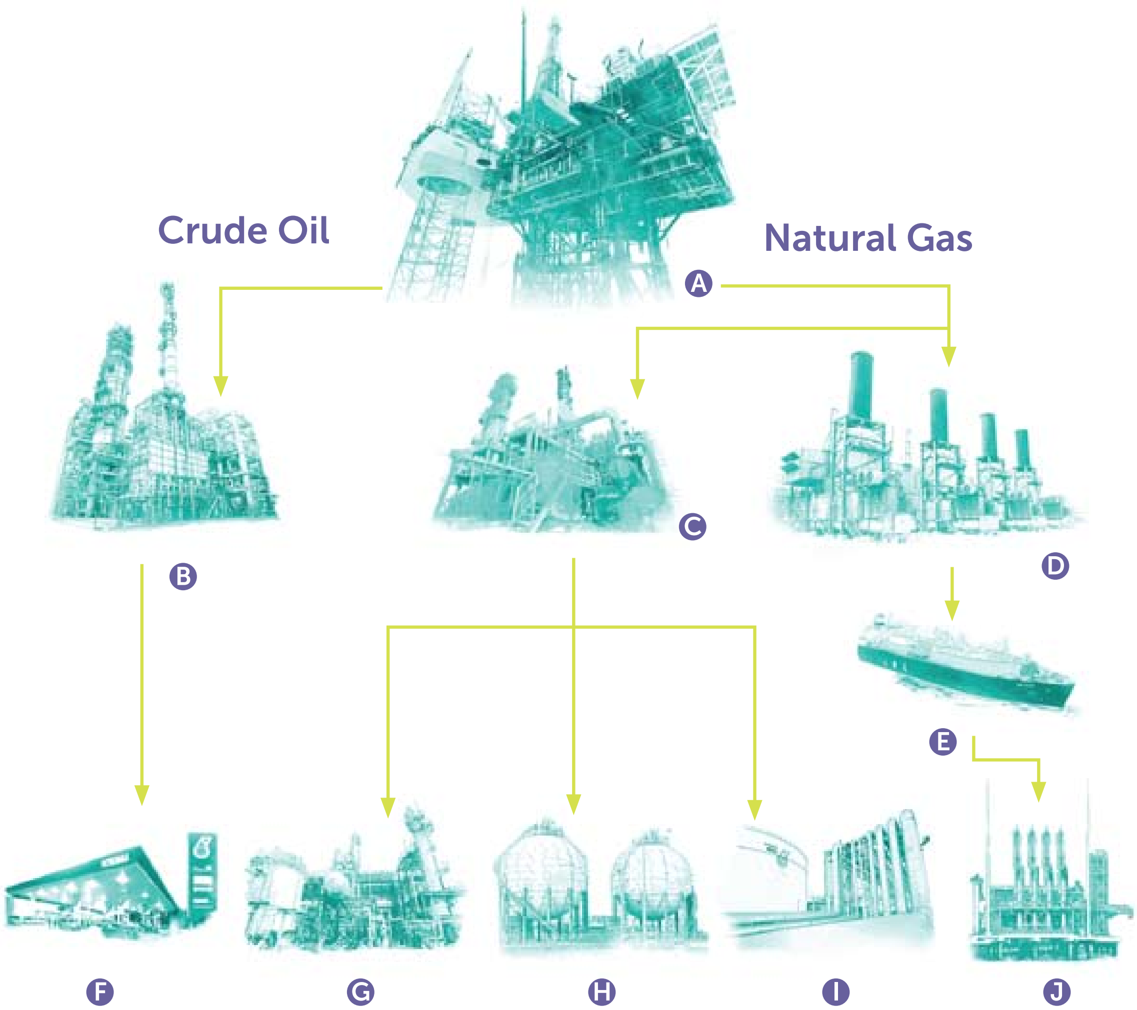
PETRONAS

ANNUAL REPORT 2012
reimagining energy™

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 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 • Sierra Leone – Exploration
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 • Réunion – Oil Business • Rwanda – Oil Business • Swaziland – Oil Business • South Africa – Oil Business • Republic of South Sudan – Lubricants & Oil Businesses • Republic of Sudan – Lubricants & Oil Businesses • Tanzania – Oil Business • Zambia – Oil Business • Zimbabwe – Oil Business
Asia Pacific	• China – Lubricants & Petrochemical Businesses • India – Lubricants & Petrochemical Businesses • Indonesia – Lubricants, Oil & Petrochemical Businesses • Malaysia – Lubricants, Oil & Petrochemical Businesses • Philippines – Lubricants, Oil & Petrochemical Businesses • Thailand – Lubricants, Oil & Petrochemical Businesses • Vietnam – Lubricants, Oil & Petrochemical Businesses
Europe	• Austria – Lubricants • Belgium – Lubricants • Denmark – Lubricants • France – Lubricants • Germany – Lubricants • Italy – Lubricants • Netherlands – Lubricants • Poland – Lubricants • Portugal – Lubricants • Spain – Lubricants • Turkey – Lubricants • United Kingdom – Lubricants
Latin America	• Argentina – Lubricants • Brazil – Lubricants
North America	• United States of America – Lubricants

Includes Engen subsidiaries and marketing and trading offices.

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The Group changed its financial year in 2012 from March to December, making it a nine month reporting period from 1 April to 31 December. To allow for meaningful comparison, comparatives for the twelve month ended 31 December 2011 has been included, where relevant.

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 the nation and corporation

Integrity
Honest and upright

Professionalism
Committed, innovative and proactive and always striving for excellence

Cohesiveness
United in purpose and fellowship

COMPANY 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 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, 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 multinational companies through Production Sharing Contracts 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 is positioning itself to be a leading gas, Liquefied Natural Gas (LNG) and power player through two major portfolios under its Gas & Power business; Global LNG business and Infrastructure & Utilities business.

PETRONAS' Global LNG business commands a significant international market share; owing to three decades of experiences and proven capability along the LNG value chain. PETRONAS is committed to continue strengthening its market position and preserve its reputation as a preferred LNG supplier distinctive for its quality and reliability through strategic expansion projects, venturing into unconventional plays in Australia and Canada, as well as growing its international LNG trading portfolio.

The Infrastructure, Utilities & Power business is focused on ensuring long-term security, sustainability, and utilisation of natural gas in Malaysia while continuing to expand its portfolio of infrastructure and power in various international markets. This encompasses gas processing, transportation, regasification as well as equity participation in power generation.

Since the 1980's, the Peninsular Gas Utilisation pipeline system has been delivering gas to the power and non-power sectors in Peninsular Malaysia as well as to the power industry in Singapore. In addition, gas processing has also spurred Malaysia's petrochemical industry. PETRONAS is committed to continue growing its infrastructure and power business including renewables power business.

Downstream Business

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, a leading African refining and marketing company which owns and operates a refinery in Durban, South Africa.

In the Malaysian market, PETRONAS Dagangan Berhad manages all domestic marketing and retailing activities for a wide range of petroleum products. PETRONAS also operates service stations in various international markets such as South Africa and Sudan. PETRONAS Lubricants International Sdn Bhd (PLI) is the global lubricants manufacturing and marketing arm of PETRONAS, with presence in more than 50 countries and five continents. PLI is responsible in setting PETRONAS global lubricant strategic direction and growth with a product range that 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 is the largest integrated petrochemical 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

Datuk Manharlal Ratilal
Executive Director

Tan Sri Mohd Sidek Hassan
Chairman of the PETRONAS Board

Datuk Anuar Ahmad
Executive Director

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

* **Tan Sri Dr Mohd Irwan Siregar Abdullah**
Non Independent Non Executive Director

Datuk Muhammad Ibrahim
Non Independent Non Executive Director

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

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 Dr Wan Abdul Aziz Wan Abdullah retired from the PETRONAS Board on 28 November 2012*

Datuk Mohd Omar Mustapha
Independent
Non Executive Director

Datuk Wan Zulkiflee Wan Ariffin
Executive Director
& Chief Operating Officer

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

Tan Sri Amirsham A Aziz
Independent
Non Executive Director

Dato' Wee Yiaw Hin
Executive Director

Dato' Mohamad Idris Mansor
Independent
Non Executive Director

Faridah Haris Hamid
Company Secretary

Abdul Rahman Musa @ Onn
Joint Company Secretary

Board of Directors

Tan Sri Mohd Sidek Hassan
Chairman of the Board
Tan Sri Sidek Hassan was appointed to the PETRONAS Board on 1 July 2012. He has held various senior positions within the government namely as Malaysia's Trade Commissioner in Sydney, Minister Counselor of Economic Affairs in Washington D. C. as well as Deputy Secretary-General (Trade) and Secretary-General of the Ministry of International Trade and Industry. Prior to joining PETRONAS, he was the Chief Secretary to the Government of Malaysia from 2006 to 2012. At present, he is also the President of the International Islamic University Malaysia.

Tan Sri Dato' Shamsul Azhar Abbas
President & Group Chief Executive Officer
Tan Sri Dato' Shamsul Azhar Abbas was appointed to the PETRONAS Board on 10 February 2010, and is currently the President & Group Chief Executive Officer of PETRONAS. 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 Mohd Irwan Serigar Abdullah
Non Independent Non Executive Director
Dato' Sri Dr. Mohd Irwan Serigar Abdullah was appointed to the PETRONAS Board in November 2012. He is currently the Secretary General of Treasury at the Ministry of Finance Malaysia. His tenure at the Ministry of Finance has seen him hold key positions in its Economic Division, Economic Analysis and International Division and as the Deputy Secretary General (Policy). Dato' Sri Dr. Mohd Irwan Serigar Abdullah also serves as a Board member of notable organisations including the Malaysia Airline System Berhad (MAS), Felda Global Ventures Holding Berhad (FGVH), Padiberas Nasional Berhad (BERNAS), Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP), Malaysia Deposit Insurance Corporation (PIDM) and Lembaga Kemajuan Tanah (FELDA). He is also the Chairman of Kumpulan Wang Amanah Persaraan Diperbadankan (KWAP), Lembaga Hasil Dalam Negeri (LHDN) and Cyberview Sdn. Bhd.
On 1 June 2013, he was conferred the Darjah Panglima Setia Mahkota (PSM) which carries the title Tan Sri by His Majesty the Yang Di-Pertuan Agong.

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 financial markets, foreign exchange, banking and insurance.
He also sits as a member of the Bank's Monetary Policy Committee and Financial Stability Committee. 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. He is a board member of the SEACEN Research and Training Centre and chair of the senate for International Centre for Education in Islamic Finance [INCEIF]. He is also the Chairman of Irving Fisher Committee on Central Bank Statistics, Bank for International Settlement. 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 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.

Board of Directors

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.

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 & Chief Operating Officer
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 currently the Chief Operating Officer and Executive Vice President of Downstream Business. He is the Chairman of two of PETRONAS' public listed subsidiaries namely PETRONAS Chemicals Group Berhad and PETRONAS Dagangan Berhad. He is a Board Member of Johor Petroleum Development Corporation Berhad.

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.

Board of Directors

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.

Faridah Haris Hamid

Company Secretary

Faridah Haris is the Head of Finance & Corporate Secretariat (Legal) PETRONAS. She holds a Law Degree from the University of London and Postgraduate Diploma in Shipping Law from the University College, London University. She spent 10 years in banking at Bank Pembangunan before she joined PETRONAS in 1992. In March 1993, she was transferred to Corporate Finance Department and rejoined the Legal Fraternity in 1997 following the Legal Restructuring.

Abdul Rahman Musa @ Onn

Joint Company Secretary

Abdul Rahman Musa @ Onn is currently the Head of Corporate Secretariat & Compliance, Legal Division. He joined PETRONAS in 1981 and has been with the Company for over 30 years. He is the Joint Secretary to the PETRONAS Board of Directors effective 5th July 2012 and is also the Secretary to the Executive Committee of PETRONAS. His areas of legal expertise include corporate law, company secretarialship and corporate governance and compliance.

Executive Committee

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

Datuk Wan Zulkiflee Wan Ariffin
Executive Director & Chief Operating Officer

Datuk Anuar Ahmad
Executive Director

Dato' Wee Yiaw Hin
Executive Director

Datuk Manharlal Ratilal
Executive Director

Faridah Haris Hamid
Joint Company Secretary

Abdul Rahman Musa @ Onn
Joint Company Secretary

Management Committee

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

Datuk Wan Zulkiflee Wan Ariffin
Chief Operating Officer & Executive Vice President Downstream Business

Datuk Anuar Ahmad
Executive Vice President
Gas & Power Business

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

Datuk Manharlal Ratilal
Executive Vice President
Finance

Ramlan Abdul Malek
Vice President
Petroleum Management

Dr Colin Wong Hee Huing
Vice President
Technology & Engineering

Md Arif Mahmood
Vice President
Corporate Strategic Planning

Mohamad Rauff Nabi Bax
Vice President
Legal

Raiha Azni Abd Rahman
Vice President
Human Resource Management

Datuk Nasarudin Md Idris
President/CEO
MISC Berhad

Dato Mohammad Medan Abdullah
Senior General Manager
Group Corporate Affairs

Hazleena Hamzah
Secretary

Vice Presidents

1 **Effendy Cheng Abdullah**
Vice President &
Chief Executive Officer
PETRONAS Exploration

2 **Datuk Abdullah Karim**
Vice President
LNG Projects-Domestic

3 **Ramlan A Malek**
Vice President
Petroleum Management

4 **Adnan Zainol Abidin**
Vice President
Global LNG

5 **Pramod Kumar Karunakaran**
Vice President
Infrastructure & Utilities

6 **Amir Hamzah Azizan**
Vice President
Downstream Marketing

7 **Juniwati Rahmat Hussin**
Vice President &
Venture Director of Pengerang
Intergrated Complex

8 **M Farid Adnan**
Vice President
Refining & Trading

9 **Ir Kamarudin Zakaria**
Vice President
Downstream Operation

10 **Datuk M Anuar Taib**
Vice President &
CEO of PETRONAS
Development & Production

11 **Nuraini Ismail**
Vice President
Treasury

12 **M Rashid Yusof**
Vice President
Supply Chain & Risk
Management

13 **Dr Colin Wong Hee Huing**
Vice President
Technology & Engineering

14 **Raiha Azni Abd Rahman**
Vice President
Human Resource Management

15 **Md Arif Mahmood**
Vice President
Corporate Strategic Planning

16 **Mohamad Rauff Nabi Bax**
Vice President
Legal

TAN SRI DATO' SHAMSUL AZHAR ABBAS
President & Group CEO

In 2012, despite huge challenges, we found the extra push to perform and deliver

As the custodian of Malaysia's hydrocarbon resources, PETRONAS upholds that responsibility with diligence and emphasis on long-term value creations. The duty to ensure availability of energy supply has always been firmly balanced against the stringent requirement of commercial returns from all our investments. More importantly too, we aim to achieve them all with sound commitment of transparency and good corporate governance, safe operations, and overall ethical business conduct.

During the Financial Year 2012, PETRONAS has weathered through varied geopolitical outlook and uneven recovery of the global economy, and concluded strong financially and operationally; with sound balance sheet, conservative gearing, and solid cash standing for capital investments and dividend distribution.

Group Revenue for the year stood at RM291 billion, up 1% from Calendar Year (CY) 2011 of RM288.5 billion. Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA) sustained at about RM120 billion, despite the operational challenges faced during the year, which includes the geopolitical situation in Sudan. The Group's Net Profit Attributable to Shareholders decreased by 17.3% from RM59.7 billion previously to RM49.4 billion, impacted further by higher operating costs and impairment costs mainly from our operations in Egypt. Total Assets increased from RM475.1 billion as at 31 December 2011 to RM488.3 billion as at 31 December 2012 while Return on Average Capital Employed (ROACE) stood at 17.2%.

Total contribution to the Federal and State governments in Malaysia for 2012 was RM80 billion, which includes taxes (RM38.3 billion); petroleum proceeds (RM12.5 billion); and export duties (RM1.2 billion). Also, dividend contributed for the year was RM28 billion; RM2 billion lower than what was contributed in the previous year.

In addition, and for the benefit of future generations, the Group continued to make its annual contribution to the National Trust Fund (NTF). Taking into consideration that petroleum and other natural resources are finite in nature, the NTF was created in 1988 and is managed by the Central Bank of Malaysia. PETRONAS has consistently contributed RM100 million per year up until 2009, and contributed RM500 million in 2010. From 2011 onwards, PETRONAS changed the mechanism to reflect the average annual oil price which had resulted to a contribution of RM1 billion for the year. For 2012, PETRONAS contributed a total of RM2 billion into the fund; RM1 billion over and above the contribution in the previous year.

Regulated gas pricing had also resulted in PETRONAS foregoing a significant amount of RM27.9 billion, which otherwise would have been a direct contribution to our revenue for the year.

Despite the external volatility and uncertainty, our standing was driven by the strength of our portfolio, long term strategy as well as significant changes we have made over the last few years. While there are numerous critical deliverables we focus on in our day-to-day activities, allow me to also share some of the key highlights from our business throughout the period.

For Exploration & Production (E&P), our focus for the year was largely on reversing the domestic production decline and adding on new resources by undertaking aggressive exploration; marginal fields' development; Enhanced Oil Recovery (EOR); and exploring new play types in more prospects like deep water, High Pressure High Temperature (HPHT) and high CO_2 fields.

This proved to be the right approach, and E&P contributed 52% (RM29 billion) to the Group's Gross Net Operating Profit After Tax (NOPAT) for 2012. As we exclude the barrels that were due from Sudan and South Sudan, production for the year had increased by 3% as compared to

During the Financial Year 2012, PETRONAS has weathered through varied geopolitical outlook and uneven recovery of the global economy, and concluded strong financially and operationally; with sound balance sheet, conservative gearing, and solid cash standing for capital investments and dividend distribution.

The two Floating LNG projects initiated in 2010 and 2011 progressed with the award of Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) for Floating LNG 1, as well as Dual Front End Engineering Design (FEED) award for FLNG 2, both in June 2012. Both projects are on track to commission by 2015 and 2016 respectively as scheduled.

2011, and is projected to be trending upwards on the back of successful discoveries made during the year. We have also made significant increase of approximately 70% in terms of Resource Addition; resulting in Overall Resource Replenishment Ratio (ORRR) of 2x.

In Malaysia, nine Production Sharing Contracts (PSC) and two Risk Service Contracts (RSC) were awarded, while 32 fields achieved first oil/gas production. We also made 22 discoveries within the Malaysian waters, which includes major finds in Kuang North and Kasawari in Sarawak. Internationally, three new PSCs were signed in Myanmar and Sierra Leone, and two discoveries were made in Indonesia. On balance of considerations, we have also divested shares in Equatorial Guinea and Egypt, and farmed out assets in Cameroon, Mauritania and Mozambique; all part of our portfolio rationalisation efforts.

Our venture into the unconventional energy was strengthened with the acquisition of Progress Energy Canada Ltd. for approximately RM18 billion. Through Progress, PETRONAS now holds the largest acreage of shale gas in the North Montney area, which will allow us to have an integrated presence from upstream to gas marketing in Canada, whilst cementing our global Liquefied Natural Gas (LNG) presence.

Tremendous efforts have also been undertaken to ensure sustainability of supply, and these are visibly seen through the ambitious multi-billion dollar projects PETRONAS has undertaken in the last few years, which achieved important milestones within respective project timelines. This includes building Malaysia's first regasification terminal (RGT) in Melaka; additional LNG train capacity in Bintulu; the development of stranded domestic gas fields through Floating LNG; as well as the Refinery and Petrochemical Integrated Development (RAPID) Project in Johor.

The Melaka RGT was constructed as part of the effort to ensure long term security of domestic gas supply, and was initially planned to be fully operational by September 2012. However, due to some construction delay and safety concerns, the facility is now expected to be commissioned in Quarter 2 of 2013.

During the year, Gas & Power also reached Final Investment Decision (FID) for the new train (Train 9) of 3.6 million tonnes per annum (MTPA) capacity to be added to the existing 25.7 MTPA at the PETRONAS LNG Complex in Bintulu.

The two Floating LNG projects initiated in 2010 and 2011 progressed with the award of Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) for Floating LNG 1, as well as Dual Front End Engineering Design (FEED) award for FLNG 2, both in June 2012. Both projects are on track to commission by 2015 and 2016 respectively as scheduled.

Gas & Power concluded the year with 29% (RM16.4 billion) contribution towards the Group's Gross NOPAT, as higher LNG prices were realised during the year, which offset against declined LNG volume due to scheduled plant maintenance.

Downstream recorded significant improvement in the operations and plant performance, having achieved Overall Equipment Effectiveness (OEE) of 89.2% in year 2012. Majority

RAPID project in Southern Johor is the largest green field investment in Asia Pacific for the supply of feedstock for highly-specialised chemicals, and will be driving economic growth in the region. Since we embarked on this, much emphasis has been made in securing the right partners and to obtain the necessary agreements.

of the plants within the Business have now achieved OEE of more than 95%, making them World Class Achievement, while the rest are following suit towards the top quartile of efficiency. In 2012, Downstream contributed RM6.1 billion or 11% to the Group's NOPAT.

RAPID project in Southern Johor is the largest green field investment in Asia Pacific for the supply of feedstock for highly-specialised chemicals, and will be driving economic growth in the region. Since we embarked on this, much emphasis has been made in securing the right partners and to obtain the necessary agreements. To date, four Heads of Agreements have been signed with internationally renowned companies is the petrochemical industries namely, Evonik, ITOCHU Corporation, PTT Global Chemical and Versalis SpA. The next milestones for RAPID project would be to secure FID in order for the complex to be fully operational by end 2016/2017.

Where Health, Safety & Environment is concerned, it is with regret for me to report that our operations in 2012 suffered a total of twelve fatalities throughout the year; six during project construction incidents and the other six from fire incidents. In any other statistics, this may be a small number but when it comes to fatality, even one is too many. PETRONAS has zero tolerance on noncompliance, and we assure you that we have every ounce of commitment on striving to uphold our reputation as a safe and reliable operator and energy supplier.

The past few years have been focused on establishing the right foundation to enhance the robustness of the company. This was reinforced with clear growth strategies, shift in focus and making investments in key projects and new legacy assets. Moving on, the focus will be on implementation and flawless project execution. We have committed to Group Capital Expenditure spending of around RM300 billion for the next five years, and poor performance would put the company's cash position and financial standing at risk.

Having said that, by all accounts and measure, 2012 was a notable year for the PETRONAS Group, and I believe we are well positioned for continued growth in the next few years to come. Our achievements thus far are testament to the drive, resilience, sacrifice of the extraordinary individuals of our workforce - all the while holding steadfast to the PETRONAS' Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness - men and women whom I am honoured to be alongside with under the umbrella of PETRONAS.

On behalf of the Group, I thank you for the continued trust, support and confidence extended to us over the years. As we move ahead amidst the energy outlook that remains challenging, I strongly believe that the solid foundation we have built will secure the long-term sustainability of our business. Given the spirit of reimagining energy™ that we have embraced; we are set to continue creating and returning greater value to all our stakeholders.

TAN SRI DATO' SHAMSUL AZHAR ABBAS
President and Group CEO

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 organizational 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.

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 & Group 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 & Group CEO has the support of the Executive Committee and Management Committee which he chairs. The Executive Committee's role is to assist the President & Group 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 & Group CEO in the Company.

The Management Committee continues to act as the advisory and deliberative body that supports the President & Group 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 year ended 2012, the Board was made up of the Non-Independent Non-Executive Chairman, the President & Group CEO, four Executive Directors and eight Non-Executive Directors of which six were Independent Directors. A list of the current Directors, with their biographies, is provided on pages six to 11.

The Non-Executive Chairman has assumed the position since July 2012. 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 16 times (which include four Special Board Meetings) during the year with a formal schedule of matters reserved to it. These include the consideration of the Company's long term strategy, plan & budget, monitoring of Management Performance, Group CEO's and Executive Vice Presidents' (EVP) Performance Scorecards 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 ensure that internal systems of risk management and control are in place to mitigate such risks.

The Special Board Meetings, which were held four times during the year, had also given the directors the opportunity to engage in intensive deliberation on PETRONAS' long term strategy, plan & budget and talent management.

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.

With the appointment of the Non-Executive Chairman there is a clear separation of the positions and roles between the Chairman and the President & Group CEO to promote greater accountability and enhance check and balance.

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

The PETRONAS Board Audit Committee (BAC) is to assist the Board of the Company in fulfilling its responsibilities in relation to internal control and financial reporting and carries out certain oversight functions on behalf of the Board. The BAC provides the Board with the assurance it requires regarding the adequacy of the internal controls in place and that they are operating effectively to promote good governance practices, proper and professional business conduct and operational efficiency to safeguard PETRONAS' assets.

The BAC comprises entirely of Non-Executive Directors. In addition to the PETRONAS BAC, all public-listed subsidiaries and certain non-listed subsidiaries in PETRONAS Group also have their own dedicated BAC.
The BAC receives and reviews reports on all internal audits performed under their purview including the Agreed Corrective Actions (ACAs) to be undertaken by the audit client management. Closure of ACAs are reported and monitored through Quarterly Audit Status Report submitted by the audit client management which will be assessed and verified by Group Internal Audit Division. The consolidated reports are submitted and presented to the BAC for deliberations.

A total of 11 BAC meetings were held in 2012 to deliberate on 89 papers covering annual internal audit plan, internal audit findings and recommendations, status of internal audit issues closure, internal audit performance reviews and Group financial performance reviews.

Governance & Risk Committee

The Committee continues to be responsible in assessing of the performance of the Board, reviewing management succession planning as well as identifying, nominating and recommending new Directors to the Board. With the recent enhancement of the scope of the Committee, it also reviews the adequacy of 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 PETRONAS Guidelines for Competition Law Compliance and the Whistleblowing 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 & Group 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 & Group CEO's Performance Scorecard.

BUSINESS ETHICS

Code of Conduct and Business Ethics

The new PETRONAS Code of Conduct and Business Ethics (CoBE) replaces the 2006 PETRONAS Code of Conduct and Discipline and the PETRONAS Guidelines for Business Conduct, and accommodates developments in local and international laws and practices as well as technological developments. It is being implemented in phases in its operations worldwide, commencing with the PETRONAS Group in Malaysia on 1 April 2012.

The CoBE emphasizes and advances the principles of discipline, good conduct, professionalism, loyalty, integrity and cohesiveness that are critical to the success and well-being of the PETRONAS group. This Code is part of the PETRONAS group's overall corporate enhancement programme. It reflects the increasing need for effective corporate governance compliance measures in the conduct of the group's business domestically and worldwide.

The CoBE contains detailed policy statements on the standards of behavior and ethical conduct expected of each individual to whom the CoBE applies. The CoBE is to apply to all employees and directors within the PETRONAS Group worldwide. PETRONAS also expects that contractors, sub-contractors, consultants, agents, representatives and others performing work or services for or on behalf of PETRONAS will comply with the relevant parts of the CoBE when performing such work or services.

In view of the CoBE's international application, some provisions of the CoBE will be modified to adapt the CoBE to the requirements of the local jurisdictions where PETRONAS is operating. The CoBE will have separate Country Supplements to cater to local jurisdictions' applicable legislation and social mores. The CoBE is accompanied by a CoBE Guide that sets out frequently asked questions and some "Dos" & Don'ts" in relation to certain specific situations. The CoBE, the Country Supplements (where applicable) and the CoBE Guide were printed in booklets and distributed to all employees and are also available on PETRONAS' website for viewing by third parties dealing with the Company as well as the general public.

Since the launch of CoBE, we have been running a series of trainer workshops across the business chain to train the trainers to equip them to run workshops for employees in their respective businesses. The CoBE workshop is also included as part of the on-boarding programme for new executives in the Company. Since 1 April 2012, 27,003 employees have undergone face to face training on the CoBE and the Company will intensify the training programme by providing on-line training to further reach out to more employees in the future.

Third parties working with the Company

Recognising the importance of instilling high ethical standards to not only our employees but to parties that have business dealing with us, we have rolled out the CoBE to our contractors, sub-contractors and others performing work or services for the Company. A letter notifying them of the launch of the CoBE and our expectation that they comply with the relevant parts of the CoBE when performing such work or services had been issued by the Company. Effective 1 April 2012, a provision for contractors to comply with our CoBE has been included in our contracts.

Ask the "CoBE"

In order to assist the understanding of the CoBE, a helpdesk *cobe@petronas.com.my* has been created to answer queries from employees and third parties dealing with PETRONAS on matters pertaining to the CoBE.

Whistleblowing Policy and Procedure

On 1 April 2012, PETRONAS Whistleblowing Policy was rolled out to provide an avenue for all employees of PETRONAS and members of the public to disclose any improper conduct in accordance with the procedures as provided under the policy.

Under the Policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. In addition, an employee who whistleblows internally will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within PETRONAS, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts and the rules and procedures involved.

PETRONAS Whistleblowing Committee (the Committee) has been set up in tandem with the Policy roll out, to deliberate on the disclosure and decide on the next course of action. The Committee meets at least once a month to discuss about the action and investigation on the reports. The Committee provides update to the Board.

Competition Law Compliance Programmes

With the increase in the number of enforcements by international competition authorities against various companies, PETRONAS has joined the effort in strengthening our competition policies by incorporating the basic rules and principles of Competition Law in the CoBE and the CoBE Guide to reflect the company's constant intent to adhere to Competition Law. This is also in tandem with the passing of the Malaysian Competition Act 2010 and Competition Commission Act 2010 which came into force in January 2012 and April 2011 respectively.

Furthermore, as part of our Competition Law Compliance Programme, continuous training programmes have been and are still being conducted for our employees to instill awareness on the principles of Competition Law. In 2012, a series of training programmes have been conducted by qualified Competition Law trainers for the various businesses in the Group including, among others, upstream, gas and power, downstream, supply chain and risk. At the same time, we have also launched the PETRONAS Guidelines for Competition Law Compliance (the "Guidelines") which is aimed at ensuring our employees are in the know of the common dos and don'ts and FAQs on Competition Law. The Guidelines will be printed in booklets and distributed to all employees and will also be available on PETRONAS' website.

STATEMENT OF ANTI-CORRUPTION

PETRONAS is committed to complying with high ethical standards and applicable anti-corruption laws. The CoBE explicitly prohibits the giving and acceptance of bribes by PETRONAS employees including the giving and receiving of facilitation payments in all its business dealings. 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. As part of PETRONAS Anti-Bribery and Corruption Compliance Programme, PETRONAS will be coming up with a specific Anti-Bribery and Corruption Policy and Guidelines Manual in the next financial year.

As part of PETRONAS efforts to prevent corruption and unethical practices, the Company has also rolled out the "No Gift Policy" in April 2012. The introduction of the policy is meant to avoid conflict of interest or the appearance of conflict of interest for either party in on-going or potential business dealings between PETRONAS and external parties.

In June 2012, PETRONAS has appointed its Chief Integrity Officer (CIO) who is the Malaysia Anti-Corruption Commission's (MACC) Director of Community Education Division. The appointment is on a secondment basis for a period of two years and follows the terms of a Memorandum of Understanding (MOU) that PETRONAS signed on 7 June 2012 with MACC to formalise a collaborative initiative announced in March towards ensuring a corrupt-free business environment within the PETRONAS Group.

Effective 1 April 2012, a specific provision on "Conflict of Interest and Fighting Corruption and Unethical Practices" has been included in our contracts with contractors, consultants, agents, representatives and others performing work or services for or on behalf of PETRONAS.

Anti-Bribery training sessions will be conducted to employees of the Company groupwide so that employees are constantly up to date and knowledgeable of the Company's policy as set out in the CoBE.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

BOARD'S RESPONSIBILITIES

The Board recognises the importance of sound risk management and internal control 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 risk management and internal controls and for reviewing the adequacy and integrity of those systems including financial and operational controls and compliance with relevant laws and regulations.

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 year 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 Group-wide 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 (BGRC).

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 Division (GIAD) 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. GIAD 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 under their purview, including the agreed corrective actions to be undertaken by the auditees' management. GIAD monitors the status of agreed corrective actions through Quarterly Audit Status Report submitted by the auditees which will be assessed and verified by GIAD. The consolidated reports are submitted and presented to the BAC for deliberations.

GIAD adopts the standards and principles outlined in the International Professional Practices Framework of The Institute of Internal Auditors.

OTHER ELEMENTS OF INTERNAL CONTROL

The other elements of the Group's system of internal control are tabulated below.

Organisational Structure

The internal control of the Group is supported by a formal organisational 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 decision making limits for each level of management within the Group. These limits cover among others, authority for payments, capital and revenue expenditure spending limits, budget approvals and other non-financial authority. 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 or the Boards of the operating units.

Financial Control Framework

The Group has developed a Financial Control Framework (FCF) with the principal objective of enhancing the quality of the Group's financial reports through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the Group 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.

The Financial Risk Management Department (FRMD) has a central role with oversight and supervisory functions to manage the Group's financial risks. This is to provide assurance that proper financial risk management practices are implemented across the Group in a manner that is consistent with the requirements of the Corporate Financial Policy, whilst attaining visibility of key financial risk exposures for better risk management.

FRMD's oversight role is undertaken in collaboration with the risk management functions of each individual company within the PETRONAS Group which is implemented by providing policy direction and specification of operational parameters, review and monitoring of key exposures, prescription of financial risk reporting requirements, prescription and application of consistent and best practices in financial risk methodology and guidance on baseline risk management procedures and compliance practices.

FRMD ensures that any matters concerning financial risks and managing the exposures that arise therefrom are escalated to the Management and BGRC for direction and action.

Group Health, Safety and Environment (HSE) Policy

The Group HSE Policy is supported by a HSE Mandatory Control Framework (MCF) to strengthen the HSE governance within the Group. The MCF includes clear requirements on operational safety, environment and health for consistent and effective Groupwide implementation. Key HSE focus areas include process safety, project HSE and HSE capability development.

HSE assurance is carried out to provide independent assurance on the effectiveness of HSE controls and the assurance reports are presented to the BAC. Group HSE performance is presented to the PETRONAS Board for oversight on a regular basis.

Crisis Management Plan and Business Continuity Management

The Group has in place a Crisis Management Plan that defines the structure and processes for managing emergencies including major oil spills and crises at both its domestic and international operations.

There is a three-tier response system in place which provides a clear demarcation of roles and responsibilities between emergency site management, operating unit management, corporate and authorities. Scheduled drills and exercises are carried out at facility/asset level to ensure readiness in the event of an emergency or crisis. The Crisis Management Plan is aligned to the Group's Business Continuity Plan.

The above integrated crisis management and business continuity strategies shall enhance the Group's preparedness to respond and reduce the 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, professionalism, integrity and cohesiveness. The importance of the Shared Values is manifested in the Code of Conduct and Business Ethics (CoBE) and employees are required to strictly adhere to CoBE in performing their duties.

During the year, a Whistleblowing Policy was rolled-out in order to provide an avenue for all employees of PETRONAS as well as members of the public to disclose any improper conduct committed or about to be committed within the Group. This policy addresses the Group's commitment to integrity and ethical behaviour by fostering and maintaining an environment where employees can act appropriately, without fear of retaliation. Under the policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. In addition, an employee who whistleblows internally will also be protected against any adverse and detrimental actions for making the disclosure, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts and the rules and procedures involved.

A No Gift Policy was also implemented during the year, where PETRONAS employees are required to act in the best interests of PETRONAS and to refrain from engaging in conduct which may affect the best interests of PETRONAS. The policy prohibits employees from giving or receiving personal gifts from external parties to avoid conflicts of interest or the appearance of conflicts of interest in any ongoing or potential business dealings of PETRONAS.

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 motivate employees to deliver their best so that the Group can meet its business requirements.

Conclusion

The Board has received assurance from the President and Group Chief Executive Officer and the Executive Vice President Finance that the Group's risk management and system of internal control is operating adequately and effectively.

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 year under review, there was 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 Group's risk management and internal control system 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 26 February 2013.

Financial Results

HIGHLIGHTS

RM291 billion Revenue
Revenue marginally improved by 1% following sustained prices.

RM120 billion EBITDA
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) dropped slightly by 3% to RM120 billion amidst operational and geopolitical challenges.

RM78 billion Cash Flow from Operations
Cash flow from operations lower by 14% on the back of rising costs, nonetheless was sufficient to fund capital investments and dividends for FY2012.

Acquired Progress Energy Resources Corp.
Completed the acquisition of Progress Energy to position ourselves for sustained gas reserves for our LNG business.

Datuk Manharlal Ratilal

The year ended 31 December 2012 was the first full year of our new financial year and the results are compared with the nine month results for the period ended 31 December 2011.

Group performance was affected by the cessation of crude production activities in South Sudan for most of the year and the decision to take a charge for our investment in Egypt. This led to lower operating profit on a period to period comparison. However, the underlying operating profit and cash earnings remained robust, with operating cash flow of RM78 billion which was sufficient to finance capital expenditure and dividends for the year.

During the year, the Group acquired 100% equity interest in Progress Energy Resources Corp., involved in the production of shale gas in Canada, for approximately RM18 billion. Due to the strong cash reserves we have built up over the years, we were able to finance this acquisition with internal funds.

PETRONAS Group sustained its financial performance in FY2012 despite continuing geopolitical uncertainties, macroeconomic challenges and rising operating costs affecting the industry. Revenue increased while EBITDA amounted to RM120 billion.

The increase in revenue, from RM288.5 billion to RM291.0 billion, was mainly driven by higher realised prices and favourable exchange rate movements, partially offset by a reduction in production volume from our key international operations.

On average, realised prices in FY2012 were higher compared to the previous year, except for petrochemicals. Continuing from last year, benchmark crude prices remained above US$100 per barrel due to continued supply concerns arising from geopolitical tensions in the key supply countries of the Middle East and the North African region. Average Dated Brent for FY2012 was similar to FY2011 average Dated Brent at about USD111 per barrel. Nonetheless, average Japanese Crude Cocktail (JCC) prices, which lagged period crude prices, averaged at USD114 per barrel in FY2012, a 12% increase from USD102 per barrel in the previous year.

Meanwhile, the US Dollar strengthened against the Ringgit Malaysia from an average of RM3.06 during 2011 to an average of RM3.09 during FY2012.

The impact of higher realised prices and favourable exchange rate movements on revenue were however partially offset by continued crude oil production challenges in the Republic of South Sudan (RSS) where the Group's petroleum operations were shut down for the most part of 2012 following a Shut Down Order issued by the Government of the RSS. In addition, the Group made provisions for its operations in Egypt due to falling reserves, lower revenue arising from a shift in revenue to the domestic market and slower debt recovery.

Against this backdrop, EBITDA and Profit Before Tax (PBT) both decreased by 3% and 14% respectively.

In 2012, the Group recorded a total gain of RM1.5 billion arising from the divestment of our interest in, amongst others, Centrica Plc and APA Group. Excluding these gains and gains arising from divestment of our interest in Cairn India Ltd amounting to RM2.6 billion recorded in CY2011, EBITDA and PBT decreased by 2% and 13%, respectively.

PETRONAS' KEY FINANCIAL INDICATORS

In RM billion

	FY2012	+/-(%)	CY2011*	PE2011**	FY2011***	FY2010	FY2009
Revenue	**291.0**	0.9%	288.5	222.8	241.2	210.8	264.2
EBITDA	**119.9**	-2.5%	123.0	95.7	107.9	83.3	105.7
Profit Before Taxation	**89.1**	-14.2%	103.8	83.0	90.5	67.3	89.1
Net Profit Attributable to Shareholders	**49.4**	-17.3%	59.7	49.1	54.8	40.3	52.5
Total Assets	**488.3**	2.8%	475.1	475.1	436.3	410.9	389.8
Equity Attributable to Shareholders	**303.8**	5.9%	286.9	286.9	262.3	242.9	232.1

Financial Ratios

	FY2012	PE2011	FY2011	FY2010	FY2009
Return on Revenue	**30.6%**	37.1%	37.5%	31.9%	33.7%
Return on Total Assets	**18.2%**	23.0%	20.7%	16.4%	23.0%
Return on Average Capital Employed	**17.2%**	21.9%	17.6%	15.9%	22.0%
Debt/Assets Ratio	**0.09x**	0.11x	0.11x	0.13x	0.11x
Gearing Ratio	**12.2%**	15.5%	15.4%	17.6%	15.9%
Dividend Payout Ratio	**55.6%**	61.3%	54.7%	74.4%	57.1%
Overall Resource Replenishment Ratio (ORRR)****	**2.0x**	1.7x	2.5x	1.1x	1.8x

* Calendar Year (CY) 2011 - unaudited twelve-month period from 1 January 2011 to 31 December 2011. Included for comparative purpose.

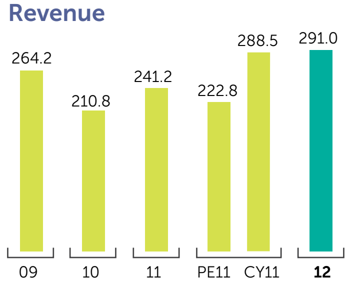
** Audited nine-month period from 1 April 2011 to 31 December 2011. Certain financial information has been restated due to adoption of Malaysian Financial Reporting Standards (MFRS).
Corresponding ratios have also been restated. Ratios were calculated based on annualised figures, where applicable.

*** Total Assets and Equity Attributable to Shareholders have been restated due to the adoption of MFRS. Corresponding ratios have also been restated.

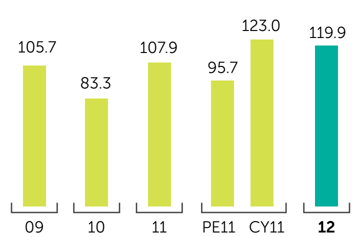
**** ORRR FY2012 excludes Progress Energy Resources Corp.

In RM Billion

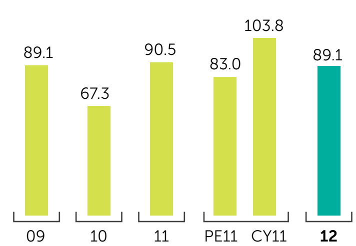
Revenue



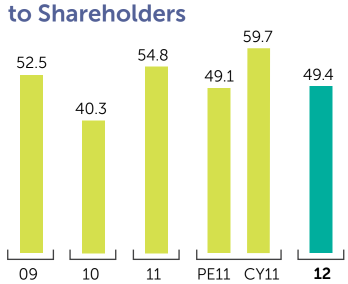
EBITDA



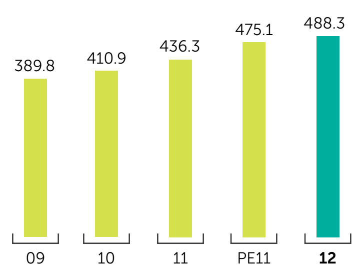
Profit Before Taxation



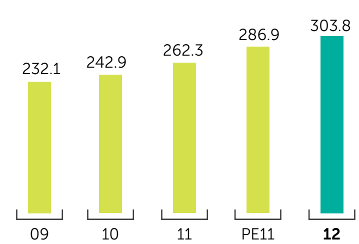
Net Profit Attributable to Shareholders



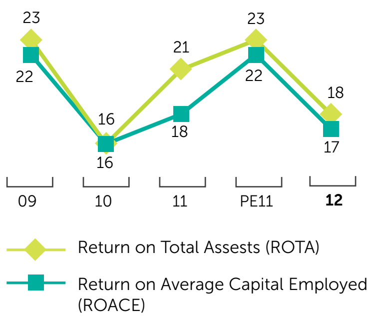
Total Assets



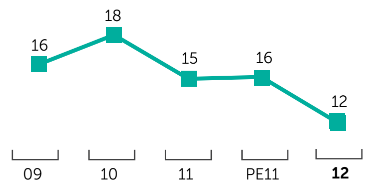
Equity Attributable to Shareholders



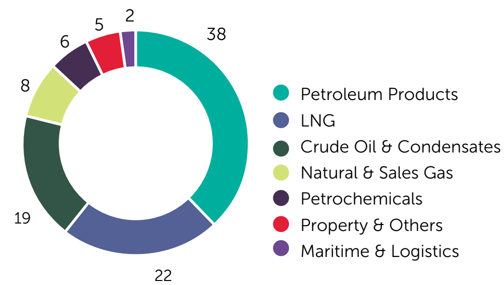
Key Profitability Ratios
In percentage (%)



Gearing Ratio
In percentage (%)



Revenue by Products
In percentage (%)



FINANCIAL POSITION AND LIQUIDITY

The Group's financial position remained strong. Total assets increased by RM13.2 billion or 3% from 31 December 2011. Property, Plant and Equipment increased by 10% as a result of further investments in domestic and international upstream and downstream projects for growth.

FY2012 cash balance started with RM164.3 billion which enabled us to acquire 100% interest in Progress Energy Resources Corp. for RM17.8 billion using internal funds. With this acquisition, PETRONAS secured gas reserves in the Montney Shale Gas Asset in British Columbia, Canada to enable us to plan for an expansion of our Liquefied Natural Gas (LNG) business.

In terms of cash from operations for the year, the Group generated RM78.1 billion which was sufficient to sustain the current period capital investments and dividends. Capital investments spent in FY2012 was RM45.6 billion with 60% allocated to our Exploration & Production (E&P) business to support our exploration activities as well as to intensify efforts to develop new fields and enhanced recovery from existing maturing fields. Out of the RM45.6 billion, close to 70% was spent in Malaysia.

Dividends paid and payable for FY2012 amounted to approximately RM37 billion with RM28 billion attributed to the Malaysian Government. The Group also made net debt repayments of RM9.3 billion during the year. Approximately RM6.1 billion was in relation to payment for PETRONAS Capital Ltd USD2 billion notes that matured in May 2012.

In line with lower profits, the Group's ROTA and ROACE decreased to 18% and 17% respectively. The Group's Gearing Ratio improved to about 12% as a result of net debt repayments amounting to RM9.3 billion during the year, as mentioned earlier.

REVENUE BY PRODUCTS

In the year under review, revenue increased for most of our products in tandem with higher realised prices. However, the effect of higher prices was partially offset by continued operational challenges and demand weakness in some markets. Petroleum products remained the biggest revenue contributor at 38%, followed by LNG at 22%, crude oil and condensates at 19% and natural and sales gas at 8%.

Revenue from petroleum products increased by 1% from the previous year on the back of higher realised prices. However, volume was lower by 2% to about 297.1 million barrels as a result of limited trading opportunities.

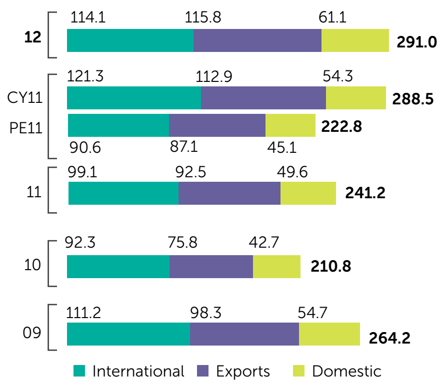
Higher realised LNG prices pushed revenue higher from RM58.1 billion to RM62.5 billion, an increase of 8%. This was despite a reduction in LNG sales volume of 1.8 million tonnes or 7% to 26.1 million tonnes. This was mainly due to lower production from the PETRONAS LNG Complex (PLC) in Bintulu, Sarawak as a result of scheduled maintenance shutdown.

Revenue from sale of crude oil and condensates decreased by 14% to RM54.8 billion. Crude oil and condensates which contributed 22% of total revenue in CY2011, contributed 19% this year primarily due to upstream production challenges in the RSS, as previously mentioned.

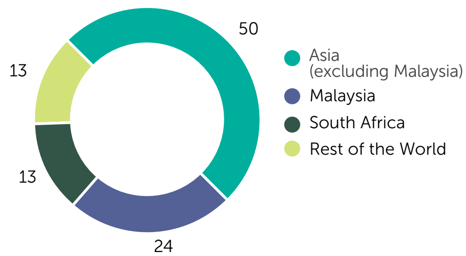
Natural and sales gas revenue recorded the highest growth among all products, growing at 29% to RM24.3 billion, benefitting from increased trading opportunities in Europe as a result of acquisition of additional storage capacity during the year. In addition, Malaysia sales gas volume also increased due to higher feedgas supply from the Malaysia-Thailand Joint Development Area.

Petrochemical sales volume increased by 6% to 6.8 million metric tonnes mainly due to production optimisation. As a result, revenue from the sales of petrochemical products rose by 5% to RM16.2 billion.

Revenue by Geographical Trade
In RM Billion



Revenue by Geographical Segments
In percentage (%)



REVENUE BY GEOGRAPHICAL TRADE

The Group's geographical trade is categorised by exports, domestic and international operations. The revenue contribution was led by exports, followed by international and domestic operations. Revenue from both exports and domestic operations recorded an increase from the previous year, while a decrease in revenue was recorded in international operations.

Our exports recorded a modest increase of 3% in revenue to RM115.8 billion, mainly due to higher realised prices for LNG. This translated to a 40% share of the Group's total revenue.

Our revenue in domestic operations increased by RM6.8 billion or 13% compared to the previous year, mainly contributed by an increase of petroleum products realised prices.

As expected, international operations recorded a decrease of 6% in its revenue to RM114.1 billion on the back of production interruption in the RSS. This translated to a 39% share of Group total revenue, a decrease of 3% compared to the previous corresponding period.

REVENUE BY GEOGRAPHICAL SEGMENTS

The Group's revenue by geographical segments is based on the geographical location of customers. Revenue from Asia excluding Malaysia remained the largest contributor for the Group at 50%. This was followed by Malaysia at 24%, South Africa and the rest of the world both by 13% respectively. Out of the RM144.7 billion revenue generated from the Asian market, Japan contributed the highest at 35%, mainly from the sales of LNG, followed by China and Indonesia at 10% and 9% respectively. The main contributor of the Group's revenue from Malaysia and South Africa of RM69.6 billion and RM38.4 billion respectively, were from the sale of petroleum products.

SEGMENT EARNINGS

The Group has four reportable operating segments comprising E&P, Gas and Power (G&P), Downstream and Corporate and Others (C&O). The C&O segment primarily consists of Maritime and Logistics business, Property business and central treasury function. The E&P and G&P segments contributed 82% to the Group's gross Net Operating Profit After Tax (NOPAT).

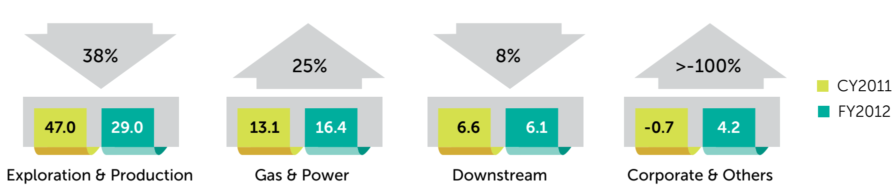
During the year in review, the E&P segment recorded NOPAT of RM29.0 billion compared to RM47.0 billion in the corresponding period last year, a decrease of 38%. The decrease was mainly due to lower crude oil and condensates entitlement as a result of a Shut Down order issued for the Group's South Sudan operations and impairment charges primarily for our Egypt operations. In addition, the segment also saw an increase in amortisation and well costs.

The G&P segment recorded higher NOPAT of RM16.4 billion compared to RM13.1 billion in the corresponding period last year, an increase of 25%. The increase was driven by higher realised LNG prices and higher sales gas prices. However, as discussed earlier, the segment recorded lower LNG sales volume as a result of scheduled maintenance shutdown at PLC in Sarawak.

The Downstream segment, which contributed 11% to the Group's gross NOPAT, recorded a lower NOPAT of RM6.1 billion, a drop of 8% from RM6.6 billion. This was due to production limitations that resulted from geopolitical challenges in international operations, lower refining and petrochemical margins, compounded by lower petroleum product sales volumes due to limited trading opportunities.

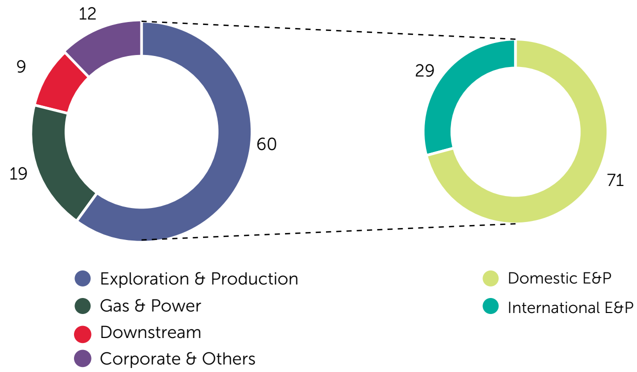
The C&O segment recorded a NOPAT of RM4.2 billion compared to a net operating loss of RM0.7 billion in the corresponding period last year. This was achieved on the back of higher fund investment income recorded during the year resulting from higher overall rate of return in FY2012. The loss recorded in CY2011 was due to provisions made by MISC Berhad following its decision to exit the liner business.

Gross NOPAT by Business Segment



CAPEX Allocation for FY2012

In percentage (%)



SEGMENT CAPEX

Recognising the importance of sustainable capital investments to ensure business growth and future cash flow generation, the Group has embarked on an aggressive growth plan.

Capital investment has grown from RM41.2 billion to RM45.6 billion in FY2012, representing an increase of 11%. In addition to the RM45.6 billion CAPEX spent, PETRONAS acquired 100% interest in Progress Energy Resources Corp. for RM17.8 billion, securing gas reserves in the Montney Shale Gas Asset in British Columbia, Canada.

The E&P segment accounted for RM27.3 billion or 60% of CAPEX aimed at sustaining and growing production both in Malaysia and internationally. RM19.3 billion or 71% was spent in Malaysia to intensify efforts to enhance the recovery rate of existing maturing fields and development of new fields. Among the key projects in Malaysia are the Gumusut-Kakap and Kinabalu Non-Associated Gas projects in Sabah and the Kebabangan project in Sarawak. In terms of capital investments made internationally, key countries included Iraq, Egypt and Turkmenistan.

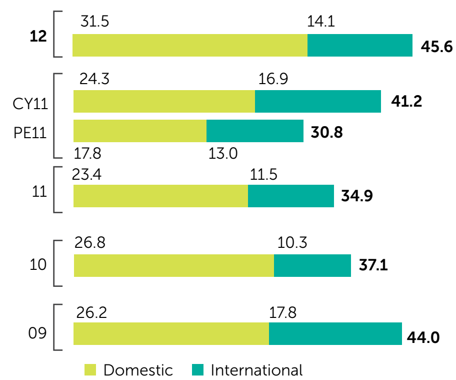
Capital investments for the G&P segment increased by 54% to RM8.8 billion in FY2012. Key projects such as the GLNG project in Australia, the PETRONAS Floating LNG project and the Melaka LNG Regasification Terminal project are important investments to ensure our contractual obligations and the nation's growing energy needs are met.

Similarly, the Downstream segment recorded an increase of 58% in its capital investments from RM2.6 billion in CY2011 to RM4.1 billion in FY2012. Most of the capital spending was for the Refinery and Petrochemical Integrated Development project in Pengerang, Johor and the Sabah Ammonia Urea project. These projects are the Group's major growth projects that will strengthen our position as a key downstream player in the region.

The C&O segment spent RM5.4 billion during the period with MISC accounting for 78% 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 investments in the development of commercial and government buildings in Putrajaya.

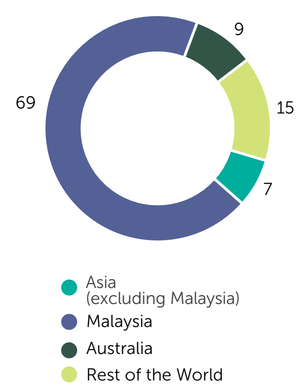
Domestic and International CAPEX Breakdown

In RM Billion



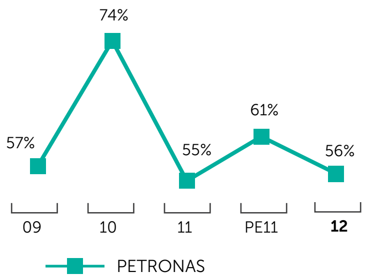
CAPEX by Geographical Segment

In percentage (%)



Dividend Payout Ratio

In percentage (%)



CONTRIBUTION TO GOVERNMENTS AND REVENUE FOREGONE

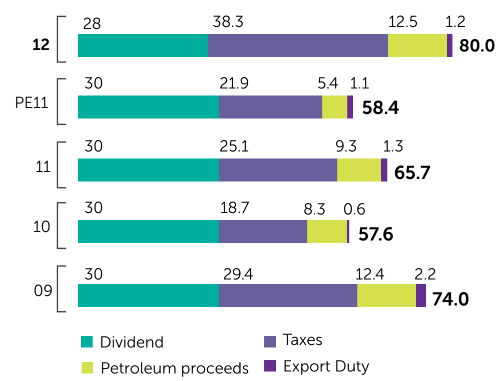
During FY2012, PETRONAS contributed RM80.0 billion to the Federal and State Governments in Malaysia which comprised dividend declared of RM28.0 billion, taxes of RM38.3 billion, petroleum proceeds of RM12.5 billion and export duties of RM1.2 billion. FY2012 dividend declared at RM28 billion translated to a dividend payout ratio of 56%, a reduction of RM2 billion from the previous year.

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 RM27.9 billion, with the power and non-power sectors accounting for RM15.6 billion and RM12.3 billion respectively, 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 contributed a total of RM733 billion to both Federal and State Governments and foregone revenue of RM182.8 billion since regulated gas prices came into effect in May 1997.

Components of Contribution to the Malaysian Government

In RM Billion



Revenue foregone	FY2012	PE2011	+/-	Cumulative total since 1997
In RM (billion)				
POWER SECTOR	**15.6**	10.3	51.5%	124.1
- Tenaga Nasional Berhad	**6.1**	3.9	56.4%	52.2
- Independent Power Producers	**9.5**	6.4	48.4%	71.9
NON-POWER SECTOR - including industrial, commercial, residential users and NGV	**12.3**	8.1	51.9%	58.7
Total	**27.9**	**18.4**	**51.6%**	**182.8**

32.6 billion boe

Group total discovered resources of 32.6 billion boe with more than 31% contribution from international assets.

2.0x

ORRR of 2.0 times for Group total oil and gas resources, 3.49x including Canada Progress Energy.

2,015 thousand boe per day

Total production of 2,015 thousand boe per day with contribution from international production of 428 thousand boe per day, equivalent to 21% of the Group's total production.

Maximising Resources for Growth

Exploration & Production

HIGHLIGHTS

9 new Production Sharing Contracts (PSCs) and 2 new Risk Services Contracts (RSCs) in Malaysia

Awarded nine new PSCs and two new RSCs in Malaysia, bringing in five new Upstream Operators - Conoco Phillips, Inpex, Coastal Energy, PEXCO and RH PetroGas

32 first productions

Achieved 32 first production; 11 Greenfields and 21 Brownfields including Deepwater Gumusut-Kakap, Berantai RSC and Iraq Halfaya.

Dato' Wee Yiaw Hin

The year in review was a good year for E&P in terms of operations performance and delivery. Structural changes to management systems, capabilities and performance as well as business mindset have enabled E&P to achieve success in delivering production and development as well as in growing PETRONAS' resource base, significantly. Business foundation was strengthened through process and controls improvements as well as discipline and competency enhancements. Examples include achieving first quartile project schedule delivery benchmark conducted by Independent Project Analysis (IPA) with over 80% of projects were within budget; and production enhancement successes from stronger deployment of petroleum engineering competency and reservoir management.

We are delivering today with total production trending upwards after many years of decline – 2012 production was higher than 2011 after taking into account Sudan's production shutdown due to local geopolitical issues. Thirty-two projects achieved first production with 14 accelerated from 2013. There is a strong funnel of projects in progress with a record number of Final Investment Decision (FID) taken and Field Development Plan (FDP) approved. This will support production and development growth over the next few years.

Finally, longer term E&P business sustainability is supported by a robust resource base. During the year in review, we saw significant exploration successes with 24 discoveries equating to two billion boe resources was added. The acquisition of Canada's Progress Energy will also provide a strong platform for long term business growth.

Moving forward, E&P will grow its business through disciplined delivery and performance by ensuring that ventures and projects are value driven, governed by strong financial discipline. At the same time, E&P Business will continue to drive capability enablers. HSE and Asset Integrity Management, which are critical success factors in the pursuit of sustainable business goals, will also be continuously improved.

PETRONAS Exploration and Production (E&P) Business is committed to enhancing the value and growing PETRONAS' resource base through exploration, development and production of oil and natural gas in Malaysia and overseas.

In Malaysia, PETRONAS is committed to sustain production levels and grow our resource base to secure the nation's energy supply and catalyse its economic growth. The strategies that were put in place are executed diligently to ensure that goals delivered are on track. Several key milestones were achieved in the year under review, proving the robustness of these strategies and PETRONAS' commitment to deliver the targets.

As the country continues to face maturing fields and declining production, PETRONAS has intensified its efforts to "sweat" its existing producing assets by maximising recovery through diligent reservoir management and by pursuing the potential of Improved Gas Recovery (IGR), Improved Oil Recovery (IOR), and Enhanced Oil Recovery (EOR). Encouraging progress was made in the year with the signing of two EOR PSCs with Shell Malaysia to undertake EOR projects offshore Sabah and Sarawak. At the same time, PETRONAS approved more than 270 million barrels of oil equivalent (mmboe) additional oil and gas resources for development.

PETRONAS continues to actively pursue small and marginal fields development for sustainable oil and gas production in Malaysia by soliciting cost-effective technical solutions from niche small fields players. Two RSCs were awarded during the period under review, bringing a total of four RSCs awarded to date. The year had also seen the first gas production from the Berantai field, the first RSC awarded by PETRONAS.

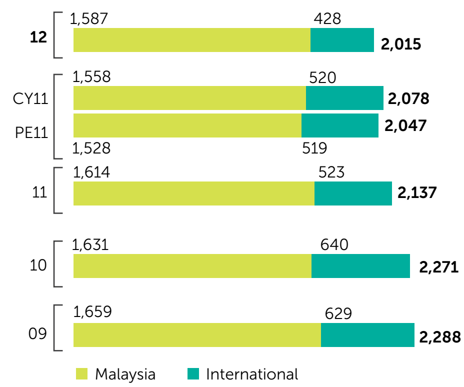
In support of the aggressive exploration strategy in Malaysia, nine new PSCs were awarded to drive exploration drilling, maturation of new plays, and exploitation of remaining hydrocarbon potential. Total resources added via exploration activities increased by 87% from 2011 to 1.5 billion boe in 2012, mainly through two notable discoveries made in Sarawak waters.

For PETRONAS' international E&P Business, the focus areas are portfolio highgrading and growing unconventional resources. In an on-going effort to highgrade the assets in the E&P portfolio to drive value growth and profitability, three new PSCs were signed, two assets were divested and three were diluted during the period under review. At the same time, PETRONAS continued to seize opportunities to grow its unconventional resource base, with current focus on Coal Bed Methane (CBM) under the GLNG and CBM Integrated Project in Australia, and Shale Gas in the Montney Formation in Western Canada. With the acquisition of Progress Energy Resources Corp. Canada, PETRONAS' unconventional resource base (2P + 2C) has grown from 0.38 billion barrels of oil equivalent (Bboe) in January 2012 to 3.82 Bboe in January 2013.

The strong performance of PETRONAS' E&P Business was driven by its clear strategies and goals it had set in the past two years. All plans are currently being executed and monitored closely to ensure their progress are on track. The strengthening of E&P core capabilities, coupled with strong integration across PETRONAS business units enabled these commendable achievements to be realised.

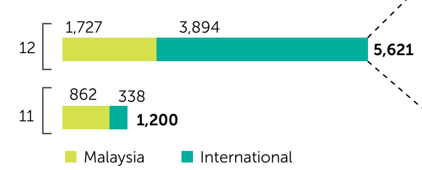
PETRONAS Group Oil and Gas Production

'000 boe per day



PETRONAS Group Resource Addition

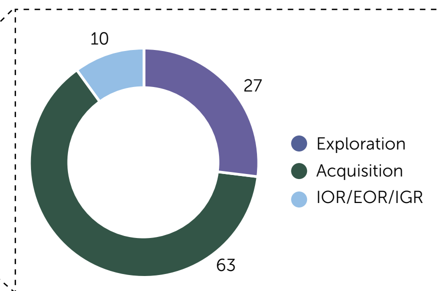
In MMboe



PETRONAS' Group Resource Addition

By Source

In percentage (%)



PETRONAS' Group Petroleum Resources

Bboe (Billion barrels of oil equivalent)

		1-Jan-13	+/-	1-Jan-12
Crude Oil & Condensate	Reserves (2P)	**5.043**	3.9%	4.853
	Contingent Resources (2C)	**3.785**	-2.4%	3.878
	Entitlement	**3.199**	2.4%	3.125
Natural Gas	Reserves (2P)	**7.929**	-5.6%	8.396
	Contingent Resources (2C)	**12.054**	11.2%	10.844
	Entitlement	**6.112**	-5.5%	6.465
Unconventional	Reserves (2P)	**0.521**	118.1%	0.239
	Contingent Resources (2C)	**3.295**	2172.7%	0.145
	Entitlement	**0.29**	23.4%	0.235
Total Discovered Resources		**32.627**	15.1%	28.355
PETRONAS Entitlement		**9.601**	-2.3%	9.825
Overall Resource Replenishment Ratio (3 yrs ave)		**3.49x**		1.70x

■ Gumusut-Kakap Semi Floating Production System (FPS)

MALAYSIA'S EXPLORATION AND PRODUCTION

Our focus for the year were largely on reversing the production decline through production optimisation and acceleration of new development projects as well as adding new resources through aggressive exploration and enhanced recovery efforts for oil and gas fields.

In 2012, Malaysia's total average production increased by 1.9% to 1,587 thousand barrels of oil equivalent (kboe) per day. Production of crude oil and condensates amounted to an average of 586 thousand barrels per day while gas production averaged at 6,007 million cubic feet per day (equivalent to 1,001 kboe per day). In line with the higher production, an increase in PETRONAS' entitlement was also observed. A total of 1,174 kboe per day or 74.0% of the total average national production made up PETRONAS' share, which also includes PETRONAS Carigali Sdn Bhd's (PCSB) domestic equity production, an increase from the previous year's share of 69.0%.

The International Energy Agency reports that the estimated post-peak decline rate of global producing oil and gas fields to be around 7% on average. In a maturing oil and gas industry such as Malaysia's, being able to reverse the natural decline and subsequently deliver production growth of 1.9% signifies our commitment in driving our E&P strategies to address the energy needs of the nation. This was achieved via numerous efforts and successes delivered in the year.

Eight new fields were brought onstream increasing the total number

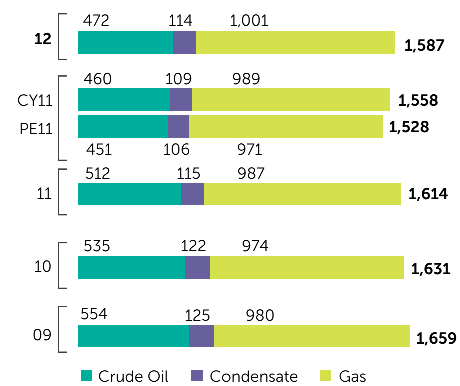
Malaysia Petroleum Resources

Bboe (Billion barrels of oil equivalent)

		1-Jan-13	+/-	1-Jan-12
Crude Oil & Condensate	Reserves (2P)	**3.688**	-1.4%	3.739
	Contingent Resources (2C)	**2.162**	-2.4%	2.215
	Entitlement	**2.406**	-5.2%	2.538
Natural Gas	Reserves (2P)	**6.602**	-3.1%	6.815
	Contingent Resources (2C)	**9.785**	14.6%	8.539
	Entitlement	**4.96**	-9.2%	5.46
Total Discovered Resources		**22.237**	4.4%	21.308
PETRONAS Entitlement		**7.366**	-7.9%	7.998
Overall Resource Replenishment Ratio (3 yrs ave)		**1.91x**		1.60x

Malaysia's Average Oil and Gas Production

'000 boe per day



of Malaysia's producing fields to 132, of which 77 are oil and 55 are gas fields. These include the first production from our second deepwater field Gumusut-Kakap, Kanowit field in Sarawak and the Berantai field in Peninsular Malaysia. In addition, numerous production optimisation initiatives were initiated such as the optimisation of gas-lifts and water injections, implementation of low pressure systems and execution of prudent reservoir management plans. These initiatives were done in close collaborations with our contractors and service providers.

As a result of our aggressive exploration, Malaysia's total discovered resources now stand at 22.24 bboe (as at 1 January 2013), an increase by 4.4% over the past year. This brings Malaysia's Overall Resource Replenishment Ratio (ORRR) to 1.9x for total oil and gas. Additionally, Malaysia was staged as the stand-out performer in Southeast Asia for the year as it makes up 72% of total upstream exploration discoveries in the region. The discoveries of Kasawari gas field with six trillion standard cubic feet (tscf) of 2C resource and Kuang North were also ranked as top two discoveries in the region. Major strides were also made in enhanced recovery efforts, where 21 EOR, IOR and IGR projects were sanctioned, contributing approximately 16% of the total resource addition.

Despite maturing acreages, Malaysia continued to attract significant level of interest among foreign companies to bid for and operate blocks in the country. Nine new PSCs and two new RSC were awarded in 2012, bringing the total number of PSCs in operation to 95 and RSCs to four. As a result, five new oil and gas companies, namely Conoco Phillips, Inpex, Coastal Energy, PEXCO and RH PetroGas Ltd, have assumed upstream operatorship through these newly signed Petroleum Arrangements.

On top of this, PETRONAS introduced the new Progressive Volume-Based (PVB) fiscal terms to drive further development and improved recovery of matured oil fields in Malaysia. The first PVB PSC, the 2012 Kinabalu PSC, was awarded to Talisman Malaysia (60% equity) and PCSB (40% equity) in the year under review.

All these efforts required significant commitment and investments from PETRONAS and contractors alike. A total of RM40.0 billion was spent in Malaysia's upstream sector during the year, whereby RM22.9 billion (57%) was spent on development projects, RM3.7 billion (9%) on exploration activities, and the remaining for the operations of existing assets.

INTERNATIONAL EXPLORATION AND PRODUCTION

The Group's international E&P Business performance remained robust despite facing increasingly difficult challenges in key operating areas, particularly in Iraq, South Sudan, Sudan and Turkmenistan.

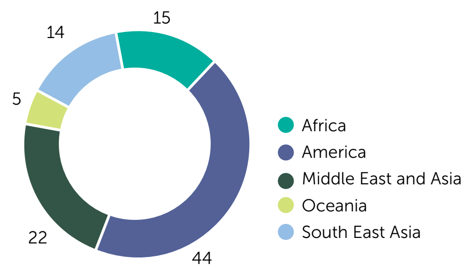
The overall production was affected by the geopolitical uncertainties between South Sudan and Sudan. Liquids average production declined to 134 kboe per day in 2012 from 250 kboe per day in 2011 mainly due to the cessation of South Sudan production and operating activities throughout the year. Meanwhile, average gas production increased to 294 kboe per day from 270 kboe per day for the corresponding period in the previous year, mainly attributed to the production ramp up in Turkmenistan and production enhancement in Egypt. The Group's international production delivery was further strengthened with the first production of four projects, namely North Montney, Canada; Chad Infill, Chad; West Delta Deep Marine Phase 8B, Egypt and Halfaya, Iraq. The total production volume contributed by these projects was approximately 23.45 kboe per day.

Against the backdrop of increasing complexity and higher risks globally, the Group's international E&P operations recorded significant gains with a 47% growth in its resource base and 8.95x of three-year rolling average ORRR. Total international resource stood at 10.39 Bboe compared with 7.05 Bboe the previous year; with 3.2 Bboe of 2P and 7.19 Bboe of 2C resources. The new resource additions were mainly achieved through exploration, improved recovery efforts and acquisitions. The unconventional resource based increased to 3.82 Bboe, and this was achieved through

Breakdown of International Resources

By Region

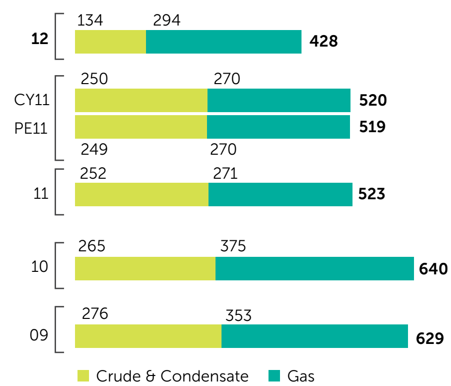
In percentage (%)



Note: South East Asia excludes Malaysia resources

PETRONAS' International Oil and Gas Production

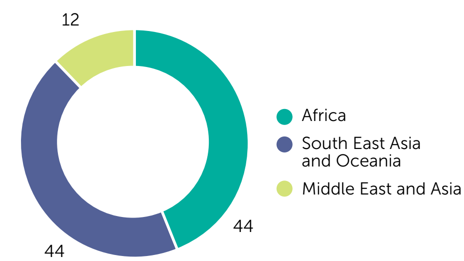
'000 boe per day



Breakdown of International Production

By Region

In percentage (%)



International Petroleum Resources

Bboe (Billion barrels of oil equivalent)

		1-Jan-13	+/-	1-Jan-12
Crude Oil & Condensate	Reserves (2P)	**1.355**	21.7%	1.114
	Contingent Resources (2C)	**1.623**	-2.4%	1.663
	Entitlement	**0.793**	35.1%	0.587
Natural Gas	Reserves (2P)	**1.327**	-16.1%	1.581
	Contingent Resources (2C)	**2.269**	-1.6%	2.305
	Entitlement	**1.153**	14.7%	1.005
Unconventional	Reserves (2P)	**0.521**	118.1%	0.239
	Contingent Resources (2C)	**3.295**	2172.7%	0.145
	Entitlement	**0.29**	23.4%	0.235
Total Discovered Resources		**10.39**	47.4%	7.047
PETRONAS Entitlement		**2.236**	22.4%	1.827
Overall Resource Replenishment Ratio (3 yrs ave)		**8.95x**		1.97x

the acquisition of Progress Energy Resources Corp., with contingent reserves estimated at 50 tscf. Overall resource base continued to be heavy in gas, which is mainly located in Turkmenistan, Australia, Canada, Egypt and Malaysia-Thailand Joint Development Area.

As part of the continuous efforts to highgrade the E&P portfolio, three new exploration blocks were secured in prospective areas within the focus and emerging basins; two blocks in Myanmar and one in Sierra Leone. At the same time, dilutions and divestments of five assets were concluded - the divestments of shares in PC Equatorial Guinea Ltd and El Burg in Egypt and farm outs of assets in Cameroon, Mauritania and Mozambique.

Significant progress was also made in Indonesia with the signing of two Gas Sales Agreements (GSA) by PCSB. The Ketapang GSA was signed with PT Petrogas Jatim Utama (PJU) for the monetisation of gas resources in the Bukit Tua field. The Muriah GSA, which was signed by PC Muriah Ltd., a subsidiary of PCSB with PT Perusahan Listrik Negara (PLN), marked the beginning of PETRONAS' collaboration with PLN that will contribute to the development of gas resources from the Kepodang gas field to facilitate the energy sector to produce cost effective electrical power.

A total of RM 13.73 billion was invested in the Group's international ventures, of which 48% was for development, 16% for exploration and the remaining for operations of existing assets.

OUTLOOK

The global E&P industry is expected to remain bullish in the coming years, driven by stable oil prices and increasing hydrocarbon demand outlook. This will pave the way for continued investment in the sector. However, the challenges in the operating environment as well as geopolitical uncertainties are also expected to prevail.

PETRONAS' E&P Business strategies remain intact in pursuit of production and resource growth opportunities in Malaysia and globally. Rigour in project delivery will persist while value-driven improvement efforts will remain a key focus to generate additional value from current business plans and objectives. Looking ahead, the Malaysian E&P industry is expected to be vibrant, with numerous new Petroleum Arrangements to be awarded, more development projects to be implemented, and new fields expected to commence production. In line with this positive outlook, investment levels are expected to surpass that of 2012. The heightened level of activities is expected to invite greater participation from the services industry and generate more spin-off development in support of national economic growth.

On the international front, global operations will continue to be driven by the overarching priority to realise, sustain, and prolong production. Various initiatives have been lined up to safeguard the production target, both in the context of long term asset quality and sustainable profitability.

The Group's international operations are expected to endure enormous pressures attributed to the fiscal regimes and geopolitical instability of some countries we operate in. Focus on improving operational performance, project delivery and competitiveness in key operating areas will be heightened towards achieving operational excellence. The anticipated resumption of South Sudan SPOC Operations in 2013 will signify an important milestone for the Group's international operations.

The growth in unconventional areas also marked a significant step-change for the Group's international growth. Unconventional resources and production volume from unconventional assets in Australia and Canada has helped extended PETRONAS' resource life and is expected to sustain the Group's production volume beyond 2.0 million barrels of oil equivalent per day for years to come.

Focus and commitment on HSE will continue with stronger emphasis deployed, in line with the need for every level of the organisation to demonstrate HSE ownership and leadership.

Continuous reinforcement of Zero Tolerance (ZeTo) Rules and proactive intervention will ensure that work areas and facilities are safely run and well-maintained.

In summary, the outlook for 2013 remain positive. E&P Business will continue its efforts to maximise the value of its portfolio.

25.0%

Higher NOPAT by 25.0% compared to the previous corresponding period on the back of higher LNG price, which contributed to 29.5% to the overall Group profit for the period under review.

2542 mmscfd

Higher average sales gas delivery of 8% mainly from higher feedgas supply from MTJDA and domestic Kertih, Terengganu.

Resilience

99.99%

PETRONAS Gas Berhad achieved 99.99% reliability rate for the Peninsular Gas Utilisation (PGU) system pipeline network, exceeding the world class standard of 99.90%.

Gas and Power

HIGHLIGHTS

Domestic LNG growth

Awarded the Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) contract and dual Front End Engineering Design (dual FEED) competition contract for PETRONAS' first and second Floating LNG projects (PFLNG 1 & 2) respectively, both aimed to provide solutions to monetise marginal and stranded gas fields. Completed the dual FEED competition for Train 9, which is expected to produce a total of 3.6 million tonnes per annum (mtpa), expanding the LNG production capacity of the existing PETRONAS LNG Complex (PLC) in Bintulu, Sarawak.

Portfolio rationalisation

PETRONAS International Corporation Ltd (PICL) sold its entire shareholding of 3.9% in Centrica Plc (Centrica) via a block trade sale. PETRONAS Australia Pty Ltd (PAPL) sold its entire shareholding of 17% in APA Group (APA) via a block trade sale.

Power Business

Achieved total power equity of 787 Megawatt through investments in power projects in Malaysia and abroad.

Datuk Anuar Ahmad

It was indeed a challenging and eventful year for the Gas & Power business as we are moving rapidly in our multi-billion dollar growth agenda. During the year, we achieved Final Investment Decision (FID) on our first Floating LNG project on 27 March 2012. Our Floating LNG will be the world's first and scheduled for deployment at the end of 2015. Moving ahead, we are developing Floating LNG 2 and Train 9 domestically as well as augmenting our international supply in Australia and Canada to strengthen our position in offering more secure and reliable gas supplies to our customers.

Domestically, we have made significant achievements during the year but we have also faced tough challenges in meeting the domestic gas demand especially for the Malaysian power sector. We are confident that with the completion of the country's first LNG Regasification Terminal in Melaka in the second quarter of 2013, it will ease the Peninsular gas demand. The facilities form a broader effort to support development of market-driven gas pricing, which will include allowing third-party access to the Peninsular gas grid.

I would like to thank our dedicated team in Gas & Power for all their hard work, dedication and professionalism. I hope that we continue to be a resilient and high performing business.

The period under review was a year of mixed results given the varied business environment that we operated in. Regional gas prices varied tremendously from an average of USD 3 per million metric British thermal unit (mmbtu) in North America to USD 10 per mmbtu in Europe and USD 15 per mmbtu in Asia Pacific.

Over the same period, demand in Asia grew whilst Europe's declined. Some 70 mtpa of capacity is being developed in this region alone with an additional 25 mtpa expected from Canada; all of which are competing for the premium Asia market.

Despite the challenging external environment, we set out to achieve aggressive sales volume; key projects on accelerated schedules, all the while maintaining cost efficiency.

During the period under review, LNG sales volume was lower than the corresponding year due to lower production from PLC in Bintulu, Sarawak, which was caused by scheduled maintenance; as well as lower entitlement from our operations in Egypt.

Gas & Power business maintained its position as the second largest contributor to the Group's Net Operating Profit After Tax (NOPAT) at 29.5% and this was mainly contributed by higher realised LNG prices.

In 2012, meeting domestic sales gas demand and ensuring security of domestic gas supply remained a challenge. One of the added measures put in place was the additional gas supply arrangements with Malaysia-Thailand Joint Development Area (MTJDA) and the development of regasification terminals. In order to ensure long term security of domestic gas supply, we have built our first regassification terminal in Melaka. After overcoming technical challenges, the Melaka regassification terminal is now set for completion in 2013.

Additionally, in 2012, new Gas Sales Agreement (GSA) for the supply of 57 mmscfd gas at LNG-based price for 15 years beginning 2016 was signed with Maegma Steel HRC Sdn Bhd. Moreover, the GSA for the supply of additional gas of 40 mmscfd and up to 192 mmscfd at LNG-based price gas for another 10 years from 1st January 2013 was renewed with Gas Malaysia Bhd.

As an ongoing effort to ensure Gas & Power business continues to drive value growth and profitability, Infrastructure & Utilities portfolio sold its entire shareholdings of 3.9% in Centrica and 17% in APA via a block trade sale.

The year under review also saw the completion of the Detailed Feasibility Study (DFS) for the shale gas-to-LNG Pacific NorthWest LNG project and subsequently the project had moved to the pre Front End Engineering Design (pre-FEED) phase.

GLOBAL LNG

The Group's total LNG sales volume decreased marginally by 6.5% to 26.1 million tonnes compared to 27.9 million tonnes in the previous year. This was due to lower PLC and Egyptian LNG volume.

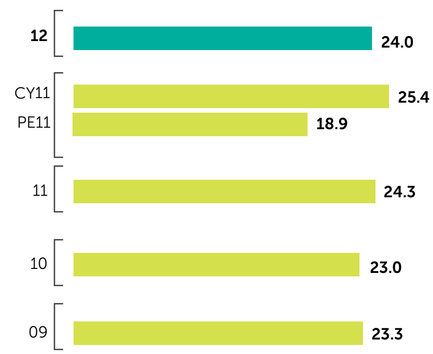
Lower PLC volume for the year was mainly attributed to the scheduled total shutdown at Malaysia LNG (MLNG) and MLNG DUA that was carried out to ensure long term plant integrity, reliability and efficiency. This was the first time ever that all six LNG modules were simultaneously shutdown, since the start of its operations. Lower volume from Egyptian LNG operations was a result of lower entitlement volume from operations in Egypt as more gas was supplied for domestic use.

LNG volume from PLC was mainly exported to traditional customers in Japan (62%), South Korea (17%), Taiwan (12%) and China (9%).

In addition, PETRONAS LNG Limited (PLL) traded 1.34 million tonnes volume or 21.8% higher than last year's traded volume.

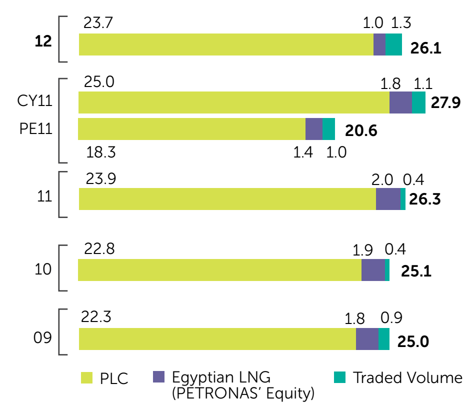
PETRONAS LNG Complex (PLC)

In million tonnes



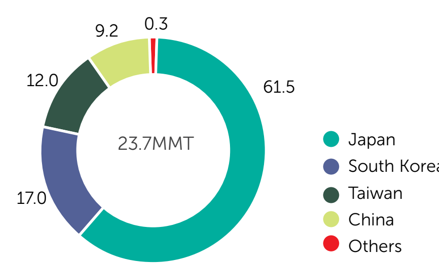
LNG Sales Volume

In million tonnes



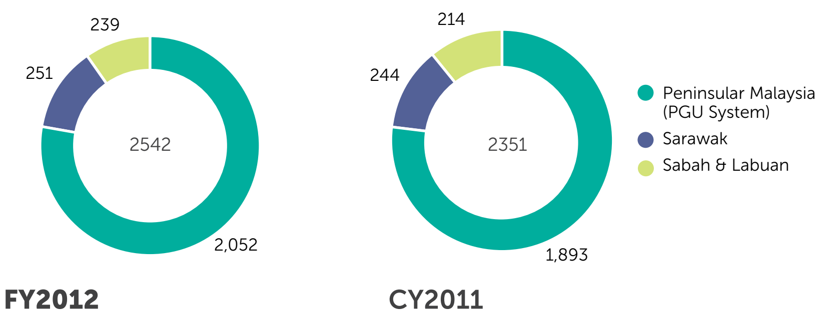
PLC Sales Volume

In percentage (%)



FY2012

Average Sales Gas Volume Delivery
In mmscfd



INFRASTRUCTURE, UTILITIES & POWER

The Group's gas processing and transmission business delivered a total average of 2,542 million standard cubic feet per day to customers in Peninsular Malaysia, Sabah and Sarawak. This is an 8% higher average sales gas delivery against the previous year contributed by higher feedgas supply from MTJDA and Kertih, Terengganu.

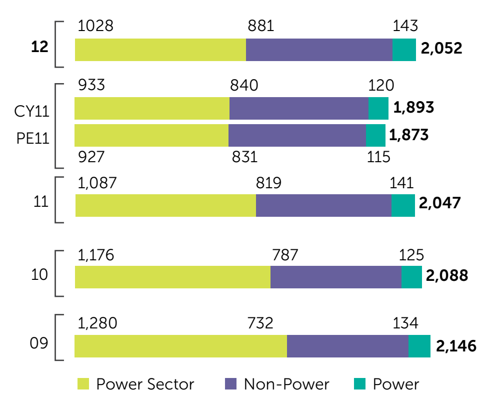
About 81% of the average volume delivered (2,052 mmscfd) was delivered through the PGU system, an increase of 8% from the previous year at 1,893 mmscfd.

In Sabah and Sarawak, the sales gas delivery increased by 12% and 3% respectively due to an increase in demand.

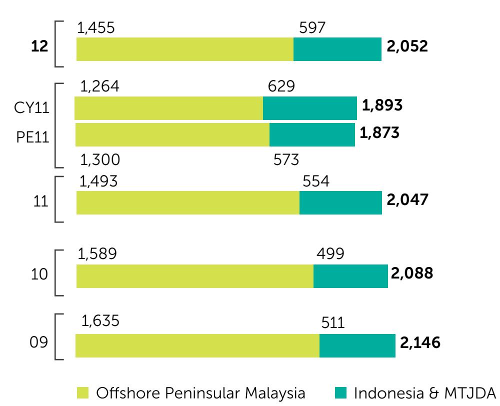
The power sector continued to be the biggest consumer of gas at 50% (1,028 mmscfd) of the total volume delivered through the PGU system. Non-power sector and exports to Singapore also grew during the year, accounting for the remaining 43% (882 mmscfd) and 7% (143 mmscfd) respectively.

The Group's gas processing and transmission arm, PETRONAS Gas Berhad (PGB), exceeded world class performance with reliability rates of 99.99% for its PGU pipeline network.

Average Sales Gas Through the PGU System
In mmscfd



PGU System Supply Sources
In mmscfd



OUTLOOK

Global demand for gas remains strong, in line with forecast for modest economic growth pickup in 2013 and a continued push for cleaner-burning fuels to reduce pollution, making gas an attractive fuel option. Asia, led by China, will drive the expansion in gas consumption as power plants and the manufacturing industry burn more of the fuel.

East Asian LNG demand is expected to remain high while demand for LNG is also poised to take off in South East Asia as Thailand, Indonesia, Singapore and Malaysia import LNG for domestic markets.

The next wave of LNG supplies could potentially come from projects in North America, Australia, East Africa, the Arctic and East Mediterranean, leading to increased competition among sellers. However, developing projects at competitive cost will be a key challenge as strength in oil prices has led to upward pressure on costs. Thus, oil-indexed pricing will remain relevant amid the high costs of investments needed to bring in new LNG supply.

The North America shale gas boom is changing the dynamics of the LNG global market and PETRONAS is poised to take advantage by planning an LNG plant in Western Canada i.e. Pacific Northwest LNG.

Amidst the changing landscape, PETRONAS will remain among the world's top LNG suppliers with the addition of volumes from both domestic and international projects such as the floating LNG and Train 9 in Malaysia as well as GLNG in Australia.

PDB Regional Expansion

PDB acquired downstream companies from the PETRONAS Group in the Philippines, Vietnam and Thailand for RM205.8 million to kick start its strategic initiative to expand overseas and ride on the growth momentum of the ASEAN region.

Improvement in Overall Equipment Effectiveness (OEE)

Significant improvement in OEE from 84.4% CY2011 to 89.2% FY2012.

Divestment of non-performing assets

In Indonesia, Thailand and Uganda.

Quality Asset Through Portfolio Rationalisation

Downstream

HIGHLIGHTS

Highest Market Share

PDB capture highest market share of 64.5% in Commercial business segment through its flagship products namely diesel, bio diesel (B5), aviation fuel, fuel oil and bitumen.

RAPID

PETRONAS signed four Heads of Agreement (HoA) towards the formation of petrochemical joint ventures within its proposed Refinery and Petrochemical Integrated Development (RAPID) complex in Pengerang, Johor.

Groundbreaking for SAMUR Project

The Prime Minister of Malaysia officiated the groundbreaking ceremony for the Sabah Ammonia Urea (SAMUR) Project in Sipitang, Sabah.

Datuk Wan Zulkiflee Wan Ariffin

The period under review was an eventful one for Downstream Business as we continued to focus on quality assets through portfolio management, enhancement of governance, talent management, performance and growth. We continue to rationalise our business through active portfolio management as we see opportunities where we can upgrade the quality of our assets through strategic acquisitions as well as divestment.

Safety remains high on the agenda and we continue to intensify our efforts to inculcate good safety culture in our operations as well as making it a personal priority. We also pay close attention to governance and compliance to processes and procedures. These priorities have enabled Downstream Business to achieve significant improvements in operational excellence and reliability performance.

Our efforts in talent acquisition and Recruit-To-Train programmes have been intensified to support growth projects such as Refinery and Petrochemical Integrated Development (RAPID) and Sabah Ammonia Urea (SAMUR). In addition, leadership development and capability building for critical positions mindset and behavior were closely monitored by management throughout the year.

For growth initiatives, RAPID Project is progressing well on with its Front-End Engineering Design (FEED) and the Heads of Agreements (HoA) with several Joint Venture partners have been concluded despite facing many challenges. The SAMUR project site preparation is well underway and the FEED contract has been awarded for MG3 retrofit project.

In 2012, Downstream Business generated total revenue of RM150 billion which translates to around 42% of the Group's Revenue whilst our NOPAT was 6.1 billion, an 11% contribution to the Group.

Moving forward for 2013, we expect the markets to be more challenging and we will continue to focus on key areas such as Health, Safety and Environment (HSE) and Operational Excellence to achieve our targets. The RAPID project team will be focusing their efforts towards securing Final Investment Decision (FID) and the SAMUR project is expected to complete the site preparations and other significant milestones as per the overall project schedule.

I would like to put on record that I am encouraged by the achievements in Downstream Business as we continue to be an essential value contributor to PETRONAS. I would like to take this opportunity to acknowledge and thank each and every one of our staff and partners for their contribution, dedication, commitment and sacrifices made for our organisation, without which our achievements would not have been possible in realising our vision to be a merit-based high performing business.

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 petrochemical products.

PETRONAS owns and operates three refineries in Malaysia. Two of the Malaysian refineries are located in Melaka and comprises PETRONAS Penapisan (Melaka) Sdn Bhd (PP(M)SB), wholly-owned by PETRONAS 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 in Kertih on the East Coast of Malaysia. Overseas, PETRONAS also owns a refinery in Durban, South Africa through its majority shareholding in Engen Petroleum Limited (Engen). Products from the four refineries are globally traded and marketed through PETRONAS Trading Corporation Sdn Bhd.

PETRONAS Dagangan Berhad (PDB) manages all domestic marketing and retailing activities of a wide range of petroleum products. Through retail station network that has increased to 1,027 stations, PDB has successfully maintained a market share of 31% in the country. It also has the largest network of convenience stores with 695 number of *Kedai Mesra*. Whilst PDB acts as the retail arm for PETRONAS in Malaysia, PDB through it's subsidiaries namely PETRONAS Energy Philippines Inc (PEPI), PETRONAS International Marketing (Thailand) Co. Ltd (PIMTC) and PETRONAS Vietnam Co. Ltd (PVL) carries out similar operations in the Philippines, Thailand & Vietnam. In Indonesia, the marketing activities are managed by PT PETRONAS Niaga Indonesia (PTPNI) while in Sudan and South Sudan, it is managed by PETRONAS Marketing Sudan Limited (PMSL) and PETRONAS Marketing Ventures Limited (PMVL) respectively.

Significant changes occurred as a result of rigorous portfolio review initiatives. PDB acquired downstream companies from the PETRONAS Group in the Malaysia, Philippines, Thailand and Vietnam for a value of RM205.8 million.

PETRONAS also operates service stations in South Africa and Sudan. It is the leading retailer and marketer of petroleum products in Southern Africa through Engen.

PETRONAS Chemicals Group Berhad (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 across the globe.

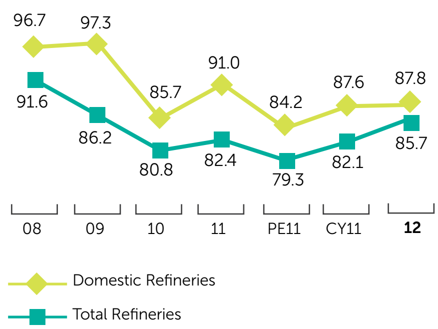
CRUDE OIL REFINING

During the year under review, the Group's domestic refineries collectively recorded a higher throughput volume of 107.1 million barrels as compared to the total throughput volume for CY2011 of 96.6 million barrels as domestic refineries operated with minimal planned maintenance shutdowns in FY2012. The higher throughput volume was reflected in the higher utilisation rate for domestic refineries of 87.8%.

The overall reliability rate of the domestic refineries was sustained at 98%, a testimony to the Group's continued operational excellence.

Utilisation Rate for Group's Refineries

In percentage (%)



CRUDE OIL & PETROLEUM PRODUCTS MARKETING

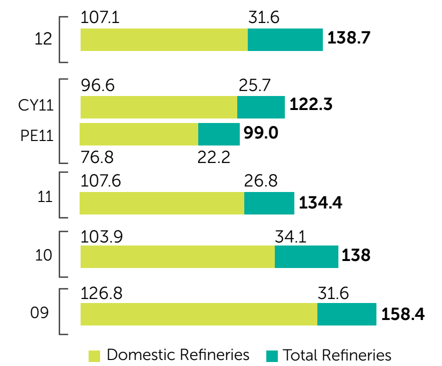
The Group's crude oil and petroleum products marketing activities declined for the year 2012 at 139.2 million barrels against the total volume of CY 2011 of 163.1 million barrels. This was attributable to lower production of Malaysian Crude Oil (MCO) and Foreign Equity Crude Oils (FEC) as well as lower sales of petroleum products.

PETRONAS MCO entitlement reduced by 11% from 66.5 million barrels to 59.4 million barrels mainly for Bintulu, Miri light and Tapis crude oil. The Group's sales of FEC decreased by 31% to 32.8 million barrels from 47.7 million barrels during the same period last year, mainly reflecting the production halt of crude oil from Sudan.

The Group exported lower volumes of petroleum products, 46.9 million barrels as compared to 48.9 million barrels during the same period last year, mainly due to lower Liquefied Petroleum Gas (LPG) available for export as a result of lower domestic production and leaner gas productions.

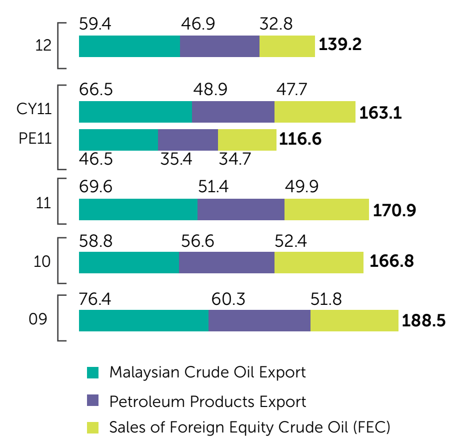
Refining Throughput

In million barrels

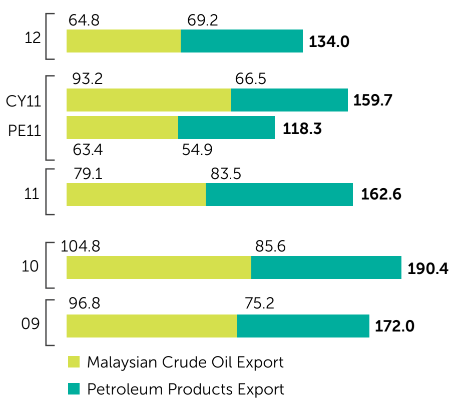


Marketing

In million barrels



Trading
In million barrels



CRUDE OIL & PETROLEUM PRODUCTS TRADING

The Group's crude oil and petroleum products trading volume for the year decreased by 16% compared to the total trading volume for CY 2011 of 134.0 million barrels.

The total volume of crude oil traded during the year decreased to 64.8 million barrels as compared to 93.2 million barrels during the same period last year due to the lower demand for crude from the Eurozone and United States of America (US); the unavailability of crude oil from Sudan in the market for trading; and higher risk trading environment that was aggravated by geopolitical and financial events.

However, the total volume of petroleum products traded increased to 69.2 million barrels from 66.5 million barrels during the same period last year due to higher third party trading volume.

DOWNSTREAM MARKETING

Downstream Marketing manages the retail and marketing activities of PETRONAS' full range of petroleum products including fuels, lubricants and LPG for home and commercial use, locally and internationally.

In the year under review, PETRONAS managed to sustain its growth momentum by increasing the group petroleum products' sales volume to 192.2 million barrels, an increase of 1.5% against the same corresponding period last year.

PETRONAS will continue to strengthen its pursuit for a robust portfolio review to ensure that only high quality assets are maintained and all its resources are fully optimised. In 2012, PETRONAS divested its non-performing assets in Indonesia, Thailand and Uganda to shift its focus on other strategic opportunities, investments and resources. During the same period, PETRONAS continued to grow in other selective markets, namely China and South Sudan through acquisitions and joint-ventures.

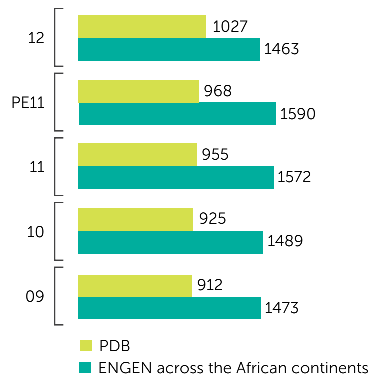
Retail Business

PETRONAS has a total network of 2,490 retail stations in Malaysia, South Africa, and Sudan and across Sub-Saharan Africa.

With 1,027 retail stations and 31% market share in Malaysia, PDB has continuously been able to grow its customer base across the country, including those in remote areas. In due course, PDB is confident to achieve its vision of becoming the Brand of 1st Choice in Malaysia.

In 2012, PDB launched a newly designed PETRONAS Station at Sri Hartamas and unveiled the first-of-its kind twin stations, the PETRONAS Solaris Putra and PETRONAS Solaris Serdang. The dual-frontage twin stations are equipped with 'green' features that offers energy efficient solutions with customer-centric features. Strategically located in between the PLUS and Besraya highways, these stations aim to be the strategic meeting points and hangout locations.

Retail Stations
No of retail stations



In South Africa and Sub-Saharan Africa, Engen continues on its journey towards becoming 'The Oil Company of Choice' with a retail network of 1,463 retail stations and 728 convenience stores. Engen has answered customers' need for petrol that offers superior performance as well as economy with the launch of Engen Primax Unleaded. The new fuel offers state-of-the-art detergency superior performance and driving economy.

In 2012, for diesel customers, Engen also upgraded its diesel product offering, designed to meet the specifications of new diesel technology engines and also protects older diesel engines.

LPG Business

In 2012, the Gas PETRONAS Home Delivery (GPHD) service was launched, the 1st in Malaysia to offer a nationwide hotline number, 1-300-888-GAS(427) to order cooking gas. The delivery personnel are also able to conduct free safety checks at customers home and through GPHD, customers can also earn Mesra points via the Mesra card.

In the year under review, Malaysia's very first high speed LPG Carousel (Flexspeed) at the Melaka LPG Terminal in December 2012 was installed. Once operationalised in the first quarter of 2013, it will increase the LPG cylinders capacity output of approximately 117%.

Commercial Business

The commercial business drives the strategic marketing and aggressive sales of petroleum products in bulk to various industrial and commercial sectors such as agriculture, aviation, construction, fishery, mining, oil and gas exploration and production, power generation as well as transportation.

In the year under review, PETRONAS through PDB managed to capture the highest domestic market share of 64.5% from 59.5%, amidst the challenging environment with a 13.0% contraction in the commercial industry.

Aviation business has expanded its reach to international airports such as London Heathrow and Hong Kong.

In South Africa and Sub Saharan, Engen was awarded a long-term supply contract to supply 200 million litres of diesel and eight million litres of lubricants for a new mining project in Mozambique.

In the year under review, PMSL won the confidence from United Nation (UN) with the new contract award in February 2013. The UN awards confers due recognition for PETRONAS' commitment in delivering quality and reliable product supply at stringent HSE standards for UN-African Union Mission peacekeeping force in Darfur (UNAMID) throughout FY2012 supply period.

Lubricants

PETRONAS formulates, manufactures and sells a wide range of lubricants and functional fluids for the automotive, industrial, and marine and agriculture industries. PETRONAS portfolio of lubricant brands includes Selenia, Syntium and Urania whereas the functional fluids brands includes Akros, Paraflu and Tutela.

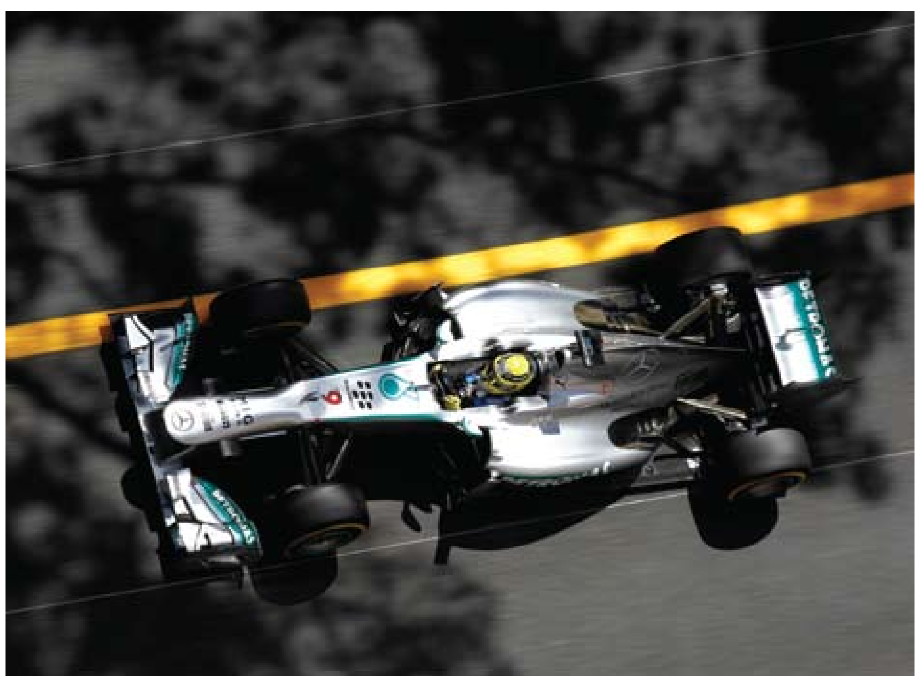
In the year under review, PETRONAS signed new partnership agreement with existing and new Original Equipment Manufacturers (OEMs), both domestically and internationally.

In Malaysia, new OEM contract was signed with Perodua. In addition, a special Automatic Transmission Fluid (ATF), the PETRONAS Tutela ATF XP-4 was developed as a result of collaboration between PETRONAS and Naza KIA.

PDB secured supply contract with a major fleet operator, Konsortium Logistic Berhad (KLB) which will be using our PETRONAS Urania lubricants in all its prime mover fleet.

In Vietnam, PETRONAS penetrated the local OEM sector through the supply contract with Mercedes and Yamaha.

In Europe, Latin America, South Africa and North America, PETRONAS strengthened its OEM partnership with several major OEMs partners namely FIAT, Chrysler, Mercedes, BMW and Iveco.



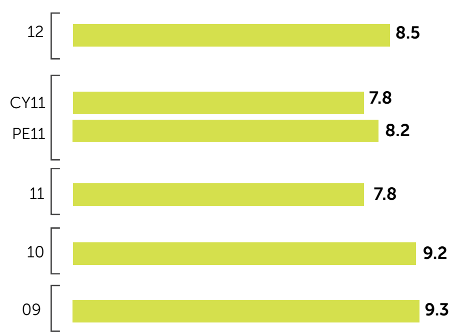
PETRONAS has expanded its blending plant capacity from 577 million liters per year to 745 million liters per year particularly from Contagem lube blending plant in Brazil and Shandong lube blending plant in China. The expansion of the blending plant in Brazil has further strengthened the capability of PETRONAS to cater the increasing demands and its market position in Latin America. The Shandong lube blending plant expansion on the other hand gives PETRONAS product supply advantage in growing the lubricant business in China.

PETRONAS has successfully concluded a joint venture agreement with the lubricant business of Yuchai Machinery Group. The group is the largest diesel engine manufacturer in China and second largest in the world.

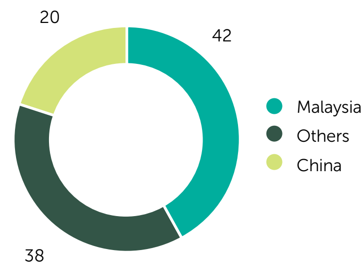
In Sudan, PETRONAS has further solidified the lubricant market share by acquiring LAMA's lubricant blending plant, a leading local independent player allowing PETRONAS to be one of the major players in Sudan whilst paving its entry into North Africa.

PETRONAS has successfully introduced the cutting-edge product to its customers in China and Thailand with the launched of PETRONAS Syntium 7000. The product is formulated for the next generation of gasoline & diesel powered engines. It is specifically designed to help prolong and maintain the efficiency of emission systems in passenger vehicles.

Production Volumes
In million tonnes



Sales
In percentage (%)



PETROCHEMICALS

PETRONAS' petrochemical business arm, PCG continued to deliver its value proposition as a resilient and highly competitive petrochemicals player against challenging market conditions, leveraging on its integrated value chain and proximity to growth markets.

In the period under review, PCG maintained its market reach with 58% revenue derived from outside Malaysia, particularly within Asia. The domestic market contributed the remaining 42% of its revenue, reaffirming its leadership position in Malaysia as the largest olefins manufacturer and the sole producer of methanol and urea.

PCG's production volume for the year grew by 679,000 metric tonnes, an increase of 9% at approximately 8.5 million tonnes compared to the same period last year. PCG sold 3.2 million tonnes of olefins and derivatives products, and 3.6 million tonnes of fertilisers and methanol products, representing increases of 2% and 9% respectively.

PCG registered sales volume of 6.8 million tonnes represented an increase of 6% while total sales volume to production volume was 79% compared to 82% for the same period last year. Higher sales volume was achieved for the year mainly due to improvement in the feed gas supply for PETRONAS Chemicals Methanol Sdn Bhd facility, stronger plant performance, coupled with lower levels of external limitations. Overall, plant utilisation rate for the year was higher at 83% compared to 76% in the corresponding year.

OUTLOOK

The year 2012 saw the advanced economies in the Eurozone continued to struggle with the lingering debt crisis, and also seen growth in the United States of America (US) was at a very tepid pace. The world economy recorded a growth rate of 3.2% in 2012, vastly aided by easing commodity prices and tight monetary control by central banks. In 2013, the global economic growth is expected to hover at 3.5% in 2013 staying close to the level achieved in the previous year. The prolonged downturn in Eurozone, slow pace of US economic recovery combined with fading growth momentum in China still pose a risk to global economic recovery.

Against this backdrop, global oil demand is not expected to grow significantly and will register demand growth of 0.8 million barrels per day from 89.8 million barrels per day in 2012. Emerging economies led by China, Middle East and other Asian countries will drive demand growth whilst advanced economies are expected to grow at a more stagnant pace. On the supply side, there will be increasing production from Non-Organisation of Petroleum Exporting Countries (Non-OPEC) particularly the US due to rising tight oil output.

Rapid growth of US production has reduced its import requirement of light sweet crude from West Africa and this has led to rebalancing of the global oil market with increasing supply of West African crude coming to Asia. Increasing supply of Non-OPEC together with rising Iraq production will put pressure on the global oil market in the medium term.

Weakening products demand in advanced countries have led to surplus of petroleum products and this has prompted rationalisation of refining capacities in the US and Europe and with potential closure of refineries in Asian region particularly Japan and Australia. However, players in the Middle East and Asia Pacific continue to add more refining capacities and this could depress the regional refining margin in 2013.

The global lubricants demand is expected to increase by 1.6 percent in 2013 driven by increase in car ownerships in emerging countries particularly China and India. To meet growing demand for lubricants, major lubricant players will increase their base oil production capacity by approximately 42 percent. However, demand in advanced countries is expected to remain weak due to slow passenger car growth and increasing stringent environment regulations to improve the efficiency of lubricants.

The global petrochemical demand for 2013 is expected to grow approximately 4.4 percent from 3.8 percent in 2012 driven mainly by emerging economies as growing middle class income consumers continue to support the growth. The global chemical market will continue to find support from China and other developing countries in the face of much weaker demand in the West. Regional players particularly China will add new capacities using coal as feedstock and this will intensify competition in the region. With the gradual rise of coal chemical-based producers mainly from China, naphtha-based producers will need to be integrated with higher value adding petrochemical products to remain competitive.

To capture the rising petrochemical demand and expand our product portfolio, PETRONAS aims to secure FID in its integrated refinery and petrochemical complex (RAPID), located in Pengerang, Southern Johor by quarter one of 2014. Through PCG, PETRONAS is also building a world-scale green field SAMUR plant that will strengthen our position in the urea market in South East Asia. The new urea plant will have a production capacity of 1.2 million metric tonnes per annum (mtpa) of granulated urea, almost doubling our current capacity. Located in Sipitang Oil & Gas Industrial Park, the SAMUR project is expected to spur the growth of Sipitang and its surrounding area, promoting economic spin-offs for Sabah. Construction work is currently on-going with completion targeted for 2015.

Despite many challenges highlighted above, PETRONAS remains optimistic of the growth potential of the region particularly the ASEAN countries. PETRONAS is strategically located in developing markets which enables it to leverage on growth potential in the regional oil and chemical industry. To secure the value creation from the growth initiatives and existing businesses, a strong focus will be on sustaining operational excellence and disciplined project execution whilst operating in a safe environment. Talent management and high attrition rates throughout the industry also pose a challenge but this will be addressed through dedicated initiatives. With the right organisational culture, Downstream Business continues to strive towards becoming a “Merit Based High Performing Business”.

Technology & Engineering

HIGHLIGHTS

Technology breakthroughs

Advancements continue to be made in the areas of enhanced oil recovery, carbon dioxide (CO_2) management, contaminants removal, green and sustainable technologies. Proprietary technologies that continue to be developed include Gas Cloud Seismic Imaging Technology, FnGMap™ and Sep-iSYS™.

Central Project Delivery

The centralised project management function is currently managing 17 capital projects at various stages. They are mainly downstream and on-shore upstream projects.

Savings derived from Category Management

Category management for equipment and materials used for project and operations contributed 8% to 10% in reduction of cost from initial procurement value.

Value Creation

Provision of technical solutions and services by in-house technical expertise achieved a value creation of about RM1,670 million for PETRONAS through optimisation, yield improvement and cost avoidance.

As the global demand for energy increases, the oil and gas industry must continuously apply technical solutions and innovative technology to extract oil and gas from depleting and previously inaccessible reserves. At PETRONAS we strive to develop technical specialists and differentiated technologies to pursue excellence in capital project delivery and operational performance. Our strategic development and deployment of technology and engineering solutions are central to address challenges such as diminishing resources, matured facilities, high CO_2 gas fields and hydrocarbon impurities.

Enhanced Oil Recovery (EOR) is being actively pursued to increase the recovery factor of existing oil fields. Based on initial screening studies, 80% of Malaysia's oil fields are technically suitable for EOR. The application of EOR technology is estimated to boost the recovery factor of these oil fields to more than 40% and extend the fields' life to beyond 2040.

Concurrently, PETRONAS is exploring ways to manage gas fields with high CO_2 content through various research and development of CO_2 management technologies, encompassing the entire value chain, from carbon capture to transportation and storage. CO_2 management technology aims to capture high CO_2 content and reduce hydrocarbon loss as well as energy consumption in the pursuit of monetising gas fields with high CO_2 content in Malaysia.

PETRONAS' own contaminants removal technology. Hycapure Hg™, a mercury removal technology, has performed well and displayed adsorbent stability during pilot trials in commercial operations. This proprietary technology has been proven to outperform other commercial products.

In line with our sustainability agenda, PETRONAS successfully installed a Solar Photovoltaic System on the rooftop of Suria KLCC and at a petrol station in Kuala Lumpur. This system will contribute to a significant reduction in greenhouse gas emissions. In addition, our biochemical research and development on biomass, is headed towards commercialisation.

Realising the need for better sub-surface imagery to facilitate the discovery of oil and gas, PETRONAS developed the Gas Cloud Seismic Imaging Technology. The technology allows for improved sub-surface images previously obscured by gas clouds. At the same time, in-house development of technology solutions focusing on asset safety, integrity and optimisation are continuously pursued. This has led to the development of a three dimensional fire and gas mapping technology known as FnGMap™ to detect hazardous gas leaks and fires. Concurrently, Sep-iSYS™, an integrated separation system that separates gas, liquid and sand was developed to handle slugging conditions, replacing the conventional inlet separation system.

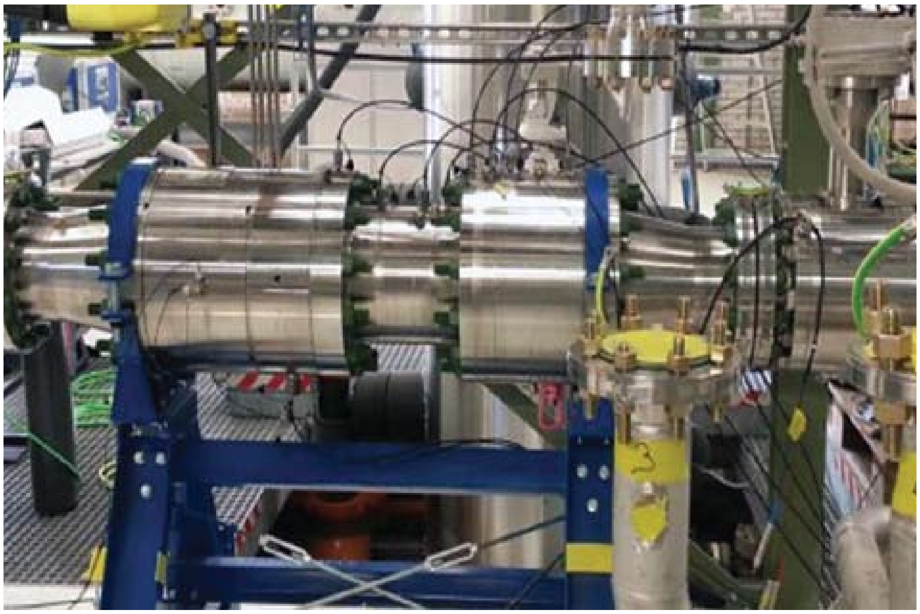
The delivery of capital projects is faced with a multitude of challenges and the execution of project management with disciplined and innovative approach will ensure projects are delivered at competitive cost, on schedule and with assured operability. The delivery of capital projects with an efficient procurement system and implementation of category management achieved equipment standardisation and cost savings Groupwide.

The year under review saw concerted efforts made to apply technical solutions and services to improve performance in the area of safety, asset reliability and integrity as well as optimisation in both upstream and downstream facilities. As a result of these initiatives, relevant innovative and value-adding engineering solutions are being adopted as PETRONAS' standard solutions.

PETRONAS' structured Technical Capability Development programme rolled out during the year was aimed at skilling our workforce with the latest technological advancements and skillsets.

PETRONAS was granted 38 patents in the period under review, bringing a total of 282 patents filed in 2012.

■ Onshore Gas Terminal in Kertih - Pilot Unit for Mercury Removal in Condensate



■ Non-conventional CO_2 separation process using a supersonic separation method called Twister

Enhanced Oil Recovery

The Exploration and Production Technology Centre (EPTC) was tasked to deploy EOR methods, techniques and technologies to sustain oil production whilst, research and development on EOR was undertaken by PETRONAS Research Sdn Bhd (PRSB). The Recovery Factor (RF) of existing oil producing fields utilising EOR is targeted to achieve a 50 % RF, with the current RF at 30% to 40%.

The EOR technologies being pursued by PETRONAS focus on Water Alternating Gas (WAG) processes, Chemical EOR, Thermal EOR and Enhanced WAG primarily for implementation in Malaysia. Due to the high salinity and high reservoir temperatures, PETRONAS has successfully developed a new Alkaline Surfactant Polymer for application in these fields. Presently there are 20 fields where various EOR technologies applications are applied. A study on Chemical EOR at Angsi and St Joseph identified prospective additional incremental oil of more than 120 million standard tank barrels (mmstb).

The year under review, PETRONAS and Sarawak Shell Berhad collaborated in the area of chemical-based EOR technology via a Joint Research & Development Agreement (JDA). This EOR technology will be employed at nine oil fields in the Baram Delta and four oil fields in the north Sabah development area. The Baram Delta and North Sabah Enhanced Oil Recovery (EOR) Centre was established to manage the JDA between Shell and PETRONAS in ensuring that the two Production Sharing Contracts are on track in terms of performance delivery and budget. The success of the EOR programmes would unlock vast amounts of oil reserves from known reservoirs to maintain stable production and demand balance for years to come for PETRONAS.

CO_2 Management

PETRONAS is exploring innovative ways to manage high CO_2 gas field content by extensively researching CO_2 management technologies in order to increase hydrocarbon recovery and improve efficiencies by reducing hydrocarbon loss and energy consumption. Another main focus of the technologies is to reduce capital expenditure via smaller footprint and lesser weight. The development of our own CO_2 Membrane Separation System for carbon capture has displayed promising potential when compared with commercial membranes. Commercial manufacturing techniques are currently being used to produce the membranes with our first prototype scheduled for field testing at Tangga Barat in 2013.

In parallel, the development of advanced CO_2 absorption using Membrane Contactor technology in collaboration with Universal Oil Products (UOP) is progressing well. The basic engineering design for a pilot plant has been completed and is on-going for installation at Gas Processing Plant 3 at Kertih in 2013.

PETRONAS and our technology partners are developing a non-conventional CO_2 separation process using a supersonic separation method called Twister. The main advantage of Twister is that it can reduce carbon footprint and weight, with the potential of reducing operating and capital expenditures. The prototype of actual production scale was successfully designed and manufactured and is ready for pilot testing in 2013.

In 2012, PETRONAS and TOTAL signed a Research and Development Collaboration Framework Agreement (RCFA) on 3 October 2012 on a joint study on relevant technologies to develop high CO_2 gas fields. The initial study will focus on K5, a sour gas field in offshore Sarawak with up to 70% CO_2 content. This collaboration allows for PETRONAS and TOTAL to conduct research and development in several areas such as gas pre-treatment, CO_2 capture, and pipeline transportation and storage of CO_2. The collaboration is expected to enable a viable development for K5 and to equip PETRONAS with the related expertise and technical know-how to spearhead potential development of other identified high CO_2 fields'.

Contaminants Removal

One of the successful developments in 2012 was the Hycapure Hg™ mercury removal technology from gas using impregnated ionic liquids with either silica-based or carbon-based adsorbents had demonstrated consistent performance. The silica-based adsorbent was applied at Gas Processing Plant 4 at Kertih and had performed consistently to specifications for more than 15 months on-stream. The carbon-based adsorbent was applied at Gas Processing Plant 6 in Dungun on a pilot trial for six months and its performance had been on par with the silica-based adsorbents. The development of the carbon-based adsorbent was part of cost-down efforts to make the technology more commercially competitive. A pilot plant for mercury removal in condensate has been installed at an offshore gas terminal. This pilot plant is expected to be commissioned by end 2013. PETRONAS' overall contaminants removal technology has been undertaken in a joint-collaboration with Queen's University of Belfast, a leading research institute in Ionic Liquids Chemistry that was recently voted by the British Science Museum the "Most Important British Innovation of the 21st Century". A total of 150 patents have been filed under various areas including mercury removal, acid removal and biochemical using ionic liquids.

Sustainable Development

PETRONAS carries out its business in a socially responsible and holistic manner to ensure continued growth and success for the present and future generations. Henceforth, PETRONAS continues to apply energy efficient technologies and solutions across the Group.

Solar

In 2012, PETRONAS successfully installed a Solar Photovoltaic (PV) System on the Suria KLCC rooftop and at PETRONAS Solaris Putra and PETRONAS Solaris Serdang retail stations. The combined energy generated at both locations amount to 830 megawatt-hours of solar energy annually which is equivalent to the energy generated to power up 290 households. The clean energy generated can reduce our greenhouse gas footprint by 500,000 kilogrammes of CO_2 annually.

These encouraging results have further spurred PETRONAS towards its third initiative on Solar PV technology, the development of a Solar Independent Power Plant in Gebeng. The 10.02 megawatt peak plant, and is expected to be completed in 2013. It is estimated to produce 12 gigawatt-hours of energy annually which is equivalent to the energy needed to power up 4,500 households. The system will contribute to a reduction of greenhouse gas footprint amounting to about 8,000,000 kilogrammes of CO_2 annually.

Biochemicals

In a continuous effort to produce environmentally-friendly products, PETRONAS has successfully ventured into several research and development, and technology deployment projects that capitalise on the abundant biomass feedstock in Malaysia. For example, PETRONAS embarked on a research and development project for biopolyols in 2009. The technology is now fully developed and pilot-tested with commercialisation potential in

■ Aerial view of Solar Photovoltaic panels on the rooftop of Suria KLCC biolubricant and biopolyurethane applications. The development for the commercial plant is currently at the Front-End Engineering Stage.

Other research and development projects currently being pursued include conversion of biomass into Mono Ethylene Glycol, a precursor to high value polymer products; conversion of fatty acids from biomass into Polyalpha Olefin which is the main building block in making biolubricants; and conversion of waste gases such as carbon monoxide and carbon dioxide using biotechnology into chemicals. These projects are currently at proof-of-concept stage and will be further assessed for its techno-economic viability.

Seismic Imaging Technology

One of the recent technological advancements made through research and development is the development of the Gas Cloud Seismic Imaging Technology. This technology was developed as a solution for improved imaging previously affected by shallow gas clouds. Presently, many fields and reservoirs in the Malay Basin are poorly imaged due to the presence of shallow gas accumulations that mask potential hydrocarbon reserves.
This technology will enable old fields which were previously deemed complex and uninterpretable, to be revisited to uncover additional resources. The advancements in seismic imaging technology has allowed exploration and production activities to be conducted more cost effectively, as the number of test wells required to locate viable reserves would be greatly reduced. Exploration teams can now identify oil and natural gas prospects more accurately, place wells more effectively, reduce the number of dry-holes drills and reduce drilling cost as well as exploration time.

Fire and Gas Mapping – FnGMap™

PETRONAS developed the FnGMap™, a three dimensional fire and gas detection mapping solution that optimises placement of fire and gas detectors in production facilities. This technology solution for fire and hazardous gas detection is applicable to both upstream and downstream facilities, including both greenfields and brownfields. Application of this technology optimises and accurately places flame or gas detectors. The increasing awareness of fire safety as well as regulatory requirements has made the application of this technology imperative to the oil and gas industry.

Sep-iSYS™

PETRONAS has developed an integrated three-phase separation system that separates gas, liquid and sand which is highly reliable in handling slugging conditions, to replace the existing standard inlet separation system. The high slug flow is a challenge for the conventional separator system that causes liquid carry-over which may eventually lead to a forced shutdown at an oil and gas production facility. Sep-iSYS™ allows up to 50% CAPEX reduction as compared to conventional slugging technology. The first unit that was deployed in a facility in Vietnam has been in continuous operation since August 2011.

■ Sep-iSYS™: Separator with Integrated Polishing Scrubber for Floating Production Storage and Offloading (FPSO) vessel in Vietnam

■ Sabah Oil-Gas Terminal (SOGT)

Project Management & Delivery

Managing capital projects in a global environment is becoming increasingly complex. As we embark on various growth initiatives in both the upstream and downstream sectors, we put emphasis on delivering capital projects safely, on schedule and at competitive cost. This is achieved by applying the PETRONAS Project Excellence Framework, which uses a stage-gated project management process dubbed the PETRONAS Project Management System.

Among the projects is the Refinery and Petrochemical Integrated Development (RAPID) project which is the largest and most complex project undertaken by PETRONAS. Several other major projects are at the execution stage. These include the PETRONAS Floating LNG1 (PFLNG1), Sabah Ammonia Urea Project (SAMUR), Sabah Oil-Gas Terminal (SOGT) and the Solar Independent Power Plant (Solar IPP). PETRONAS strives to achieve first Quartile schedule and cost performance in capital project delivery. Project performance is validated and benchmarked worldwide on an annual basis by the Independent Project Analysis Inc (IPA). The benchmark index on SOGT indicated that the performance is in first Quartile schedule and the project is near completion.

PETRONAS applies category management for equipment and materials to bring further cost savings for project and operational requirements. Best practices embarked upon include standardisation of technical specifications and enabling volume consolidation for reduction in cost, as well as development of regional service centres with Original Equipment Manufacturers leading to the development of local talent in the long term. For the period under review, category management for equipment and materials used for projects and operations contributed 8% to 10% in reduction of cost reduction from the initial procurement value.

Our proprietary technologies and solutions are deployed to capital projects to ensure that we leverage on in-house experienced technical personnel to manage projects and development of FEED. This move has realised cost savings and built our institutionalised capability for project management, engineering and adherence to strict standards.

Technical Services and Solutions

Focusing on operational excellence in the area of safety, asset integrity management and optimisation, Group Technical Solutions (GTS) intensified efforts to undertake asset integrity, reliability and optimisation programmes across PETRONAS facilities. For the period under review, technical services and solutions generated about RM1,670 million in value creation through yield improvement, cost savings and cost avoidance. GTS successfully deployed precise technical solutions and 'best-in-class' technical solutions and standards. Through this Centre of Excellence, PETRONAS has reached autonomy with less dependency on external technical consultants.

Asset Integrity Management

Managing Asset Integrity concerns the application of qualified standards, by competent people, using appropriate processes and procedures throughout the asset lifecycle, from inception to decommissioning. This is a continuous process in managing the risk of failures to ensure optimal production without compromising safety, health and environmental requirements. PETRONAS places utmost focus

in this area and has applied Asset Integrity Management and its suite of engineering solutions to optimise Upstream and Downstream operations while extending the lifespan of facilities.

In line with this, PETRONAS has developed its own specialised and standard engineering solutions such as PETRONAS Asset Life Study (P-ALS™), PETRONAS Instrumented Protective Function (P-IPF™), PETRONAS Risk Based Inspection (P-RBI™) and Process Safety Management (PSM) which have been adopted for standardised application groupwide. In addition, technology solutions such as PIPEASSURE™ has gained recognition externally and has been proven reliable for pipeline repair systems.

The PETRONAS Risk Based Inspection (P-RBI™) for plant and maintenance inspection has been aggressively implemented in PETRONAS upstream facilities and downstream plants in Malaysia and is now being extended to international facilities. In 2012, the Department of Safety and Health (DOSH) adopted PRBI™ as the system to deploy their Specific Scheme of Inspection (SSI). The PRBI™ software has enabled DOSH to access and review the status of pressure equipments and the Certificate of Fitness can now be issued on-line. PRBI™ was also adopted for development of "Offshore Self-Regulation (OSR)" programme. This OSR will eventually allow DOSH to provide surveillance of equipment at offshore facilities.

Our Independent Asset Integrity Review (i-AIR) was designed to address the management of our upstream facilities. i-Air provides Technical Integrity Process Safety in a holistic manner through assessment to improve the integrity of upstream operations. Efforts are currently on-going to close identified gaps for asset sustainability.

The PETRONAS Instrumented Protective Function (P-IPF) is an engineering solution that minimises human errors in the prevention of unsafe incidents as it provides an automatic protective layer to prevent operations from continuing beyond safe operating limits. The utilisation of this process safety solution enables the testing of the safety robustness in any event or situation ensuring the adequacy of safety related instrumentation at the plant. During the period under review, this technology was applied in PFLNG 1, PFLNG 2 and the SAMUR project.

PIPEASSURE™, a novel pipeline repair system has been applied at more than 200 repair points Including offshore risers, pipings, refinery fire water lines, gas receiving lines and others. In October 2012, PIPEASSURE™ won the 2012 JEC Innovation Asia Awards in the Offshore Category for its ability to repair pipelines and return the system to its original design specifications and conditions. The application of PIPEASSURE™ allows plants to run smoothly without the need to shut down while repair works are carried out.

Process Optimisation

The area of process optimisation is integral to the oil and gas industry as it allows for the increase in production revenue, reduces operating expenditure and optimises commercial strategies for existing facilities. Through concerted efforts, PETRONAS has successfully built the relevant modules for process optimisation with well-trained engineers in the application of optimisation solutions. PETRONAS continues to improve performance and seek opportunities for continuous development of optimisation solutions. For example, in 2006 PETRONAS successfully developed a process simulation software i.e. iCON® which has a proven track record of 2% incremental of oil per field. The pragmatic use and reputation of iCON® is also recognised by many local universities in Malaysia. In the period under review, iCON® was been adopted as a PETRONAS standard process simulation tool.

Technical Capability Management

With the growing concern for skilled and expert workforce required to support the business, emphasis on technical capability building remains a key focus for PETRONAS. Groupwide technical capability building is on-going through the Technical Capability Development Programme (TCDP) namely the PETRONAS Competency Assessment System (PECAS) for the development of technical non-executives and Technical Trade Specialist (TTS), Accelerated Capability Development (ACD) for junior technical executives and Technical Professional Career Progression (TPCP) for the development of technical professionals (TP). Over the years, these efforts have built a pool of competent technical personnel locally and internationally.

The PECAS system continuously improve occupational skill standards to be in line with the advancement of skills and technology in the industry and it is pervasively applied Groupwide. The TTS programme has been enhanced to provide more opportunities for the current TTS to progress in their areas of specialisation. The development of TTS remains robust in its implementation with a total of 114 individuals appointed to-date.

The ACD programme established since January 2009 enables junior technical executives to gain skills and experience in their fields. The Time-to-Autonomy, which was previously nine years two months in 2009, has now improved to seven years seven months in 2012. Throughout the years, PETRONAS has successfully developed over 1000 TPs since the inception of the TPCP programme in 2000. These TPs are responsible for the upkeep of the PETRONAS Technical Standards (PTS) and best practices, shaping and influencing the industry through involvement in professional bodies and learning institutions, both locally and internationally.

As part of continuous efforts in ensuring the integrity of PETRONAS engineering designs and operations, the framework for Technical Authority (TA) implementation has been adopted. To date 160 TAs have been appointed for the Group and each business unit. The TAs are responsible to approve new PTS and its deviations, to evaluate and endorse Management of Change for projects and operating assets, as well as evaluate and endorse new technologies.

PETRONAS' capability development programmes have been recognised by its associated companies and third parties. This programme has been deployed to PETRONAS JV facilities in Malaysia as well as overseas operations such as Engen Petroleum Ltd., Trans-Thai Malaysia (Thailand) Ltd. and PETRONAS facilities in Turkmenistan, Vietnam, and Myanmar. The Malaysian Government through Department of Skills Development under the Ministry of Human Resources, has also adopted the PETRONAS Occupational Skill Standards to develop the National Occupational Skill Standards (NOSS) for the oil and gas industry in Malaysia.

Our People

HIGHLIGHTS

46,145 employees

For the period under review, PETRONAS employees Groupwide grew by 6.7% from 43,266 employees in CY 2011.

Pushing Boundaries With A High Performing Workforce

"Performance and Delivery" is the cornerstone to support our aspiration in building a high performing workforce in the organisation. Our attractive Employee Value Proposition hinges on the tenets of Trust, Grow and Reward which is designed for and offered to employees.

The Company continues to place Talent Management as a key strategy in business growth, recognising that an organisation is only as good as its talents. While business strategies remain at the forefront of PETRONAS' global advancement, our talent management strategies are closely aligned to strengthen and inculcate a high performing culture based on the principles of competency, merit and performance.

For the year under review, the Human Resource Management (HRM) Division implemented several key talent management strategies to attract, motivate and retain talents to support PETRONAS' business growth and expansion, in meeting new energy challenges.

Strategic policies and the industry's best practices were introduced to classify talents, encourage sustainable performance and eradicate mediocrity, blind conformance and groupthink. Merit, differentiation and performance-based rewards remained at the core of the corporate agenda.

Talent Sourcing & Recruitment

The Company has enhanced its recruitment process to ensure that it is able to recruit the right talent for the right job. Candidates are assessed not just on previous performance, but also on soft skills and potential. The objective is to make PETRONAS a desired Company to work for, for the right people.

A total of 5,428 new hires were recruited in the period under review, in comparison to 2,166 in FY2011. The recruitment drive encompassed permanent and contract direct hires, as well as hires via third party agencies. The significant increase was due to the robust business growth and expansion.

Business Heads drove talent sourcing at their respective units enabling timely, effective and focused recruitment for their business needs. Additionally, several key initiatives were deployed to attract a high volume of talents during the financial year. These included collaborations with market-established headhunters to source for highly specialised candidates, establishment of full time recruiters within the Company and strategic alliance with Talent Corporation Malaysia Berhad (TalentCorp) on key initiatives, such as the Talent Outreach Programme and Returning Expert Programme.

New Hires	Malaysians	Other Nationals	Total
Year 2012	4,864	564	5,428
Year 2011	1,867	299	2,166

For the period under review, the Company received recognition as an Employer of Choice, winning a number of high profile awards including the 'Best Employer Brand Engineering 2011' by Graduan Aspire and 'Most Popular Graduate Employer in Energy/Oil & Gas/Utility for 2012' at the country's 100 Leading Graduate Employers Awards 2012.

Managing Talent & Building Capability

In the period under review, the smooth execution of People Development Committees (PDCs) across all businesses provided a platform for business leaders to conduct detailed and constructive discussions on talent. The PDCs focused essentially on strategic decisions regarding talent development, performance and consequence management, as well as mobility.

At the Executive Committee (EXCO) PDC level, Succession Planning sessions were conducted quarterly to ensure that the Group met with the current leadership requirements in building a pipeline of leaders for the future. This resulted in an increase in the ratio of identified Ready Now Successors to PETRONAS Corporate Critical Positions from 1.2:1 at the beginning of January 2012, to 1.6:1 at year end, registering an impressive increase across all business units.

The Company refined its top talent management by introducing a more stringent criterion in the filtering of top talent, as well as introducing an internal potential assessment tool developed specifically for PETRONAS. The move is aimed at creating a leadership culture that allows cultivation of critical skills of leaders building leaders for the organisation. Managing top talent is viewed as a key strategy in propelling the Company towards its aspiration of becoming a reputable player to be reckoned with amongst oil majors in the global market.

To further drive meritocracy in talent management, the Enhanced Promotion Policy was implemented to highlight and exemplify the importance of capability building. The policy aims to support meritocracy in all aspects of talent management, including the selection process and to also support the employees' career development while growing with the Company.

On going collaborations with global multinationals continue to enable our top talent to participate in staff exchange and attachment programmes. These programmes provide our talents with on-the-job, accelerated capability building experience that focuses on best practice sharing and knowledge exchange.

For the year under review, a total of 80 Top Talents (TTs) benefited from two internal Leadership Development programmes. The programmes created engagement opportunities for TTs and PETRONAS management, and received full support from Executive Vice Presidents, Vice Presidents, as well as Chief Executive Officers within the Group.

A Getting to Know You session was also launched in 2012. The programme saw 29 TTs going through a well-designed informal session with selected Human Resource Business Heads, as well as the Vice President of HRM. Apart from this, external programmes such as the Techno Commercial Leader and Advance Management Programme at selected Ivy League universities continue to successfully deliver classroom learning to our selected TTs.

Pushing our boundaries further, the Global Workforce and Leadership Mobility initiative was launched as part of the HR Transformation journey to provide a solution that is able to facilitate international expansion through efficient allocation of manpower resources, delivered through seamless global mobility. This initiative sees more leadership products within the Company rolled out to global locations in order to create alignment in identifying and managing TTs.

Compensation and Benefits

A differentiated reward system remains critical to ensure that all employees are rewarded commensurating with their performance and deliverables.

In the year under review, the Group rewarded employees based on performance; providing a clear link between performance management systems and how employees are remunerated. This emphasised key organisational and job-related objectives, motivating employees to perform and deliver. This also allowed the Group to recognise outstanding performers in a meaningful way.

A new grade structure was introduced to reinforce the tenets of differentiation, in which each individual were remunerated based on their specific accountability, capability and contribution demonstrated. This new structure focuses on deliverables instead of job grades.

In the year under review, the Company introduced an Enhanced Remuneration Package for International Assignments, Deferred Incentive Payment, Enhanced Remuneration Offering for the Technical Trade Specialist and Differentiated Remuneration for International Operations (Differentiated Salary Structure based on job skill and talent segment). These initiatives were introduced for PETRONAS to remain competitive and reflective of the market conditions.

Since 2010, the Company has implemented flexible working hours and smart-casual Fridays to create a more conducive working environment to provide further flexibility and ensure that employees can pursue work-life balance. The Annual Leave entitlement and leave without pay criteria were enhanced during the year in review.

The PETRONAS Code of Conduct and Business Ethics (CoBE)

Effective April 2012, the PETRONAS Code of Conduct and Business Ethics (CoBE) sets the professional standard that all PETRONAS employees must uphold and adhere to, and it replaces the previous Code of Conduct and Discipline (COCD). Benchmarked to international standards, the enhancement was to accommodate developments in local and international laws and practices, as well as related technological developments.

CoBE is aligned with the Company's Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness. These also form the foundations of the PETRONAS General Business Principles.
Since it's launch in April 2012, 27,003 employees have undergone training on CoBE in order to provide a better understanding of its application.

PETRONAS Whistleblowing Policy

PETRONAS Whistleblowing Policy was rolled out in April 2012 to provide an avenue for all PETRONAS employees, as well as members of the public to disclose any improper conduct committed or may potentially be committed by PETRONAS employees. This policy underscores PETRONAS' commitment to integrity and ethical behaviour by helping to foster and maintain an environment where employees can act appropriately, without fear of retaliation.

Mergers & Acquisitions

For the period under review, the Company enhanced its Human Resource (HR) Mergers & Acquisition (M&A) Framework through the inclusion of the HR Divestiture Framework and detailed implementation modules. Six M&A and Divestiture projects were completed during the year. The Company treats all employees affected by divestments, mergers and acquisitions and joint ventures fairly and prioritises open and regular communication to ensure smooth transitions.

Improving Efficiency with the Enhanced Human Resource (HR) Operating Model

The enhanced HR Operating model, implemented in 2010, continues to be a key driver in transforming the function of HR from transactional and administrative to strategy formulation; in line with HR's Vision to serve as a Strategic Enabler & Partner to the Business.

In the year under review, a restructuring of the HRM Division was implemented to strengthen the implementation of the operating model. The new structure focuses on value creation at the source, akin to a business partner model that seeks to provide the right solutions at the right level. The structure will serve to enhance the Centre of Excellence (CoE) environment by providing focus in their roles as subject matter experts and strengthening the HR Centralised Services and Human Resource Management operational excellence.

The new structure is a clear departure from the previous command and control 'product-focused' structure. CoE will facilitate in bringing 'best in class' practices and guidelines, and shall work with Business HR to develop specific initiatives that are tailored to business needs.

Notable achievements during the period under review included the execution of a globally integrated HR System i.e. SAP HR ECC 6.0, including 'my PETRONAS Advanced Self-Service Portal' (myPASSPORT) and the establishment of the HR Shared Services Centre (HR SSC) for PETRONAS Groupwide.

SAP HR ECC 6.0 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. The system includes data entry into a single repository through a comprehensive self-service portal namely My PASSPORT and Centralised Shared Service functions for better data integrity.

HR SSC is the administrative machinery which undertakes business as usual HR tasks. The centre focuses on process efficiencies, data integrity, customer-centric services and compliance to policies, in line with the enhanced HR Operating Model. This allows both CoE and HR Business Units to reduce time spent on administrative people management tasks and manual processes, enabling greater focus on strategic and critical HR activities.

In our continuous effort to achieve operational excellence in the area of effectiveness and efficiency, HR SSC achieved a 98% Service Level Agreement through prudent spending. This constituted a saving of 6.5% to clients, exceeding SSC's Industry Benchmarked Standard for newly established Shared Services Centres. SAP HR ECC6.0 and HR SSC Wave 1 were first rolled out to 25,000 users across 27 PETRONAS Standard Terms and Conditions Companies in January 2012, and Wave 2 encompassed 3,900 users across nine PETRONAS Non-Standard Terms and Conditions Companies in Malaysia, Indonesia and Philippines.

Education & Sponsorship

The Company believes that investing in education and human capital development today ensures the continuous availability of a sustainable pool of motivated and knowledge-empowered human resources for PETRONAS, our partners, host nations and communities wherever we operate.

Adopting an integrated approach in learning to help develop a well-rounded society, our investment in education and human capital development covers a broad spectrum of programmes and training facilities, ranging from education sponsorship to the establishment of various educational and training institutions, offering relevant learning programmes.

On-going Education Transformation

In line with our aspiration to become a 'Regional Education and Learning Hub for the Oil & Gas Industry', the Group focused primarily on close collaboration with top industry players for staff exchange, internship and scholarship programmes during the year under review, to enable talents to broaden their knowledge and experiences in the oil and gas industry. Various Memorandum of Understandings with several key industry players were agreed on during the year focusing on industry engagements, academic positioning, as well as research and development stewardship.

Via our four learning institutions, we continue to provide world-class education, producing a steady stream of talents for the oil and gas sector and for the country's workforce at large.

PETRONAS Leadership Centre (PLC)

PLC had its first full-year of operation in 2012, following its official launch in November 2011. As a credible Leadership Centre, PLC provides learning solutions and interventions to address all levels of leadership progression; from individual contributor all the way to enterprise leader. Throughout the year, PLC brought together many business leaders from all sectors in the PETRONAS Group to contribute and participate in the Leaders-Developing-Leaders programme for all levels of executives in the organisation.

PLC remains one of the most active corporate learning and development centres in Malaysia by providing its services to more than 18,000 participants and a total output of 74,614 man-days. In the year under review, a total of 17,127 participants from PETRONAS Group and its affiliates attended the various leadership development programmes organised by PLC.

PLC also organised its first International Coaching Conference in April 2012 that saw the participation of delegates from more than 10 countries including Malaysia. During the year, PLC also designed and implemented an effective methodology to enhance the application of learning for participants graduating from its programmes to increase performance at the workplace.

PLC received the award for Best Training Provider in 2012 from the Human Resource Development Fund, Ministry of Human Resources, Malaysia in November 2012.

Institut Teknologi Petroleum PETRONAS (INSTEP)

In the year under review, INSTEP achieved key milestones in the following areas:

Operations & Maintenance (O&M) Training Plant

The year saw the kick-off construction of the O&M Training Plant, for the oil and gas industry, in INSTEP. Set to be the first-of-its-kind in the world, INSTEP will provide upstream and downstream training facilities to enhance learning effectiveness and produce more job-ready technicians to cater to the growing industry needs.

Also underway is the enhancement of the existing Petroleum Technology Programme which was designed to produce technicians based on PETRONAS Occupational Skill Standards (POSS). The programme is being enhanced to ensure international accreditation is obtained, as well as to fulfill the established requirements set out in POSS.

In the year under review, INSTEP and PETRONAS Carigali Sdn Bhd (PCSB) launched its newly rejuvenated Upstream Operation Induction Programme (UOIP). The programme aims to build a strong foundation for new production engineers.

In the year under review, INSTEP produced a total of 14,355 candidates.

Programme	Candidates
Professional Development Programme (Technical & HSE)	11,270
Competency-based Assessments & Certifications	2,146
Petroleum Technology Programme (PTP)	587
Customised training for overseas & external clients	352
Total	**14,355**

Universiti Teknologi PETRONAS (UTP)

UTP, which offers undergraduate and post-graduate courses mainly related to the oil and gas industry, is on track to achieving Research University (RU) status by 2013. The RU status is granted by the Malaysian Ministry of Higher Education and it provides access to much needed funding and grants for research, development, and commercialisation activities.

In the year under review, UTP added the following to its list of achievements and learning offerings:

1. Rated a Tier-5 (Excellent) for the Rating System for Malaysian Higher Education (SETARA '11). SETARA '11 measures the performance of teaching and learning at level six of the Malaysian Qualifications Framework (undergraduate level). UTP was rated a Tier-5 for its excellent performance in teaching and learning for undergraduate programmes.

2. Emerged as the first private university in Malaysia to be awarded a 5-star rating for research, development and commercialisation. The rating was conducted by the Higher Education Ministry (MoHE) using the Malaysia Research Assessment Instrument (MyRA), an established measurement tool.

3. Received recognition for its structured Student Industrial Internship Programme (SIIP) from TalentCorp Malaysia, an agency under the Prime Minister's Office. The announcement was made at The Talent Roadmap 2020 launched by the Prime Minister, YAB Dato' Sri Mohd Najib Tun Abdul Razak.

UTP SIIP is an exciting collaboration between UTP and its industry partners in the fields of engineering and technology. The collaboration provides the platform for UTP undergraduates to undergo a seven month industrial training attachment with reputable and relevant companies within the industry.

The year saw a total number of 1,267 students graduating from UTP.

Akademi Laut Malaysia (ALAM)

ALAM is ranked amongst the top 10 percent of the world's MET (Maritime Education Training) institutions and the only MET institution in Malaysia that offers the full range of maritime shipping-related training to seafarers and for shore-based shipping personnel.

In 2012, ALAM developed 16 new training courses, for the offshore industry, as well as customised courses, such as Focused Tanker Safety Culture Workshop and Chemical Tanker eLearning programme in collaboration with the American Bureau of Shipping.

In March 2012, ALAM held the single largest maritime convocation in Malaysia with 507 graduates.

July 2012 also saw the relocation of ALAM branch campus in Batu Rakit, Terengganu to the Melaka main campus. This increased operational efficiency and cost management.

PETRONAS Scholarship Programme

Every year, PETRONAS offers scholarship to deserving students through its Sponsorship & Talent Sourcing Unit and is one of the pioneering providers of sponsorship for higher education. It was set up to complement the nation's effort in developing its technical and professional workforce.

In the year under review, PETRONAS awarded scholarships to 318 students out of which 79 scholarships were for overseas universities and 239 scholarships for local universities. The scholarships offered were for various disciplines relevant to PETRONAS' business needs, as well as the industry.

Health, Safety & Environment

HIGHLIGHTS

Strengthened governance in HSE and sustainable development of our business

During the period under review the HSE Mandatory Control Framework (MCF), was implemented Groupwide focusing on the overall HSE management and controls from the aspects of safety, environmental stewardship and social responsibility

Enhanced Contingency Planning Standard

Guidelines for effective crisis management such as major Oil Spills was enhanced in domestic and international operations

Enhanced HSE leadership and capability in PETRONAS

To support the growth of knowledge management in promoting HSE excellence through human capital development.

In 2012, the PETRONAS Group Health, Safety and Environment Division embarked on new projects and enhanced existing programmes to elevate HSE and Sustainable Development best practices across the Group. This further strengthened our governance namely in the areas of HSE Capability Building, Process Safety and HSE Controls in projects.

PETRONAS continuously explores sustainable business practices in the economic, social and environment spheres to address global energy demand. Anchored by the PETRONAS Corporate Sustainability Framework, various efforts were implemented across our business focus areas to ensure we remain competitive in the global market.

Annually, the Group's HSE performance is presented to the Board of Directors, Executive and Management Committees for oversight. Risk-based HSE assurance is performed to provide independent assessment on the effectiveness of our HSE controls, which are presented to PETRONAS Board Audit Committee.

GOVERNING HSE

HSE Mandatory Control Framework (MCF)

The HSE MCF, supported by the Group HSE policy, was established to strengthen and enforce effective HSE governance across the PETRONAS Group. It defines the HSE requirements in 10 key areas, as outlined in the PETRONAS HSE Management System, ensuring consistent and effective Groupwide implementation.

Frequent engagement sessions were conducted during the year under review to drive the successful implementation of HSE MCF. These sessions ensured overall compliance to the requirements outlined and encouraged adherence to our HSE governance practices.

In 2012, the HSE MCF implementation plan was established for PETRONAS' domestic and international operations to achieve desired business results. Gap assessments were conducted and reviewed against HSE MCF required targets. Mitigation plans were developed based on approved timelines and milestones. Participating Operating Units (OPUs) have progressively undertaken the necessary gap assessments as per the HSE MCF, with expected completion by 2015. The HSE MCF roll out also involved developing new standards and procedures to enhance the existing PETRONAS Technical Standards (PTS).

HSE Controls in Projects

A standard on Project HSE Management was defined and made mandatory to PETRONAS projects. In line with the PETRONAS Project Management System (PPMS), it provides guidance to the businesses and Project Management Teams (PMTs) in managing HSE and Sustainable Development performances at various phases of project lifecycle.

In ensuring compliance to HSE standards and requirements, HSE assurance exercises were conducted on identified projects, such as the Sabah Oil and Gas Terminal, Sabah Ammonia Urea and Sabah-Sarawak Gas Pipeline. For the Refinery and Petrochemical Integrated Development (RAPID) Project, rigorous reviews were conducted to ensure HSE aspects were embedded in the technical documentation for optimum adherence.

SAFETY

Due to the increasing number of major projects and outsourcing activities, PETRONAS enhanced the standard HSE clauses, HSE requirements, incentives and disincentive schemes in contractual agreements. These changes set clearer HSE expectations and requirements for contractors working in PETRONAS facilities and projects. By working closely with our contractors to establish clear roles, responsibilities and interfaces, will ensure safer operations and project execution.

ANGSI-A

In fortifying the Company's emergency preparedness, PETRONAS shared experiences and lessons learnt with Government authorities for a safer working environment. In the year under review, the Company collaborated on an oil spill exercise to assess the existing communications systems. For effective crisis management, the enhanced Contingency Planning Standard was established for domestic and international operations.

Building leadership at all levels is an important aspect to strengthen the Group's overall process safety performance. A series of interactive platforms were designed during the year in review to support and facilitate knowledge management growth, as well as potential roll-out at high risk sites.

A workshop on "Recognising Catastrophic Incident Warning Signs in the Process Industries" was conducted for the Plant Senior Management to advocate proactive approaches in managing process safety. Workshops that highlighted Process Safety awareness were also held covering elements of Management of Change, Design Integrity, Mechanical Integrity and Risk Assessment.

In driving cultural and mindset change in Process Safety, the "Process Safety Leadership Field Guide" was developed to improve site engagements and inspection activities. Guidelines were published to recognise early warning signs in Process Safety Information, Mechanical Integrity, Operating Procedures and Management of Change. PETRONAS' Zero Tolerance in safety-related incidents were enhanced by developing tools to curb non-compliance especially amongst the staff executing high risk tasks. Interactive learning series on safety and noise hazards were developed to improve the safety of our staff at all times.

In building competencies, HSE elements were embedded in the training modules for all new executives. Additionally, regular assessments of various technical disciplines were carried out to ensure adequacy of competent technical personnel to support the Group's human capital development.

The Company values outreach and dialogue sessions as a means to understand our stakeholder views and concerns, as well as gaining insights on emerging trends. In 2012, PETRONAS organised engagements with a wide range of stakeholders to address HSE related matters. This has enabled the development of improved policies and processes which fostered collaborative working relationships with the Government and other stakeholders.

In line with industry's best practices, codes and standards, the current set of HSE key performance metrics were reviewed to include additional process safety performance indicators. This is to ensure early warning signs and issues related to process safety are addressed in timely manner to prevent major incidents.

Based on the Hazard and Effect Management Process (HEMP), our risk management framework was enhanced to incorporate best practices in barriers management and risk profiling. A series of HEMP workshops and syndication sessions with process safety coordinators from all OPUs were organised to strengthen consistent and effective Group-wide implementation.

In 2012, HSE Tier-3 audits were conducted extensively in our domestic and international operations, including South Africa, Vietnam and Brazil. A total of 10 OPUs and three projects were involved to ensure adherence and compliance in accordance to PETRONAS' HSE regulatory and PTS requirements.

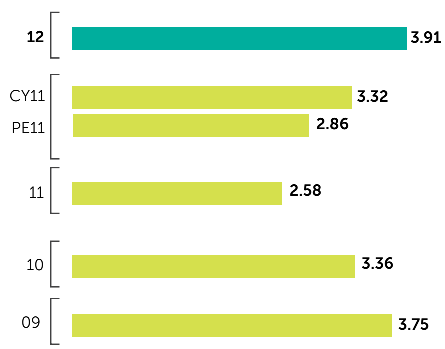
HSE Performance

In 2012, regrettably, a total of 12 lives were lost, where six fatalities were caused by project construction incidents. The Group's Lost Time Injury Frequency (LTIF) rose by 15% to 0.39, from 0.34 in CY2011.

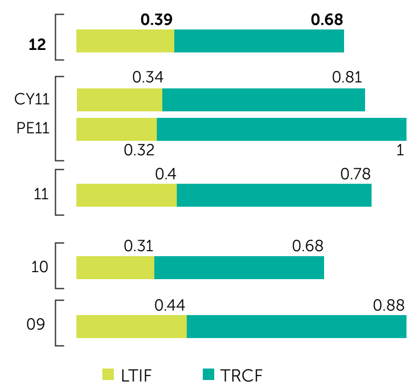
A notable reduction was observed in the Group's Total Reportable Case Frequency (TRCF), which decreased to 0.68 in the year under review compared to 0.81 in CY2011.

As we embark on newer and more challenging projects, strict adherence to PETRONAS HSE Policy defines how we operate by strengthening our processes in HSE management, controls and crisis management.

Fatal Accident Rate
Reportable Fatalities per 100 million man hours



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



SOCIAL RESPONSIBILITY

The Health Risk Assessment (HRA), which is in its sixth running year achieved 89% and 58% completion in domestic and international operations respectively. A structured and consistent methodology was applied in standardising these assessments. As we progressed, chemicals, ergonomics and noise were identified as key health risks requiring further intervention programmes, such as Hearing Conservation, Management of Hazardous Chemicals at the Workplace and Indoor Air Quality Assessment.

The establishment of the Asbestos Management Programme (AMP) has seen domestic operating units (OPUs) and joint ventures (JVs), undertake asbestos abatement activities as part of the company's annual HSE agenda. These efforts were in line with PETRONAS' goal of having an asbestos risk-free workplace by 2015. The programme included regular tracking and monitoring of asbestos removal plan, assurance exercises, regular engagement sessions and ensured PETRONAS facilities are supplied with asbestos-free material.

In the year under review, a comprehensive study was conducted to assess the fitness level of the Emergency Response Team (ERT) in our Downstream business. The objective of this study was to ensure that ERT members were fit medically and physically, in accordance with the Guidelines on Health Assessment for Fitness to Work. PETRONAS established guidelines on Fatigue Management for prevention, management and mitigation of fatigue at the workplace. In 2012, PETRONAS invested in aligning our health practices to international standards to effectively manage health issues, such as substance misuse and HIV/AIDS.

PETRONAS and the Department of Occupational Safety and Health (DOSH) collaboratively developed the Simple Risk Assessment and Control Guidelines and Chemical Health Risk Assessment to optimise Industrial Hygiene practices. The 9th International Occupational Hygiene Association Conference was held for the first time in South East Asia, with Malaysia as the host. PETRONAS' Industrial Hygienists were involved in the Scientific and Technical Organising Committees.

During the year under review, PETRONAS also led collaborative efforts involving industry players and relevant authorities to develop the National Mercury Management Guideline for Malaysia's Oil & Gas Industry to systematically monitor and managed the risk of exposure to mercury.

Efforts were also undertaken to intensify and elevate our employees' awareness on health, fitness and well-being. The SlimFit Challenge was introduced to improve staff's health indicators and subsequently, reduce the risk of lifestyle diseases, such as heart ailments, diabetes and hypertension. Collectively driven by Group HSE Division (GHSED), the Association of Wives and Female Staff of PETRONAS (PETRONITA), *Kelab Sukan dan Rekreasi PETRONAS* (KSRP) and the Twin Towers Fitness Centre, the six-month programme focused on weight loss through balanced workout and healty diet. Personal Health Management programmes such as awareness of lifestyle illnesses, cancer and stress management were also pursued by respective operating units to promote a healthier lifestyle for local communities.

In conjunction with the World Health Organisation's International Blood Donor Day, the Company continued to support the country's health institutions as part of PETRONAS' corporate social responsibility through a Blood Donation Drive held at the Twin Towers. Apart from contributing to the blood bank reserves, the programme raised awareness to emphasise on the importance of donating blood and the need for safer blood products.

ENVIRONMENTAL STEWARDSHIP

Environment

Environmental Impact Assessment (EIA) is an essential requirement for development of capital projects in many countries, including Malaysia. The scope of the conventional EIA typically includes physical, chemical

and biological assessments as well as considerations arising from project development and activities. In recent years, social and community health issues have become more prominent with increasing awareness from our stakeholder and the public. The Environmental, Social and Health Impact Assessment (ESHIA) PTS was made available to provide guidance on for social and health impacts in accordance to the EIA process.

With the aim of minimising risks associated to air emissions, the Air Emission Management Standard was established. It outlined the management requirements on consistent air emissions processes and practices across the Group, supplemented by a guiding document on Best Available Techniques (BAT) for air emission control.

To address regulations and international conventions, such as the Montreal Protocol on Substances that Deplete the Ozone Layer and the Stockholm Convention on Persistent Organic Pollutants (POPs), a standard on Environmentally Hazardous Substances (EHS) was developed. It provides EHS management requirements and control measures for operations and phased out implementation.

Greenhouse Gas (GHG) Management

To strengthen existing GHG management practices, we have established the GHG Monitoring, Reporting and Verification Standards for the Group, in accordance with internationally accepted guidelines. With this, PETRONAS aims to improve its year-on-year carbon footprint performance through planned and

executed gap closure activities through the management of GHG emissions. The total carbon footprint of PETRONAS' global operations was 47 million tonnes of carbon dioxide (CO_2) equivalent, an increase of 6.4% from PE 2011, which corresponded with the growth of our operations.

Resource Conservation & Biodiversity

In 2012 a new water accounting tool was introduced during the year under review to allow comprehensive reporting on our overall water management. These guidelines resulted in the establishment of the type-based freshwater accounting and inventory. It incorporates information on freshwater withdrawal, as well as the percentage of freshwater recycled and reused adopted at our domestic and international operations. In promoting effective use of natural resources, PETRONAS conducted an international water availability risk assessment in 20 countries such as Egypt, South Africa, Sudan, Turkmenistan and Uzbekistan.

For the year under review, we continued our efforts to support, safeguard and promote our nation's rich biodiversity in areas such as Sabah's Class 1 Imbak Canyon Forest Reserve, as well as Sarawak's mangrove swamps. In the East Coast region of Malaysia, our conservation efforts continued with the ecoCare programme for the reforestation and rehabilitation of ecologically-sensitive mangrove habitats, as well as that of coastal vegetation along the Kertih River.

Awards & Recognitions

PETRONAS Group was recognised for its accomplishments and continuous pursuit of excellence with numerous awards and recognitions received in 2012.

Royal Society for the Prevention of Accidents (RoSPA) Awards

RoSPA, which is based in United Kingdom, organises its prestigious national award scheme to recognise excellence in work-related health and safety performance by private and public sector organisations. The scheme is based on the assessment of a broad portfolio of evidences about the level of development and performance of an entrant's occupational health and safety management system, and also takes into account the entrant's reportable accident rate and enforcement experience.

Sector Awards

Gold Award

- PETRONAS Chemicals Ammonia Sdn Bhd
- PETRONAS Chemicals Fertiliser Kedah Sdn Bhd

Occupational Health & Safety (OHS) Oil & Gas Commendation Award

- PETRONAS Penapisan (Melaka) Sdn Bhd

Malaysian Society for Occupational Safety and Health (MSOSH) Awards

The MSOSH Awards are presented annually to companies in Malaysia that have outstanding Occupational Safety and Health (OSH) performance. Identified companies are subjected to stringent document and site verification audits from the MSOSH Panel of Auditors in order to be considered for the awards. The panel members comprise representatives from the Department of Occupational Safety and Health (DOSH), Social Security Organisation (SOCSO), National Institute of Occupational Safety and Health (NIOSH), Standards and Industrial Research Institute of Malaysia (SIRIM) Berhad, QAS International and Federation of Malaysian Manufacturers (FMM).

Grand Award

- BP PETRONAS Acetyls Sdn Bhd
- Kertih Terminals Sdn Bhd
- PETRONAS Chemicals Methanol Sdn Bhd
- PETRONAS Chemicals MTBE Sdn Bhd
- PETRONAS Gas Berhad, Export Terminal

Gold Merit

- PETRONAS Carigali Sdn Bhd (Sabah Operations), Sabah Gas Terminal (SBGAST)
- PETRONAS Carigali Sdn Bhd – Peninsular Malaysia (Terengganu Crude Oil Terminal (TCOT))
- PETRONAS Chemicals Ethylene Sdn Bhd
- PETRONAS Gas Berhad
  – Pusat Operasi Penyaluran Gas & Segamat Regional Office
- PETRONAS Penapisan (Melaka) Sdn Bhd

Gold Class I
- ASEAN Bintulu Fertilizer Sdn Bhd
- BASF PETRONAS Chemicals Sdn Bhd (BDO Complex)
- PETRONAS Carigali Sdn Bhd
  – Peninsular Malaysia (Onshore Gas Terminal (OGT))
- PETRONAS Carigali Sdn Bhd (Sabah Operations), Labuan Gas Terminal (LGAST)
- PETRONAS Chemicals Ammonia Sdn Bhd
- PETRONAS Chemicals Derivatives Sdn Bhd
- PETRONAS Gas Berhad – Kuantan Regional Office
- PETRONAS Gas Berhad – Seremban Regional Office
- PETRONAS Gas Berhad – Shah Alam Regional Office
- PETRONAS Chemicals Polypropylene Sdn Bhd

Gold Class II
- PETRONAS Chemicals Polypropylene Sdn Bhd

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

Responsible Care®

Responsible Care is one of CICM's flagship activities, launched by the Council in 1994. More than 100 signatories or chemical companies have pledged their commitment to Responsible Care. The CICM Responsible Care Committee and its Regional Committees, namely the Central, Eastern, Northern and Southern Zone Committees, have been established to further enhance the promotion and implementation of Responsible Care among the chemical industry players in Malaysia.

Category – Petrochemicals
Gold Award
Community Awareness and Emergency Response Code
- PETRONAS Chemicals Fertilizer Kedah Sdn Bhd

Employee Health and Safety Code
- PETRONAS Chemicals Fertilizer Kedah Sdn Bhd

Silver Award
Process Safety Code
- PETRONAS Chemicals Derivatives Sdn Bhd
- PETRONAS Chemicals Fertilizer Kedah Sdn Bhd

Distribution Code
- PETRONAS Chemicals LDPE Sdn Bhd

Product Stewardship
- PETRONAS Chemicals LDPE Sdn Bhd

Community Awareness and Emergency Response Code
- PETRONAS Penapisan (Melaka) Sdn Bhd

Pollution Prevention Code
- PETRONAS Penapisan (Melaka) Sdn Bhd

Employee Health and Safety Code
- PETRONAS Penapisan (Melaka) Sdn Bhd

Merit Award
Community Awareness and Emergency Response Code
- PETRONAS Chemicals Ammonia Sdn Bhd
- PETRONAS Chemicals Derivatives Sdn Bhd
- PETRONAS Chemicals LDPE Sdn Bhd

Pollution Prevention Code
- PETRONAS Chemicals Aromatics Sdn Bhd
- PETRONAS Chemicals Derivatives Sdn Bhd
- PETRONAS Chemicals LDPE Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Process Safety Code
- PETRONAS Chemicals Ammonia Sdn Bhd
- PETRONAS Chemicals LDPE Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd

Employee Health and Safety Code
- PETRONAS Chemicals Ammonia Sdn Bhd
- PETRONAS Chemicals Derivatives Sdn Bhd
- PETRONAS Chemicals LDPE Sdn Bhd

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

The National Occupational Safety and Health Excellence Award is an initiative by the National Council of Occupational Safety and Health, Ministry of Human Resources. It is intended to give credit and acknowledgement to organisations, employers and employees in various sectors in the industry that have achieved excellence in managing safety and health systems in their workplace.

Petroleum/Gas/Chemicals Category

- PETRONAS Penapisan (Melaka) Sdn Bhd

Gas Facility Category

- PETRONAS Gas Berhad Gurun Regional Operations Office

Storage Category

- Kertih Terminals Sdn Bhd

British Safety Council International Safety Awards

The British Safety Council International Safety Awards recognise commitment to good health and safety management. Only companies that achieve accident incidence rates, which are better than the industry average for their sector, are eligible to apply. Winners must also demonstrate board level commitment to health and safety as well as details of significant health and safety advances for the qualifying year. The British Safety Council has led the way in promoting health, safety and environmental best practice in society for more than 50 years.

Occupational Health & Safety (OHS) Oil & Gas

Merit Award

- PETRONAS Penapisan (Melaka) Sdn Bhd

Sarawak Chief Minister's Environmental Award (CMEA)

Sarawak Chief Minister's Environmental Award (CMEA) The CMEA is presented to exemplary organisations that have made tremendous effort to improve environmental performances in its organisation with a view to boosting sustainable development in the state. It is jointly organised by the Natural Resources and Environment Board (NREB) Sarawak and the Sarawak Chamber of Commerce and Industry. The Award is one of the incentives given to business and industries to encourage stewardship in environmental protection and management in the state. It also aims at providing organisations with the opportunity of an independent evaluation for their environmental commitment. The award is also organised to stimulate business and industry initiatives in assuming a proactive role in environmental protection throughout the state, by taking the winning participants of this award as their example.

Large Enterprise: Oil and Gas

Gold

- Asean Bintulu Fertilizer Sdn. Bhd.
- PETRONAS Carigali Sdn. Bhd.

Small Enterprise: Gas/Petrol Station

- PETRONAS Service Station Samarahan Expressway

Institut Kimia Malaysia Laboratory Excellence Award

Institut Kimia Malaysia (IKM) Laboratory Excellence Award is organised by Malaysian Institute of Chemistry, a professional body which regulates the Chemists Act 1975. It was designed to ensure the laboratory's commitment to achieve excellence in providing quality and competent testing services pertaining to local legislation especially in the fields of health, safety and the environment.

In addition to the needs of analytical laboratories to operate a quality system according to the requirements as stipulated in MS ISO/IEC 17025, the award also requires laboratories to operate with safety and health features in the workplace.

Area of Testing

Gas
- ASEAN Bintulu Fertilizer Sdn Bhd
- PETRONAS Chemicals Methanol Sdn Bhd
- PETRONAS Gas Berhad (Laboratory GPPA)
- PETRONAS Gas Berhad (Laboratory GPPB)
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Water
- ASEAN Bintulu Fertilizer Sdn Bhd
- PETRONAS Chemicals Group (Centralized Laboratory Services)
- PETRONAS Chemicals Methanol Sdn Bhd
- PETRONAS Chemicals MTBE (M) Sdn Bhd / Polypropylene (M) Sdn Bhd
- PETRONAS Gas Berhad (Laboratory GPPA)
- PETRONAS Gas Berhad (Laboratory GPPB)
- PETRONAS Penapisan (Melaka) Sdn Bhd

Wasterwater
ASEAN Bintulu Fertilizer Sdn Bhd
- PETRONAS Chemicals Group (Centralized Laboratory Services)
- PETRONAS Gas Berhad (Laboratory GPPB)
- PETRONAS Penapisan (Terengganu) Sdn Bhd
- PETRONAS Research Sdn Bhd

Etylene
- PETRONAS Chemicals Group (Centralized Laboratory Services)

Polyethylene
- PETRONAS Chemicals Group (Centralized Laboratory Services)

Methanol
- PETRONAS Chemicals Methanol Sdn Bhd

Environmental Samples
- PETRONAS Chemicals Methanol Sdn Bhd

Polypropylene
- PETRONAS Chemicals MTBE (M) Sdn Bhd / Polypropylene (M) Sdn Bhd

MTBE and Propylene
- PETRONAS Chemicals MTBE (M) Sdn Bhd / Polypropylene (M) Sdn Bhd

Catalyst
- PETRONAS Chemicals MTBE (M) Sdn Bhd / Polypropylene (M) Sdn Bhd

Petroleum
- PETRONAS Penapisan (Melaka) Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Petroleum Products
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Aromatics-Benzene and p-Xylene
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Utilities (Water)
- PETRONAS Penapisan (Terengganu) Sdn Bhd

Natural Gas
- PETRONAS Research Sdn Bhd

Formation water and Drinking water
- PETRONAS Research Sdn Bhd

Crude Oil, Fuel and Polyol Ester
- PETRONAS Research Sdn Bhd

Urea
- ASEAN Bintulu Fertilizer Sdn Bhd

Prime Minister's Hibiscus Award

The Prime Minister's Hibiscus Award has been the premier national environmental award in Malaysia, aims to recognize business and industry which portray excellent environmental commitment in reducing impact of their operations to the Environment.

Notable Award
- PETRONAS Penapisan (Melaka) Sdn. Bhd.
- Malaysian Refining Company Sdn. Bhd.

Melaka State Award
- PETRONAS Penapisan (Melaka) Sdn. Bhd.
- Malaysian Refining Company Sdn. Bhd.

JEC Asia Innovation Awards 2012

PETRONAS received an award for its pipeline protection technology, PIPEASSURE at the JEC Asia Innovation Awards 2012 recognizing PETRONAS for its technology and solutions development initiatives.

FORTUNE Global 500

PETRONAS improved its ranking to 68th from 86th in FORTUNE Magazine's recently released annual ranking of the world's 500 largest companies by revenue. The only Malaysian company to be ranked in this prestigious listing, PETRONAS improved its profit.

Kancil Awards 2012

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.

Advertiser of the Year
- PETRONAS

Silver Kancil
Craft (Film Direction)
- PETRONAS Chinese New Year 2012 advertisement entitled 'Coming Home: India'

Craft (Editing)
- PETRONAS Chinese New Year 2012 advertisement entitled 'Coming Home: China'

Bronze Kancil
Craft (Film Direction)
- PETRONAS Hari Raya / Merdeka / Malaysia Day advertisement entitled 'Strangers'

Craft (Editing)
- PETRONAS Chinese New Year 2012 advertisement entitled 'Coming Home: All Around the World'

Merit Kancil
Film (Single)
- PETRONAS Chinese New Year 2012 advertisement entitled 'Coming Home: All Around the World'

Malaysia's Most Popular Graduate Employer 2012

PETRONAS topped the awards list as Malaysia's Most Popular Graduate Employer in Energy / Oil & Gas / Utilities for 2012 at the country's 100 Leading Graduate Employers Awards 2012.

Top 10 Malaysian Brands

PETRONAS retained the number one spot for the fourth consecutive year in the fifth annual Top 100 Malaysian Brands ranking 2012 by Brand Finance Plc, an independent international brand strategy and valuation consultancy.

Sunday Times Top Brands Survey

ENGEN won the Sunday Times Top Brands 2012 'Top Petrol Station' award, for the second consecutive year as it has been named SA's leading petrol station. The win confirms that the company is not only South Africa's top marketer of petroleum products and convenience services, but also its best-known petrol.

Details of the award provider: The prestigious Sunday Times Top Brands Awards is commissioned by Avusa Media and conducted by TNS Research Surveys. The Sunday Times is South Africa's biggest national weekend newspaper. By topping the list in 2012 Engen again confirmed that it is the top marketer of petroleum products and convenience services and best-known petrol station brand in South Africa. Engen began its reign at the top of the petroleum category in 2011, after taking joint first place with BP in 2010.

Corporate Social Responsibility

HIGHLIGHTS

- **7,900 underprivileged families** adopted under Program Sentuhan Harapan PETRONAS benefitted from food aid and skills training programmes.
- **Contributed RM1 million to the Cancer Research Initiatives Foundation** to support the fight against cancer in Malaysia.
- **Contributed a total of RM500,000** to the Dayak Cultural Foundation, Geng Wak Long, Sekolah Seni Johor and Sekolah Seni Kuching to help preserve, nurture and promote Malaysian traditional performing arts.

PETRONAS supports community development programmes that enable and empower individuals and communities with the right knowledge, skills and resources to make the most of opportunities out there. We believe that sharing our business success creates a more positive and lasting difference to the lives and prospects of people in our areas of operations.

Our Corporate Social Responsibility (CSR) and engagement programmes, carried out in partnership with local communities, industries, governments and Non-Governmental Organisations (NGOs), continue to reinforce our commitment and unified efforts to ensure that our operations bring good shareholder returns and contribute to the well-being of people, communities and nations wherever we operate.

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 the Ministry of Education, this outreach programme aims to provide a strong academic foundation for underprivileged and academically-weak students in communities where PETRONAS operates. This initiative helps open young minds to new possibilities and experiences while improving their confidence and self-esteem to excel both academically and socially. In support of the Government's efforts to improve the standard of English, Mathematics and Science among students, this programme also aims to boost proficiencies in these core subjects through academic and non-academic activities conducted weekly by professional teachers, and once a month, by PETRONAS staff facilitators. In the year under review, 53 schools participated in this programme. Over 1,000 academic and fun learning sessions were held in the respective schools nationwide, benefiting over 3,000 Year 4 to Year 6 pupils. This programme is made possible through the participation of over 700 PETRONAS staff facilitators, under lining the strong spirit of volunteerism among our workforce. In the year under review, there was a 7% increase in the number of students who achieved 3As to 5As in their examinations compared to the previous year. A notable achievement was SK Wangsa Maju, that obtained 100% passes in English, Mathematics and Science.

PROGRAM KENALI ANAK KITA PETRONAS (KAKP)

In 2009, the Kenali Anak Kita programme was launched in partnership with PENGASIH, an NGO and self-help group affiliated with the World Federation of Therapeutic Communities. The programme aims to raise awareness among parents on drug, alcohol and other substance abuse and equip them with the knowledge to identify and prevent substance abuse among their children. In the year under review, the programme was re-launched as Program Kenali Anak Kita PETRONAS. The programme now addresses other social issues aside from drug abuse and aims to create effective change agents as role models in society. The programme was also introduced in Sabah and Sarawak in 2012. A total of 837 participants, including parents, attended seminars and workshops conducted during the year under review on the dangers of substance abuse.

PROGRAM SAHABAT PENCEGAHAN DADAH PETRONAS (SAHABAT PPDA)

While PETRONAS works closely with parents in the Program Kenali Anak Kita PETRONAS, Sahabat PPDa aims to raise awareness among students and teachers on substance abuse. More than 48,000 students and teachers have participated in courses and workshops held in collaboration with Malaysia's Ministry of Education since the programme was first launched in 2008. The programme hopes to inculcate strong positive values among students as well as to incorporate schools and communities in drug abuse prevention efforts. In the year under review, the programme reached out to more than 12,000 students and teachers who are currently playing a role as drug awareness change agents in their respective schools. According to an evaluation report by the Asian Centre for Research on Drug Abuse (ACREDA), Sahabat PPDa programmes in 2012 promoted greater awareness and knowledge of substance abuse in 94.3% of students and teachers who attended the programme.

PROGRAM SENTUHAN HARAPAN PETRONAS

Launched in 2010, this programme involves the distribution of essential food aid such as rice, sugar and cooking oil to selected underprivileged families nationwide via PETRONAS Mesra stores and selected retail outlets such as Econsave and Giant. Families also attended financial literacy, health checks as well as parenting sessions that are aimed to transform their lives socially and economically.

In 2012, PETRONAS contributed RM8 million in food aid to 7,900 families in 10 states namely Selangor, Perak, Kedah, Melaka, Johor, Pahang, Kelantan, Terengganu, Sabah and Sarawak. The programme was also officially launched in the northern region in the year under review.

PROGRAM SENTUHAN KASIH PETRONAS

During the festivals of Hari Raya, Chinese New Year, Deepavali, Hari Gawai (Sarawak) and Tadau Ka'amatan (Sabah) in the year under review, PETRONAS hosted a series of gatherings for underprivileged children from orphanages and shelter homes in and around our areas of operations in the spirit of sharing and caring. In 2012, Program Sentuhan Kasih PETRONAS was expanded to include more activities such as cleaning, clearing and refurbishment activities. In the year under review, between 300 and 500 staff volunteers participated in various grassroot level activities which allowed for closer interaction and more meaningful engagement with the local Orang Asli community in Gombak, Indian community in Perak and Chinese community in Selangor.

IMBAK CANYON CONSERVATION AREA

In June 2011, PETRONAS launched a conservation partnership with Yayasan Sabah for the Imbak Canyon Conservation Area. PETRONAS' contribution of RM6 million over a three-year period is aimed to help conserve the unique biodiversity in Imbak Canyon while promoting public awareness, environmental education and community outreach. In 2012, the partnership saw the ground breaking event of both the Imbak Canyon Information Kiosk where visitors can obtain information about the conservation areas and the Imbak Village Jetty which benefits the locals who live along the river and use boats for transportation. In the year under review, PETRONAS and Yayasan Sabah together with local authorities and universities embarked on an ethno-botanical survey to catalogue the use of traditional medicine with the aim of preserving the traditional knowledge and practices of the natives.

RESEARCH AND DEVELOPMENT IN HEALTHCARE

In line with our mission to contribute to the well-being of the people, PETRONAS has been supporting the Cancer Research Initiatives Foundation (CARIF) since its inception in 2000. Our contributions have helped in the establishment of its research facilities and furthered cancer research efforts. In the year under review, PETRONAS contributed RM1 million towards CARIF to support its work in the fight against cancer in Malaysia.

PRESERVATION OF MALAYSIAN TRADITIONAL MUSIC, ARTS AND CULTURE

In the year under review, as part of our continued commitment towards the preservation of Malaysia's traditional arts and culture, PETRONAS contributed a total of RM500,000 to the Dayak Cultural Foundation, Geng Wak Long, Sekolah Seni Johor and Sekolah Seni Kuching in support of their work in preserving, nurturing and promoting Malaysian traditional dance and music.

Imbak Canyon Conservation Area

THE MERDEKA AWARD - RECOGNISING AND REWARDING EXCELLENCE & CONTRIBUTION TO THE NATION

The Merdeka Award was established in August 2007 by PETRONAS, ExxonMobil and Shell as a combined effort to recognise and reward Malaysians and non-Malaysians who have made outstanding and lasting contributions to the nation and the people of Malaysia in their respective fields.

The founding of the Merdeka Award is a reaffirmation of the oil and gas industry's commitment to the continued development of Malaysia and its people. This noble aspiration has united these oil and gas industry players to put aside competition and unite in their collective aim of recognising and rewarding outstanding contributions by Malaysians and non-Malaysians.

Indeed, the Founding Members of the Merdeka Award have sought to pay tribute to those who have helped make this nation great. It is a mission that honours our shared history and our common future.

The support from the highest levels of the Government, as well as from Malaysians from the private sector, continue to sustain the Merdeka Award's mission of promoting thought leadership and innovation, fostering a culture of excellence, encouraging a world view, thereby enhancing Malaysia's standing as a dynamic, competitive 21st Century Global Player in all key sectors from science and technology to the arts.

Since it was established in 2007 the Merdeka Award has honoured 17 outstanding individuals and two organisations. The Merdeka Award 2012 was presented by the Prime Minister of Malaysia and the patron of the Award, YAB Dato' Sri Mohd Najib bin Tun Abdul Razak at the Dewan Filharmonik PETRONAS in Kuala Lumpur.

In his inaugural speech as Chairman of the Merdeka Award Board of Trustees, following his appointment earlier in the year, His Royal Highness Raja Dr Nazrin Shah Ibni Sultan Azlan Muhibbuddin Shah, the Regent of Perak Darul Ridzuan, said the recipients of the Merdeka Award have made the people of Malaysia proud to be Malaysian, and in the course of their work have demonstrated the true *Spirit of Merdeka* – that of the liberation of mind and spirit.

The categories for the Merdeka Award are Education and Community; Environment; Health, Science and Technology; Outstanding Scholastic Achievement; and Outstanding Contribution to the People of Malaysia.

The Merdeka Award 2012 was presented to:

- Academician Tan Sri Emeritus Professor Datuk Dr Augustine Ong Soon Hock in the category of Health, Science and Technology, who is recognised for his outstanding contribution to the research and development of the chemistry and technology of palm oil and for his significant role in advocating and promoting the Malaysian palm oil industry to the world.
- Tan Sri Professor Dr Syed Muhammad Naquib al-Attas in the category of Outstanding Scholastic Achievement, for his outstanding contribution to the scholarly research in the area of Islamisation of Contemporary Knowledge and of Muslim Education.
- Dr Engkik Soepadmo in the category of Outstanding Contribution to the People of Malaysia, for his outstanding contribution to the research and conservation of Malaysia's forest plant diversity.

There were no recipients for the Education and Community and Environment categories in 2012.

The 2012 recipients each received RM500,000 cash, a trophy, a work of art by renowned Malaysian artist Latiff Mohidin and an inscribed certificate.

PETRONAS' approach to sustainable development underpins the responsible way we work. Over the years, we have initiated and supported various educational, social, health, environmental and community projects, contributing to the wellbeing of the communities where we operate.

MYANMAR

PETRONAS manages socio-economic and humanitarian projects under the Yetagun Socio-Economic Development Programme. These initiatives include an early childhood care and development programme that have benefited more than 10,000 children living in 37 villages around a cross-border pipeline transporting gas from the Yetagun Gas field to Thailand.

VIETNAM

The annual Natural Science contest 'Discovering Our World with PETRONAS' held since 2006 has seen the participation of more than 1.2 million secondary school students across the nation. The contest which is open to students aged 12 to 16, is aimed at nurturing interest in natural science and promoting the spirit of teamwork among school children.

Recognising that education provides the vital foundation for building capabilities and skilled manpower, PETRONAS has extended its sponsorship to deserving Vietnamese students to pursue undergraduate studies.

Close to 100 Vietnamese students have benefited from PETRONAS' scholarships to pursue degree courses in Information Technology and Electrical and Electronic Engineering at Universiti Teknologi PETRONAS (UTP). These scholarships have been awarded to build a resilient and competent local workforce, who will in the future, contribute their services towards the development of their country.

During the year in review, PETRONAS, together with other companies in Vietnam, organised a walk themed 'Walk for a Green Environment' involving more than 5,000 people to create an awareness on environmental protection and garner support for victims of Agent Orange during the Vietnam war and the less fortunate.

REPUBLIC OF THE SUDAN

More than 600 students with exceptional results in the Sudan Secondary School Certificate Examinations have received PETRONAS' Top 100 Achievers awards.

Additionally, the PETRONAS Debate and Quiz Trophy competition, which was established to encourage public speaking skills amongst secondary school students, has also benefited more than 400 students.

PETRONAS has also sponsored students to pursue undergraduate and postgraduate studies at UTP in Malaysia.

REPUBLIC OF SOUTH SUDAN

More than 1000 students have benefited from the refurbishment of the Kuajok Secondary School, located in the capital state of Warrap. In line with our capability development initiatives, PETRONAS also contributed school bags and library books to more than 900 school children at two schools in Juba. Additionally, PETRONAS also donated a bus to the University of Juba in July 2012 to facilitate students' activities in the University.

PETRONAS has also sponsored students to pursue undergraduate studies at UTP in Malaysia.

MOZAMBIQUE

A total of 300 underprivileged children from the Anglican Primary School Nacala received assistance for stationery and books for their education through PETRONAS Carigali Mozambique (Rovuma Basin) Ltd's community service efforts.

MAURITANIA

The renovations of primary schools in rural areas enabled 400 students to resume classes.

IRAQ

Access to healthcare facilities is one of the key community concerns in Garraf where PETRONAS recently commenced its upstream operations. In the period under review, our Iraq operations established a Garraf Mobile Healthcare Services programme, which provided services to more than 600 people over the course of three visits. These mobile clinics also provided an opportunity for PETRONAS personnel to interact with the local community. The children enjoyed an interactive session on environmental topics. The mobile clinic visits will continue to be an integral part of PETRONAS' community building efforts in the Garraf region.

EGYPT

PETRONAS has sponsored the school fees for more than 800 less fortunate children and orphans in Egypt as well as awarded more than 100 Egyptian scholars in UTP.

TURKMENISTAN

As one of the key strategies in developing human capital in the country, PETRONAS continues to provide sponsorships for Turkmen students to study at UTP each year. Currently 13 graduates are employed by PETRONAS Carigali Turkmenistan Sdn Bhd.

Main Events

CORPORATE

12 January
PETRONAS Technical Training Sdn Bhd (PTTSB) signed a Memorandum of Understanding (MoU) with SIRIM QAS International Sdn Bhd to institute a Scheme for Certification of Competent Personnel for Explosive Atmosphere. The scheme is Asia's first and is envisaged to be led by Malaysia in accordance with the International Electrotechnical Commission for Explosion Proof (IECEx) standard electrical and instrumentation equipment used in oil and gas plants and platforms.

12 January
PETRONAS launched PETROSAINS Playsmart in Kota Kinabalu, which is its third satellite science centre in the country. PETROSAINS Playsmart Kota Kinabalu is a collaboration with the Sabah State Library that offers unique learning experiences to visitors.

13 January
PETRONAS contributed RM 50,000 to the Sarawak State Disaster Relief Fund towards relief efforts for thousands of victims affected by floods that hit the State. PETRONAS' cash contribution will help the State Government's overall efforts to provide relief to victims in the badly affected southern region of Sarawak.

13 February
Universiti Teknologi PETRONAS (UTP) won eight gold, three silver, one bronze and five special awards for 12 innovations in the field of research that were exhibited at the Innova Brussels Exposition 2011.

15 February
PETRONAS and Astana Negeri Sarawak jointly organised the annual Sentuhan Kasih Tahun Baru Cina at the Pusat Pemulihan Samarahan, touching the hearts of 100 less fortunate people in the community. This event is part of PETRONAS' social responsibility initiatives.

21 February
Mercedes-Benz the 2012 unveiled Silver Arrow, the MERCEDES AMG PETRONAS F1 W03, and the first public sneak preview of the brand new Mercedes-Benz SL63 AMG at the circuit de Catalunya in Barcelona. The new high-performance roadster, which develops 537 PS while delivering weight savings of 125 kg and 30% improved fuel economy, was introduced by Nico Rosberg and Michael Schumacher.

1 March
Deputy Minister of Education, Yang Berhormat Datuk Ir Dr Wee Ka Siong commended PETRONAS for its admirable efforts to improve the academic performance and development of Malaysians through its signature CSR programme, Program Bakti Pendidikan PETRONAS (PBPP). He also lauded with PETRONAS' staff active and voluntary involvement in making a real difference in the lives of the students.

15 March
PETRONAS announced that it is embarking on a collaborative anti-corruption initiative with the Malaysian Anti-Corruption Commission (MACC) as part of its efforts in ensuring a business environment that is free from corruption.

18 March
Imbak Canyon, one of Malaysia's last remaining virgin jungles, is set to become a significant Malaysian-led conservation effort in the country as a central hub for research and studies on the environment and biodiversity under a partnership with PETRONAS.

21 March

PETRONAS continues to contribute as the main sponsor of the Malaysian Press Institute-PETRONAS Journalism Awards for the 18th year in a row with a sponsorship of RM 300,000 to the MPI-PETRONAS Journalism Awards for 2011.

20 June

PETRONAS and CNPC signed two agreements, namely the Joint Incorporated Company (JIC) Shareholders Agreement and MOU on Unconventional Hydrocarbons during the fourth PETRONAS-CNPC Joint Coordination Committee (JCC) meeting.

21 June

PETRONAS, through its Technology and Engineering (T&E) Division, launched five new industry-related technology and technical solutions that are poised to optimise hydrocarbon production value and enhance operational efficiency, productivity and safety in the oil and gas operating environment. The five solutions, considered major milestones in PETRONAS' technology development are in the areas of contaminant removal, pipeline repair system, fire and hazardous gas detection, online real-time metering supervisory system, and integrated liquid and gas separation system.

21 June

PETRONAS and UOP signed a collaboration agreement with UOP (a Honeywell Company) to explore novel CO_2 separation technologies for Acid Gas Removal Units (AGRU) based on the advanced super-efficient absorbers and membrane contractors.

26 June

In a drive towards achieving its aspiration to be the "Preferred Leadership Centre in the Region by 2013", PETRONAS Leadership Centre (PLC) is actively promoting the Centre and its learning solutions and services to companies within the Asia Pacific region.

2 July

Global management consulting firm, Hay Group, identified PETRONAS as the first and only Malaysian company ranked among Asia's Top 10 best companies for leadership in its seventh annual Best Companies for Leadership study.

29 November

PETRONAS and TOTAL signed a Research and Development Collaboration Framework Agreement (RCFA) to jointly study relevant technologies involved in developing high CO_2 gas fields.

11 October

Signifying PETRONAS' commitment to sustainable development, the Company ventured into its first solar Photovoltaic (PV) project via the installation of the largest solar PV system on a rooftop shopping mall at Suria KLCC.

EXPLORATION & PRODUCTION

16 January

PETRONAS awarded Production Sharing Contracts (PSCs) for two Enhanced Oil Recovery (EOR) projects offshore Sarawak and Sabah to Shell Malaysia and PETRONAS Carigali Sdn Bhd (PCSB).

19 January

The Kasawari well offshore Sarawak recorded significant gas find for PETRONAS with 6.02 trillion standard cubic feet (tscf) of net gas reserves, classified as one of the largest gas discoveries in the region in 2012.

9 February

PCSB and Halliburton signed a framework agreement for the development of shale gas and shale oil fields.This collaboration provides opportunities for PETRONAS to access the technical knowledge, expertise and technologies required for development of these fields.

13 April

PCSB signed a Gas Sales & Purchase Agreement (GSA) with PT Petrogas Jatim Utama for the monetisation of gas resources for Bukit Tua in East Java.

23 May

PETRONAS awarded the 2012 Kinabalu Production Sharing Contract (PSC) to Talisman Malaysia and PCSB, the first PSC to be awarded under the new Progressive Volume-Based fiscal terms. This fiscal arrangement regime was designed to offer value-added incentives for the development and production of matured oil fields in Malaysia.

16 June

PETRONAS Carigali Iraq Holding B.V. (PCIHBV) achieved a major milestone for Halfaya, one of its ventures in Iraq, which successfully reached the first key phase of field development, producing an average of 70,000 barrels a day.

29 June

The third Malaysian Risk Service Contract (RSC) was awarded to Coastal Energy and Petra Energy Development for the development of Kapal, Banang, and Meranti marginal fields.

29 June

PC Muriah Ltd, a subsidiary of PETRONAS Carigali Sdn Bhd operating in Indonesia, successfully signed a Gas Sales Agreement (GSA) with Perusahaan Listrik Negara (PLN), a Government-owned enterprise in Indonesia. The GSA represents the beginning of PETRONAS' collaboration with PLN that will contribute to the development of gas resources as well as facilitate the power sector to produce cost effective electrical power from the utilisation of Kepodang gas.

27 July

PETRONAS signed four PSCs with PEXCO Sarawak and PCSB for blocks offshore Sarawak. These blocks have remained open and dormant since the 1990s and renewed interest would be a catalyst to unlock potential gas with high CO_2.

14 August

PETRONAS through its joint operating company, Greater Nile Petroleum Operating Company (GNPOC), successfully piloted the first application of Chemical Enhanced Oil Recovery (CEOR) in the Republic of Sudan.

The CEOR pilot project commissioned at Bamboo W23 well is expected to improve its production by approximately 185%, a significant increase from 70 barrels of oil per day to around 200 barrels of oil per day.

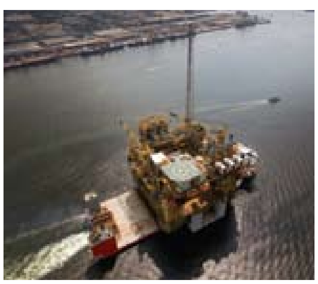
28 September

PETRONAS signed a Production Sharing Contract (PSC) with Shell, Newfield and PCSB for Block SK319 offshore Sarawak. The contract grants the consortium the responsibility to drill five wells within three years using a Low Cost Development and Exploration concept.

GAS & POWER

20 October
Gas production was achieved from the Berantai field, the first Risk Service Contract (RSC) awarded by PETRONAS. The Berantai marginal field is developed by Petrofac and SapuraKencana.

18 November
The Gumusut-Kakap field, Malaysia's second deepwater development, achieved first oil production via an interim crude evacuation system (ICES) whereby two wells are tied back to the Kikeh field. It is a huge achievement as the project took about 14 months to be completed, from planning to achieving first oil.



15 Dec
Cendor Phase 2 Project achieved first oil. The project involves the installation of an Floating Production, Storage and Offloading (FPSO) and two wellhead platforms to produce incremental oil from Cendor Field in 2013. An Early Production System (EPS) was implemented to deliver partial production from the field earlier via the existing Phase 1 MOPU and FSO. The works were completed within schedule.

8 February
PETRONAS, through its wholly owned subsidiary PETRONAS International Corporation Limited (PICL), sold its entire shareholdings in Centrica Plc (Centrica) via a block trade sale.

24 February
PETRONAS renewed the Gas Sales Agreement (GSA) with Gas Malaysia Berhad (GMB) for another 10 years from 1 January 2013, which includes an additional gas volume of up to 192 million metric standard cubic feet per day (mmscfd) at prevailing market price.

3 April
PETRONAS, through its subsidiary PETRONAS Gas Berhad, awarded the Front End Engineering and Design (FEED) contract to Fluor Corporation for its Regasification Terminal 3 project in Lahad Datu, Sabah.

1 May
PETRONAS, through its wholly owned subsidiary PETRONAS Australia Pty Ltd, sold its entire shareholdings in APA Group via a block trade sale.

4 June
Malaysia's Prime Minister Yang Amat Berhormat Dato' Sri Mohd Najib Tun Haji Abdul Razak declared open the 25th World Gas Conference 2012 in Kuala Lumpur. The event was hosted by PETRONAS and organised by the International Gas Union to celebrate the Silver Jubilee of this important industry gathering, themed is "Gas: Sustaining Future Global Growth".

5 June
PETRONAS, through its wholly owned subsidiary PETRONAS Floating LNG 1 (Labuan) Ltd, awarded the Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) contract to the consortium of Technip France SAS, Technip Geoproduction (M) Sdn Bhd and Daewoo Shipbuilding & Marine Engineering for PFLNG 1, with target completion by 2015.

DOWNSTREAM

8 June
PETRONAS, through its wholly owned subsidiary PETRONAS Power Sdn Bhd (PPSB) achieved Final Investment Decision for its Solar Independent Power Producer project in Gebeng, Pahang and awarded EPCC on the same day to the consortium of Toyo-Thai Corporation Public Company Ltd and Toyo-Thai Msia Sdn. Bhd.

25 June
PETRONAS signed a GSA with Maegma Steel HRC Sdn Bhd for the supply of 57 mmscfd of gas for 15 years beginning 2016 at prevailing market price.

30 October
Malaysia LNG Sdn Bhd (MLNG) a subsidiary of PETRONAS, achieved the Final Investment Decision (FID) and awarded the Engineering, Procurement, Construction and Commissioning (EPCC) in September 2012 and October 2012 respectively for the MLNG Advanced Re-liquefaction (MARLIN) Project. The MARLIN Project with a capacity of 0.5 million tonnes per annum (mtpa) aims to create value by re-liquefying boil off gas (clean, LNG quality gas) instead of using it as fuel for gas turbines. This also helps to minimise flaring of excess boil off gas.

31 December
PETRONAS LNG 9 Sdn Bhd (PL9SB) that was incorporated on 13 January 2012 completed the dual Front End Engineering Design (dual-FEED) for Train 9 Project, in the existing PETRONAS LNG Complex (PLC) in Bintulu, Sarawak. The new LNG train will add another 3.6 mtpa to existing LNG produced at PLC.

16 February
The Sabah Ammonia Urea (SAMUR) Ground Breaking Ceremony in Sipitang, Sabah was officiated by YAB Dato' Sri Mohd Najib Tun Hj Abdul Razak, Prime Minister of Malaysia in the presence of the Chief Minister of Sabah, YAB Datuk Musa Hj Aman. The event was attended by more than 7,000 people from the surrounding communities.

10 March
PETRONAS Dagangan Berhad (PDB) unveiled its High Quality Car Care products as part of its efforts to continuously deliver innovative products to its customers. The Company launched its range of high quality car care products, PETRONAS Durance and its car air freshener series, Arexons.

2 April
PDB introduced the Gas PETRONAS Home Delivery (GPHD), a unique and convenient way of ordering cooking gas via a nationwide hotline 1-300-888-GAS (427). This unique delivery system, offers value-added services including free safety checks and Mesra Card reward points. With the phased rollout of GPHD, customers across Malaysia can place orders for both 12kg and 14kg Liquefied Petroleum Gas (LPG) cylinder variants via a single hotline number.

9 April

PETRONAS Penapisan (Terengganu) Sdn. Bhd. (PP(T)SB), PETRONAS' first oil refinery, celebrated its 30th Anniversary themed "30 Years of Excellence". The celebration was officiated by the Vice President of Refining and Trading, En Mohd Farid Adnan.

16 April

As part of the PDB's commitment to continually upgrade its facilities to set industry standards, the Company introduced the first re-imaged PETRONAS station at its existing premises at Sri Hartamas. Unveiling a dynamic combination of sleek design and modern functionality, the station also incorporated energy saving and safety enhancing concepts such as the usage of LED lights.

28 August

PETRONAS signed a Heads of Agreement (HOA) with Italy-based Versalis SpA to jointly own, develop, construct and operate elastomer plants within PETRONAS' proposed RAPID complex in Pengerang, Johor. The proposed joint venture will produce and market synthetic rubbers using Versalis' technology license and technical know-how.

11 September

PETRONAS Lubricants International (PLI) commemorated its 100th year of operation by kicking off the world's first on-line digital fluid art platform called Fluid Art Movement that had participants from all over the world submitting their own virtual artwork.

Inspired by 'A Century of Fluids Innovation', the Fluid Art Movement was launched by PLI's CEO, Amir Hamzah Azizan. Mercedes AMG PETRONAS Formula One Team drivers Michael Schumacher and Nico Rosberg were given the honour to roll out the first two art pieces. The launch event was held at the Triennale Art Gallery in Milan, Italy on 10 September.

13 May

The PETRONAS Refinery and Petrochemical Integrated Development (RAPID) project was launched by His Royal Highness the Sultan of Johor, Sultan Ibrahim Ibni Almarhum Sultan Iskandar. The launch marked an important milestone for the development of the RM60 billion project which will pave the way for PETRONAS to further grow and add value to Malaysia's oil, gas and petrochemical industry as well as spur domestic and foreign direct investments in the country. The launch was also graced by the presence of Prime Minister, Dato' Sri Mohd Najib Tun Abdul Razak, Johor Menteri Besar, Dato' Abdul Ghani Othman and PETRONAS' President and Group Chief Executive Officer Tan Sri Dato' Shamsul Azhar Abbas.

25 September

PDB unveiled its 1,001st PETRONAS station at Wangsa Maju, cementing the Company's position as the largest petroleum retail network in Malaysia. Mercedes AMG PETRONAS Formula One™ team driver Nico Rosberg made a special pit stop at the pre-launch of the official opening of the station.

6 November

PETRONAS introduced Innovative Transmission Fluid as part of the Company's commitment to anticipate and meet the demands of the evolving automotive industry. It was specifically developed in collaboration with one of PDB's long-standing Original Equipment Manufacturer partners, which is Malaysia's leading automotive distributor, Naza Kia Malaysia Sdn Bhd.

5 December

PDB launched the first-of-its-kind twin stations, PETRONAS Solaris Serdang and PETRONAS Solaris Putra. The dual-frontage stations incorporate customer-centric features and energy-efficient solutions, including a solar photovoltaic panel, LED lights and a rainwater harvesting system.

Glossary

INDUSTRY TERMS AS GENERALLY UNDERSTOOD

a

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

b

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.

c

CO_2
Carbon dioxide, one of the primary greenhouse gases.

Coal Bed 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.

d

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.

e

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.

f

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.

n

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.

o

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.

p

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.

r

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.

S

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.

t

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.

U

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).

W

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.

Financial Statements

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year remained unchanged and consist of exploitation of oil and gas, 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 44, note 45 and note 46 to the financial statements respectively.

RESULTS

In RM Mil	**Group**	**Company**
Profit for the year	59,062	46,307
Attributable to:		
Shareholders of the Company	49,388	46,307
Non-controlling interests	9,674	-

DIVIDENDS

During the financial year, the Company paid a dividend of RM27,461 million out of the approved 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.

Out of the remaining RM539 million dividend to be paid, RM343 million was paid on 22 February 2013, while the balance of RM196 million is also expected to be paid in the financial year ending 31 December 2013.

The Directors propose a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM270,000 per ordinary share amounting to RM27 billion in respect of the financial year ended 31 December 2012 for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year 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 2013.

RESERVES AND PROVISIONS

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

DIRECTORS OF THE COMPANY

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

Tan Sri Mohd Sidek bin Hassan (Chairman – appointed on 1 July 2012)
Tan Sri Dato' Shamsul Azhar bin Abbas (President and Group CEO)
Datuk Anuar bin Ahmad (Executive Vice President)
Datuk Wan Zulkiflee bin Wan Ariffin (Chief Operating Officer and Executive Vice President)
Datuk Mohd Omar bin Mustapha
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas
Datuk 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
Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah (appointed on 28 November 2012)
Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah (resigned on 27 November 2012)
Dato' Siti Halimah binti Ismail (alternate to Tan Sri Dr. Wan Abdul Aziz bin Wan Abdullah – ceased as alternate director on 27 November 2012)

In accordance with Article 68 of the Company's Articles of Association, Tan Sri Mohd Sidek bin Hassan and Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah who were appointed during the year retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 71(1) of the Company's Articles of Association, Datin Yap Siew Bee and Krishnan C K Menon 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 Group CEO 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 year 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 1.1.2012**	**Bought**	**Sold**	**Balance at 31.12.2012**
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 1.1.2012	Bought	Sold	Balance at 31.12.2012
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 1.1.2012	Bought	Sold	Balance at 31.12.2012
Tan Sri Dato' Shamsul Azhar bin Abbas	20,000	-	-	20,000
Datuk Anuar bin Ahmad	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
Datuk Muhammad bin Ibrahim	20,000	-	-	20,000
Dato' Mohamad Idris bin Mansor	20,000	-	(10,000)	10,000
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 1.1.2012	Bought	Sold	Balance at 31.12.2012
Datuk Manharlal Ratilal	5,000	-	-	5,000

Name	Number of ordinary shares of RM1.00 each in MISC Berhad			
	Balance at 1.1.2012	Bought	Sold	Balance at 31.12.2012
Tan Sri Amirsham bin Abdul Aziz:				
- own	11,600	-	-	11,600
- others	4,000	-	-	4,000

DIRECTORS' INTERESTS (continued)

Name	Balance at 1.1.2012	Bought	Sold	Balance at 31.12.2012
	Number of ordinary shares of RM0.50 each in Malaysia Marine and Heavy Engineering Holdings Berhad			
Datuk Wan Zulkiflee bin Wan Ariffin	10,000	-	-	10,000
Tan Sri Amirsham bin Abdul Aziz:				
- own	6,000	-	-	6,000
- others	6,000	-	-	6,000

None of the other Directors holding office at 31 December 2012 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial period, 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 year 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 year.

OPTIONS GRANTED OVER UNISSUED SHARES

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

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

OTHER STATUTORY INFORMATION (continued)

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

(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 year 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 year.

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 year 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 year ended 31 December 2012 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 year and the date of this report other than impairment losses on certain property, plant and equipment as disclosed in note 27 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:

....
Tan Sri Mohd Sidek bin Hassan

....
Tan Sri Dato' Shamsul Azhar bin Abbas

Kuala Lumpur,
Date: 26 February 2013

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 121 to 243, are drawn up in accordance with Malaysian Financial Reporting Standards, International 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 2012 and of their financial performance and cash flows for the year ended on that date.

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

....

Tan Sri Mohd Sidek bin Hassan

....

Tan Sri Dato' Shamsul Azhar bin Abbas

Kuala Lumpur,
Date: 26 February 2013

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 121 to 243 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 26 February 2013.

BEFORE ME:

PESURUHJAYA SUMPAH
W 503
AHMAD MD. TAWIL
MALAYSIA

6-6, 6th Floor, Menara Kausar/Hidayah
Jalan 3/27A, Seksyen 1, Wangsa Maju
53300 Kuala Lumpur

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

In RM Mil	Note	31.12.2012	31.12.2011	1.4.2011
ASSETS				
Property, plant and equipment	3	226,059	205,555	190,949
Investment properties	4	10,753	11,024	10,561
Land held for development	5	1,579	1,601	1,641
Prepaid lease payments	6	960	625	551
Investments in associates	8	4,445	5,381	5,725
Investments in jointly controlled entities	9	7,225	6,942	5,836
Intangible assets	10	33,256	20,614	13,272
Long term receivables	11	3,539	4,084	3,289
Fund and other investments	12	8,053	3,495	11,824
Deferred tax assets	14	6,445	3,887	3,979
Cash and cash equivalents	15	164	89	108
TOTAL NON-CURRENT ASSETS		302,478	263,297	247,735
Trade and other inventories	16	14,187	12,366	10,274
Trade and other receivables	17	42,279	38,111	33,545
Assets classified as held for sale	18	755	631	346
Fund and other investments	12	20,874	35,383	37,869
Cash and cash equivalents	15	107,735	125,358	106,556
TOTAL CURRENT ASSETS		185,830	211,849	188,590
TOTAL ASSETS		488,308	475,146	436,325
EQUITY				
Share capital	19	100	100	100
Reserves	20	303,689	286,797	262,172
Total equity attributable to shareholders of the Company		303,789	286,897	262,272
Non-controlling interests	21	32,423	32,079	31,283
TOTAL EQUITY		336,212	318,976	293,555
LIABILITIES				
Borrowings	22	32,051	39,674	44,354
Deferred tax liabilities	14	14,195	13,267	12,865
Other long term liabilities and provisions	24	26,574	23,977	24,544
TOTAL NON-CURRENT LIABILITIES		72,820	76,918	81,763
Trade and other payables	25	58,820	50,408	38,122
Borrowings	22	10,166	12,849	3,457
Taxation		9,751	15,995	13,428
Dividend payable		539	-	6,000
TOTAL CURRENT LIABILITIES		79,276	79,252	61,007
TOTAL LIABILITIES		152,096	156,170	142,770
TOTAL EQUITY AND LIABILITIES		488,308	475,146	436,325

The notes set out on pages 132 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In RM Mil	Note	1.1.2012 to 31.12.2012	1.4.2011 to 31.12.2011
Revenue		290,976	222,831
Cost of revenue		(183,461)	(126,212)
Gross profit	26	107,515	96,619
Selling and distribution expenses		(4,455)	(3,585)
Administration expenses		(19,428)	(10,536)
Other expenses		(2,575)	(4,050)
Other income		9,439	5,305
Operating profit	27	90,496	83,753
Financing costs		(2,935)	(2,028)
Share of profit after tax and non-controlling interests of equity accounted associates and jointly controlled entities		1,518	1,317
Profit before taxation		89,079	83,042
Tax expense	29	(30,017)	(27,142)
Profit for the year/period		59,062	55,900
Other comprehensive (expenses)/income			
Items that may be reclassified subsequently to profit or loss			
Net movements from exchange differences		(5,489)	5,034
Available-for-sale financial assets			
- Changes in fair value		1,896	(1,875)
- Transfer to profit or loss upon disposal		(1,326)	(3,068)
Other comprehensive income/(expenses)		162	(33)
Total other comprehensive (expenses)/income for the year/period		(4,757)	58
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		54,305	55,958
Profit attributable to:			
Shareholders of the Company		49,388	49,136
Non-controlling interests		9,674	6,764
PROFIT FOR THE YEAR/PERIOD		59,062	55,900
Total comprehensive income attributable to:			
Shareholders of the Company		45,125	48,661
Non-controlling interests		9,180	7,297
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		54,305	55,958

The notes set out on pages 132 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

		Attributable to shareholders of the Company			
		Non-distributable			
In RM Mil	**Note**	**Share Capital**	**Capital Reserves**	**Foreign Currency Translation Reserve**	**Available-for-sale Reserve**
Balance at 1 April 2011		100	13,450	(174)	6,909
Net movements from exchange differences		-	-	4,479	-
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 (expenses)/income for the period		-	(19)	4,479	(4,935)
Profit for the period		-	-	-	-
Total comprehensive (expenses)/ income for the period		-	(19)	4,479	(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	30	-	-	-	-
Total transactions with shareholders		-	(26)	-	-
Balance at 31 December 2011		100	13,405	4,305	1,974

continue to next page

The notes set out on pages 132 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

		Attributable to shareholders of the Company				
		Distributable				
In RM Mil	**Note**	**General Reserve**	**Retained Profits**	**Total**	**Non-controlling Interests**	**Total Equity**
Balance at 1 April 2011		12,000	229,987	262,272	31,283	293,555
Net movements from exchange differences		-	-	4,479	555	5,034
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 (expenses)/income for the period		-	-	(475)	533	58
Profit for the period		-	49,136	49,136	6,764	55,900
Total comprehensive (expenses)/ income for the period		-	49,136	48,661	7,297	55,958
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	30	-	(24,000)	(24,000)	(6,502)	(30,502)
Total transactions with shareholders		-	(24,010)	(24,036)	(6,501)	(30,537)
Balance at 31 December 2011		12,000	255,113	286,897	32,079	318,976

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The notes set out on pages 132 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

		Attributable to shareholders of the Company			
		Non-distributable			
In RM Mil	**Note**	**Share Capital**	**Capital Reserves**	**Foreign Currency Translation Reserve**	**Available-for-sale Reserve**
Balance at 1 January 2012		100	13,405	4,305	1,974
Net movements from exchange differences		-	-	(4,945)	-
Available-for-sale financial assets:					
- Changes in fair value		-	-	-	1,873
- Transfer to profit or loss upon disposal		-	-	-	(1,326)
Other comprehensive income		-	135	-	-
Total other comprehensive income/(expenses) for the year		-	135	(4,945)	547
Profit for the year		-	-	-	-
Total comprehensive income/ (expenses) for the year		-	135	(4,945)	547
Share of reserves of associates and jointly controlled entities		-	(22)	-	-
Redemption of preference shares		-	6	-	-
Additional issuance of shares to non-controlling interests		-	-	-	-
Additional equity interest in a subsidiary		-	-	-	-
Dividends	30	-	-	-	-
Total transactions with shareholders		-	(16)	-	-
Balance at 31 December 2012		100	13,524	(640)	2,521

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The notes set out on pages 132 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

In RM Mil	Note	General Reserve	Retained Profits	Total	Non-controlling Interests	Total Equity
		Attributable to shareholders of the Company				
		Distributable				
Balance at 1 January 2012		12,000	255,113	286,897	32,079	318,976
Net movements from exchange differences		-	-	(4,945)	(544)	(5,489)
Available-for-sale financial assets:						
- Changes in fair value		-	-	1,873	23	1,896
- Transfer to profit or loss upon disposal		-	-	(1,326)	-	(1,326)
Other comprehensive income		-	-	135	27	162
Total other comprehensive income/(expenses) for the year		-	-	(4,263)	(494)	(4,757)
Profit for the year		-	49,388	49,388	9,674	59,062
Total comprehensive income/(expenses) for the year		-	49,388	45,125	9,180	54,305
Share of reserves of associates and jointly controlled entities		-	-	(22)	-	(22)
Redemption of preference shares		-	(6)	-	(54)	(54)
Additional issuance of shares to non-controlling interests		-	64	64	28	92
Additional equity interest in a subsidiary		-	(275)	(275)	260	(15)
Dividends	30	-	(28,000)	(28,000)	(9,070)	(37,070)
Total transactions with shareholders		-	(28,217)	(28,233)	(8,836)	(37,069)
Balance at 31 December 2012		12,000	276,284	303,789	32,423	336,212

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The notes set out on pages 132 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

In RM Mil	Note	1.1.2012 to 31.12.2012	1.4.2011 to 31.12.2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		282,683	217,481
Cash paid to suppliers and employees		(165,230)	(121,351)
		117,453	96,130
Interest income from fund and other investments		3,888	2,046
Interest expenses paid		(2,273)	(1,699)
Taxation paid		(41,000)	(24,499)
Net cash generated from operating activities		78,068	71,978
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	31	(50,428)	(21,049)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	32	(43,327)	(34,229)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(15,687)	16,700
DECREASE IN DEPOSITS RESTRICTED		79	232
NET FOREIGN EXCHANGE DIFFERENCES		(787)	1,274
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		124,283	106,077
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		107,888	124,283

		31.12.2012	31.12.2011
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	15	107,899	125,447
Negotiable certificate of deposits	12	1,793	514
Bank overdrafts	22	(1,113)	(908)
		108,579	125,053
Less: Deposits restricted	15	(691)	(770)
		107,888	124,283

The notes set out on pages 132 to 243 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

In RM Mil	Note	31.12.2012	31.12.2011	1.4.2011
ASSETS				
Property, plant and equipment	3	11,441	3,225	3,025
Investments in subsidiaries	7	47,008	46,479	45,778
Investments in associates	8	302	302	302
Investments in jointly controlled entities	9	1,385	1,385	1,385
Long term receivables	11	75,411	69,716	71,813
Fund and other investments	12	8,348	2,570	76
Deferred tax assets	14	4,932	2,558	2,108
TOTAL NON-CURRENT ASSETS		148,827	126,235	124,487
Trade and other inventories	16	45	24	49
Trade and other receivables	17	39,731	15,096	12,519
Assets classified as held for sale	18	47	-	-
Fund and other investments	12	15,934	28,356	31,815
Cash and cash equivalents	15	52,015	75,608	58,164
TOTAL CURRENT ASSETS		107,772	119,084	102,547
TOTAL ASSETS		256,599	245,319	227,034
EQUITY				
Share capital	19	100	100	100
Reserves	20	191,316	173,126	156,877
TOTAL EQUITY		191,416	173,226	156,977
LIABILITIES				
Borrowings	22	20,151	21,612	26,591
Other long term liabilities and provisions	24	21,327	18,743	21,587
TOTAL NON-CURRENT LIABILITIES		41,478	40,355	48,178
Trade and other payables	25	16,252	14,284	6,712
Borrowings	22	566	6,357	-
Taxation		6,348	11,097	9,167
Dividend payable		539	-	6,000
TOTAL CURRENT LIABILITIES		23,705	31,738	21,879
TOTAL LIABILITIES		65,183	72,093	70,057
TOTAL EQUITY AND LIABILITIES		256,599	245,319	227,034

The notes set out on pages 132 to 243 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

In RM Mil	**Note**	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**
Revenue		125,340	92,229
Cost of revenue		(62,473)	(35,118)
Gross profit	26	62,867	57,111
Selling and distribution expenses		(372)	(217)
Administration expenses		(5,405)	(3,046)
Other expenses		(2,334)	(2,573)
Other income		7,561	3,779
Operating profit	27	62,317	55,054
Financing costs		(1,678)	(1,023)
Profit before taxation		60,639	54,031
Tax expense	29	(14,332)	(13,830)
Profit for the year/period		46,307	40,201
Other comprehensive (expenses)/income			
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of available-for-sale financial assets		(117)	48
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		46,190	40,249

The notes set out on pages 132 to 243 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

In RM Mil	Note	*Non-distributable* Share Capital	Available-for-sale Reserve	*Distributable* General Reserve	Retained Profits	Total Equity
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 transaction with shareholders of the Company	30	-	-	-	(24,000)	(24,000)
Balance at 31 December 2011		100	149	12,000	160,977	173,226
Balance at 1 January 2012		100	149	12,000	160,977	173,226
Changes in fair value of available-for-sale financial assets representing other comprehensive expense for the year		-	(117)	-	-	(117)
Profit for the year		-	-	-	46,307	46,307
Total comprehensive (expenses)/income for the year		-	(117)	-	46,307	46,190
Dividends representing transaction with shareholders of the Company	30	-	-	-	(28,000)	(28,000)
Balance at 31 December 2012		100	32	12,000	179,284	191,416

The notes set out on pages 132 to 243 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

In RM Mil	Note	1.1.2012 to 31.12.2012	1.4.2011 to 31.12.2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		106,280	76,325
Cash paid to suppliers and employees		(69,564)	(37,489)
		36,716	38,836
Interest income from fund and other investments		2,361	2,062
Interest expenses paid		(1,302)	(809)
Taxation paid		(21,277)	(12,188)
Net cash generated from operating activities		16,498	27,901
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash (used in)/generated from investing activities	31	(3,612)	18,878
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	32	(35,060)	(30,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(22,174)	16,779
NET FOREIGN EXCHANGE DIFFERENCES		(140)	689
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		76,122	58,654
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		53,808	76,122

		31.12.2012	31.12.2011
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	15	52,015	75,608
Negotiable certificate of deposits	12	1,793	514
		53,808	76,122

The notes set out on pages 132 to 243 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia. These are the Group and the Company's first financial statements prepared in accordance with MFRS and MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. In the previous financial years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia.

The Group and the Company have elected 1 April 2011, being the beginning date of the immediate preceding financial period, as the date of transition to MFRS. The financial impacts on transition from FRS to MFRS are set out in note 47.

The Group and the Company have early adopted the amendments to MFRS 101 *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

The Malaysian Accounting Standards Board ("MASB") has also issued accounting standards, amendments and interpretations of the MFRS framework (collectively referred to as "pronouncements") which are not yet effective for the Group and the Company and therefore, have not been implemented in these financial statements. These pronouncements including their impact on the financial statements in the period of initial application are set out in note 42. Pronouncements that are not relevant to the operations of the Group and of the Company are set out in note 43.

The financial statements were approved and authorised for issue by the Board of Directors on 26 February 2013.

1.2 Comparative figures

The Group and the Company have changed their financial year end from 31 March to 31 December effective from 2011. Consequently, the immediate preceding comparatives, 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.

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. BASIS OF PREPARATION (continued)

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.

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 24 : Other Long Term Liabilities and Provisions; and
v. Note 40 : 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 in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 April 2011 (the transition date to MFRS framework), unless otherwise stated.

2.1 Basis of consolidation

Subsidiaries

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

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

***Business combinations** (continued)*

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

For acquisition on or after 1 October 2009, being the date the Group elects to apply MFRS 3 *Business Combinations*, the Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill arising from business combinations prior to 1 October 2009 is stated at the previous carrying amount less subsequent impairments.

Transaction costs, 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.

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 profit or loss and other comprehensive income as an allocation of the profit or loss and total comprehensive income for the year between the non-controlling interests and the equity shareholders of the Company.

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.

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 loss of control of a subsidiary, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and other comprehensive income 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.

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 associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with the resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss.

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 are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment and depreciation (continued)

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 the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property at cost.

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 a component 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 component will flow to the Group or the Company 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.

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 component of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

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 year/period 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment and depreciation (continued)

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.

2.6 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 the lower of cost and net realisable value consistent with the accounting policy for inventories as stated in note 2.16.

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. Development expenditure includes the cost for development of main infrastructure works.

Land held for development is reclassified as properties under development 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. Properties under development is, in turn, reclassified as developed properties held for sale upon completion of the development activities.

Properties under development and developed properties held for sale are recognised as trade and other inventories in current assets. The accounting policy is described separately in note 2.16.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Leased assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy as stated below. 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 in accordance with the accounting policy below although the arrangement does not take the legal form of a lease.

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 and allocated 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.

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 and the Company'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.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

Prepaid lease payments

Prepaid rental and leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payments made on entering into a lease arrangement or acquiring a leasehold land are 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cost of investments includes transaction costs.

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 as described in note 2.1. 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.

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, other than certain recoverable expenditure incurred under a service contract which is amortised based on unit of production method. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Exploration and development expenditure (continued)

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. Any differences are charged to the profit or loss.

Intangible assets, property, plant and equipment and investment properties once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity accounted investees ceases once classified as held for sale.

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.

2.12 Financial instruments (continued)

(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 under a contract whose terms require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial assets that are specifically designated into this category upon initial recognition.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values 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 category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest rate method (note 2.12(vii)).

Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values 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.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2.13(i)).

(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

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make 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. 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 upon discharge 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.

(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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Financial instruments (continued)

(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. 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, if any.

(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

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment (continued)

(i) Financial assets (continued)

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets, other than inventories, amount due from contract customers, deferred tax assets and non-current assets or disposal groups classified as held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment.

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 from continuing use 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment (continued)

(ii) Other assets (continued)

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

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 Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of trade and other payables in the statement of financial position.

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 and properties under development consists of costs associated with the acquisition of land, all costs that are directly attributable to development activities, appropriate proportions of common costs attributable to developing the properties, and interest expenses incurred during the period of active development.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 24.

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 year 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 year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Taxation (continued)

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 assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that future taxable profit will be available against which the related tax benefit can 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.

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, except for goodwill and fair value adjustments arising from business combinations before 1 April 2011 pursuant to the election of transitional exemptions of MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards.* 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Foreign currency transactions (continued)

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 year, 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.

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 sale of properties is recognised in the profit or loss when the significant risks and rewards of ownership of the properties have been transferred to the buyer.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 31.12.2012 *In RM Mil*	At 1.1.2012	Additions	Acquisition of subsidiary	Disposals/ write-offs
At cost:				
Freehold land	2,482	8	-	(14)
Leasehold land	2,400	152	-	(10)
Lease properties	1,224	-	-	(1)
Oil and gas properties	133,465	1,524	6,187	-
Buildings	15,553	296	-	(39)
Plant and equipment	76,772	878	-	(245)
Office equipment, furniture and fittings	2,169	81	-	(26)
Computer software and hardware	2,372	88	-	(139)
Motor vehicles	544	38	-	(31)
Vessels	30,176	1,281	-	(330)
Projects-in-progress				
- oil and gas properties	50,072	22,334	-	-
- other projects	18,174	13,961	-	(93)
	335,403	40,641	6,187	(928)

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Accumulated depreciation and impairment losses:	At 1.1.2012	Charge for the year	Acquisition of subsidiary	Disposals/ write-offs
Freehold land	-	-	-	-
Leasehold land	554	28	-	(2)
Lease properties	772	62	-	-
Oil and gas properties	57,114	15,387	-	-
Buildings	4,630	403	-	(12)
Plant and equipment	44,542	3,592	-	(74)
Office equipment, furniture and fittings	1,683	140	-	(25)
Computer software and hardware	1,898	192	-	(139)
Motor vehicles	343	50	-	(23)
Vessels	15,289	1,065	-	(48)
Projects-in-progress				
- oil and gas properties	2,971	-	-	-
- other projects	52	-	-	-
	129,848	20,919	-	(323)

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3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group 31.12.2012 *In RM Mil*	Transfers/ reclass/ adjustment	Translation exchange difference	At 31.12.2012
At cost:			
Freehold land	68	(16)	2,528
Leasehold land	(172)	(20)	2,350
Lease properties	-	(6)	1,217
Oil and gas properties	25,792	(2,005)	164,963
Buildings	596	(176)	16,230
Plant and equipment	(296)	(1,136)	75,973
Office equipment, furniture and fittings	48	(112)	2,160
Computer software and hardware	132	(13)	2,440
Motor vehicles	5	(25)	531
Vessels	5,991	(1,189)	35,929
Projects-in-progress			
- oil and gas properties	(19,553)	(251)	52,602
- other projects	(7,804)	(309)	23,929
	[a,b] 4,807	(5,258)	380,852

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Accumulated depreciation and impairment losses:	Impairment (write-back)/ loss	Transfers/ reclass/ adjustment	Translation exchange difference	At 31.12.2012
Freehold land	-	-	-	-
Leasehold land	(38)	(1)	(10)	531
Lease properties	-	(4)	(3)	827
Oil and gas properties	5,941	1,109	(673)	78,878
Buildings	80	25	(132)	4,994
Plant and equipment	175	(675)	(635)	46,925
Office equipment, furniture and fittings	1	(15)	(82)	1,702
Computer software and hardware	-	31	(5)	1,977
Motor vehicles	-	-	(13)	357
Vessels	256	(793)	(655)	15,114
Projects-in-progress				
- oil and gas properties	1,097	(611)	(5)	3,452
- other projects	-	(16)	-	36
	7,512	[a,c] (950)	(2,213)	154,793

continued from previous page

[a] Includes revision to future cost of decommissioning of oil and gas properties amounting to RM5,134 million and corresponding depreciation charges of RM498 million.

[b] Includes net transfers of (RM327 million) comprising transfer from intangible assets of RM2,025 million and transfers to assets held for sale of (RM2,297 million), other receivables of (RM40 million), and investment properties of (RM15 million).

[c] Includes net transfers of (RM1,448 million) comprising transfer from intangible assets of RM2 million and transfer to assets held for sale of (RM1,450 million).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group **31.12.2011** *In RM Mil*	**At 1.4.2011**	**Additions**	**Acquisition/ (disposal) of subsidiaries**	**Disposals/ write-offs**
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	15,738	103	42	(29)
Plant and equipment	75,788	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	30,273	367	-	(188)
Projects-in-progress				
- oil and gas properties	53,905	16,146	-	(22)
- other projects	11,246	6,344	-	(181)
	310,236	26,709	(2,610)	(1,057)

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Accumulated depreciation and impairment losses:	**At 1.4.2011**	**Charge for the period**	**Acquisition/ (disposal) of subsidiaries**	**Disposals/ write-offs**
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	42,964	3,213	(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	13,343	865	-	(126)
Projects-in-progress				
- oil and gas properties	2,724	-	-	-
- other projects	94	-	-	-
	119,287	11,435	(2,179)	(647)

continue to next page

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** *In RM Mil*	**Transfers/ reclass/ adjustment**	**Translation exchange difference**	**At 31.12.2011**
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)	15,553
Plant and equipment	416	509	76,772
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	30,176
Projects-in-progress			
- oil and gas properties	(20,748)	791	50,072
- other projects	306	459	18,174
	[a,b] (3,366)	5,491	335,403

continued from previous page

Accumulated depreciation and impairment losses:	**Impairment loss**	**Transfers/ reclass/ adjustment**	**Translation exchange difference**	**At 31.12.2011**
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	44,542
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)	760	15,289
Projects-in-progress				
- oil and gas properties	19	228	-	2,971
- other projects	-	(42)	-	52
	890	[a,c] (913)	1,975	129,848

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)

Company **31.12.2012** *In RM Mil*	**At** **1.1.2012**	**Additions**	**Disposals**	**Transfers/** **reclass/** **adjustment**	**At** **31.12.2012**
At cost:					
Freehold land	53	-	-	(47)	6
Leasehold land	125	-	-	-	125
Lease properties	367	-	-	-	367
Oil and gas properties	6,088	213	-	5,911	12,212
Buildings	253	-	-	-	253
Plant and equipment	12	1	-	-	13
Office equipment, furniture and fittings	113	1	(8)	-	106
Computer software and hardware	450	7	(139)	58	376
Motor vehicles	25	3	(4)	-	24
Projects-in-progress					
- oil and gas properties	809	1,169	-	(777)	1,201
- other projects	821	3,545	-	(1,052)	3,314
	9,116	4,939	(151)	[a,b] 4,093	17,997

Accumulated depreciation:	**At** **1.1.2012**	**Charge** **for the** **year**	**Disposals**	**Adjustment**	**At** **31.12.2012**
Freehold land	-	-	-	-	-
Leasehold land	36	2	-	-	38
Lease properties	328	4	-	-	332
Oil and gas properties	5,057	234	-	498	5,789
Buildings	55	1	-	-	56
Plant and equipment	9	1	-	-	10
Office equipment, furniture and fittings	69	12	(8)	-	73
Computer software and hardware	320	60	(139)	-	241
Motor vehicles	17	4	(4)	-	17
Projects-in-progress					
- oil and gas properties	-	-	-	-	-
- other projects	-	-	-	-	-
	5,891	318	(151)	[a] 498	6,556

[a] Represents revision to future cost of decommissioning of oil and gas properties amounting to RM5,134 million and corresponding depreciation charges of RM498 million.

[b] Includes net transfers of (RM1,041 million) comprising transfers to amount due from subsidiaries of (RM994 million) and assets held for sale of (RM47 million).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company **31.12.2011** *In RM Mil*	**At** **1.4.2011**	**Additions**	**Reclass/** **adjustment**	**At** **31.12.2011**
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

Accumulated depreciation:	**At** **1.4.2011**	**Charge** **for the** **period**	**Reclass/** **adjustment**	**At** **31.12.2011**
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)

In RM Mil	Group Carrying amount 31.12.2012	31.12.2011	1.4.2011	Company Carrying amount 31.12.2012	31.12.2011	1.4.2011
Freehold land	2,528	2,482	2,491	6	53	53
Leasehold land	1,819	1,846	1,943	87	89	90
Lease properties	390	452	458	35	39	46
Oil and gas properties	86,085	76,351	61,562	6,423	1,031	2,013
Buildings	11,236	10,923	11,176	197	198	148
Plant and equipment	29,048	32,230	32,824	3	3	1
Office equipment, furniture and fittings	458	486	544	33	44	110
Computer software and hardware	463	474	485	135	130	146
Motor vehicles	174	201	203	7	8	7
Vessels	20,815	14,887	16,930	-	-	-
Projects-in-progress						
- oil and gas properties	49,150	47,101	51,181	1,201	809	-
- other projects	23,893	18,122	11,152	3,314	821	411
	226,059	205,555	190,949	11,441	3,225	3,025

Security

Property, plant and equipment of certain subsidiaries costing RM5,523,076,000 (31.12.2011: RM8,677,709,000; 1.4.2011: RM8,175,757,000) have been pledged as security for loan facilities as set out in note 22 and note 23 to the financial statements.

Projects-in-progress

Included in additions to projects-in-progress of the Group is finance cost capitalised during the year of RM100,680,000 (31.12.2011: RM71,872,000; 1.4.2011: RM126,232,000). The interest rate on borrowings capitalised ranges from 1.42% to 3.79% (31.12.2011: 1.25% to 3.18%; 1.4.2011: 2.48% to 5.90%) per annum.

Restriction of land title

The titles to certain freehold and leasehold land are in the process of being registered in the subsidiaries' name.

Change in estimates

During the year, 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 an increase in cost of oil and gas properties by RM5,134,000,000 and higher depreciation charges for the year by approximately RM421,000,000 (refer note 24).

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Estimation of oil and gas reserves and resources

Oil and gas reserves and resources are key elements in the Group's and the Company's investment decision-making process. Estimation of oil and gas reserves and resources are conducted using industry recognised methods.

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 of which field development plan ("FDP") is already in place. The term "resources" describes those oil and gas volumes, as of a given date, to be potentially recoverable from known accumulations, but the projects are yet to be considered sufficiently mature for commercial development due to one or more contingencies.

Reserves estimates are normally presented alongside the range of level of certainties namely 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 a probability distribution.

The reserves are further subdivided into developed and undeveloped categories. Developed reserves are expected to be recovered through existing wells and facilities under the operating conditions that have been designed for. Undeveloped reserves are reserves to be recovered from approved FDP projects and remain so until the wells are drilled, completed and production commences, which would by then, be classified as developed.

Estimation of reserves and resources are reviewed annually. These estimates are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information available such as new geological information gathered from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Furthermore, estimation of resource volumes is based on the information that is less robust than that available for mature reservoirs.

Such changes will impact the Group's and the Company's reported financial position and results which include:
i. carrying value of oil and gas properties and their corresponding amortisation charges;
ii. carrying value of project-in-progress;
iii. provisions for decommissioning of oil and gas properties; and
iv. carrying value of deferred tax assets/liabilities.

Impairment

As at 31 December 2012, the Group recognised net impairment losses on certain property, plant and equipment amounting to RM7,512,000,000 (31.12.2011: RM890,000,000; 1.4.2011: 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% (31.12.2011 and 1.4.2011: 9% and 10%).

4. INVESTMENT PROPERTIES

Group **31.12.2012** *In RM Mil*	**At** **1.1.2012**	**Additions**	**Disposal**	**Transfers**	**Translation exchange difference**	**At** **31.12.2012**
At cost:						
Freehold land	1,172	-	-	-	-	1,172
Buildings	11,823	24	-	11	(12)	11,846
Projects-in-progress	962	155	-	5	-	1,122
	13,957	179	-	[a] 16	(12)	14,140

Accumulated depreciation:	**At** **1.1.2012**	**Charge for the year**	**Disposal**	**Transfers**	**Translation exchange difference**	**At** **31.12.2012**
Freehold land	-	-	-	-	-	-
Buildings	2,933	462	-	-	(8)	3,387
Projects-in-progress	-	-	-	-	-	-
	2,933	462	-	-	(8)	3,387

31.12.2011	**At** **1.4.2011**	**Additions**	**Disposal**	**Transfers**	**Translation exchange difference**	**At** **31.12.2011**
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)	[b] 41	11	13,957

Accumulated depreciation:	**At** **1.4.2011**	**Charge for the period**	**Disposal**	**Transfers**	**Translation exchange difference**	**At** **31.12.2011**
Freehold land	-	-	-	-	-	-
Buildings	2,627	305	(3)	(3)	7	2,933
Projects-in-progress	-	-	-	-	-	-
	2,627	305	(3)	[c] (3)	7	2,933

[a] Comprises transfers from property, plant and equipment of RM15 million and trade and other inventories of RM8 million and transfer to trade and other receivables of (RM7 million).

[b] Comprises transfers from land held for development of RM37 million, trade and other inventories of RM11 million and property, plant and equipment of RM2 million and transfer to assets held for sale of (RM9 million).

[c] Comprises transfer to assets held for sale of (RM3 million).

4. INVESTMENT PROPERTIES (continued)

Group			**Carrying amount**
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
Freehold land	1,172	1,172	1,104
Buildings	8,459	8,890	7,777
Projects-in-progress	1,122	962	1,680
	10,753	11,024	10,561

The Directors have estimated the fair values of investment properties as at 31 December 2012 to be RM17,833,975,000 (31.12.2011: RM16,459,687,000; 1.4.2011: RM16,070,632,000). 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 carrying amount of RM4,084,466,000 (31.12.2011: RM3,352,481,000; 1.4.2011: RM3,465,042,000) have been pledged as securities for loan facilities as set out in note 22 and note 23 to the financial statements.

5. LAND HELD FOR DEVELOPMENT

Included in land held for development is freehold land amounting to RM1,012,000,000 (31.12.2011: RM1,536,000,000; 1.4.2011: RM1,132,000,000).

6. PREPAID LEASE PAYMENTS

Group **31.12.2012** *In RM Mil*	**At 1.1.2012**	**Additions**	**Disposals**	**Transfers from intangible assets**	**At 31.12.2012**
At cost:					
Leasehold land					
- long lease	132	15	-	-	147
- short lease	58	1	(8)	-	51
Prepaid rental	677	237	(1)	163	1,076
	867	253	(9)	163	1,274

Accumulated amortisation and impairment losses:	**At 1.1.2012**	**Charge for the year**	**Disposals**	**Transfers from intangible assets**	**At 31.12.2012**
Leasehold land					
- long lease	9	2	-	-	11
- short lease	28	3	(2)	-	29
Prepaid rental	205	36	-	33	274
	242	41	(2)	33	314

6. PREPAID LEASE PAYMENTS (continued)

Group 31.12.2011 *In RM Mil*	At 1.4.2011	Additions	Disposals	Transfers from/(to) property, plant and equipment	At 31.12.2011
At cost:					
Leasehold land					
- long lease	89	16	-	27	132
- short lease	58	-	-	-	58
Prepaid rental	630	54	-	(7)	677
	777	70	-	20	867

Accumulated amortisation and impairment losses:	At 1.4.2011	Charge for the period	Disposals	Transfers to property, plant and equipment	At 31.12.2011
Leasehold land					
- long lease	7	2	-	-	9
- short lease	26	2	-	-	28
Prepaid rental	193	17	-	(5)	205
	226	21	-	(5)	242

Group *In RM Mil*		Carrying amount	
	31.12.2012	31.12.2011	1.4.2011
Leasehold land			
- long lease	136	123	82
- short lease	22	30	32
Prepaid rental	802	472	437
	960	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

In RM Mil			Company
	31.12.2012	31.12.2011	1.4.2011
Investments at cost in Malaysia			
- quoted shares	16,284	16,284	16,284
- unquoted shares	26,511	25,107	24,117
Fair value adjustments on loans and advances and financial guarantee	5,732	6,044	6,325
	48,527	47,435	46,726
Less: Impairment losses			
- unquoted shares	(1,519)	(956)	(948)
	47,008	46,479	45,778
Market value of quoted shares	85,010	77,380	84,756

Details of significant subsidiaries are stated in note 44 to the financial statements.

8. INVESTMENTS IN ASSOCIATES

In RM Mil	Group 31.12.2012	Group 31.12.2011	Group 1.4.2011	Company 31.12.2012	Company 31.12.2011	Company 1.4.2011
Investments at cost						
- quoted shares						
- in Malaysia	256	256	256	302	302	302
- unquoted shares	2,725	2,622	2,512	-	-	-
Share of post-acquisition profits and reserves	2,524	2,593	3,029	-	-	-
	5,505	5,471	5,797	302	302	302
Less: Impairment losses						
- unquoted shares	(1,060)	(90)	(72)	-	-	-
	4,445	5,381	5,725	302	302	302
Market value of quoted shares	918	867	852	918	867	852
Summary of financial information on associates:						
Total assets (100%)	23,961	21,697	25,320	2,018	1,013	1,021
Total liabilities (100%)	(12,546)	(10,796)	(13,092)	(1,348)	(137)	(176)
Revenue (100%)	12,140	10,641	12,659	522	485	455
Profit (100%)	2,448	2,307	4,512	159	181	150
Contingent liabilities:						
Guarantees extended to third parties	(2,763)	(3,444)	(3,757)	-	-	(2)

Details of significant associates are stated in note 45 to the financial statements.

9. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

In RM Mil	Group 31.12.2012	Group 31.12.2011	Group 1.4.2011	Company 31.12.2012	Company 31.12.2011	Company 1.4.2011
Investments at cost						
- unquoted shares	4,186	4,166	4,116	677	677	677
Fair value adjustments on loans and advances and financial guarantee	1,358	1,437	1,275	717	717	717
Share of post-acquisition profits and reserves	1,740	1,382	492	-	-	-
	7,284	6,985	5,883	1,394	1,394	1,394
Less: Impairment losses	(59)	(43)	(47)	(9)	(9)	(9)
	7,225	6,942	5,836	1,385	1,385	1,385
Summary of financial information on jointly controlled entities:						
Total assets (100%)	27,011	24,678	18,038	3,732	3,831	3,875
Total liabilities (100%)	(16,512)	(15,791)	(11,733)	(1,834)	(2,098)	(2,139)
Revenue (100%)	7,075	5,809	3,091	1,232	316	615
Profit (100%)	2,055	1,208	592	226	57	249
Contingent liabilities:						
Guarantees extended to third parties	(1)	-	(2)	(1)	-	(2)

Details of significant jointly controlled entities are stated in note 46 to the financial statements.

10. INTANGIBLE ASSETS

Group

31.12.2012 *In RM Mil*	**At 1.1.2012**	**Additions**	**Disposal/ write-offs**	**Transfers**
At cost:				
Goodwill	5,512	63	-	-
Exploration expenditure	12,975	4,063	(2,117)	(2,011)
Other intangible assets	5,389	2,501	(78)	(184)
	23,876	6,627	(2,195)	[a] (2,195)

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Accumulated amortisation and impairment losses:	**At 1.1.2012**	**Charge for the year**	**Disposal/ write-offs**	**Transfers**
Goodwill	222	-	-	-
Exploration expenditure	1,692	-	-	-
Other intangible assets	1,348	1,032	-	(38)
	3,262	1,032	-	[b] (38)

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31.12.2011	**At 1.4.2011**	**Additions**	**Disposal/ write-offs**	**Transfer/ Reclass**
At cost:				
Goodwill	5,810	-	-	-
Exploration expenditure	6,587	6,304	(341)	98
Other intangible assets	3,723	1,974	(52)	(216)
	16,120	8,278	(393)	[c] (118)

continue to next page

Accumulated amortisation and impairment losses:	**At 1.4.2011**	**Charge for the period**	**Disposal/ write-offs**	**Reclass**
Goodwill	542	-	-	-
Exploration expenditure	965	-	-	35
Other intangible assets	1,341	155	(43)	(35)
	2,848	155	(43)	-

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[a] Comprises transfers to property, plant and equipment of (RM2,025 million), prepaid lease payments of (RM163 million) and assets held for sale of (RM7 million).

[b] Comprises transfers to prepaid lease payments of (RM33 million), assets held for sale of (RM3 million) and property, plant and equipment of (RM2 million).

[c] Comprises transfer to property, plant and equipment of (RM118 million).

10. INTANGIBLE ASSETS (continued)

Group 31.12.2012 *In RM Mil*	Acquisition of subsidiary	Translation exchange difference	At 31.12.2012
At cost:			
Goodwill	-	(37)	5,538
Exploration expenditure	14,480	(734)	26,656
Other intangible assets	-	(129)	7,499
	14,480	(900)	39,693

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Accumulated amortisation and impairment losses:	Impairment loss	Acquisition of subsidiary	Translation exchange difference	At 31.12.2012
Goodwill	6	-	(16)	212
Exploration expenditure	2,266	-	(55)	3,903
Other intangible assets	-	-	(20)	2,322
	2,272	-	(91)	6,437

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31.12.2011	Acquisition/ (disposal) of subsidiaries	Translation exchange difference	At 31.12.2011
At cost:			
Goodwill	(325)	27	5,512
Exploration expenditure	(55)	382	12,975
Other intangible assets	-	(40)	5,389
	(380)	369	23,876

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Accumulated amortisation and impairment losses:	Impairment loss/ (write-back)	Acquisition/ (disposal) of subsidiaries	Translation exchange difference	At 31.12.2011
Goodwill	25	(341)	(4)	222
Exploration expenditure	688	-	4	1,692
Other intangible assets	(47)	-	(23)	1,348
	666	(341)	(23)	3,262

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10. INTANGIBLE ASSETS (continued)

Group		**Carrying Amount**	
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
Goodwill	5,326	5,290	5,268
Exploration expenditure	22,753	11,283	5,622
Other intangible assets	5,177	4,041	2,382
	33,256	20,614	13,272

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 (31.12.2011 and 1.4.2011: 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 2013 to 2017, adjusted with an estimated terminal value. The cash flow assumes a long term growth rate of 2.9% (31.12.2011: 2.8%; 1.4.2011: 2.9%) and is discounted to present value using discount rate of between 8.4% and 9.1% (31.12.2011: 8.2% and 9.4%; 1.4.2011: 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 RM256 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 RM472 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% (31.12.2011: 9%; 1.4.2011: 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 RM6,000,000 (31.12.2011: RM25,000,000; 1.4.2011: RM351,000,000) was recognised. The impairment loss was allocated to goodwill and is included in administration expenses.

11. LONG TERM RECEIVABLES

In RM Mil	Group 31.12.2012	Group 31.12.2011	Group 1.4.2011	Company 31.12.2012	Company 31.12.2011	Company 1.4.2011
Term loans and advances:						
Loans and advances due from subsidiaries	-	-	-	75,914	65,207	67,151
Term loans due from subsidiaries	-	-	-	-	3,714	3,502
Loans and advances due from associates and jointly controlled entities	1,564	1,788	918	-	-	-
	1,564	1,788	918	75,914	68,921	70,653
Derivative assets (note 13)	-	491	433	-	1,298	1,663
Other receivables	2,510	2,309	2,317	-	-	-
	4,074	4,588	3,668	75,914	70,219	72,316
Less: Impairment losses						
- Term loans and advances	(158)	(2)	(68)	(503)	(503)	(503)
- Other receivables	(377)	(502)	(311)	-	-	-
	3,539	4,084	3,289	75,411	69,716	71,813

Included in the Company's loans and advances due from subsidiaries is an amount of RM41,494,220,000 (31.12.2011: RM46,735,665,000; 1.4.2011: RM44,436,480,000), which bears interest at rates ranging from 2.04% to 7.88% (31.12.2011: 2.04% to 7.88%; 1.4.2011: 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 RM1,036,049,000 (31.12.2011: RM1,242,935,000; 1.4.2011: RM538,809,000), which bears interest at rates ranging from 4.26% to 10.00% (31.12.2011: 0.95% to 10.00%; 1.4.2011: 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

In RM Mil	Group 31.12.2012	Group 31.12.2011	Group 1.4.2011	Company 31.12.2012	Company 31.12.2011	Company 1.4.2011
Non-current						
Loans and receivables						
Unquoted securities	690	715	682	-	-	-
Held-to-maturity						
Malaysian Government Securities	3,393	407	-	3,393	407	-
Corporate Private Debt Securities	3,295	2,087	-	4,879	2,087	-
	6,688	2,494	-	8,272	2,494	-
Balance carried forward	7,378	3,209	682	8,272	2,494	-

12. FUND AND OTHER INVESTMENTS (continued)

In RM Mil	Group 31.12.2012	Group 31.12.2011	Group 1.4.2011	Company 31.12.2012	Company 31.12.2011	Company 1.4.2011
Balance brought forward	7,378	3,209	682	8,272	2,494	-
Available-for-sale						
Quoted shares						
- in Malaysia	401	72	373	-	-	-
- outside Malaysia	-	-	10,344	-	-	-
Unquoted shares	277	217	428	76	76	76
	678	289	11,145	76	76	76
Less: Impairment losses						
Unquoted shares	(3)	(3)	(3)	-	-	-
	675	286	11,142	76	76	76
Total non-current investments	8,053	3,495	11,824	8,348	2,570	76
Current						
Available-for-sale						
Quoted shares						
- in Malaysia	150	611	284	150	334	286
- outside Malaysia	5,760	9,035	6,731	-	-	-
Treasury Bills	-	16,073	18,450	-	16,073	18,450
Negotiable Certificate of Deposits	485	-	-	485	-	-
	6,395	25,719	25,465	635	16,407	18,736
Fair value through profit or loss						
Designated upon initial recognition						
Quoted shares						
- outside Malaysia	2	-	104	-	-	-
Quoted securities						
- outside Malaysia	174	964	1,351	174	964	1,351
Malaysian Government Securities	7,541	5,876	6,286	7,521	5,814	6,193
Corporate Private Debt Securities	5,305	2,115	3,918	6,296	4,657	5,045
Negotiable Certificate of Deposits	1,308	514	490	1,308	514	490
Unquoted securities	149	195	250	-	-	-
Loan Stock	-	-	5	-	-	-
	14,479	9,664	12,404	15,299	11,949	13,079
Total current investments	20,874	35,383	37,869	15,934	28,356	31,815
Total fund and other investments	28,927	38,878	49,693	24,282	30,926	31,891
Representing items:						
At amortised cost	7,652	3,423	1,112	8,348	2,570	76
At fair value	21,275	35,455	48,581	15,934	28,356	31,815
	28,927	38,878	49,693	24,282	30,926	31,891

Included in corporate private debt securities of the Company are securities issued by subsidiaries amounting to RM2,575,000,000 (31.12.2011: RM2,542,000,000; 1.4.2011: RM1,127,000,000).

13. DERIVATIVE ASSETS/LIABILITIES

In RM Mil	Note	Group 31.12.2012	Group 31.12.2011	Group 1.4.2011	Company 31.12.2012	Company 31.12.2011	Company 1.4.2011
Derivative assets							
Non-current							
Forward foreign exchange contracts		-	491	433	-	1,298	1,663
Current							
Commodity swaps		14	4	4	-	-	-
Forward gas contracts		54	106	-	-	-	-
Forward foreign exchange contracts		574	38	74	430	16	17
		642	148	78	430	16	17
Included within:							
Long term receivables	11	-	491	433	-	1,298	1,663
Trade and other receivables	17	642	148	78	430	16	17
		642	639	511	430	1,314	1,680
Derivative liabilities							
Non-current							
Interest rate swaps		(26)	(281)	(303)	-	-	-
Forward foreign exchange contracts		-	-	-	-	(208)	(164)
		(26)	(281)	(303)	-	(208)	(164)
Current							
Commodity swaps		(12)	(4)	(51)	-	-	-
Interest rate swaps		(117)	(6)	(4)	-	-	-
Forward gas contracts		(15)	(18)	-	-	-	-
Forward foreign exchange contracts		(57)	(23)	(70)	(127)	(6)	(9)
Forward oil price contracts		-	(12)	(121)	-	-	-
		(201)	(63)	(246)	(127)	(6)	(9)
Included within:							
Other long term liabilities and provisions	24	(26)	(281)	(303)	-	(208)	(164)
Trade and other payables	25	(201)	(63)	(246)	(127)	(6)	(9)
		(227)	(344)	(549)	(127)	(214)	(173)

Included in the Company's 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 Nil (31.12.2011: RM807,000,000; 1.4.2011: RM1,230,000,000) and RM118,000,000 (31.12.2011: RM208,000,000; 1.4.2011: RM164,000,000) respectively.

13. DERIVATIVE ASSETS/LIABILITIES (continued)

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.

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 2012, the balance recognised under capital reserves in equity amounts to RM138,000,000 (31.12.2011: RM274,000,000; 1.4.2011: RM255,000,000) while the ineffective portion recognised under other income in profit or loss amounts to RM20,643,000 (31.12.2011: RM800,000; 1.4.2011: 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 year/period prior to offsetting are as follows:

Group **31.12.2012** *In RM Mil*	**At** **1.1.2012**	**Charged/** **(credited) to** **profit or loss**	**Acquisition** **of** **subsidiary**	**Equity**	**Translation** **exchange** **difference**	**At** **31.12.2012**
Deferred tax liabilities						
Property, plant and equipment	14,563	(1,990)	3,733	-	(210)	16,096
Other items	223	55	-	(176)	15	117
	14,786	(1,935)	3,733	(176)	(195)	16,213
Deferred tax assets						
Property, plant and equipment	(52)	341	-	-	4	293
Unused tax losses	(2,896)	(2,504)	-	(7)	19	(5,388)
Unabsorbed capital allowances	(558)	241	-	-	34	(283)
Unused reinvestment allowances	(9)	(249)	-	-	-	(258)
Unused investment tax allowances	(1,000)	(406)	-	-	-	(1,406)
Other items	(891)	(473)	-	(79)	22	(1,421)
	(5,406)	(3,050)	-	(86)	79	(8,463)

14. DEFERRED TAX (continued)

Group 31.12.2011 *In RM Mil*	At 1.4.2011	Charged/ (credited) to profit or loss	Acquisition/ (disposal) of subsidiaries	Equity	Translation exchange difference	At 31.12.2011
Deferred tax liabilities						
Property, plant and equipment	13,858	778	(285)	-	212	14,563
Other items	384	(239)	(9)	37	50	223
	14,242	539	(294)	37	262	14,786
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	(966)	140	(11)	-	(54)	(891)
	(5,356)	(142)	147	-	(55)	(5,406)

Company 31.12.2012 *In RM Mil*	Opening balance	Charged/ (credited) to profit or loss	Closing balance
Deferred tax liabilities			
Property, plant and equipment	4	168	172
Others	65	(54)	11
	69	114	183
Deferred tax assets			
Unused tax losses	(2,593)	(2,021)	(4,614)
Others	(34)	(467)	(501)
	(2,627)	(2,488)	(5,115)
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)

14. DEFERRED TAX (continued)

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:

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Deferred tax assets						
Deferred tax liabilities	1,502	809	681	183	69	149
Deferred tax assets	(7,947)	(4,696)	(4,660)	(5,115)	(2,627)	(2,257)
	(6,445)	(3,887)	(3,979)	(4,932)	(2,558)	(2,108)
Deferred tax liabilities						
Deferred tax liabilities	14,711	13,977	13,561	-	-	-
Deferred tax assets	(516)	(710)	(696)	-	-	-
	14,195	13,267	12,865	-	-	-

No deferred tax has been recognised for the following items:

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011
Deductible temporary differences	41	27	-
Unabsorbed capital allowances	1,247	1,100	771
Unused tax losses	6,342	6,617	3,885
Unused investment tax allowances	1,677	1,582	1,863
	9,307	9,326	6,519

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 approximately RM27,894,000,000 (31.12.2011: RM18,201,000,000; 1.4.2011: RM14,353,000,000) and RM18,456,000,000 (31.12.2011: RM10,372,000,000; 1.4.2011: 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 approximately RM7,301,000,000 (31.12.2011: RM5,582,000,000; 1.4.2011: RM6,339,000,000) and RM1,032,000,000 (31.12.2011: RM36,000,000; 1.4.2011: RM92,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

15. CASH AND CASH EQUIVALENTS

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Non-current						
Deposits placed:						
Banks	164	89	108	-	-	-
Current						
Cash and bank balances	4,274	4,084	2,510	1,829	2	2
Deposits placed:						
Banks	97,379	114,400	98,850	63,130	70,462	54,654
Finance companies	5	65	42	-	50	-
Other corporations	6,077	6,809	5,154	5,451	5,094	3,508
	107,735	125,358	106,556	70,410	75,608	58,164
Less: Subsidiaries cash with PETRONAS Integrated Financial Shared Service Centre	-	-	-	(18,395)	-	-
	107,735	125,358	106,556	52,015	75,608	58,164
	107,899	125,447	106,664	52,015	75,608	58,164

Beginning 1 January 2012, the Company also manages the cash and cash equivalents on behalf of certain subsidiaries through its Integrated Financial Shared Service Centre in order to allow for more efficient management of cash. The cash and cash equivalents reported in the Company's financial statements do not include the amounts managed on behalf of the subsidiaries.

Included in cash and bank balances of the Group are interest-bearing balances amounting to RM4,246,867,000 (31.12.2011: RM3,595,102,000; 1.4.2011: RM1,901,221,000).

Included in cash and bank balances of the Group are amounts of RM49,105,000 (31.12.2011: RM23,222,000; 1.4.2011: 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 RM642,216,000 (31.12.2011: RM769,891,000; 1.4.2011: 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. TRADE AND OTHER INVENTORIES

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Crude oil and condensate	4,070	2,329	2,072	-	-	-
Petroleum products	4,998	4,885	4,885	45	24	49
Petrochemical products	591	582	100	-	-	-
Liquefied natural gas	1,189	883	485	-	-	-
Stores, spares and others	2,281	2,756	1,809	-	-	-
Developed properties held for sale	358	330	349	-	-	-
Properties under development	700	601	574	-	-	-
	14,187	12,366	10,274	45	24	49

17. TRADE AND OTHER RECEIVABLES

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Trade receivables	30,948	26,631	24,388	4,601	3,220	3,066
Other receivables, deposits and prepayments	11,234	10,840	7,668	1,917	379	664
Amount due from:						
- a shareholder	-	1,000	-	-	1,000	-
- contract customers	1,359	573	271	-	-	-
- subsidiaries	-	-	-	33,159	10,799	9,090
- associates and jointly controlled entities	399	403	1,147	28	73	28
Tax recoverable	516	762	446	-	-	-
Derivative assets (note 13)	642	148	78	430	16	17
	45,098	40,357	33,998	40,135	15,487	12,865
Less: Impairment losses						
Trade receivables	(2,533)	(2,235)	(428)	(45)	(90)	(90)
Amount due from subsidiaries	-	-	-	(344)	(286)	(238)
Other receivables, deposits and prepayments	(286)	(11)	(25)	(15)	(15)	(18)
	42,279	38,111	33,545	39,731	15,096	12,519

Amount due from subsidiaries, associates and jointly controlled entities arose in the normal course of business.

Tax recoverable is subject to the agreement with the relevant tax authorities.

17. TRADE AND OTHER RECEIVABLES (continued)

Amount due from contract customers:

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011
Aggregate costs incurred to date	11,187	10,828	2,246
Add: Attributable profit	22	14	311
	11,209	10,842	2,557
Less: Progress billings	(9,850)	(10,269)	(2,286)
	1,359	573	271

18. ASSETS CLASSIFIED AS HELD FOR SALE

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Vessels	374	520	52	-	-	-
Land and building	214	153	5	47	-	-
Plant and equipment	111	39	152	-	-	-
Intangible assets	4	-	96	-	-	-
Other assets/(liabilities)	52	(81)	41	-	-	-
	755	631	346	47	-	-

The above amount represents carrying values of assets owned by the Group and the Company 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.

19. SHARE CAPITAL

In RM Mil	31.12.2012	31.12.2011	Company 1.4.2011
Authorised:			
500,000 ordinary shares of RM1,000 each	500	500	500
Issued and fully paid:			
100,000 ordinary shares of RM1,000 each	100	100	100

20. 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 2012, 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 2012 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 issuance bonus shares and redemption of preference shares by subsidiaries 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 Company's functional currency as well as foreign currency differences arising from the translation of monetary items that are considered to form part of a net investment in a foreign operation.

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.

21. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of partly-owned subsidiaries.

22. BORROWINGS

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Current						
Secured						
Term loans	549	743	602	-	-	-
Islamic financing facilities	473	300	679	-	-	-
Total current secured borrowings	1,022	1,043	1,281	-	-	-
Unsecured						
Term loans	5,927	675	536	-	-	-
Notes and Bonds	566	6,357	-	566	6,357	-
Islamic financing facilities	123	1,137	1,250	-	-	-
Revolving credits	1,415	2,729	274	-	-	-
Bankers' acceptances	-	-	41	-	-	-
Bank overdrafts	1,113	908	75	-	-	-
Total current unsecured borrowings	9,144	11,806	2,176	566	6,357	-
Total current borrowings	10,166	12,849	3,457	566	6,357	-
Non-current						
Secured						
Term loans	3,389	3,380	2,463	-	-	-
Islamic financing facilities	1,455	1,863	2,292	-	-	-
Total non-current secured borrowings	4,844	5,243	4,755	-	-	-
Unsecured						
Term loans	285	7,672	8,167	-	-	-
Notes and Bonds	17,769	19,039	24,195	15,569	16,815	22,055
Islamic financing facilities	9,153	7,720	7,237	4,582	4,797	4,536
Total non-current unsecured borrowings	27,207	34,431	39,599	20,151	21,612	26,591
Total non-current borrowings	32,051	39,674	44,354	20,151	21,612	26,591
Total borrowings	42,217	52,523	47,811	20,717	27,969	26,591

22. BORROWINGS (continued)

Terms and debt repayment schedule

Group *In RM Mil*	**Total**	**Under 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Secured					
Term loans	3,938	549	1,284	1,673	432
Islamic financing facilities	1,928	473	224	814	417
	5,866	1,022	1,508	2,487	849
Unsecured					
Term loans	6,212	5,927	155	124	6
Notes and Bonds	18,335	566	2,139	1,913	13,717
Islamic financing facilities	9,276	123	5,512	1,670	1,971
Revolving credits	1,415	1,415	-	-	-
Bank overdrafts	1,113	1,113	-	-	-
	36,351	9,144	7,806	3,707	15,694
	42,217	10,166	9,314	6,194	16,543
Company					
Unsecured					
Notes and Bonds	16,135	566	-	1,913	13,656
Islamic financing facilities	4,582	-	4,582	-	-
	20,717	566	4,582	1,913	13,656

Islamic financing facilities

Details of Islamic financing facilities are included in note 23.

Unsecured term loans

The unsecured term loans obtained by the subsidiaries primarily comprise:

In Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
USD Term loan	US$1,004	US$1,104	US$1,098
RM Term loans	RM504	RM2,328	RM2,328
BAHT Term loans	-	-	BAHT714
EURO Term loans	€859	€877	€859

These unsecured term loans bear interest at rates ranging from 1.64% to 4.46% (31.12.2011: 1.20% to 9.10%; 1.4.2011: 1.10% to 6.00%) per annum and are fully repayable at their various due dates from 2013 to 2023.

22. BORROWINGS (continued)

Unsecured Notes and Bonds

The unsecured Notes and Bonds comprise:

In Mil	31.12.2012	31.12.2011	1.4.2011
USD Notes and Bonds:			
7% Notes due 2012^	-	US$2,000	US$2,000
6 1/8% Notes due 2014*	US$700	US$700	US$700
7 3/4% Bonds due 2015	US$625	US$625	US$625
5 1/4% Guaranteed Notes due 2019^	US$3,000	US$3,000	US$3,000
7 7/8% Notes due 2022^	US$1,000	US$1,000	US$1,000
7 5/8% Bonds due 2026	US$500	US$500	US$500
Samurai Bonds			
6th Series 3.4% due 2013	¥16,000	¥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 Mil	Securities	31.12.2012	31.12.2011	1.4.2011
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$1,432	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.	RM1,133	RM1,539	RM1,312

The secured term loans bear interest at rates ranging from 1.66% to 8.00% (31.12.2011: 1.29% to 8.50%; 1.4.2011: 1.05% to 7.00%) per annum and are fully repayable at their various due dates from 2013 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 6.00% (31.12.2011: 1.08% to 10.59%; 1.4.2011: 2.57% to 6.74%) per annum.

22. BORROWINGS (continued)

Certain borrowings obtained by the Company are on-lent to subsidiaries. At the reporting date, the outstanding amounts on-lent to subsidiaries are as follows:

				Company
In RM Mil		**31.12.2012**	**31.12.2011**	**1.4.2011**
Subsidiaries	- repayable within twelve months (note 17)	454	-	-
	- 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.

23. ISLAMIC FINANCING FACILITIES

Secured Islamic Financing Facilities

The secured Islamic financing facilities obtained by the subsidiaries comprise:

In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
Al Bai'bithaman Ajil long term facilities	706	2,410	2,450
Bai' Al-Dayn Note Issuance Facilities	152	200	399
Al Murabahah Medium Term Notes	1,561	2,200	2,200

The secured Islamic financing facilities bear a yield payable ranging from 3.90% to 6.57% (31.12.2011: 3.40% to 7.20%; 1.4.2011: 3.40% to 8.30%) per annum and are fully repayable at their various due dates from 2013 to 2021.

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 Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
Murabahah Note Issuance Facilities	RM3,180	RM5,000	RM5,000
Sukuk Musyarakah	RM3,936	RM2,380	RM1,500
Ijarah Muntahiyah Bit Tamleek	RM660	RM95	RM95
Trust Certificates^	US$1,500	US$1,500	US$1,500

^ Obtained by the Company via a subsidiary.

The unsecured Islamic financing facilities bear a yield payable ranging from 3.48% to 6.25% (31.12.2011: 3.30% to 6.20%; 1.4.2011: 3.08% to 6.20%) per annum and are fully repayable at their various due dates from 2013 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 carrying amount of RM2,389,000,000 (31.12.2011: RM2,526,000,000; 1.4.2011: 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.

24. OTHER LONG TERM LIABILITIES AND PROVISIONS

			Group			Company
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**	**31.12.2012**	**31.12.2011**	**1.4.2011**
Provision for decommissioning of:						
- oil and gas properties	19,195	16,367	22,517	16,148	14,282	20,743
- other property, plant and equipment	236	229	241	-	-	-
Financial guarantees	449	464	425	489	647	680
Derivative liabilities (note 13)	26	281	303	-	208	164
Others	6,668	6,636	1,058	4,690	3,606	-
	26,574	23,977	24,544	21,327	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.

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 2012 was 4.42% (31.12.2011 and 1.4.2011: 4.42%) per annum and 3.00% (31.12.2011 and 1.4.2011: 3.00%) per annum 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 year are as follows:

In RM Mil	**Group**	**Company**
At 1 January 2012	16,596	14,282
Net changes in provision	2,137	1,182
Provision utilised	(4)	-
Unwinding of discount	773	684
Translation exchange difference	(71)	-
At 31 December 2012	19,431	16,148

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.

24. OTHER LONG TERM LIABILITIES AND PROVISIONS (continued)

During the year, 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. increase in other long term liabilities and provisions by RM969,000,000;
ii. increase in cost of property, plant and equipment by RM5,134,000,000; and
iii. increase in net profits by RM4,165,000,000.

25. TRADE AND OTHER PAYABLES

			Group			Company
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**	**31.12.2012**	**31.12.2011**	**1.4.2011**
Trade payables	19,586	16,721	14,499	1,352	1,847	1,050
Other payables	38,385	33,055	23,034	13,580	10,268	4,187
Amount due to:						
- Subsidiaries	-	-	-	1,193	2,163	1,447
- Associates and jointly controlled entities	648	569	343	-	-	19
Derivative liabilities (note 13)	201	63	246	127	6	9
	58,820	50,408	38,122	16,252	14,284	6,712

Included in other payables of the Group are security deposits of RM98,592,000 (31.12.2011: RM100,361,000; 1.4.2011: 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 RM148,294,000 (31.12.2011: RM182,216,000; 1.4.2011: RM188,180,000) and RM36,497,000 (31.12.2011: RM36,144,000; 1.4.2011: RM36,201,000) respectively.

Amount due to subsidiaries, associates and jointly controlled entities arose in the normal course of business.

26. GROSS PROFIT

In RM Mil	Group 1.1.2012 to 31.12.2012	Group 1.4.2011 to 31.12.2011	Company 1.1.2012 to 31.12.2012	Company 1.4.2011 to 31.12.2011
Revenue				
- sales of oil and gas	269,278	204,951	89,949	65,698
- others	5,984	5,043	11,977	9,528
	275,262	209,994	101,926	75,226
- rendering of services	3,053	2,689	54	29
- shipping and shipping related services	6,578	5,306	-	-
- sale and rental of properties	2,090	1,780	-	-
	11,721	9,775	54	29
- dividend income				
in Malaysia (Quoted)				
- subsidiaries	-	-	2,048	2,918
- associates	-	-	49	49
- investments	5	5	5	5
in Malaysia (Unquoted)				
- subsidiaries	-	-	17,863	11,976
- investments	28	26	28	26
outside Malaysia (Quoted)				
- investments	72	350	-	-
outside Malaysia (Unquoted)				
- jointly controlled entities	-	-	143	5
	105	381	20,136	14,979
- interest income	3,888	2,681	3,224	1,995
	290,976	222,831	125,340	92,229
Cost of revenue				
- cost of sales	(172,895)	(117,764)	(62,473)	(35,118)
- cost of services	(10,566)	(8,448)	-	-
	(183,461)	(126,212)	(62,473)	(35,118)
Gross profit	107,515	96,619	62,867	57,111

27. OPERATING PROFIT

In RM Mil	Group 1.1.2012 to 31.12.2012	Group 1.4.2011 to 31.12.2011	Company 1.1.2012 to 31.12.2012	Company 1.4.2011 to 31.12.2011
Included in operating profit are the following charges:				
Audit fees	29	26	2	1
Amortisation of:				
- intangible assets	1,032	155	-	-
- prepaid lease payments	41	21	-	-
Contribution to Tabung Amanah Negara	2,000	1,000	2,000	1,000
Depreciation of property, plant and equipment and investment properties	21,381	11,740	318	124
Impairment losses on:				
- property, plant and equipment	7,765	1,564	-	-
- intangible assets	2,469	713	-	-
- investments in associates and jointly controlled entities	808	18	-	-
- trade and other receivables	509	1,845	-	-
- loan and advances to associates, jointly controlled entities and subsidiaries	156	-	-	-
- long term receivables	-	191	-	-
- investments in subsidiaries	-	-	579	23
- receivables from subsidiaries	-	-	58	48
Inventories written down to net realisable value	210	16	-	-
Loss on disposal of subsidiaries	65	-	8	-
Net loss on foreign exchange	-	689	1,387	-
Operating lease rental	782	543	612	495
Property, plant and equipment written off	97	178	-	-
Rental of:				
- plant, machinery, equipment and motor vehicles	564	386	33	36
- land and buildings	473	322	32	26
Research and development expenditure	82	31	77	14
Staff costs				
- wages, salaries and others	7,381	5,956	830	782
- contributions to Employee's Provident Fund	800	631	173	121

27. OPERATING PROFIT (continued)

In RM Mil	Group 1.1.2012 to 31.12.2012	Group 1.4.2011 to 31.12.2011	Company 1.1.2012 to 31.12.2012	Company 1.4.2011 to 31.12.2011
and credits:				
Gain on disposal/partial disposal of:				
- other investment	1,550	2,556	169	-
- property, plant and equipment	186	74	-	-
- associates	100	-	-	-
- subsidiaries	-	570	120	-
Interest income - others	470	158	2,626	2,208
Rental income on land and buildings	292	173	202	179
Write back of impairment losses on:				
- property, plant and equipment	253	674	-	-
- intangible assets	197	47	-	-
- trade and other receivables	45	14	45	3
- investments in subsidiaries	-	-	16	15
- loan and advances to associates, jointly controlled entities and subsidiaries	-	66	-	-
- investments in associates and jointly controlled entities	-	4	-	-
Net gain on foreign exchange	85	-	-	1,109

28. OPERATING LEASES

Total future minimum lease payments under non-cancellable operating leases are as follows:

In RM Mil	Group 31.12.2012	Group 31.12.2011	Company 31.12.2012	Company 31.12.2011
Less than one year	853	903	596	612
Between one and five years	2,893	3,355	2,358	2,376
More than five years	3,353	3,504	5,361	5,939
	7,099	7,762	8,315	8,927

29. TAX EXPENSE

In RM Mil	Group 1.1.2012 to 31.12.2012	Group 1.4.2011 to 31.12.2011	Company 1.1.2012 to 31.12.2012	Company 1.4.2011 to 31.12.2011
Current tax expenses				
Malaysia				
Current year/period	32,178	25,292	16,706	14,413
Prior year	208	(740)	-	(133)
Overseas				
Current year/period	2,679	2,207	-	-
Prior year	(63)	(14)	-	-
Total current tax expenses	35,002	26,745	16,706	14,280
Deferred tax expense				
Origination and reversal of temporary differences	(4,819)	(459)	(2,374)	(640)
(Over)/under provision in prior period	(166)	856	-	190
Total deferred tax expenses	(4,985)	397	(2,374)	(450)
Total tax expenses	30,017	27,142	14,332	13,830

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:

In RM Mil	%	1.1.2012 to 31.12.2012	%	1.4.2011 to 31.12.2011
Group				
Profit before taxation		89,079		83,042
Taxation at Malaysian statutory tax rate	25	22,270	25	20,761
Effect of different tax rates in foreign jurisdictions	1	750	1	585
Effect of different tax rates between corporate income tax and petroleum income tax	8	7,496	8	6,320
Effect of changes in tax rates	-	(13)	-	66
Non deductible expenses, net of non assessable income	3	2,638	1	1,098
Tax exempt income	(3)	(2,528)	(3)	(2,639)
Tax incentives	-	(556)	-	(58)
Effect of (net utilisation deferred tax benefits previously not recognised)/net deferred tax benefits not recognised	-	(5)	1	702
Foreign exchange translation difference	-	(14)	-	205
	34	30,038	33	27,040
(Over)/under provision in prior years		(21)		102
Tax expense		30,017		27,142

29. TAX EXPENSE (continued)

In RM Mil	%	1.1.2012 to 31.12.2012	%	1.4.2011 to 31.12.2011
Company				
Profit before taxation		60,639		54,031
Taxation at Malaysian statutory tax rate	25	15,160	25	13,508
Effect of different tax rates between corporate income tax and petroleum income tax	10	5,909	10	5,154
Non assessable income, net of non deductible expenses	(3)	(1,881)	(2)	(1,303)
Tax exempt income	(8)	(4,856)	(7)	(3,586)
	24	14,332	26	13,773
Under provision in prior years		-		57
Tax expense		14,332		13,830

30. DIVIDENDS

In RM Mil	Company 1.1.2012 to 31.12.2012	1.4.2011 to 31.12.2011
Ordinary:		
Final:		
Tax exempt dividend of RM280,000 (31.12.2011 : RM220,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial period 31 December 2011 (31.12.2011: 31 March 2011)	28,000	22,000
Interim:		
First tax exempt dividend of RMNil (31.12.2011 : RM20,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2012 (31.12.2011: 31 December 2011)	-	2,000
	28,000	24,000
Proposed:		
Final:		
Tax exempt dividend of RM270,000 (31.12.2011: RM280,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2012 (31.12.2011: 31 December 2011)	27,000	28,000

The proposed tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM270,000 per ordinary share amounting to RM27 billion in respect of the financial year ended 31 December 2012, has not been accounted for in the financial statements.

31. NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES

The cash (used in)/generated from investing activities comprise:

	Group		Company	
In RM Mil	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**
Acquisition of:				
- subsidiaries, net of cash acquired (note 33)	(17,751)	(55)	-	-
- additional shares in subsidiaries	-	-	(290)	-
Dividends received	105	381	20,136	14,821
Investment in:				
- associates, jointly controlled entities and unquoted companies	(258)	(146)	-	-
- securities	(13,273)	(3,640)	(13,821)	(6,085)
Long term receivables and advances (to)/repaid from:				
- subsidiaries	-	-	(29,214)	3,243
- associates and jointly controlled entities	323	(861)	-	-
Net cost incurred in property development cost	-	(120)	-	-
Other long term receivables	(170)	135	-	-
Proceeds from disposal/partial disposal of:				
- investment in subsidiaries, net of cash disposed (note 33)	145	521	157	39
- investment in associates	144	-	-	-
- property, plant and equipment, prepaid lease payments and intangible assets	963	287	-	-
- securities and other investment	24,999	13,425	21,978	7,220
Purchase of:				
- property, plant and equipment, prepaid lease payments and intangible assets	(45,623)	(30,800)	(2,574)	(428)
- other investments	(32)	(176)	-	-
Redemption of preference shares in subsidiaries	-	-	16	68
	(50,428)	(21,049)	(3,612)	18,878

32. NET CASH USED IN FINANCING ACTIVITIES

The cash used in financing activities comprise:

In RM Mil	Group 1.1.2012 to 31.12.2012	Group 1.4.2011 to 31.12.2011	Company 1.1.2012 to 31.12.2012	Company 1.4.2011 to 31.12.2011
Dividends paid	(27,461)	(30,000)	(27,461)	(30,000)
Dividends paid to non-controlling interests	(6,545)	(6,502)	-	-
Drawdown of:				
- Islamic financing facilities	2,060	706	-	-
- term loans, notes and bonds	402	1,172	-	-
- revolving credits and bankers' acceptances	2,483	3,805	-	-
Repayment of:				
- Islamic financing facilities	(1,621)	(1,477)	-	-
- term loans, notes and bonds	(8,881)	(635)	(7,599)	-
- revolving credits and bankers' acceptances	(3,774)	(1,299)	-	-
Payment to non-controlling interests on redemption of shares	(54)	(36)	-	-
Payment to non-controlling interests on additional equity interest	(8)	-	-	-
Proceeds from shares issued to non-controlling interests	72	37	-	-
	(43,327)	(34,229)	(35,060)	(30,000)

33. ACQUISITIONS AND DISPOSALS

Acquisition of Progress Energy Resources Corporation

On 12 December 2012, the Group via its wholly-owned subsidiary, PETRONAS Carigali Canada Ltd. ("PCCL"), acquired 100% interest in Progress Energy Resources Corporation ("Progress Energy") and its group of companies ("Progress Energy Group"), a Canada-based energy corporation focused on natural gas exploration, development and production in northeast British Columbia and northwest Alberta, for a total purchase consideration of C$5,803.9 million (approximately RM17,859.0 million). PCCL and Progress Energy were subsequently amalgamated after which the amalgamated corporation is named Progress Energy Canada Ltd. The net profit contributed by Progress Energy Group from the date of acquisition to 31 December 2012 is not material in relation to the Group's consolidated net profit for the year.

33. ACQUISITIONS AND DISPOSALS (continued)

***Acquisition of Progress Energy Resources Corporation** (continued)*

The effect of acquisition of Progress Energy Group on the cash flows and fair values of assets and liabilities acquired at date of acquisition are as follows:

In RM Mil	**At initial recognition**	**Fair value adjustment**	**At fair value**
Property, plant and equipment	7,077	(890)	6,187
Intangible assets	857	13,623	14,480
Cash and cash equivalents	108	-	108
Other assets	1,510	-	1,510
Borrowings	(431)	-	(431)
Deferred tax liability	(135)	(3,598)	(3,733)
Other liabilities	(262)	-	(262)
	8,724	9,135	17,859

Purchase consideration	17,859
Less: Cash and cash equivalents of subsidiaries acquired	(108)
Cash flow on acquisition, net of cash acquired (note 31)	17,751

Disposal of subsidiaries

During the financial year, the Group disposed of several subsidiaries for a total consideration of RM157 million. The net profit contributed by these subsidiaries from 1 January 2012 to the date of disposal is not material in relation to the consolidated net profit of the Group for the year.

The net effect of the above disposals of subsidiaries on the Group's cash flows is RM145 million.

34. 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**
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**	**31.12.2012**	**31.12.2011**	**1.4.2011**
Property, plant and equipment						
Approved and contracted for						
Less than one year	16,715	20,045	10,824	1,559	1,107	15
Between one and five years	24,397	13,993	16,086	1,177	124	337
More than five years	281	221	67	20	-	-
	41,393	34,259	26,977	2,756	1,231	352
Approved but not contracted for						
Less than one year	13,215	16,125	20,027	436	2,576	17
Between one and five years	45,814	67,422	37,338	531	9,046	23
More than five years	-	-	2,461	-	-	2,451
	59,029	83,547	59,826	967	11,622	2,491
	100,422	117,806	86,803	3,723	12,853	2,843

34. COMMITMENTS (continued)

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Share of capital expenditure of joint venture						
Approved and contracted for						
Less than one year	14,421	11,124	10,401	-	-	-
Between one and five years	2,668	4,697	6,121	-	-	-
More than five years	1,409	-	-	-	-	-
	18,498	15,821	16,522	-	-	-
Approved but not contracted for						
Less than one year	4,916	11,530	5,354	-	-	-
Between one and five years	38,708	55,177	49,310	-	-	-
	43,624	66,707	54,664	-	-	-
	62,122	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	162,544	200,334	158,615	3,723	12,853	2,843

35. CONTINGENT LIABILITIES (UNSECURED)

In RM Mil	31.12.2012	31.12.2011	Group 1.4.2011	31.12.2012	31.12.2011	Company 1.4.2011
Guarantees extended to third parties	468	285	155	-	-	-
Claims filed by/disputes with various parties	-	-	3	-	-	3
Contingent payments	265	301	258	-	-	-
	733	586	416	-	-	3

On 21 March 2012, following an application by the Terengganu State Government, the legal suit brought against the Company and the Federal Government in the year 2000 has been withdrawn.

35. CONTINGENT LIABILITIES (UNSECURED) (continued)

The Kelantan State Government brought a suit against the Company in 2010 in respect of payment of petroleum proceeds under the terms of the agreement dated 9 May 1975 entered into between the Kelantan State Government and PETRONAS (the "Agreement"). There is no specific amount claimed by way of damages. The Kelantan State Government has also taken out an injunction which is yet to be heard directing PETRONAS to make payments of all alleged cash payments to the Kelantan State Government. PETRONAS has been advised by its solicitors there is no merit in the claim by the Kelantan State Government.

PETRONAS has taken out an application under Order 14A for a construction of the Agreement and other relevant statutes to determine the liability (which is denied) if any and the High Court and the Court of Appeal have made an order for the Court to hear such an application. There is presently pending in the Federal Court an appeal against the decision of the Court of Appeal. The Government of Malaysia, though not a party to the original suit, has intervened in the above suit and the High Court and the Court of Appeal have affirmed the intervention.

During the financial year, certain individuals brought a claim against PETRONAS and the State Government of Sabah wherein the individuals are seeking a declaration that the agreement dated 14 June 1976 entered into between the State Government of Sabah and PETRONAS is ultra vires and null and void; and a declaration that the Petroleum Development Act of 1974 is also ultra vires and null and void. The individuals are also claiming damages.

PETRONAS has been advised by its solicitors that there is no merit in the claim by the plaintiffs. PETRONAS has taken out an application to strike out the claim of the plaintiffs and the application is fixed for hearing on 15 April 2013 before the High Court in Kota Kinabalu. The State Government of Sabah is also taking out an application to strike out the claim of the plaintiffs.

36. RELATED PARTY DISCLOSURES

Key management personnel compensation

In RM Mil	1.1.2012 to 31.12.2012	Group and Company 1.4.2011 to 31.12.2011
Directors remuneration:		
- Fees	4	2
- Emoluments	23	15

The estimated monetary value of Directors' benefits-in-kind is RM171,000 (31.12.2011: RM183,000).

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.

The Company's related parties include subsidiaries, associates, jointly controlled entities as well as the Government of Malaysia and its related entities as the Company is wholly-owned by the Government of Malaysia.

36. 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 year/period:

Group *In RM Mil*	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**
Federal and State Governments of Malaysia:		
Petroleum proceeds	12,286	8,614
Sale of petroleum products	347	293
Government of Malaysia's related entities:		
Sales of petroleum products, processed gas and utilities	6,335	4,760
Associate companies:		
Sales of petrochemical products, processed gas and utilities	3,696	2,598
Purchase of petrochemical products, processed gas and utilities	(65)	(37)
Lease and rental expenses	(284)	(222)
Other expenses	(189)	(46)
Other income	231	14
Jointly controlled entities:		
Sales of petrochemical products, processed gas, petroleum products and general merchandise	593	137
Interest receivable from jointly controlled entities	74	54
Gas processing fee payable	(383)	(244)
Other income	682	323
Company		
Federal and State Governments of Malaysia:		
Petroleum proceeds	12,286	8,614
Government of Malaysia's related entities:		
Sales of petroleum products, processed gas and utilities	2,056	1,280
Subsidiaries:		
Sales of crude oil, petroleum products and natural gas	57,010	40,434
Interest receivable from subsidiaries	2,587	1,948
Purchase of crude oil and natural gas	(32,697)	(17,803)
Gas processing fee payable	(2,182)	(2,137)
Research cess	128	101
Supplemental payments	5,655	4,377
Associate companies:		
Sale of processed gas	1,798	1,276
Jointly controlled entities:		
Gas processing fee payable	(383)	(244)

Information regarding outstanding balances arising from related party transactions as at 31 December 2012 are disclosed in note 11, note 17 and note 25.

Information regarding impairment losses on receivables and bad debts written off during the financial year are disclosed in note 27.

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.

37. 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.

37. OPERATING SEGMENTS (continued)

Group 31.12.2012 *In RM Mil*	Exploration and Production	Gas and Power	Downstream	Corporate and Others	Consolidation adjustments and eliminations	Total
Revenue						
Third parties	49,063	79,176	148,407	14,330	-	290,976
Inter-segment	59,924	6,720	1,928	4,224	(72,796)	-
Total revenue	108,987	85,896	150,335	18,554	(72,796)	290,976
Reportable segment profit	28,972	16,423	6,070	4,177	1,325	56,967
Included in the measure of segment profit are:						
Depreciation and amortisation	(16,507)	(1,559)	(2,293)	(2,095)	-	(22,454)
Impairment losses	(10,217)	(47)	(190)	(445)	-	(10,899)
Tax expense	(22,322)	(5,929)	(1,544)	(222)	-	(30,017)
Segment assets	199,990	73,768	87,066	163,742	(36,258)	488,308
Included in the measure of segment assets are:						
Investments in associates and jointly controlled entities	2,720	3,726	1,084	4,140	-	11,670
Additions to non-current assets other than financial instruments and deferred tax assets	29,328	8,774	4,102	5,557	-	47,761

37. OPERATING SEGMENTS (continued)

Group 31.12.2011 *In RM Mil*	Exploration and Production	Gas and Power	Downstream	Corporate and Others	Consolidation adjustments and eliminations	Total
Revenue						
Third parties	40,469	55,577	115,816	10,969	-	222,831
Inter-segment	46,932	5,751	1,395	3,685	(57,763)	-
Total revenue	87,401	61,328	117,211	14,654	(57,763)	222,831
Reportable segment profit/(loss)	36,452	12,149	4,539	(625)	(289)	52,226
Included in the measure of segment profit/(loss) are:						
Depreciation and amortisation	(6,574)	(1,267)	(2,163)	(1,912)	-	(11,916)
Impairment losses	(3,288)	(5)	(293)	(745)	-	(4,331)
Tax expense	(20,095)	(4,787)	(1,553)	(707)	-	(27,142)
Segment assets	166,082	63,755	81,554	188,086	(24,331)	475,146
Included in the measure of segment assets are:						
Investments in associates and jointly controlled entities	2,476	4,443	1,035	4,369	-	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

Certain items in the comparative figures have been reclassified between segments to be consistent with current year presentation.

37. OPERATING SEGMENTS (continued)

Reconciliations of reportable segment profits

Group *In RM Mil*	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**
Total reportable segment profit	56,967	52,226
Financing cost, net of tax	(1,946)	(1,363)
Share of profits of associates and jointly controlled entities, net of tax	1,518	1,317
Unrealised foreign exchange gains/(losses)	926	(584)
Other non-operating income, net of tax	1,597	4,304
Profit for the year/period	59,062	55,900

Products and services segments

The following are revenue from external customers by product and service:

Group *In RM Mil*	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**
Petroleum products	111,498	84,046
Crude oil and condensates	54,849	49,772
Liquefied natural gas	62,468	45,183
Sales and natural gas	24,301	14,506
Petrochemicals	16,162	11,444
Shipping services	6,578	5,306
Investment income	3,888	2,681
Others	11,232	9,893
	290,976	222,831

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 *In RM Mil*	**1.1.2012 to 31.12.2012**	**1.4.2011 to 31.12.2011**	**At 31.12.2012**	**At 31.12.2011**
Asia	144,670	114,680	24,004	25,616
Malaysia	69,570	52,569	190,676	172,067
South Africa	38,441	27,130	2,735	2,725
Rest of the world	38,295	28,452	55,192	39,011
	290,976	222,831	272,607	239,419

Major customers

As at 31 December 2012, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

38. 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, is 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.

38. 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.

39. SIGNIFICANT AND SUBSEQUENT EVENTS

Petroleum operations in the Republic of South Sudan

As disclosed in the previous year's financial statements, the Group's petroleum operations in the Republic of South Sudan ("RSS") were shut down for the most part of 2012 following a Shut Down Order issued by the Government of the RSS. To-date, the Group's petroleum operations in the RSS have yet to resume. Currently, the Group and other operators continue to undertake technical preparation and maintenance activities as allowed by the Government of the RSS. The impact of the shut down is not material in relation to the consolidated net profit of the Group for the year.

Conditional take-over offer to MISC Berhad

On 31 January 2013, the Company issued a notice on conditional take-over offer to its subsidiary, MISC Berhad ("MISC"), for the remaining shares in MISC which it does not hold for a cash price of RM5.30 per share. MISC is currently listed on the Main Market of Bursa Malaysia Securities Berhad. The offer is conditional upon the Company receiving valid acceptances which would result in the Company holding 90% or more of the total MISC's shares as well as obtaining approval from the relevant authorities.

The offer is currently in progress and, if successful, will result in the Company holding 90% or more of the total MISC's shares.

40. 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")

40. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Group **31.12.2012** *In RM Mil*	**Note**	**L&R/ (L&B)**	**FVTPL - DUIR**	**FVTPL - HFT**	**AFS**	**HTM**	**Total carrying amount**
Financial assets							
Long term receivables	*	3,315	-	-	-	-	3,315
Fund and other investments	12	690	14,479	-	7,070	6,688	28,927
Trade and other receivables	*	40,346	-	642	-	-	40,988
Cash and cash equivalents	15	107,899	-	-	-	-	107,899
		152,250	14,479	642	7,070	6,688	181,129
Financial liabilities							
Borrowings	22	(42,217)	-	-	-	-	(42,217)
Other long term liabilities	*	(449)	-	(26)	-	-	(475)
Trade and other payables	*	(54,613)	-	(201)	-	-	(54,814)
Dividend payable		(539)	-	-	-	-	(539)
		(97,818)	-	(227)	-	-	(98,045)
31.12.2011							
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	22	(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)

* 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.

40. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Group 1.4.2011 *In RM Mil*	Note	L&R/ (L&B)	FVTPL - DUIR	FVTPL - HFT	AFS	HTM	Total carrying amount
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	22	(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)
Company 31.12.2012							
Financial assets							
Long term receivables	11	75,411	-	-	-	-	75,411
Fund and other investments	12	-	15,299	-	711	8,272	24,282
Trade and other receivables	*	39,153	-	430	-	-	39,583
Cash and cash equivalents	15	52,015	-	-	-	-	52,015
		166,579	15,299	430	711	8,272	191,291
Financial liabilities							
Borrowings	22	(20,717)	-	-	-	-	(20,717)
Other long term liabilities	*	(489)	-	-	-	-	(489)
Trade and other payables	*	(16,125)	-	(127)	-	-	(16,252)
Dividend payable		(539)	-	-	-	-	(539)
		(37,870)	-	(127)	-	-	(37,997)

* 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.

40. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Company 31.12.2011 *In RM Mil*	Note	L&R/ (L&B)	FVTPL - DUIR	FVTPL - HFT	AFS	HTM	Total carrying amount
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	22	(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)
1.4.2011							
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	22	(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.

The fair value of borrowings is shown on page 221. For all other financial instruments, the carrying amounts are either the fair value, or are not materially different from the fair value.

40. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

The fair value movements for financial assets categorised as at fair value through profit or loss are mainly attributable to changes in market price.

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.

40. FINANCIAL INSTRUMENTS (continued)

Receivables *(continued)*

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.

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
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**	**31.12.2012**	**31.12.2011**	**1.4.2011**
At net						
Current	25,684	22,281	21,243	3,902	2,983	2,760
Past due 1 to 30 days	1,621	1,190	1,002	253	32	27
Past due 31 to 60 days	257	304	579	21	32	25
Past due 61 to 90 days	149	103	288	50	20	25
Past due more than 90 days	704	518	848	330	63	139
	28,415	24,396	23,960	4,556	3,130	2,976
Representing:						
Trade receivables (note 17)	30,948	26,631	24,388	4,601	3,220	3,066
Less: Impairment losses (note 17)	(2,533)	(2,235)	(428)	(45)	(90)	(90)
	28,415	24,396	23,960	4,556	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 year/period are as follows:

		Group		Company
In RM Mil	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Opening balance	2,235	428	90	90
Impairment loss/(reversal) recognised	314	1,845	(45)	-
Impairment written off	(16)	(38)	-	-
Closing balance	2,533	2,235	45	90

40. FINANCIAL INSTRUMENTS (continued)

Fund and other investments

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 96% (31.12.2011: 94%; 1.4.2011: 97%) of the investments in domestic securities and 4% (31.12.2011: 6%; 1.4.2011: 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 RM680,000,000 (31.12.2011: RM707,000,000; 1.4.2011: RM680,000,000) 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 24.

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:

40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Group **31.12.2012** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
Loans and borrowings				
Secured Term Loans				
USD fixed rate loan	968	5.00	1,047	411
USD floating rate loan	988	2.04	1,122	120
RM fixed rate loan	534	6.41	604	63
RM floating rate loan	584	4.07	663	61
Other fixed rate loan	189	4.93	211	2
Other floating rate loan	675	5.45	690	14
Unsecured Term Loans				
USD floating rate loan	2,319	1.68	2,361	2,344
RM floating rate loan	278	4.47	320	121
EURO floating rate loan	3,478	2.99	3,584	3,575
Other fixed rate loan	72	3.81	82	28
Other floating rate loan	65	8.54	80	36
Unsecured Notes and Bonds				
USD Notes	5,261	7.10	7,689	307
USD Guaranteed Notes	9,065	5.25	12,254	482
USD Bonds	3,443	7.69	5,442	265
JPY Bonds	566	3.40	577	577
Unsecured revolving credits				
RM revolving credits	491	3.45	508	508
GBP revolving credits	818	2.00	834	834
Other revolving credits	106	2.14	107	107
Unsecured bank overdrafts				
EURO bank overdrafts	115	1.00	116	116
ZAR bank overdrafts	913	6.25	970	970
Other bank overdrafts	85	14.69	97	97
Secured Islamic financing facilities				
RM Islamic financing facilities	1,928	5.51	2,569	589
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,582	4.25	4,898	195
RM Islamic financing facilities	4,694	5.36	6,175	408
Trade and other payables	54,613	-	54,613	54,613
Dividend payable	539	-	539	539
Fair value through profit or loss – held for trading				
Derivative liabilities	227	-	227	201
	97,596		108,379	67,583

continue to next page

40. FINANCIAL INSTRUMENTS (continued)

Maturity analysis *(continued)*

Group **31.12.2012** *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
Loans and borrowings			
Secured Term Loans			
USD fixed rate loan	398	238	-
USD floating rate loan	174	532	296
RM fixed rate loan	495	38	8
RM floating rate loan	57	429	116
Other fixed rate loan	43	148	18
Other floating rate loan	223	442	11
Unsecured Term Loans			
USD floating rate loan	16	1	-
RM floating rate loan	120	79	-
EURO floating rate loan	4	4	1
Other fixed rate loan	18	32	4
Other floating rate loan	27	17	-
Unsecured Notes and Bonds			
USD Notes	2,511	723	4,148
USD Guaranteed Notes	482	1,446	9,844
USD Bonds	265	2,356	2,556
JPY Bonds	-	-	-
Unsecured revolving credits			
RM revolving credits	-	-	-
GBP revolving credits	-	-	-
Other revolving credits	-	-	-
Unsecured bank overdrafts			
EURO bank overdrafts	-	-	-
ZAR bank overdrafts	-	-	-
Other bank overdrafts	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	547	987	446
Unsecured Islamic financing facilities			
USD Islamic financing facilities	4,703	-	-
RM Islamic financing facilities	1,182	2,208	2,377
Trade and other payables	-	-	-
Dividend payable	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	26	-	-
	11,291	9,680	19,825

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40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Group **31.12.2011** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
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	6.35	667	65
RM floating rate loan	618	4.16	722	64
Other fixed rate loan	209	4.65	238	80
Other floating rate loan	262	11.26	313	32
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	8.68	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	1.00	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

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40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Group **31.12.2011** *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
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
Other fixed rate loan	42	93	23
Other floating rate loan	27	244	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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40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Group **1.4.2011** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
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

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40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Group **1.4.2011** *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
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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40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Company **31.12.2012** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	3,061	7.88	5,325	241
USD Guaranteed Notes	9,065	5.25	12,254	482
USD Bonds	3,443	7.69	5,442	265
JPY Bonds	566	3.40	577	577
Unsecured Islamic financing facilities				
USD Islamic financing facilities	4,582	4.25	4,898	195
Trade and other payables	16,125	-	16,125	16,125
Dividend payable	539	-	539	539
Fair value through profit or loss – held for trading				
Derivative liabilities	127	-	127	127
	37,508		45,287	18,551

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31.12.2011				
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

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40. FINANCIAL INSTRUMENTS (continued)

Maturity analysis *(continued)*

Company

31.12.2012 *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	241	723	4,120
USD Guaranteed Notes	482	1,446	9,844
USD Bonds	265	2,356	2,556
JPY Bonds	-	-	-
Unsecured Islamic financing facilities			
USD Islamic financing facilities	4,703	-	-
Trade and other payables	-	-	-
Dividend payable	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	-	-	-
	5,691	4,525	16,520

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31.12.2011			
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

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40. FINANCIAL INSTRUMENTS (continued)

***Maturity analysis** (continued)*

Company **1.4.2011** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
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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40. FINANCIAL INSTRUMENTS (continued)

Maturity analysis *(continued)*

Company **1.4.2011** *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
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

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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.

40. FINANCIAL INSTRUMENTS (continued)

***Interest rate risk** (continued)*

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
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**	**31.12.2012**	**31.12.2011**	**1.4.2011**
Fixed rate instruments						
Financial assets	127,928	133,445	125,559	107,125	136,467	113,693
Financial liabilities	(39,657)	(50,969)	(45,719)	(20,717)	(27,969)	(27,272)
	88,271	82,476	79,840	86,408	108,498	86,421
Floating rate instruments						
Financial assets	2,834	5,629	4,434	31,666	13,384	15,211
Financial liabilities	(2,702)	(1,841)	(2,399)	-	-	-
	132	3,788	2,035	31,666	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.

40. 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:

Group

In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
Denominated in USD			
Financial assets			
Loan and advances to subsidiaries	50,909	43,458	62,250
Cash and cash equivalents	14,766	5,142	15,319
Trade and other receivables	29,222	10,489	7,722
Long term receivables	301	2,412	1,846
Fund and other investments	174	588	989
Other financial assets	504	816	1,303
	95,876	62,905	89,429
Financial liabilities			
Loan and advances from holding company	(8,482)	(4,461)	(16,360)
Borrowings	(20,151)	(27,660)	(26,466)
Trade and other payables	(7,816)	(5,950)	(6,362)
Other financial liabilities	(923)	(834)	(1,311)
	(37,372)	(38,905)	(50,499)
Net exposure	58,504	24,000	38,930
Denominated in MYR			
Financial assets			
Cash and cash equivalents	3,054	277	2,040
Trade and other receivables	2,606	2,896	1,052
Long term receivables	-	496	-
Fund and other investments	9	1	33
	5,669	3,670	3,125
Financial liabilities			
Loan and advances from holding company	(935)	(1,537)	(2,962)
Borrowings	-	(80)	-
Trade and other payables	(10,465)	(468)	(2,537)
	(11,400)	(2,085)	(5,499)
Net exposure	(5,731)	1,585	(2,374)

40. FINANCIAL INSTRUMENTS (continued)

***Foreign exchange risk** (continued)*

Group

In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**
Denominated in AUD			
Financial assets			
Cash and cash equivalents	678	181	177
Trade and other receivables	7	44	5
Fund and other investments	110	2,094	361
Other financial assets	122	13	-
	917	2,332	543
Financial liabilities			
Loan and advances from holding company	-	-	(36)
Trade and other payables	(277)	(276)	(98)
	(277)	(276)	(134)
Net exposure	640	2,056	409

Company

	31.12.2012	31.12.2011	1.4.2011
Denominated in USD			
Financial assets			
Loan and advances to subsidiaries	46,872	42,927	53,314
Cash and cash equivalents	13,809	3,758	13,461
Trade and other receivables	23,674	5,543	3,773
Fund and other investments	174	566	989
Other financial assets	-	808	1,247
	84,529	53,602	72,784
Financial liabilities			
Borrowings	(20,151)	(27,315)	(26,004)
Trade and other payables	(3,205)	(2,359)	(1,026)
Other financial liabilities	(451)	(502)	(500)
	(23,807)	(30,176)	(27,530)
Net exposure	60,722	23,426	45,254

40. 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 2012 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2012 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:

31.12.2012	**Appreciation in foreign currency rate**		**Group**		**Company**
In RM Mil	**%**	**Reserve**	**Profit or loss**	**Reserve**	**Profit or loss**
USD	5	2,587	231	-	3,036
MYR	5	-	(287)	-	-
AUD	5	-	32	-	-
31.12.2011					
USD	5	1,633	(425)	-	1,357
MYR	5	-	79	-	-
AUD	5	-	101	-	-

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.

40. FINANCIAL INSTRUMENTS (continued)

***Equity price risk** (continued)*

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.

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
In RM Mil	**31.12.2012**	**31.12.2011**	**1.4.2011**	**31.12.2012**	**31.12.2011**	**1.4.2011**
Local equities	551	683	657	150	334	286
Foreign equities	5,762	9,035	17,179	-	-	-
	6,313	9,718	17,836	150	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
31.12.2012			**Profit**		**Profit**
In RM Mil	**%**	**Reserve**	**or loss**	**Reserve**	**or loss**
Local equities	15	101	-	23	-
Foreign equities	15 to 20	868	-	-	-
31.12.2011					
Local equities	15	119	-	50	-
Foreign equities	15 to 20	1,440	-	-	-

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.

40. FINANCIAL INSTRUMENTS (continued)

Fair value

The fair values of financial liabilities measured at amortised cost, together with the carrying amounts are as follows:

			31.12.2012		31.12.2011		1.4.2011
Group		**Carrying**	**Fair**	**Carrying**	**Fair**	**Carrying**	**Fair**
In RM Mil	**Note**	**amount**	**value**	**amount**	**value**	**amount**	**value**
Loans and borrowings							
Notes and Bonds	22	18,335	22,719	25,396	29,003	24,195	27,084
Term loans	22	10,150	10,018	12,470	12,460	11,768	11,834
Islamic financing facilities	22	11,204	11,454	11,020	12,491	11,458	11,701
Revolving credits	22	1,415	1,415	2,729	2,729	274	274
Bankers' acceptances	22	-	-	-	-	41	41
Bank overdrafts	22	1,113	1,113	908	908	75	75
Company							
Loans and borrowings							
Notes and Bonds	22	16,135	20,374	23,172	26,774	22,055	24,758
Islamic financing facilities	22	4,582	4,816	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).

40. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Group

31.12.2012 *In RM Mil*	**Level 1**	**Level 2**	**Total**
Financial assets			
Quoted shares	6,313	-	6,313
Negotiable Certificate of Deposits	-	1,793	1,793
Quoted securities	-	174	174
Malaysian Government Securities	-	7,541	7,541
Corporate Private Debt Securities	-	5,305	5,305
Unquoted securities	-	149	149
Forward foreign exchange contracts	-	574	574
Commodity swaps	-	14	14
Forward gas contracts	54	-	54
	6,367	15,550	21,917
Financial liabilities			
Interest rate swaps	-	(143)	(143)
Forward foreign exchange contracts	-	(57)	(57)
Commodity swaps	-	(12)	(12)
Forward gas contracts	(15)	-	(15)
	(15)	(212)	(227)
31.12.2011			
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
	9,824	26,270	36,094
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)

40. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Group
1.4.2011

In RM Mil	Level 1	Level 2	Total
Financial assets			
Quoted shares	17,836	-	17,836
Treasury Bills	-	18,450	18,450
Negotiable Certificate of Deposits	-	490	490
Quoted securities	-	1,351	1,351
Malaysian Government Securities	-	6,286	6,286
Corporate Private Debt Securities	-	3,918	3,918
Unquoted securities	-	250	250
Forward foreign exchange contracts	-	507	507
Commodity swaps	-	4	4
	17,836	31,256	49,092
Financial liabilities			
Interest rate swaps	-	(307)	(307)
Forward foreign exchange contracts	-	(70)	(70)
Commodity swaps	-	(51)	(51)
Forward oil price contracts	(121)	-	(121)
	(121)	(428)	(549)

Company
31.12.2012

	Level 1	Level 2	Total
Financial assets			
Quoted shares	150	-	150
Negotiable Certificate of Deposits	-	1,793	1,793
Quoted securities	-	174	174
Malaysian Government Securities	-	7,521	7,521
Corporate Private Debt Securities	-	6,296	6,296
Forward foreign exchange contracts	-	430	430
	150	16,214	16,364
Financial liabilities			
Forward foreign exchange contracts	-	(127)	(127)
	-	(127)	(127)

40. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Company

31.12.2011

In RM Mil	Level 1	Level 2	Total
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)

1.4.2011

	Level 1	Level 2	Total
Financial assets			
Quoted shares	286	-	286
Treasury Bills	-	18,450	18,450
Negotiable Certificate of Deposits	-	490	490
Quoted securities	-	1,351	1,351
Malaysian Government Securities	-	6,193	6,193
Corporate Private Debt Securities	-	5,045	5,045
Forward foreign exchange contracts	-	1,680	1,680
	286	33,209	33,495
Financial liabilities			
Forward foreign exchange contracts	-	(173)	(173)
	-	(173)	(173)

40. FINANCIAL INSTRUMENTS (continued)

Income/(expense), net gains and losses arising from financial instruments

Group **1.1.2012** **to 31.12.2012** *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	(28)	(28)
- Designated upon initial recognition	664	-	-	(2)	662
Held-to-maturity	122	-	-	-	122
Available-for-sale					
- recognised in profit or loss	-	-	-	1,650	1,650
- recognised in equity	-	-	-	570	570
Loans and receivables					
- recognised in profit or loss	3,572	-	(620)	172	3,124
- recognised in equity	-	-	-	(1,528)	(1,528)
Financial liabilities at amortised cost	-	(2,162)	-	(132)	(2,294)
Total	4,358	(2,162)	(620)	702	2,278
1.4.2011 **to 31.12.2011**					
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)

40. FINANCIAL INSTRUMENTS (continued)

Income/(expense), net gains and losses arising from financial instruments (continued)

Company **1.1.2012** **to 31.12.2012** *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	(95)	(95)
- Designated upon initial recognition	655	-	-	(14)	641
Held-to-maturity	122	-	-	-	122
Available-for-sale					
- recognised in profit or loss	-	-	-	197	197
- recognised in equity	-	-	-	(117)	(117)
Loans and receivables	5,073	-	(13)	(1,587)	3,473
Financial liabilities at amortised cost	-	(994)	-	219	(775)
Total	5,850	(994)	(13)	(1,397)	3,446
1.4.2011 **to 31.12.2011**					
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

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.

41. 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 year.

42. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2013

MFRS 10 *Consolidated Financial Statements*
MFRS 11 *Joint Arrangements*
MFRS 12 *Disclosure of Interests in Other Entities*
MFRS 13 *Fair Value Measurement*
MFRS 119 *Employee Benefits (2011)*
MFRS 127 *Separate Financial Statements (2011)*
MFRS 128 *Investments in Associates and Joint Ventures (2011)*
Amendments to MFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 1 *First–time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 10 *Consolidated Financial Statements: Transition Guidance*
Amendments to MFRS 11 *Joint Arrangements: Transition Guidance*
Amendments to MFRS 12 *Disclosure of Interests in Other Entities: Transition Guidance*
Amendments to MFRS 101 *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 116 *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 132 *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 134 *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

Effective for annual periods beginning on or after 1 January 2015

MFRS 9 *Financial Instruments (2009)*
MFRS 9 *Financial Instruments (2010)*
Amendments to MFRS 7 *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

42. PRONOUNCEMENTS YET IN EFFECT (continued)

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The Group and the Company is currently assessing the impact of adopting the above pronouncements. Key highlights are discussed below:

i. MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets of the Group and the Company will be measured at either fair value or amortised cost.

ii. MFRS 10 *Consolidated Financial Statements*

MFRS 10 introduces a new single control model to determine which investees should be consolidated. MFRS 10 supersedes MFRS 127 *Consolidated and Separate Financial Statements* and IC Interpretation 112 *Consolidation – Special Purpose Entities*. Upon adoption of MFRS 10, the Group and the Company may need to consolidate certain existing investees under the new control model while certain subsidiaries may need to be deconsolidated from the results of the Group and accounted for in accordance with other applicable accounting standards.

iii. MFRS 11 *Joint Arrangements*

MFRS 11 establishes the principles for classification and accounting for joint arrangements and supersedes MFRS 131 *Interests in Joint Ventures*. Under MFRS 11, a joint arrangement may be classified as joint venture or joint operation. Interest in joint venture will be accounted for using the equity method whilst interest in joint operation will be accounted for using the applicable standards relating to the underlying assets, liabilities, income and expense items arising from the joint operations.

43. PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2013

IC 20 *Stripping Costs in the Production Phase of a Surface Mine*
Amendments to IC 2 *Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 1 *First–time Adoption of Malaysian Financial Reporting Standards - Government Loans*

44. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES

The significant subsidiary undertakings of the Company at 31 December 2012 and the Group percentage of share capital are set out below:

		Effective Percentage Holding 31.12.2012 %	Effective Percentage Holding 31.12.2011 %	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 Chad Marketing Inc.	100	100	Cayman Islands	Trading of petroleum products
	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
	PAPL (Downstream) Pty. Limited	100	100	Australia	Production and transportation of liquefied natural gas for export
	PETRONAS Carigali (Jabung) Ltd.	100	100	Bahamas	Petroleum operations
	PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	100	100	Malaysia	Petroleum operations
	PETRONAS Carigali Canada B.V.	100	100	Netherlands	Investment holding

44. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

	Effective Percentage Holding 31.12.2012 %	Effective Percentage Holding 31.12.2011 %	Country of Incorporation	Principal Activities
Progress Energy Canada Ltd.	100	-	Canada	Petroleum and gas exploration, development and production
Progress Deep Basin Ltd.	100	-	Canada	Petroleum and gas exploration, development and production
Progress Montney Ltd.	100	-	Canada	Petroleum and gas exploration, development and production
Progress Ventures Ltd.	100	-	Canada	Petroleum and gas exploration, development and production
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
PETRONAS (E&P) Overseas Ventures Sdn. Bhd. (formerly known as PETRONAS Natuna Sdn. Bhd.)	100	100	Malaysia	Investment holding
∞ 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
Engen Petroleum Ltd.	80	80	South Africa	Refining and distribution of petroleum products

44. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

		Effective Percentage Holding 31.12.2012 %	Effective Percentage Holding 31.12.2011 %	Country of Incorporation	Principal Activities
	PETRONAS Marketing Sudan Limited	100	100	Sudan	Marketing of petroleum products
∞	Energas Insurance (L) Limited	100	100	Malaysia	Offshore captive insurance business
∞	MITCO Labuan Co. Ltd.	100	100	Malaysia	General merchandise trading
∞	PETRONAS LNG Ltd.	100	100	Malaysia	Trading of natural gas and LNG
	PETRONAS Energy Trading Ltd.	100	100	United Kingdom	Trading of natural gas and LNG
	PETRONAS LNG (UK) Limited	100	100	United Kingdom	Trading of natural gas and LNG
*	Malaysia LNG Sdn. Bhd.	90	90	Malaysia	Liquefaction and sale of LNG
*	Malaysia LNG Dua Sdn. Bhd.	60	60	Malaysia	Liquefaction and sale of LNG
*	Malaysia LNG Tiga Sdn. Bhd.	60	60	Malaysia	Liquefaction and sale of LNG
@ *	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

44. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

	Effective Percentage Holding		Country of Incorporation	Principal Activities
	31.12.2012	31.12.2011		
	%	%		
PETRONAS Chemicals Aromatics Sdn. Bhd. (formerly known as 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
PETRONAS Chemicals Derivatives Sdn. Bhd. (formerly known as OPTIMAL Chemicals (Malaysia) Sdn. Bhd.)	64.3	64.3	Malaysia	Manufacturing and selling ethylene and propylene derivative products
PETRONAS Chemicals Ethylene Sdn. Bhd.	56.3	56.3	Malaysia	Production and sale of ethylene
PETRONAS Chemicals Ammonia Sdn. Bhd.	64.3	64.3	Malaysia	Production and sale of ammonia, syngas and carbon monoxide
PETRONAS Chemicals Fertilizer Kedah Sdn. Bhd.	64.3	64.3	Malaysia	Production and sale of urea, ammonia and methanol
PETRONAS Chemicals Glycols (Malaysia) Sdn. Bhd.	64.3	64.3	Malaysia	Manufacturing and selling ethylene oxide, ethylene glycol and other glycols
PETRONAS Chemicals Marketing Sdn. Bhd.	64.3	64.3	Malaysia	Petrochemicals and general trading
PETRONAS Chemicals Methanol Sdn. Bhd.	64.3	64.3	Malaysia	Production and sale of methanol
PETRONAS Chemicals MTBE Sdn. Bhd.	64.3	64.3	Malaysia	Production and sale of methyl tertiary butyl ether and propylene
PETRONAS Chemicals Olefins Sdn. Bhd.	56.6	56.6	Malaysia	Manufacturing and marketing of ethylene, propylene and other hydrocarbon products
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	64.3	64.3	Malaysia	Manufacturing and marketing of ammonia, urea and any component or derivative substances

44. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

		Effective Percentage Holding 31.12.2012 %	Effective Percentage Holding 31.12.2011 %	Country of Incorporation	Principal Activities
*	PrimeSourcing International 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
∞	Gumusut-Kakap Semi-Floating Production System (L) Limited	81.3	62.6	Malaysia	Leasing of semi floating production storage
*	KLCC (Holdings) Sdn. Bhd.	100	100	Malaysia	Property investment related activities and property development
	MISC Tankers Sdn. Bhd.	62.6	62.6	Malaysia	Investment holding and provision of management services
	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

44. SIGNIFICANT SUBSIDIARIES AND ACTIVITIES (continued)

		Effective Percentage Holding 31.12.2012 %	Effective Percentage Holding 31.12.2011 %	Country of Incorporation	Principal Activities
@ *	KLCC Property Holdings Berhad	52.6	52.6	Malaysia	Investment holding and property investment
	Suria KLCC Sdn. Bhd.	31.6	31.6	Malaysia	Property investment
	Arena Merdu Sdn. Bhd.	51.0	51.0	Malaysia	Property investment
*	Institute of Technology PETRONAS Sdn. Bhd.	100	100	Malaysia	Institute of higher learning
∞	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.

45. SIGNIFICANT ASSOCIATES AND ACTIVITIES

	Effective Percentage Holding		Country of Incorporation	Principal Activities
	31.12.2012	31.12.2011		
	%	%		
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.	9.0	12.1	Malaysia	Selling, marketing, distribution and promotion of natural gas
GMR Energy (Singapore) Pte. Ltd.	30.0	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

46. SIGNIFICANT JOINTLY-CONTROLLED ENTITIES AND ACTIVITIES

	Effective Percentage Holding		Country of Incorporation	Principal Activities
	31.12.2012 %	31.12.2011 %		
BP PETRONAS Acetyls Sdn. Bhd.	19.3	19.3	Malaysia	Manufacture, sell and distribute acetic acid
Dragon LNG Group Ltd.	50.0	50.0	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

47. EFFECT OF FIRST TIME ADOPTION OF MFRS

These financial statements represent the Group and the Company's first application of MFRS and MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") has been applied.

The general principle that should be applied on first-time adoption of MFRS is that accounting standards in force at the first annual reporting date should be applied retrospectively. However, MFRS 1 contains a number of exemptions which first-time adopters are permitted to apply. The Group and the Company have elected:

i. to adopt MFRS 3 *Business Combinations* retrospectively from 1 October 2009;
ii. to measure certain items of property, plant and equipment at their fair values at 1 April 2011 and use that fair values as their deemed costs at that date;
iii. to deem cumulative currency translation differences to be zero at 1 April 2011; and
iv. to adopt MFRS 121 *The Effects of Changes in Foreign Exchange Rates* to goodwill and fair value adjustments arising in business combinations prospectively from 1 April 2011.

The impact of the above election of MFRS 1 transitional exemptions are set out below:

i. Retrospective application of MFRS 3 *Business Combinations*

MFRS 1 provides the option to apply MFRS 3 prospectively from the date of transition or retrospectively from a designated date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition. Where MFRS 3 is applied retrospectively from a designated date, MFRS 127 *Consolidated and Separate Financial Statements* shall be applied from the same date.

The Group has elected to apply MFRS 3 retrospectively from 1 October 2009. As such, all business combinations on or after 1 October 2009 are accounted for in compliance with MFRS 3 and MFRS 127 which include among others, the following requirements applicable to the Group:

- increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity and therefore previously-recognised goodwill, if any, shall be taken to retained profits.
- when a business combination is achieved in stages (i.e. step acquisition), the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss.

The impact from electing the above transitional exemption is summarised as follows:

Consolidated statement of profit or loss and other comprehensive income *In RM Mil*	**1.4.2011 to 31.12.2011**
Decrease in amortisation of intangible assets	127
Increase in deferred tax expense	(32)

Consolidated statement of financial position *In RM Mil*	**31.12.2011**	**1.4.2011**
Decrease in intangible assets	(1,990)	(2,117)
Decrease in deferred tax liabilities	(341)	(373)
Decrease in non-controlling interests	(589)	(622)
Decrease in retained profits	(1,060)	(1,122)

47. EFFECT OF FIRST TIME ADOPTION OF MFRS (continued)

ii. Fair value of property, plant and equipment as deemed cost

The Group has elected to measure certain items of property, plant and equipment at 1 April 2011 at their fair value and use that fair value as deemed cost at that date. These property, plant and equipment will continue to be measured using the cost model subsequent to 1 April 2011. The Group recognises the fair value adjustments directly in retained profits.

The aggregate fair value of these property, plant and equipment was determined to be RM1,068,000,000 compared to their carrying amount of RM1,694,000,000 at 1 April 2011. The detailed impact is summarised as follows:

Consolidated statement of profit or loss and other comprehensive income *In RM Mil*	**1.4.2011 to 31.12.2011**
Decrease in depreciation of property, plant and equipment	73

Consolidated statement of financial position *In RM Mil*	**31.12.2011**	**1.4.2011**
Decrease in property, plant and equipment	(562)	(626)
Decrease in deferred tax liabilities	(20)	(20)
Decrease in non-controlling interests	(194)	(217)
Decrease in retained profits	(348)	(389)

iii. Cumulative currency translation differences deemed as zero

The Group has elected to apply the transition exemption to deem the amount of "foreign currency translation reserve" to be zero at 1 April 2011, other than reserve amount recorded by entities within the Group which had already adopted the International Financial Reporting Standards prior to 1 January 2012.

The gain or loss on subsequent disposal of any foreign operations of the Group shall exclude translation differences that arose before 1 April 2011 and shall include translation differences subsequent to 1 April 2011.

The impact from electing the above transitional exemption is summarised as follows:

Consolidated statement of profit or loss and other comprehensive income *In RM Mil*	**1.4.2011 to 31.12.2011**
Increase in other income	170
Decrease in net movement from exchange differences	(170)

Consolidated statement of financial position *In RM Mil*	**31.12.2011**	**1.4.2011**
Increase in foreign currency translation reserve	13,233	13,403
Decrease in retained profits	(13,233)	(13,403)

47. EFFECT OF FIRST TIME ADOPTION OF MFRS (continued)

iv. Prospective application of MFRS 121 *The Effects of Changes in Foreign Exchange Rates* to goodwill and fair value adjustments arising in business combinations

MFRS 121 requires any goodwill and fair value adjustments to carrying amounts of assets and liabilities arising from an acquisition of a foreign operation, to be treated as assets and liabilities of the foreign operation and therefore shall need to be translated using the closing rate at the end of each reporting period.

MFRS 1 provides the option to apply MFRS 121 to such goodwill and fair value adjustments prospectively from the date of transition. As such, the carrying amounts of goodwill and fair value adjustments arising from acquisitions of foreign operations are stated at the previously-translated carrying amounts and are not subsequently re-translated in the Group's financial statements.

There is no financial impact to the Group's statement of financial position and retained profits as a result of electing the above transitional exemption.

v. Others

In addition to the above impact resulting from electing certain transitional exemptions under MFRS 1, other adjustments and reclassifications to the Group's statement of financial position and retained profits are summarised below. These adjustments arose mainly due to changes in revenue recognition for property development activities from stage of completion to full completion method for certain subsidiaries within the Group.

Consolidated statement of profit or loss and other comprehensive income *In RM Mil*	**1.4.2011 to 31.12.2011**
Increase in property development revenue	34
Increase in property development cost	(49)
Decrease in income tax expense	3

Consolidated statement of financial position *In RM Mil*	**31.12.2011**	**1.4.2011**
Increase in deferred tax assets	7	4
Increase in trade and other inventories	601	574
Decrease in trade and other receivables	(15)	(63)
Decrease in property development costs	(507)	(441)
Increase in trade and other payables	98	83
Decrease in non-controlling interests	(7)	(4)
Decrease in retained profits	(5)	(5)

Further detailed reconciliations and explanations of how the transition from the previous FRS to MFRS has affected the Group's statement of financial position, profit or loss and other comprehensive income, changes in equity and cash flows are set out as follows:

47. EFFECT OF FIRST TIME ADOPTION OF MFRS (continued)

a. Reconciliation of consolidated statement of financial position at 31 December 2011

In RM Mil	Note	FRS	Effect of transition to MFRS 31 December 2011	MFRS
ASSETS				
Property, plant and equipment	47(ii)	206,117	(562)	205,555
Investment properties		11,024	-	11,024
Land held for development		1,601	-	1,601
Prepaid lease payments		625	-	625
Investments in associates		5,381	-	5,381
Investments in jointly controlled entities		6,942	-	6,942
Intangible assets	47(i)	22,604	(1,990)	20,614
Long term receivables		4,084	-	4,084
Fund and other investments		3,495	-	3,495
Deferred tax assets	47(v)	3,880	7	3,887
Cash and cash equivalents		89	-	89
TOTAL NON-CURRENT ASSETS		265,842	(2,545)	263,297
Property development costs	47(v)	507	(507)	-
Trade and other inventories	47(v)	11,765	601	12,366
Trade and other receivables	47(v)	38,126	(15)	38,111
Assets classified as held for sale		631	-	631
Fund and other investments		35,383	-	35,383
Cash and cash equivalents		125,358	-	125,358
TOTAL CURRENT ASSETS		211,770	79	211,849
TOTAL ASSETS		477,612	(2,466)	475,146
EQUITY				
Share capital		100	-	100
Reserves	47(i),(ii),(v)	288,210	(1,413)	286,797
Total equity attributable to shareholders of the Company		288,310	(1,413)	286,897
Non-controlling interests	47(i),(ii),(v)	32,869	(790)	32,079
TOTAL EQUITY		321,179	(2,203)	318,976
LIABILITIES				
Borrowings		39,674	-	39,674
Deferred tax liabilities	47(i),(ii)	13,628	(361)	13,267
Other long term liabilities and provisions		23,977	-	23,977
TOTAL NON-CURRENT LIABILITIES		77,279	(361)	76,918
Trade and other payables	47(v)	50,310	98	50,408
Borrowings		12,849	-	12,849
Taxation		15,995	-	15,995
TOTAL CURRENT LIABILITIES		79,154	98	79,252
TOTAL LIABILITIES		156,433	(263)	156,170
TOTAL EQUITY AND LIABILITIES		477,612	(2,466)	475,146

47. EFFECT OF FIRST TIME ADOPTION OF MFRS (continued)

a. Reconciliation of consolidated statement of financial position at 1 April 2011

In RM Mil	Note	FRS	Effect of transition to MFRS 1 April 2011	MFRS
ASSETS				
Property, plant and equipment	47(ii)	191,575	(626)	190,949
Investment properties		10,561	-	10,561
Land held for development		1,641	-	1,641
Prepaid lease payments		551	-	551
Investments in associates		5,725	-	5,725
Investments in jointly controlled entities		5,836	-	5,836
Intangible assets	47(i)	15,389	(2,117)	13,272
Long term receivables		3,289	-	3,289
Fund and other investments		11,824	-	11,824
Deferred tax assets	47(v)	3,975	4	3,979
Cash and cash equivalents		108	-	108
TOTAL NON-CURRENT ASSETS		250,474	(2,739)	247,735
Property development costs	47(v)	441	(441)	-
Trade and other inventories	47(v)	9,700	574	10,274
Trade and other receivables	47(v)	33,608	(63)	33,545
Assets classified as held for sale		346	-	346
Fund and other investments		37,869	-	37,869
Cash and cash equivalents		106,556	-	106,556
TOTAL CURRENT ASSETS		188,520	70	188,590
TOTAL ASSETS		438,994	(2,669)	436,325
EQUITY				
Share capital		100	-	100
Reserves	47(i),(ii),(v)	263,688	(1,516)	262,172
Total equity attributable to shareholders of the Company		263,788	(1,516)	262,272
Non-controlling interests	47(i),(ii),(v)	32,126	(843)	31,283
TOTAL EQUITY		295,914	(2,359)	293,555
LIABILITIES				
Borrowings		44,354	-	44,354
Deferred tax liabilities	47(i),(ii)	13,258	(393)	12,865
Other long term liabilities and provisions		24,544	-	24,544
TOTAL NON-CURRENT LIABILITIES		82,156	(393)	81,763
Trade and other payables	47(v)	38,039	83	38,122
Borrowings		3,457	-	3,457
Taxation		13,428	-	13,428
Dividend payable		6,000	-	6,000
TOTAL CURRENT LIABILITIES		60,924	83	61,007
TOTAL LIABILITIES		143,080	(310)	142,770
TOTAL EQUITY AND LIABILITIES		438,994	(2,669)	436,325

47. EFFECT OF FIRST TIME ADOPTION OF MFRS (continued)

b. Reconciliation of consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2011

In RM Mil	Note	FRS	Effect of transition to MFRS 1.4.2011 to 31.12.2011	MFRS
Revenue	47(v)	222,797	34	222,831
Cost of revenue	47(ii),(v)	(126,236)	24	(126,212)
Gross profit		96,561	58	96,619
Selling and distribution expenses		(3,585)	-	(3,585)
Administration expenses	47(i)	(10,663)	127	(10,536)
Other expenses		(4,050)	-	(4,050)
Other income	47(iii)	5,135	170	5,305
Operating profit		83,398	355	83,753
Financing costs		(2,028)	-	(2,028)
Share of profit after tax and non-controlling interests of equity accounted associates and jointly controlled entities		1,317	-	1,317
Profit before taxation		82,687	355	83,042
Tax expense	47(i),(v)	(27,113)	(29)	(27,142)
Profit for the period		55,574	326	55,900
Other comprehensive income/(expenses)				
Items that may be reclassified subsequently to profit or loss				
Net movements from exchange differences	47(iii)	5,204	(170)	5,034
Available-for-sale financial assets				
- Changes in fair value		(1,875)	-	(1,875)
- Transfer to profit or loss upon disposal		(3,068)	-	(3,068)
Other comprehensive expenses		(33)	-	(33)
Total other comprehensive income/(expenses) for the period		228	(170)	58
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		55,802	156	55,958
Profit attributable to:				
Shareholders of the Company		48,863	273	49,136
Non-controlling interests		6,711	53	6,764
PROFIT FOR THE PERIOD		55,574	326	55,900
Total comprehensive income attributable to:				
Shareholders of the Company		48,558	103	48,661
Non-controlling interests		7,244	53	7,297
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		55,802	156	55,958

47. EFFECT OF FIRST TIME ADOPTION OF MFRS (continued)

c. Reconciliation of consolidated statement of changes in equity

In RM Mil	**Note**	**Foreign currency translation reserve**	**Retained profits**	**Total**	**Non-controlling interests**
Impact as at 1 April 2011	47(e)	13,403	(14,919)	(1,516)	(843)
Movement during the period		(170)	273	103	53
Impact as at 31 December 2011	47(e)	13,233	(14,646)	(1,413)	(790)

d. Reconciliation of consolidated statement of cash flows

The adoption of MFRS does not result in material differences to the Group's statement of cash flows.

e. Notes to reconciliations

i. Retained profits

The changes that affected retained profits are as follows:

In RM Mil	**Note**	**31.12.2011**	**1.4.2011**
Retrospective application of MFRS 3 and MFRS 127	47(i)	1,060	1,122
Fair value of property, plant and equipment as deemed cost	47(ii)	348	389
Cumulative currency translation differences deemed as zero	47(iii)	13,233	13,403
Others	47(v)	5	5
Decrease in retained profits		14,646	14,919

ii. Non-controlling interests

The changes that affected non-controlling interests are as follows:

In RM Mil	**Note**	**31.12.2011**	**1.4.2011**
Retrospective application of MFRS 3 and MFRS 127	47(i)	589	622
Fair value of property, plant and equipment as deemed cost	47(ii)	194	217
Others	47(v)	7	4
Decrease in non-controlling interests		790	843

iii. Foreign currency translation reserve

The changes that affected foreign currency translation reserve are as follows:

In RM Mil	**Note**	**31.12.2011**	**1.4.2011**
Cumulative currency translation differences deemed as zero	47(iii)	13,233	13,403

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 2012 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 121 to 243.

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is 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 give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

KPMG Desa Megat & Co.
Firm Number: AF 0759
Chartered Accountants

Johan Idris
Partner
Approval Number: 2585/10/14(J)
Chartered Accountant

Petaling Jaya, Malaysia

Date: 26 February 2013

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS

KLCC (Holdings) Sdn. Bhd. and its subsidiaries:

- Putrajaya Homes Sdn. Bhd.
- Hartamas Riang 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 Development 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.
- Antara Merdu Sdn. Bhd.
- Pelangi Maksima 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.
- Pedoman Semarak 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.
- Indah Putrajaya 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.
- 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
- WG Parcel B, LLC

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.
- MISC Offshore Floating Terminals Dua (L) Ltd.
- 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 MCV Alpha L.L.C.
- AET MCV Gamma L.L.C.
- AET Brasil Services Maritamos Ltda
- 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 Agencies (Thailand) Co. 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.
- Gas Asia Terminal (L) Private Ltd.
- 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.
- AET Sea Shuttle AS
- AET MCV Delta Sdn. Bhd.
- AET MCV Beta L.L.C.
- AET MCV Alpha Pte. Ltd.
- AET Brasil STS Ltda

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.
- E&P O&M Services Sdn. Bhd.
- PETRONAS Chad Marketing Inc.
- PC Algeria Ltd. (ϒ)
- 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.
- E&P Malaysia Venture Sdn. Bhd.
- 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 Ventures Solution Co. Sdn. Bhd.

PETRONAS Chemicals Group Berhad's subsidiaries:

- Kertih Port Sdn. Bhd.
- PETRONAS Chemicals Ammonia Sdn. Bhd.
- Phu My Plastics and Chemicals Co. Ltd.(α)
- PETRONAS Chemicals Glycols (Malaysia) Sdn. Bhd.
- Vinyl Chloride (Malaysia) Sdn. Bhd.
- PETRONAS Chemicals LDPE Sdn. Bhd. (formerly known as Petlin (Malaysia) Sdn. Bhd.)
- PETRONAS Chemicals Fertilizer Kedah Sdn. Bhd.
- PETRONAS Chemicals Derivatives Sdn. Bhd. (formerly known as OPTIMAL Chemicals (Malaysia) Sdn. Bhd.)
- PETRONAS Chemicals Olefins 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. (ϒ)
- PETRONAS Carigali Myanmar Inc.
- PC Nile Ltd.
- PC Greenland Holding Ltd.
- PC Greenland A/S
- PETRONAS Carigali Myanmar III Inc.
- Argentinean Pipeline Holding Company 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 International Power Corporation BV (α)
- PETRONAS LNG 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 Oil Tanking 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 Co. Limited
- Nada Properties Company Ltd.
- Natuna 1 B.V.
- Engen Petroleum (Mauritius) 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)
- Engen Reunion SA
- PETRONAS Marketing (Thailand) Co. Ltd. (α)
- PETRONAS Natuna Sdn. Bhd.
- PETRONAS Brasil E&P Limitada
- PETRONAS Sierra Leone E&P Ltd.
- Japan Malaysia LNG Co. Ltd.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS International Corporation Ltd. and its subsidiaries (continued):

- Kabuye Depot Holding Company Rwanda Ltd.
- PICL Siri Company Limited (α)
- PICL Downstream (Mauritius) Ltd.
- PSE Kinsale Energy Ltd.
- PT PETRONAS Niaga Indonesia (α)
- PC Mauritania I Pty Limited (α)
- PC Mauritania II B.V. (α)
- 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. (α)
- PETRONAS Marketing Ventures Ltd.
- Thang Long LPG JV Company Ltd.
- Voltage Renewables Sdn. Bhd.
- Trek Petroleum (Pty.) Ltd.
- Zenex Oil (Pty.) Ltd.
- Engen Oil Lesotho (Pty.) 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)
- Valais Investments (Pty.) Ltd.
- PETRONAS Carigali Canada B.V.
- Progress Energy Co. Ltd.
- PETRONAS Myanmar Ltd.
- Ximex Energy Holdings (PVT) Ltd.
- Societe de Transport Mace SA
- Engen Company (Mauritius) Ltd.
- Engen Properties (Pty.) Ltd.
- Engen Marketing Tanzania 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.

PETRONAS Lubricants International Sdn. Bhd.'s 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)
- PLI (Netherlands) B.V.
- PETRONAS Lubricants China Co. Ltd. (α)
- Finco (UK) Ltd.
- PETRONAS Marketing China Co. 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)
- FL Nominees Ltd. (α)
- PETRONAS Lubricants (India) Private Ltd. (ϒ)
- PETRONAS Marketing (Netherlands) B.V.
- PETRONAS Lubricants Shandong Co. Ltd. (α)
- PETRONAS Lubricants Africa Ltd.

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRM OF ACCOUNTANTS (continued)

PETRONAS Technical Services Sdn. Bhd.'s subsidiary:

- PTSSB JLT

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)
- PETRONAS Technical Training Sdn. Bhd.

ϒ Consolidated based on management financial statements.
α Audited by affiliates of KPMG Desa Megat & 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.

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