Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis (continued)

Group 31.12.2011	Carrying amount RM Mil	Contractual interest/ profit rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Loans and borrowings				
Secured Term Loans				
USD fixed rate loan	1,371	5.09	1,520	435
USD floating rate loan	1,100	2.01	1,260	241
RM fixed rate loan	563	7.35	667	65
RM floating rate loan	618	4.16	722	64
ZAR fixed rate loan	252	11.00	310	19
GBP fixed rate loan	190	4.00	202	78
Other floating rate loans	29	13.33	39	15
Unsecured Term Loans				
USD floating rate loan	3,454	1.66	3,715	153
RM fixed rate loan	834	5.50	867	475
RM floating rate loan	380	3.68	413	117
EURO floating rate loan	3,537	3.38	3,563	65
Other fixed rate loan	35	5.83	41	18
Other floating rate loan	107	7.33	120	42
Unsecured Notes and Bonds				
USD Notes	11,759	7.07	14,758	6,919
USD Guaranteed Notes	9,408	5.25	13,222	501
USD Bonds	3,576	7.69	5,997	275
JPY Bonds	653	3.40	687	22
Unsecured revolving credits				
USD revolving credits	1,110	1.08	1,122	1,122
RM revolving credits	1,206	3.50	1,249	1,249
GBP revolving credits	413	1.84	421	421
Unsecured bank overdrafts				
EURO bank overdrafts	141	3.03	158	158
ZAR bank overdrafts	767	6.43	848	848
Secured Islamic financing facilities				
RM Islamic financing facilities	2,163	5.53	2,262	336
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,797	4.25	5,327	203
RM Islamic financing facilities	4,060	5.27	4,996	1,365
Trade and other payables	46,572	-	46,572	46,572
Fair value through profit or loss – held for trading				
Derivative liabilities	344	-	344	63
	99,439		111,402	61,841

continue to next page

41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis (continued)

Group **31.12.2011**	**1-2 years RM Mil**	**2-5 years RM Mil**	**More than 5 years RM Mil**
Loans and borrowings			
Secured Term Loans			
USD fixed rate loan	426	645	14
USD floating rate loan	72	242	705
RM fixed rate loan	61	520	21
RM floating rate loan	58	457	143
ZAR fixed rate loan	18	250	23
GBP fixed rate loan	40	84	-
Other floating rate loans	11	3	10
Unsecured Term Loans			
USD floating rate loan	3,545	17	-
RM fixed rate loan	392	-	-
RM floating rate loan	112	184	-
EURO floating rate loan	3,493	5	-
Other fixed rate loan	3	14	6
Other floating rate loan	37	41	-
Unsecured Notes and Bonds			
USD Notes	390	3,019	4,430
USD Guaranteed Notes	501	1,502	10,718
USD Bonds	275	2,671	2,776
JPY Bonds	665	-	-
Unsecured revolving credits			
USD revolving credits	-	-	-
RM revolving credits	-	-	-
GBP revolving credits	-	-	-
Unsecured bank overdrafts			
EURO bank overdrafts	-	-	-
ZAR bank overdrafts	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	543	1,156	227
Unsecured Islamic financing facilities			
USD Islamic financing facilities	203	4,921	-
RM Islamic financing facilities	292	2,909	430
Trade and other payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	235	46	-
	11,372	18,686	19,503

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41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis (continued)

Group 31.3.2011	Carrying amount RM Mil	Contractual interest/ profit rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Loans and borrowings				
Secured Term Loans				
USD fixed rate loan	823	5.39	933	206
USD floating rate loan	1,222	4.08	1,322	432
RM fixed rate loan	539	6.52	665	59
RM floating rate loan	466	3.01	544	36
Other fixed rate loan	15	7.75	17	6
Unsecured Term Loans				
USD floating rate loan	3,302	3.85	3,621	144
RM fixed rate loan	1,378	4.83	1,554	484
RM floating rate loan	182	3.61	281	25
EURO fixed rate loan	15	5.16	17	3
EURO floating rate loan	3,663	3.40	4,284	144
BAHT floating rate loan	71	2.97	78	30
Other fixed rate loan	34	6.75	56	9
Other floating rate loan	58	9.34	63	23
Unsecured Notes and Bonds				
USD Notes	11,220	7.07	14,757	794
USD Guaranteed Notes	8,984	5.25	12,972	477
USD Bonds	3,405	7.69	5,839	262
JPY Bonds	586	3.40	633	20
Unsecured revolving credits				
BAHT revolving credits	92	2.93	94	94
RM revolving credits	182	3.20	188	188
Unsecured bankers' acceptances				
RM bankers' acceptances	41	3.05	42	42
Unsecured bank overdrafts				
EURO bank overdrafts	39	7.00	42	42
ZAR bank overdrafts	36	6.80	38	38
Secured Islamic financing facilities				
RM Islamic financing facilities	2,971	6.33	3,427	753
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,536	4.25	5,185	193
RM Islamic financing facilities	3,951	4.48	4,532	1,377
Trade and other payables	36,945	-	36,945	36,945
Dividend payable	6,000	-	6,000	6,000
Fair value through profit or loss – held for trading				
Derivative liabilities	549	-	549	246
	91,305		104,678	49,072

continue to next page

41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis (continued)

Group 31.3.2011	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
Loans and borrowings			
Secured Term Loans			
USD fixed rate loan	200	482	45
USD floating rate loan	345	545	-
RM fixed rate loan	58	528	20
RM floating rate loan	35	412	61
Other fixed rate loan	11	-	-
Unsecured Term Loans			
USD floating rate loan	152	3,325	-
RM fixed rate loan	359	711	-
RM floating rate loan	25	70	161
EURO fixed rate loan	2	7	5
EURO floating rate loan	128	4,012	-
BAHT floating rate loan	31	17	-
Other fixed rate loan	3	12	32
Other floating rate loan	20	20	-
Unsecured Notes and Bonds			
USD Notes	6,484	2,989	4,490
USD Guaranteed Notes	477	1,430	10,588
USD Bonds	262	2,586	2,729
JPY Bonds	20	593	-
Unsecured revolving credits			
BAHT revolving credits	-	-	-
RM revolving credits	-	-	-
Unsecured bankers' acceptances			
RM bankers' acceptances	-	-	-
Unsecured bank overdrafts			
EURO bank overdrafts	-	-	-
ZAR bank overdrafts	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	586	788	1,300
Unsecured Islamic financing facilities			
USD Islamic financing facilities	193	4,799	-
RM Islamic financing facilities	1,199	1,203	753
Trade and other payables	-	-	-
Dividend payable	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	2	301	-
	10,592	24,830	20,184

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41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis (continued)

Company 31.12.2011	Carrying amount RM Mil	Contractual interest/ profit rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	9,535	7.29	12,211	6,780
USD Guaranteed Notes	9,408	5.25	13,222	501
USD Bonds	3,576	7.69	5,997	275
JPY Bonds	653	3.40	687	22
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,797	4.25	5,327	203
Trade and other payables	13,748	-	13,748	13,748
Fair value through profit or loss – held for trading				
Derivative liabilities	214	-	214	6
	41,931		51,406	21,535

continue to next page

31.3.2011	Carrying amount RM Mil	Contractual interest/ profit rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	9,080	7.29	12,218	662
USD Guaranteed Notes	8,984	5.25	12,972	477
USD Bonds	3,405	7.69	5,839	262
JPY Bonds	586	3.40	633	20
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,536	4.25	5,185	193
Trade and other payables	6,661	-	6,661	6,661
Dividend payable	6,000	-	6,000	6,000
Fair value through profit or loss – held for trading				
Derivative liabilities	173	-	173	9
	39,425		49,681	14,284

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41. FINANCIAL INSTRUMENTS (continued)

Maturity analysis (continued)

Company **31.12.2011**	**1-2 years** **RM Mil**	**2-5 years** **RM Mil**	**More than** **5 years** **RM Mil**
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	250	751	4,430
USD Guaranteed Notes	501	1,502	10,718
USD Bonds	275	2,671	2,776
JPY Bonds	665	-	-
Unsecured Islamic financing facilities			
USD Islamic financing facilities	203	4,921	-
Trade and other payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	208	-	-
	2,102	9,845	17,924
		continued	*from previous page*
31.3.2011			
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	6,351	715	4,490
USD Guaranteed Notes	477	1,430	10,588
USD Bonds	262	2,586	2,729
JPY Bonds	20	593	-
Unsecured Islamic financing facilities			
USD Islamic financing facilities	193	4,799	-
Trade and other payables	-	-	-
Dividend payable	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	-	164	-
	7,303	10,287	17,807
		continued	*from previous page*

41. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes that the Group and the Company is exposed to include interest rates, foreign currency exchange rates, commodity prices, equity prices and other indices that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's and the Company's investments in fixed-rate debt securities and fixed rate borrowings are exposed to a risk of change in their fair values due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

All interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines. The Group enters into hedging transactions with respect to interest rate on certain long term borrowings and other debts where necessary and appropriate, in accordance with policies and guidelines.

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

		Group		Company
	31.12.2011	31.3.2011	31.12.2011	31.3.2011
	RM Mil	RM Mil	RM Mil	RM Mil
Fixed rate instruments				
Financial assets	133,445	125,559	136,467	113,693
Financial liabilities	(50,969)	(45,719)	(27,969)	(27,272)
	82,476	79,840	108,498	86,421
Floating rate instruments				
Financial assets	5,629	4,434	13,384	15,211
Financial liabilities	(1,841)	(2,399)	-	-
	3,788	2,035	13,384	15,211

Since most of the Group's and the Company's financial assets and liabilities are fixed rate instruments measured at amortised cost, a change in interest rate is not expected to have material impact on the Group's and the Company's profit or loss.

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's cash flows are Ringgit Malaysia and US Dollars.

The Group and the Company's foreign exchange management policy is to minimise economic and significant transactional exposures arising from currency movements. The Group coordinates the handling of foreign exchange risks centrally typically by matching receipts and payments for the same currency. For major capital projects, the Group performs assessment of potential foreign exchange risk exposure at the investment decision phase to determine the appropriate foreign exchange risk management strategy. Residual net positions are actively managed and monitored against prescribed policies and control procedures. When deemed necessary and appropriate, the Group will enter into derivative financial instruments to hedge and minimise its exposures to the foreign currency movements.

41. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk (continued)

The Group's and the Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

	31.12.2011 Denominated in			31.3.2011 Denominated in		
Group	**USD**	**MYR**	**AUD**	**USD**	**MYR**	**AUD**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**	**RM Mil**	**RM Mil**
Financial assets						
Loan and advances to subsidiaries	43,458	-	-	62,250	-	-
Cash and cash equivalents	5,142	277	181	15,319	2,040	177
Trade and other receivables	10,489	2,896	44	7,722	1,052	5
Long term receivables	2,412	496	-	1,846	-	-
Fund and other investments	588	1	2,094	989	33	361
Other financial assets	816	-	13	1,303	-	-
	62,905	3,670	2,332	89,429	3,125	543
Financial liabilities						
Loan and advances from holding company	(4,461)	(1,537)	-	(16,360)	(2,962)	(36)
Borrowings	(27,660)	(80)	-	(26,466)	-	-
Trade and other payables	(5,950)	(468)	(276)	(6,362)	(2,537)	(98)
Other financial liabilities	(834)	-	-	(1,311)	-	-
	(38,905)	(2,085)	(276)	(50,499)	(5,499)	(134)
Net exposure	24,000	1,585	2,056	38,930	(2,374)	409

	Denominated in USD	
Company	**31.12.2011**	**31.3.2011**
	RM Mil	**RM Mil**
Financial assets		
Loan and advances to subsidiaries	42,927	53,314
Cash and cash equivalents	3,758	13,461
Trade and other receivables	5,543	3,773
Fund and other investments	566	989
Other financial assets	808	1,247
	53,602	72,784
Financial liabilities		
Borrowings	(27,315)	(26,004)
Trade and other payables	(2,359)	(1,026)
Other financial liabilities	(502)	(500)
	(30,176)	(27,530)
Net exposure	23,426	45,254

41. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk (continued)

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2011 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2011 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgment and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Group's actual exposure to market prices is constantly changing with changes in the Group's portfolio of among others, commodity, debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Group. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following currency exchange rates:

31.12.2011	Appreciation in foreign currency rate %	Group Reserve RM Mil	Group Profit or loss RM Mil	Company Reserve RM Mil	Company Profit or loss RM Mil
USD	5	1,633	(425)	-	1,357
MYR	5	-	79	-	-
AUD	5	-	101	-	-
31.3.2011					
USD	5	993	904	-	2,473
MYR	5	-	(118)	-	-
AUD	5	-	20	-	-

A depreciation in foreign currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the Group's and Company's investments in equity securities. The Group and the Company have Investment Guidelines in place to minimise their exposures on price risk. Permitted investment in terms of allowable financial instruments, minimum credit rating and markets are stipulated in the Investment Guidelines. The Group and the Company monitors the equity investments on a portfolio basis and a performance benchmark is established for each investment portfolio giving consideration to portfolio objectives and return expectation. All buy and sell decisions are monitored by the Group Treasury Division.

The Group and the Company also hold equity investment for strategic purposes, that are classified as available-for-sale financial assets. Reports on the equity portfolio performance are submitted to the Group's and the Company's senior management on a regular basis.

41. FINANCIAL INSTRUMENTS (continued)

Equity price risk (continued)

The Group's and the Company's exposure to equity price risk based on carrying amounts as at the reporting date is as follows:

		Group		Company
	31.12.2011 RM Mil	**31.3.2011 RM Mil**	**31.12.2011 RM Mil**	**31.3.2011 RM Mil**
Local equities	**768**	657	**334**	286
Foreign equities	**9,035**	17,179	**-**	-
	9,803	17,836	**334**	286

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following equities:

	Increase in price based on average change in index rate		Group		Company
31.12.2011	**%**	**Reserve RM Mil**	**Profit or loss RM Mil**	**Reserve RM Mil**	**Profit or loss RM Mil**
Local equities	15	119	-	50	-
Foreign equities	15 to 20	1,440	-	-	-
31.3.2011					
Local equities	15	99	-	43	-
Foreign equities	15 to 20	2,629	23	-	-

A decrease in price based on average change in index rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Commodity price risk

The Group is exposed to changes in crude oil and petroleum products prices which may affect the value of the Group's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Group enters into various financial instruments. In effecting these transactions, the Group operates within policies and procedures designed to ensure that risks are minimised. All financial instruments positions are marked-to-market by independent risk management department and reported to management for performance monitoring and risk management purposes on a daily basis.

Since the Group undertakes hedging using commodity derivatives for the majority of its transactions, a change in commodity price is not likely to result in a significant impact on the Group's and the Company's profit or loss and equity.

41. FINANCIAL INSTRUMENTS (continued)

Fair value

The fair values of financial liabilities measured at amortised cost, together with the carrying amounts are as follows:

Group	Note	31.12.2011 Carrying amount RM Mil	31.12.2011 Fair value RM Mil	31.3.2011 Carrying amount RM Mil	31.3.2011 Fair value RM Mil
Loans and borrowings					
Notes and Bonds	23	**25,396**	**29,003**	24,195	27,084
Term loans	23	**12,470**	**12,460**	11,768	11,834
Islamic financing facilities	23	**11,020**	**12,491**	11,458	11,701
Revolving credits	23	**2,729**	**2,729**	274	274
Bankers' acceptances	23	**-**	**-**	41	41
Bank overdrafts	23	**908**	**908**	75	75
Company					
Loans and borrowings					
Notes and Bonds	23	**23,172**	**26,774**	22,055	24,758
Islamic financing facilities	23	**4,797**	**5,070**	4,536	4,773

Fair value hierarchy

The following table analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Input for the asset or liability that are not based on observable market data (unobservable input).

Comparative figures have not been presented for 31 March 2011 by virtue of paragraph 44G of FRS 7, *Financial Instruments: Disclosures.*

41. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Group

31.12.2011	**Level 1 RM Mil**	**Level 2 RM Mil**	**Total RM Mil**
Financial assets			
Quoted shares	9,718	-	9,718
Treasury bills	-	16,073	16,073
Negotiable Certificate of Deposits	-	514	514
Quoted securities	-	964	964
Malaysian Government Securities	-	5,876	5,876
Corporate Private Debt Securities	-	2,115	2,115
Unquoted securities	-	195	195
Forward foreign exchange contracts	-	529	529
Commodity swaps	-	4	4
Forward gas contracts	106	-	106
Others	-	85	85
	9,824	26,355	36,179
Financial liabilities			
Interest rate swaps	-	(287)	(287)
Forward foreign exchange contracts	-	(23)	(23)
Commodity swaps	-	(4)	(4)
Forward gas contracts	(18)	-	(18)
Forward oil price contracts	(12)	-	(12)
	(30)	(314)	(344)

Company

31.12.2011			
Financial assets			
Quoted shares	334	-	334
Treasury Bills	-	16,073	16,073
Negotiable Certificate of Deposits	-	514	514
Quoted securities	-	964	964
Malaysian Government Securities	-	5,814	5,814
Corporate Private Debt Securities	-	4,657	4,657
Forward foreign exchange contracts	-	1,314	1,314
	334	29,336	29,670
Financial liabilities			
Forward foreign exchange contracts	-	(214)	(214)
	-	(214)	(214)

41. FINANCIAL INSTRUMENTS (continued)

Income/(expense), net gains and losses arising from financial instruments

Group **1.4.2011** **to 31.12.2011**	**Interest income** **RM Mil**	**Interest expense** **RM Mil**	**Reversal/ (impairment loss)** **RM Mil**	**Others** **RM Mil**	**Total** **RM Mil**
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	223	223
- Designated upon initial recognition	357	-	-	5	362
Available-for-sale					
- recognised in profit or loss	-	-	-	458	458
- recognised in equity	-	-	-	(4,943)	(4,943)
Loans and receivables					
- recognised in profit or loss	2,482	-	(1,956)	(660)	(134)
- recognised in equity	-	-	-	1,452	1,452
Financial liabilities at amortised cost	-	(1,388)	-	(149)	(1,537)
Total	2,839	(1,388)	(1,956)	(3,614)	(4,119)
1.4.2010 **to 31.3.2011**					
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	35	35
- Designated upon initial recognition	331	-	-	(37)	294
Available-for-sale					
- recognised in profit or loss	794	-	-	407	1,201
- recognised in equity	-	-	-	2,251	2,251
Loans and receivables					
- recognised in profit or loss	1,831	-	119	(861)	1,089
- recognised in equity	-	-	-	(1,737)	(1,737)
Financial liabilities at amortised cost	-	(2,511)	-	(234)	(2,745)
Total	2,956	(2,511)	119	(176)	388

41. FINANCIAL INSTRUMENTS (continued)

Income/(expense), net gains and losses arising from financial instruments (continued)

Company 1.4.2011 to 31.12.2011	**Interest income RM Mil**	**Interest expense RM Mil**	**Impairment loss RM Mil**	**Others RM Mil**	**Total RM Mil**
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	(409)	(409)
- Designated upon initial recognition	376	-	-	133	509
Available-for-sale					
- recognised in profit or loss	-	-	-	26	26
- recognised in equity	-	-	-	48	48
Loans and receivables	3,827	-	(45)	966	4,748
Financial liabilities at amortised cost	-	(820)	-	-	(820)
Total	4,203	(820)	(45)	764	4,102
1.4.2010 to 31.3.2011					
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	410	410
- Designated upon initial recognition	365	-	-	(40)	325
Available-for-sale					
- recognised in profit or loss	397	-	-	57	454
- recognised in equity	-	-	-	(54)	(54)
Loans and receivables	4,022	-	(90)	(2,820)	1,112
Financial liabilities at amortised cost	-	(693)	-	-	(693)
Total	4,784	(693)	(90)	(2,447)	1,554

Others relate to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses, dividend income and fair value gains or losses.

42. CAPITAL MANAGEMENT

The Group, as an essential part of its capital management strategy, is committed to a policy of financial prudence as outlined in the PETRONAS Group Corporate Financial Policy. The Group's capital structure consists of consolidated equity plus debt, defined as the current and long term portions of the Group's debt.

The objective of the Group's capital management is to maintain an optimal capital structure and ensure availability of funds in order to meet financial obligations, support business growth and maximise shareholders' value. The Group monitors and maintains a prudent level of total debt to total assets ratio and ensures compliance with all covenants.

There were no changes in the Group's approach to capital management during the period.

43. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

On 1 April 2011, the Group and the Company adopted the following new and revised FRSs, amendments and IC interpretations that have been issued by the Malaysian Accounting Standards Board:

Effective for annual periods beginning on or after 1 July 2010

FRS 1, *First-time Adoption of Financial Reporting Standards (revised)*
FRS 3, *Business Combinations (revised)*
FRS 127, *Consolidated and Separate Financial Statements (revised)*
Amendment to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
Amendments to FRS 138, *Intangible Assets*
IC 12, *Service Concession Arrangements*
IC 16, *Hedges of a Net Investment in a Foreign Operation*
IC 17, *Distribution of Non-cash Assets to Owners*
Amendments to IC 9, *Reassessment of Embedded Derivatives*

Effective for annual periods beginning on or after 1 January 2011

Amendment to FRS 1, *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
Amendments to FRS 1, *Additional Exemptions for First-time Adopters*
Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*
Amendments to FRS 3, *Business Combinations*
Amendments to FRS 7, *Improving Disclosures about Financial Instruments*
Amendments to FRS 7, *Financial Instruments: Disclosures*
Amendments to FRS 101, *Presentation of Financial Statements*
Amendments to FRS 121, *The Effects of Changes in Foreign Exchange Rates*
Amendments to FRS 128, *Investments in Associates*
Amendments to FRS 131, *Interests in Joint Ventures*
Amendments to FRS 132, *Financial Instruments: Presentation*
Amendments to FRS 134, *Interim Financial Reporting*
Amendments to FRS 139, *Financial Instruments: Recognition and Measurement*
IC 4, *Determining whether an Arrangement contains a Lease*
IC 18, *Transfer of Assets from Customers*
Amendments to IC 13, *Customer Loyalty Programmes*

The principal changes in accounting policies and their effects are set out below:

i. FRS 3, *Business Combinations (revised)*

From 1 April 2011, the Group has applied FRS 3 (revised) in accounting for business combinations.

For acquisitions on or after 1 April 2011, the Group measures goodwill as the excess of the aggregate of consideration transferred, amount recognised for any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, the difference is recognised immediately in the profit or loss.

Non-controlling interests, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, in a business combination can be measured either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets acquired.

Costs related to the acquisition, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

43. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (continued)

i. FRS 3, *Business Combinations (revised)* (continued)

Prior to adopting FRS 3 (revised), goodwill in respect of all acquisitions made on or after 1 April 2006, represents the excess of the cost of acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities and contingent liabilities of the acquiree. Transaction costs that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

For acquisitions prior to 1 April 2006, goodwill represents the excess of the cost of acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities of the acquiree.

This change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have significant impact on the Group's reported income or net assets.

ii. Amendments to FRS 101, *Presentation of Financial Statements*

The Group applies Amendments to FRS 101 which became effective for annual periods beginning on or after 1 January 2011. Arising from the adoption of the Amendments to FRS 101, the statement of changes in equity includes for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from profit or loss, other comprehensive income and transactions with owners.

Comparative information has been represented so that it is in conformity with the revised presentation. Since the change only affects presentation aspects, there is no impact on the Group's and the Company's reported income or net assets.

iii. FRS 127, *Consolidated and Separate Financial Statements (revised)*

Since the beginning of the reporting period, the Group has applied FRS 127 (revised) where losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Prior to the adoption of FRS 127 (revised), where losses applicable to the non-controlling interests exceed their interests in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reported profits, the Group's interest was allocated all such profits until the non-controlling interests' share of losses previously absorbed by the Group had been recovered.

In addition, upon implementation of the revised FRS 127, when control of a subsidiary is lost but the Group continues to retain certain equity holdings in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Previously if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

This change in accounting policy has been applied prospectively in accordance with the transitional provisions of the standard and does not have significant impact on the Group's reported income or net assets.

43. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (continued)

iv. IC Interpretation 4, *Determining Whether an Arrangement contains a Lease*

From 1 April 2011, the Group has applied IC Interpretation 4, *Determining Whether an Arrangement contains a Lease*. When the fulfillment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease although the arrangement does not take the legal form of a lease.

Once determined to be a lease arrangement, it is accounted for as finance or operating lease in accordance with the above accounting policy. In particular, where a property, plant and equipment is determined to contain an embedded finance lease arrangement, the accounting treatment in the financial statements of the lessee involves the derecognition of the tangible asset and the recognition of future minimum lease payments due from the customer, equivalent to the net investment in the lease, under receivables and vice versa.

This change in accounting policy has been applied retrospectively in accordance with the transitional provisions provided by the standard and does not have significant impact on the Group's reported income or net assets.

44. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following revised FRSs, amendments and IC Interpretations that have been issued by the Malaysian Accounting Standards Board will become effective for future financial reporting periods. Since the Group's and the Company's financial statements will be prepared in accordance with the Malaysian Financial Reporting Standards from 1 January 2012 onwards, these pronouncements will not be implemented in the Group's and the Company's future financial reporting.

Effective for annual periods beginning on or after 1 July 2011

IC 19, *Extinguishing Financial Liabilities with Equity Instruments*
Amendments to IC 14, *Prepayments of a Minimum Funding Requirement*

Effective for annual periods beginning on or after 1 January 2012

FRS 124, *Related Party Disclosures (revised)*
Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Effective for annual periods beginning on or after 1 July 2012

Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

Effective for annual periods beginning on or after 1 January 2013

FRS 9, *Financial Instruments (2009)*
FRS 9, *Financial Instruments (2010)*
FRS 10, *Consolidated Financial Statements*
FRS 11, *Joint Arrangements*
FRS 12, *Disclosure of Interests in Other Entities*
FRS 13, *Fair Value Measurement*
FRS 119, *Employee Benefits (2011)*
FRS 127, *Separate Financial Statements (2011)*
FRS 128, *Investments in Associates and Joint Ventures (2011)*
IC 20, *Stripping Costs in the Production Phase of a Surface Mine*

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES

The significant subsidiary undertakings of the Company at 31 December 2011 and the Group percentage of share capital are set out below:

	Effective Percentage Holding 31.12.2011 %	31.3.2011 %	Country of Incorporation	Principal Activities
* PETRONAS Carigali Sdn. Bhd.	**100**	100	Malaysia	Petroleum exploration, development and production
Doba Pipeline Investment Inc.	**100**	100	Cayman Islands	Investment holding
PETRONAS Carigali (Chad EP) Inc.	**100**	100	Cayman Islands	Petroleum operations
PETRONAS Carigali Chad Exploration and Production Inc.	**100**	100	Cayman Islands	Investment holding
PETRONAS Carigali Overseas Sdn. Bhd.	**100**	100	Malaysia	Investment holding and petroleum operations
∞* PETRONAS International Corporation Ltd.	**100**	100	Malaysia	Investment holding
PC JDA Ltd.	**100**	100	Republic of Mauritius	Petroleum operations
PC Vietnam Ltd.	**100**	100	Republic of Mauritius	Petroleum operations
PETRONAS Australia Pty. Limited	**100**	100	Australia	Investment holding
PAPL (Upstream) Pty. Limited	**100**	100	Australia	Exploration and production of coal seam gas
PETRONAS Carigali (Jabung) Ltd.	**100**	100	Bahamas	Petroleum operations
PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	**100**	100	Malaysia	Petroleum operations
PETRONAS Carigali Canada Ltd.	**100**	-	Canada	Petroleum operations
PETRONAS Carigali Iraq Holding B.V.	**100**	100	Netherlands	Petroleum operations
PETRONAS Carigali Myanmar Inc.	**100**	100	Liberia	Petroleum operations
PETRONAS Carigali Nile Ltd.	**100**	100	Republic of Mauritius	Petroleum operations
∞ PICL (Egypt) Corporation Ltd.	**100**	100	Malaysia	Investment holding, exploration, and production of oil and gas
Engen Limited	**80**	80	South Africa	Refining of crude oil and marketing of refined petroleum products

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

		Effective Percentage Holding 31.12.2011 %	31.3.2011 %	Country of Incorporation	Principal Activities
	Engen Petroleum Ltd.	**80**	80	South Africa	Refining and distribution of petroleum products
	PETRONAS Marketing Sudan Limited	**100**	100	Sudan	Marketing of petroleum products
∞	Energas Insurance (L) Limited	**100**	100	Malaysia	Offshore captive insurance business
	Star Energy Group Plc	**-**	100	United Kingdom	Provision of gas storage facilities, exploration, development and production of crude oil, sale of natural gas and electricity generation
∞	MITCO Labuan Co. Ltd.	**100**	100	Malaysia	General merchandise trading
	PETRONAS Energy Trading Ltd.	**100**	100	United Kingdom	Trading of natural gas and liquefied natural gas ("LNG")
∞	PETRONAS LNG Ltd. (formerly known as Asean LNG Trading Co. Ltd.)	**100**	100	Malaysia	Trading of liquefied natural gas
*	Malaysia LNG Sdn. Bhd.	**90**	90	Malaysia	Liquefaction and sale of liquefied natural gas
*	Malaysia LNG Dua Sdn. Bhd.	**60**	60	Malaysia	Liquefaction and sale of liquefied natural gas
*	Malaysia LNG Tiga Sdn. Bhd.	**60**	60	Malaysia	Liquefaction and sale of liquefied natural gas
@*	PETRONAS Gas Berhad	**60.6**	60.6	Malaysia	Processing and transmission of natural gas
*	Malaysian Refining Company Sdn. Bhd.	**53**	53	Malaysia	Refining of crude oil
@*	PETRONAS Dagangan Berhad	**69.9**	69.9	Malaysia	Marketing of petroleum products and operation of service stations
*	PETRONAS Penapisan (Melaka) Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
*	PETRONAS Penapisan (Terengganu) Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
*	PETRONAS Trading Corporation Sdn. Bhd.	**100**	100	Malaysia	Trading of crude oil and petroleum products
@*	PETRONAS Chemicals Group Berhad	**64.3**	64.3	Malaysia	Investment holding

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

	Effective Percentage Holding 31.12.2011 %	31.3.2011 %	Country of Incorporation	Principal Activities
Aromatics Malaysia Sdn. Bhd.	**45**	45	Malaysia	Production and sale of aromatics products
Asean Bintulu Fertilizer Sdn. Bhd.	**40.9**	40.9	Malaysia	Production and sale of urea and ammonia
OPTIMAL Chemicals (Malaysia) Sdn. Bhd.	**64.3**	64.3	Malaysia	Manufacturing and selling ethylene and propylene derivative products
PETRONAS Chemicals Ethylene Sdn. Bhd. (formerly known as Ethylene Malaysia Sdn. Bhd.)	**56.3**	56.3	Malaysia	Production and sale of ethylene
PETRONAS Chemicals Ammonia Sdn. Bhd. (formerly known as PETRONAS Ammonia Sdn. Bhd.)	**64.3**	64.3	Malaysia	Production and sale of ammonia, syngas and carbon monoxide
PETRONAS Chemicals Fertilizer Kedah Sdn. Bhd. (formerly known as PETRONAS Fertilizer (Kedah) Sdn. Bhd.)	**64.3**	64.3	Malaysia	Production and sale of urea, ammonia and methanol
PETRONAS Chemicals Glycols (Malaysia) Sdn. Bhd. (formerly known as Optimal Glycols (Malaysia) Sdn. Bhd.)	**64.3**	64.3	Malaysia	Manufacturing and selling ethylene oxide, ethylene glycol and other glycols
PETRONAS Chemicals Marketing Sdn. Bhd. (formerly known as Malaysian International Trading Corporation Sdn. Bhd.)	**64.3**	64.3	Malaysia	Petrochemicals and general trading
PETRONAS Chemicals Methanol Sdn. Bhd. (formerly known as PETRONAS Methanol (Labuan) Sdn. Bhd.)	**64.3**	64.3	Malaysia	Production and sale of methanol
PETRONAS Chemicals MTBE Sdn. Bhd. (formerly known as MTBE Malaysia Sdn. Bhd.)	**64.3**	64.3	Malaysia	Production and sale of methyl tertiary butyl ether and propylene
PETRONAS Chemicals Olefins Sdn. Bhd. (formerly known as Optimal Olefins (Malaysia) Sdn. Bhd.)	**56.6**	56.6	Malaysia	Manufacturing and marketing of ethylene, propylene and other hydrocarbon products
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd. (formerly known as Styrene Monomer (Malaysia) Sdn. Bhd.)	**64.3**	100	Malaysia	Intended to manufacture and market ammonia, urea and any component or derivative substances

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

	Effective Percentage Holding 31.12.2011 %	31.3.2011 %	Country of Incorporation	Principal Activities
* PrimeSourcing International Sdn. Bhd. (formerly known as Malaysian International Trading Corporation (Japan) Sdn. Bhd.)	**100**	100	Malaysia	Trading and procurement of equipment spares and materials
* PETRONAS Lubricants International Sdn. Bhd.	**100**	100	Malaysia	Investment holding, manufacturing and trading of lubricant products
PLI (Netherlands) B.V.	**100**	100	Netherlands	Investment holding
PETRONAS Lubricants Italy S.p.A	**100**	100	Italy	Manufacturing and marketing of lubricant products
@* MISC Berhad	**62.6**	62.6	Malaysia	Shipping and shipping related activities
AET Inc. Limited	**62.6**	62.6	Bermuda	Ship-owning and operations
∞ Malaysia Deepwater Floating Terminal (Kikeh) Ltd.	**31.8**	31.8	Malaysia	Floating production storage and off-loading ("FPSO") owner
@ Malaysia Marine and Heavy Engineering Holdings Berhad	**41.6**	41.6	Malaysia	Investment holding
MISC Tankers Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding and provision of management services
* KLCC (Holdings) Sdn. Bhd.	**100**	100	Malaysia	Property investment related activities and property development
Kuala Lumpur Convention Centre Sdn. Bhd.	**100**	100	Malaysia	Property investment
Midciti Resources Sdn. Bhd.	**76.1**	76.1	Malaysia	Property investment
Putrajaya Holdings Sdn. Bhd.	**64.4**	64.4	Malaysia	Property owner and developer
@* KLCC Property Holdings Berhad	**52.6**	52.6	Malaysia	Property investment, hotel and recreation
Suria KLCC Sdn. Bhd.	**31.6**	31.6	Malaysia	Property investment
* Institute of Technology PETRONAS Sdn. Bhd.	**100**	100	Malaysia	Institute of higher learning

45. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

	Effective Percentage Holding 31.12.2011 %	31.3.2011 %	Country of Incorporation	Principal Activities
∞ PETRONAS Capital Ltd.	**100**	100	Malaysia	Investment holding
∞ PETRONAS Global Sukuk Limited	**100**	100	Malaysia	Investment holding

* Subsidiaries held directly by the Company.
@ The shares of these subsidiaries are quoted on the Main Market of Bursa Malaysia Securities Berhad.
∞ Companies incorporated under the Labuan Companies Act 1990.

46. SIGNIFICANT ASSOCIATES AND ACTIVITIES

	Effective Percentage Holding 31.12.2011 %	31.3.2011 %	Country of Incorporation	Principal Activities
BASF PETRONAS Chemicals Sdn. Bhd.	**25.7**	25.7	Malaysia	Own and operate acrylic acid and oxo plants
Bintulu Port Holdings Berhad	**32.8**	32.8	Malaysia	Port management
Cameroon Oil Transportation Company- S.A.	**29.8**	29.8	Republic of Cameroon	Pipeline operations
El Behera Natural Gas Liquefaction Company S.A.E.	**35.5**	35.5	Egypt	Manufacturing and production of LNG for the purpose of export
Gas Malaysia Bhd. (formerly known as Gas Malaysia Sdn. Bhd.)	**12.1**	12.1	Malaysia	Selling, marketing, distribution and promotion of natural gas
GMR Energy (Singapore) Pte. Ltd.	**30.0**	-	Singapore	Construct and operate a power plant and electricity trading
IDKU Natural Gas Liquefaction Company S.A.E.	**38.0**	38.0	Egypt	Manufacturing and production of LNG for the purpose of export
PP Oil & Gas (Indonesia- Jabung) Limited	**50.0**	50.0	United Kingdom	Exploration and production of oil and gas
Taninthayi Pipeline Co. LLC	**40.9**	40.9	Cayman Islands	Transportation of gas
Tchad Oil Transportation Company- S.A.	**30.2**	30.2	Republic of Chad	Pipeline operations
The Egyptian LNG Company S.A.E.	**35.5**	35.5	Egypt	Owning, managing and developing the land and the common facilities related to the Egyptian LNG facility

47. SIGNIFICANT JOINTLY-CONTROLLED ENTITIES AND ACTIVITIES

	Effective Percentage Holding		Country of Incorporation	Principal Activities
	31.12.2011 %	31.3.2011 %		
BP PETRONAS Acetyls Sdn. Bhd.	**19.3**	19.3	Malaysia	Manufacture, sell and distribute acetic acid
Dragon LNG Group Ltd.	**50.0**	30.0	United Kingdom	Operate LNG import and storage terminal
Trans Thai-Malaysia (Thailand) Ltd.	**50.0**	50.0	Thailand	Gas pipeline transportation and gas separation services
Trans Thai-Malaysia (Malaysia) Sdn. Bhd.	**50.0**	50.0	Malaysia	Transporting and delivering gas products
Indianoil PETRONAS Private Limited	**50.0**	50.0	India	Manufacture and bottling services of LPG
VTTI B.V.	**31.3**	31.3	Netherlands	Owning, operating and managing a network of oil product storage terminals and refineries

REPORT OF THE AUDITORS TO THE MEMBERS

Report on the Financial Statements

We have audited the financial statements of Petroliam Nasional Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 125 to 229.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2011 and of their financial performance and cash flows for the period then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Appendix I to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG Desa Megat & Co.
Firm Number: AF 0759
Chartered Accountants

Abdullah Abu Samah
Partner
Approval Number: 2013/06/12(J)
Chartered Accountant

Petaling Jaya, Malaysia

Date: 29 February 2012

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS

KLCC (Holdings) Sdn. Bhd. and its subsidiaries:

- Aliran Moden Sdn. Bhd.
- Cititower Sdn. Bhd.
- Convex Malaysia Sdn. Bhd.
- Gas District Cooling (M) Sdn. Bhd.
- Gilang Cendana Sdn. Bhd.
- Hasrat Intisari (M) Sdn. Bhd.
- HLP Bina Sdn. Bhd.
- Impian Bebas Sdn. Bhd.
- Kenyalang Murni Sdn. Bhd.
- KLCC Projeks Sdn. Bhd.
- KLCC Real Estate Management Sdn. Bhd.
- KLCC Projeks Services Sdn. Bhd.
- Kuala Lumpur City Park Berhad
- Layar Intan Sdn. Bhd.
- Menara Putrajaya Sdn. Bhd.
- Pedoman Purnama Sdn. Bhd.
- Purnama Sepi Sdn. Bhd.
- Putrajaya Corporate Services Sdn. Bhd.
- Putrajaya Group Sdn. Bhd.
- Putrajaya Projects Sdn. Bhd.
- Putrajaya Resources Sdn. Bhd.
- Senandung Asli Sdn. Bhd.
- Tapak Senja Sdn. Bhd.
- Gas District Cooling (KLIA) Sdn. Bhd.
- Arah Moden Sdn. Bhd.
- City Centre Convention Centre Sdn. Bhd.
- Gagasan Ria Sdn. Bhd.
- Gas District Cooling (Putrajaya) Sdn. Bhd.
- Heritage Lane Sdn. Bhd.
- Ilham Merpati Sdn. Bhd.
- Idaman Putrajaya Sdn. Bhd.
- Impian Moden Sdn. Bhd.
- Kelana Perkasa Sdn. Bhd.
- KLCC Convention Centre Sdn. Bhd.
- KLCC Properties Sdn. Bhd.
- Komponen Abadi Sdn. Bhd.
- Kuala Lumpur City Centre Holdings Sdn. Bhd.
- Kuala Lumpur Convention Centre Sdn. Bhd.
- Lembah Putrajaya Sdn. Bhd.
- Metro Kemasik Sdn. Bhd.
- Putrajaya Capital Management Sdn. Bhd.
- Putrajaya Holdings Sdn. Bhd.
- Putrajaya Management Sdn. Bhd.
- Putrajaya Properties Sdn. Bhd.
- Putrajaya Ventures Sdn. Bhd.
- Serba Harapan (M) Sdn. Bhd.
- Gas District Cooling (Holdings) Sdn. Bhd.
- Gas District Cooling (UTP) Sdn. Bhd.

KLCC Property Holdings Berhad and its subsidiaries:

- Arena Johan Sdn. Bhd.
- Asas Klasik Sdn. Bhd.
- KLCC Parking Management Sdn. Bhd.
- Kompleks Dayabumi Sdn. Bhd.
- Suria KLCC Sdn. Bhd.
- Arena Merdu Sdn. Bhd.
- Impian Cemerlang Sdn. Bhd.
- KLCC Urusharta Sdn. Bhd.
- Midciti Resources Sdn. Bhd.

Marmel Incorporated and its subsidiaries:

- Darton Ltd.
- GCB Associates LLC
- Sparknight LLC
- Sparknight (U.S) Inc.
- WG Parcel B LLC
- Paterson LLC (formerly known as WG Parcel B Management LLC)
- Darton U.S. Holdings Inc.
- Grabhorn Properties LLC
- World Gateway Investments Inc.
- World Gateway Property Owners Association
- World Gateway Investments Inc.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

MISC Berhad and its subsidiaries:

- AET Agencies Inc.
- AET Inc. Limited
- AET Offshore Services Inc.
- AET Shipmanagement (India) Pte. Ltd.
- AET Shipmanagement (Singapore) Pte. Ltd.
- AET Tanker Holdings Sdn. Bhd.
- Asia LNG Transport Sdn. Bhd.
- Bunga Kasturi (L) Pte. Ltd.
- Leo Launches Pte. Ltd.
- Malaysia Deepwater Floating Terminal (Kikeh) Ltd.
- Malaysian Maritime Academy Sdn. Bhd.
- MILS – SterilGamma Sdn. Bhd.
- MISAN Logistics B.V.
- MISC Agencies (Australia) Pty. Ltd.
- MISC Agencies India Pte. Ltd.
- MISC Agencies (Netherlands) B.V.
- MISC Agencies (Sarawak) Sdn. Bhd.
- MISC Agencies (U.K.) Ltd.
- MISC Capital (L) Ltd.
- MISC Ferry Services Sdn. Bhd.
- MISC Haulage Services Sdn. Bhd.
- MISC International (L) Ltd.
- M.I.S.C Nigeria Ltd.
- MISC Offshore Holdings (Brazil) Sdn. Bhd.
- MISC Ship Management Sdn. Bhd.
- MISC Tanker Holdings (Bermuda) Limited
- MTTI Sdn. Bhd.
- Malaysia Marine and Heavy Engineering Holdings Berhad (@)
- Puteri Delima Satu (L) Pte. Ltd.
- Puteri Firus Satu (L) Pte. Ltd.
- Puteri Intan Satu (L) Pte. Ltd.
- Puteri Nilam Satu (L) Pte. Ltd.
- Puteri Zamrud Satu (L) Pte. Ltd.
- Puteri Zamrud Sdn. Bhd.
- Malaysia Marine and Heavy Engineering (Turkmenistan) Sdn. Bhd.
- AET Tanker Kazakhstan LLP
- AET Shipmanagement (USA) LLC
- AET Tankers (Suezmax) Pte. Ltd.
- AET Shuttle Tankers Sdn. Bhd.
- AET Holdings (L) Pte. Ltd.
- AET Lightering Services LLC
- AET Petroleum Tanker (M) Sdn. Bhd.
- AET Shipmanagement (Malaysia) Sdn. Bhd.
- AET Azerbaijan Ltd.
- AET Tanker India Pte. Ltd.
- AET (UK) Limited
- AET Tankers Pte. Ltd.
- Asia LNG Transport Dua Sdn. Bhd.
- FPSO Ventures Sdn. Bhd.
- Malaysia Deepwater Production Contractors Sdn. Bhd.
- Malaysia Marine and Heavy Engineering Sdn. Bhd.
- MILS - Seafrigo Sdn. Bhd.
- MILS - Seafrigo Cold Chain Logistics Sdn. Bhd.
- MISC Agencies Sdn. Bhd.
- MISC Agencies (Japan) Ltd.
- MISC Agencies (New Zealand) Ltd.
- MISC Agencies (Singapore) Pte. Ltd.
- MISC Enterprises Holdings Sdn. Bhd.
- MISC Floating Production System (Gumusut) Ltd.
- MISC Offshore Mobile Production (Labuan) Ltd.
- MISC Integrated Logistics Sdn. Bhd.
- MISC Offshore Floating Terminals (L) Ltd.
- MISC Properties Sdn. Bhd.
- MISC Tanker Holdings Sdn. Bhd.
- MISC Trucking and Warehousing Services Sdn. Bhd.
- MMHE-SHI LNG Sdn. Bhd.
- MSE Corporation Sdn. Bhd.
- MISC Tankers Sdn. Bhd.
- Puteri Delima Sdn. Bhd.
- Puteri Firus Sdn. Bhd.
- Puteri Intan Sdn. Bhd.
- Puteri Mutiara Satu (L) Pte. Ltd.
- Puteri Nilam Sdn. Bhd.
- Techno Indah Sdn. Bhd.
- MISC PNG Shipping (L) Ltd.
- Western Pacific Shipping (L) Ltd.
- MISC Agencies (Thailand) Co. Ltd.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS Carigali Sdn. Bhd. and its subsidiaries:

- Doba Pipeline Investment Inc.
- PC Gulf Ltd.
- PC (North East Madura IV) Ltd.
- PC (SE Palung Aru) Ltd.
- PC (Timor Sea 06-102) Ltd.
- PETRONAS Carigali (Australia) Pty. Ltd.
- PETRONAS Carigali (Chad EP) Inc.
- PETRONAS Carigali (Ketapang) Ltd.
- PETRONAS Carigali (Surumana) Ltd.
- PETRONAS Carigali (Tanjung Jabung) Ltd.
- PETRONAS Carigali Equatorial Guinea Ltd.
- PETRONAS Chad Marketing Inc.
- PETRONAS Carigali Myanmar II Inc.
- PETRONAS Carigali Niger Exploration & Production Ltd.
- PETRONAS Carigali White Nile (5B) Ltd.
- PETRONAS Carigali Vietnam (Blocks 10 & 11-1) Ltd.
- PETRONAS Carigali (Mandar) Ltd.
- PETRONAS Carigali (Oman) Ltd.
- PETRONAS Iraq Garraf Ltd.
- PETRONAS Carigali Iraq (Halfaya) Ltd.
- PETRONAS Carigali Iraq Holding B.V.
- PETRONAS Carigali Iraq (Badra) Ltd.
- PC Algeria Ltd. (ϒ)
- PC Lampung II Ltd.
- PC Randugunting Ltd.
- PC (South Pars) 11 Ltd.
- PC Venezuela Ltd.
- PETRONAS Carigali (Baisun) Operating Company LLC
- PETRONAS Carigali (Karapan) Ltd.
- PC Ketapang II Ltd.
- PETRONAS Carigali (Surkhanski) Operating Company LLC
- PETRONAS Carigali (Tanjung Aru) Ltd.
- PETRONAS Carigali Chad Exploration & Production Inc.
- PETRONAS Carigali International Sdn. Bhd.
- PETRONAS Carigali Mozambique E&P Ltd.
- PETRONAS Carigali Nigeria Limited
- PETRONAS Carigali Overseas Sdn. Bhd.
- Seerat Refinery Investment Inc.
- PC Mozambique (Rovuma Basin) Ltd.
- PETRONAS Carigali Cameroon Ltd.
- PETRONAS Carigali (Baisun) Ltd.
- PETRONAS Carigali (West Glagah Kambuna) Ltd.
- PETRONAS Carigali Iraq (Majnoon) Ltd.
- E&P Venture Solutions Co. Sdn. Bhd.

PETRONAS Chemicals Group Berhad and its subsidiaries:

- Kertih Port Sdn. Bhd.
- PETRONAS Chemicals Ammonia Sdn. Bhd.
  (formerly known as PETRONAS Ammonia Sdn. Bhd.)
- Phu My Plastics and Chemicals Co. Ltd.(α)
- PETRONAS Chemicals Glycols (Malaysia) Sdn. Bhd.
  (formerly known as Optimal Glycols (Malaysia) Sdn. Bhd.)
- Vinyl Chloride (Malaysia) Sdn. Bhd.
- PETLIN (Malaysia) Sdn. Bhd.
- PETRONAS Chemicals Fertilizer Kedah Sdn. Bhd.
  (formerly known as PETRONAS Fertilizer (Kedah) Sdn. Bhd.)
- OPTIMAL Chemicals (Malaysia) Sdn. Bhd.
- PETRONAS Chemicals Olefins Sdn. Bhd.
  (formerly known as Optimal Olefins (Malaysia) Sdn. Bhd.)
- PETRONAS Chemicals Trading (Labuan) Ltd.(α)

PETRONAS Hartabina Sdn. Bhd. and its subsidiary:

- Prince Court Medical Centre Sdn. Bhd.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS International Corporation Ltd. and its subsidiaries:

- Aktol Chemicals (Pty.) Ltd.
- Azania Petroleum (Pty.) Ltd.
- Citycat Properties (Pty.) Ltd.
- Chemico (Pty.) Ltd.
- Engen African Minority Holdings
- Engen Gabon S.A.
- Engen Group Funding Trust
- Engen Holdings (Ghana) Ltd.
- Engen International Holdings (Mauritius) Ltd.
- Engen Lesotho (Pty.) Ltd.
- Engen Marketing Botswana (Pty.) Ltd.
- Engen (Nigeria) Ltd.
- Engen Offshore Holdings (Mauritius) Ltd.
- Engen Swaziland (Pty.) Ltd.
- Engen Rwanda Ltd.
- Engen Petroleum Zimbabwe (PVT) Ltd.
- Engen Petroleum International Ltd.
- Engen Petroleum (Mocambique) Ltd.
- Engen Petroleum Zambia Ltd.
- Engen Guinea-Bissau Ltd.
- Enpet Insurance Ltd.
- Federico Trading (Pty.) Ltd.
- Ivory Properties (Pty.) Ltd.
- Imtrasel (Pty.) Ltd.
- Labuan Energy Corporation Limited
- New Jack Trading (Pty.) Ltd.
- PAPL (Upstream) Pty Limited
- PC JDA Ltd.
- PC Muriah Ltd.
- PC Myanmar (Hong Kong) Ltd.
- PAPL Services Pty Limited
- PAPL (Upstream II) Pty Limited
- Petroleum Investment Holding Ltd.
- PETRONAS Energy Trading Ltd.
  (formerly known as PETGAS Trading UK Ltd.) (ϒ)
- PETRONAS Carigali Myanmar Inc.
- PETRONAS Carigali Nile Ltd.
- PC Greenland Holding Ltd.
- PC Greenland A/S
- PETRONAS Carigali Myanmar III Inc.
- Argentinean Pipeline Holding Company S.A.
  (formerly known as PETRONAS Argentina S.A.) (α) (ϒ)
- PETRONAS Carigali (Urga) Ltd.
- PETRONAS Marketing Sudan Ltd.
- Chevron Zimbabwe (Pvt) Ltd.
- PETRONAS Philippines Inc. (α) (ϒ)
- PETRONAS (Thailand) Co. Ltd. (α)
- PETRONAS LNG Ltd.
  (formerly known as Asean LNG Trading Co. Ltd.)
- BGI Properties Ltd.
- Cavallo Engineering & Construction (Pty.) Ltd.
- Durban Liquid Storage Pty. Ltd.
- Engen African Holdings
- Engen Botswana Limited (β)
- Engen Ghana Ltd.
- Engen Holdings (Pty.) Ltd.
- Engen Holdings Zimbabwe (PVT) Ltd.
- Engen Kenya Ltd.
- Engen Limited
- Engen Marketing Ltd.
- Engen Marketing Zimbabwe Ltd.
- Engen Namibia (Pty.) Ltd.
- Engen Producing (Nigeria) Ltd.
- Engen Uganda Ltd.
- Engen Petroleum (Burundi) Ltd.
- Engen Petroleum (DRC) Ltd.
- Engen Petroleum Ltd.
- Engen Petroleum Tanzania Ltd.
- Engen Petroleum Zimbabwe (PVT) Ltd.
- Enpet Africa Insurance Ltd.
- MITCO Labuan Co. Limited
- Myanmar PETRONAS Trading Co. Ltd.
- LEC Ireland Employment Ltd.
- MITCO Labuan India Private Limited
- Nada Properties Company Ltd.
- Natuna 1 B.V.
- Oil Tanking Ltd.
- Pakenzyl (Pty.) Ltd.
- Parsi International Ltd.
- PC Madura Ltd.
- PAPL (Downstream) Pty Limited
- PC Myanmar Holdings Ltd. (ϒ)
- PC Vietnam Ltd.
- Petrarch Petroleum (Pty.) Ltd.
- PETRONAS Australia Pty. Ltd.
- PETRONAS Carigali (Jabung) Ltd.
- PETRONAS Carigali (Turkmenistan) Sdn. Bhd.
- PETRONAS Carigali (Urga) Operating Company LLC (ϒ)
- PETRONAS Marketing (India) Private Ltd.
- PETRONAS Marketing (Thailand) Co. Ltd. (α)
- PETRONAS Natuna Sdn. Bhd.
- PETRONAS Retail (Thailand) Co. Ltd. (α)
- PETRONAS Retail Property (Thailand) Co. Ltd. (α)

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS International Corporation Ltd. and its subsidiaries (continued):

- PETRONAS Vietnam Co. Ltd.
- PICL Siri Company Limited (α)
- PICL Downstream (Mauritius) Ltd.
- PSE Kinsale Energy Ltd.
- PT PETRONAS Niaga Indonesia (α)
- PC Mauritania I Pty Limited
- PC Mauritania II B.V.
- PC Brunei Co. Ltd.
- PETRONAS LNG Sdn. Bhd.
- PETRONAS LNG (UK) Ltd.
- Quickstep 285 (Pty.) Ltd.
- Renaissance Petroleum (Pty.) Ltd.
- SEP Burundi
- PETRONAS Power Sdn. Bhd.
- PETRONAS Marketing Ventures Ltd. (formerly known as PICL Southern Sudan Co. Ltd.)
- Thang Long LPG JV Company Ltd.
- PETRONAS Lubricant (Thailand) Co. Ltd. (formerly known as The Fifth Retail Ltd.)
- Trek Petroleum (Pty.) Ltd.
- Zenex Oil (Pty.) Ltd.
- Engen Oil Lesotho (Pty.) Ltd.
- Engen Properties (Pty.) Ltd.
- Engen Reunion SA
- Engen Petroleum (Mauritius) Ltd.
- PICL Marketing Thailand Ltd. (ϒ)
- PICL (Egypt) Corporation Ltd.
- PSE Ireland Limited
- PSE Seven Head Ltd.
- Quickstep 284 (Pty.) Ltd.
- Quickstep 286 (Pty.) Ltd.
- Rockyhill Properties (Pty.) Ltd.
- Sirri International Ltd.
- Sonap Petroleum (South Africa) (Pty.) Ltd.
- ENGEN Ltd. (Malawi)
- ENGEN DRC SARL
- PC Canada BV
- PC Canada Ltd.
- Petrochemical Shipping Ltd.
- Aero Services SARL
- Universal Property Company Limited (α)
- Ximex Energy Holdings (PVT) Ltd.
- Valais Investments (Pty.) Ltd.
- Engen Marketing Tanzania Ltd.
- Societe de Transport Mace SA
- Engen Company (Mauritius) Ltd.
- Engen Oil Tanking Ltd.
- Kabuye Depot Holding Company Rwanda Ltd.

PETRONAS Maritime Services Sdn. Bhd. and its subsidiary:

- Sungai Udang Port Sdn. Bhd.

PETRONAS Assets Sdn. Bhd. and its subsidiaries:

- iPerintis Sdn. Bhd.
- Petrofibre Network (M) Sdn. Bhd.

PLI (Netherlands) B.V. and its subsidiaries:

- PETRONAS Lubricants Italy S.p.A(α)
- PETRONAS Lubrificantes Brasil S.A.(α)
- PETRONAS Lubricants France S.A.S.
- PETRONAS Lubricants Netherlands B.V. (α)
- PETRONAS Madeni Yaglar TIC LTD STI (α)
- PETRONAS Lubricants Spain S.L.U. (α)
- PETRONAS Lubricants Portugal Lda(α)
- FL Nominees Ltd. (α)
- PETRONAS Lubricants Belgium N.V. (α)
- Viscosity Oil Co. (α)
- PETRONAS Lubricants Poland Sp.Zo.o(α)
- PETRONAS Lubricants Argentina S.A. (α)
- PETRONAS Lubricants Great Britain Ltd.(α)
- PETRONAS Lubricants Deutschland GmbH(α)
- Viscosity Oil Finco LLC(α)

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

Subsidiaries held directly by the Company:

- Energas Insurance (L) Limited
- PETRONAS Management Training Sdn. Bhd.
- PETRONAS South Africa (Pty.) Ltd. (α)
- PETRONAS NGV Sdn. Bhd.
- Institute of Technology PETRONAS Sdn. Bhd.
- PETRONAS e-Learning Solutions Sdn. Bhd.
- PETRONAS India (Holdings) Co. Pte. Ltd. (α)

ϒ Consolidated based on management financial statements.
α Audited by affiliates of KPMG Desa Megat and Co.
@ The shares of this subsidiary are quoted on the Main Market of Bursa Malaysia Securities Berhad.
β The shares of this subsidiary are quoted on the Botswana Stock Exchange.

Petroliam Nasional Berhad (Company No. 20076-K)
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