

US\$1,900,000,000

Petroliaam Nasional Berhad

(Incorporated in Malaysia with limited liability)

US\$600,000,000

6.625% Notes Due 2001

US\$800,000,000

7.125% Notes Due 2006

US\$500,000,000

7.625% Bonds Due 2026

The 6.625% Notes Due 2001 (the "2001 Notes") of Petroliaam Nasional Berhad ("PETRONAS") will mature on October 18, 2001. The 7.125% Notes Due 2006 (the "2006 Notes") of PETRONAS will mature on October 18, 2006. The 7.625% Bonds Due 2026 (the "Bonds"), and together with the 2001 Notes and the 2006 Notes, the "Securities") of PETRONAS will mature on October 15, 2026. Interest on the 2001 Notes and the 2006 Notes is payable on April 18 and October 18 of each year, and at redemption or maturity, commencing on April 18, 1997. Interest on the Bonds is payable on April 15 and October 15 of each year, and at redemption or maturity, commencing on April 15, 1997. The Securities will not be redeemable in whole or in part by PETRONAS prior to maturity except upon the occurrence of certain events related to Malaysian tax law requiring the payment by PETRONAS of additional amounts as described herein. See "Description of the Securities — Special Tax Redemption".

The Securities will be represented by one or more Global Securities (as defined herein) registered in the name of the nominee of The Depository Trust Company (the "Depository") as depository for the account of its participants, including Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel"). Beneficial interests in the Global Securities will be registered, and transfers thereof will be effected, only through book-entry accounts maintained by the Depository and its direct or indirect participants, including Euroclear and Cedel. Except as provided herein, Securities in definitive form will not be issued. The Securities will trade in the Depository's Same-Day Funds Settlement System until maturity and secondary market trading activity for the Securities will therefore settle in immediately available funds. See "Description of the Securities" herein.

Application has been made to list the Securities on the Luxembourg Stock Exchange.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE, AND ARE BEING OFFERED BY THE INITIAL PURCHASERS SPECIFIED HEREIN IN THE UNITED STATES ONLY TO "QUALIFIED INSTITUTIONAL BUYERS" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("QIBs") OR OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. THE SECURITIES ARE NOT TRANSFERABLE EXCEPT UPON SATISFACTION OF CERTAIN CONDITIONS AS DESCRIBED UNDER "NOTICE TO INVESTORS".

See "Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the Securities.

	Price to Investors (1)	Discount to Initial Purchasers	Proceeds to PETRONAS (1)(2)
Per Note Due 2001	99.615%	.375%	99.240%
Total	\$597,690,000	\$2,250,000	\$595,440,000
Per Note Due 2006	99.795%	.450%	99.345%
Total	\$798,360,000	\$3,600,000	\$794,760,000
Per Bond Due 2026	98.645%	.875%	97.770%
Total	\$493,225,000	\$4,375,000	\$488,850,000

(1) Plus accrued interest, if any, from October 18, 1996.

(2) Before deduction of expenses payable by PETRONAS estimated at \$700,000.

The Securities are offered by the several Initial Purchasers when, as and if issued by PETRONAS, delivered to and accepted by the Initial Purchasers and subject to their right to reject orders in whole or in part. It is expected that delivery of the Securities in book-entry form will be made through the facilities of the Depository on or about October 18, 1996, against payment in immediately available funds.

CS First Boston**Salomon Brothers Inc**

The activities of the Initial Purchasers in connection with this transaction are jointly led by CS First Boston Corporation and Salomon Brothers Inc.

The date of this Offering Circular is October 10, 1996.

PETRONAS

Petroliaam Nasional

6/5/96
7/1/96

7/5/96

10/18/96
10/15/96
10/15/96RJC
1/29/97

KERTIH REFINERY
4GPPs

ETHYLENE
POLYETHYLENE

MALAYSIAN/THAI JOINT
DEVELOPMENT AREA

SABAH

METHANOL

LABUAN

MIRI

BRUNEI

BINTULU

DUYONG

TAPIS

DULANG

JERNEH

LAWIT

UREA/AMMONIA
MLNG & MLNG 2

SARAWAK

BINTULU

BINTULU

PENINSULAR
MALAYSIA

KERTIH

KUANTAN

LUMUT

KUALA
LUMPUR

MTBE
POLYPROPYLENE

PASIR GUDANG

SINGAPORE

MELAKA

MELAKA REFINERY - PSR 1



This Offering Circular is being furnished by PETRONAS solely for the purpose of enabling a prospective investor to consider the purchase of the Securities. The information contained herein has been provided by PETRONAS and other sources identified herein. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of such information. PETRONAS, having made all reasonable inquiries, confirms that this document contains all information with respect to PETRONAS and the Securities which is material in the context of the issue and offering of the Securities, that the information contained herein is true and accurate in all material respects, that the opinions and intentions expressed herein are honestly held, that PETRONAS is not aware of any other facts the omission of which in its reasonable opinion might make this document as a whole or any of such information or the expression of any such opinions or intentions materially misleading and that all reasonable inquiries have been made by PETRONAS to verify the accuracy of such information, provided that the information contained herein concerning Malaysia includes extracts from summaries of information and data from various published and private sources, and PETRONAS accepts responsibility for accurately reproducing such summaries and data but accepts no further or other responsibility in respect of such information.

No person has been authorized to give any information or to make any representation not contained in this Offering Circular in connection with the offering of the Securities and, if given or made, such information or representation must not be relied upon as having been authorized by PETRONAS or the Initial Purchasers (or any of their affiliates). Neither the delivery of this Offering Circular nor any offer made on the basis hereof shall, under any circumstances, create any implication that the information herein is correct at any time subsequent to the date hereof.

The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by PETRONAS and the Initial Purchasers to inform themselves about, and to observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of the Securities in the United States. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation.

The Luxembourg Stock Exchange takes no responsibility for the contents of this Offering Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

It is expected that delivery of the Securities will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Offering Circular, which is the fifth business day following the date hereof (such settlement cycle being herein referred to as "T+5"). Purchasers of Securities should note that trading of the Securities on the date hereof and the next succeeding business day may be affected by the T+5 settlement. See "Plan of Distribution".

IN CONNECTION WITH THIS OFFERING, SALOMON BROTHERS INC, ON BEHALF OF THE INITIAL PURCHASERS, MAY OVER-ALLOT OR EFFECT TRANSACTIONS IN THE UNITED STATES WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THIS OFFERING, CS FIRST BOSTON CORPORATION MAY OVER-ALLOT OR EFFECT TRANSACTIONS OUTSIDE THE UNITED STATES WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LUXEMBOURG STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The financial statements of PETRONAS are prepared and presented on a consolidated basis and in accordance with Malaysian generally accepted accounting principles ("Malaysian GAAP") and reporting practices in Malaysia. Malaysian GAAP differs in certain respects from United States generally accepted accounting principles ("U.S. GAAP"). For a description of the material differences between Malaysian and U.S. GAAP with respect to PETRONAS' financial statements, see "Summary of Differences Between Malaysian GAAP and U.S. GAAP".

All references herein to "PETRONAS" are, unless the context otherwise requires, to Petroliaam Nasional Berhad and its subsidiaries.

In this Offering Circular, references to "ringgit" or "RM" are to the currency of Malaysia, and references to "dollars", "\$" or "US\$" are to the currency of the United States of America. Solely for the convenience of the reader, this Offering Circular contains translations of certain ringgit amounts into dollars at specified rates. Unless otherwise stated, all translations from ringgit to dollars contained in this Offering Circular have been made at a rate of RM2.520 to US\$1, an approximate buying rate prevailing at March 31, 1996 as quoted by Malayan Banking Berhad. No representation is made that the ringgit or dollar amounts referred to herein could have been or could be converted into dollars or ringgit, as the case may be, at any particular rate or at all. See "Exchange Rates" for further information regarding the rates of exchange between the ringgit and the dollar.

Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Securities, PETRONAS will be required under the Fiscal Agency Agreement referred to under "Description of the Securities" to furnish upon the request of a holder of a Security to such holder and any prospective investor designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request PETRONAS is neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

PETRONAS is incorporated in Malaysia with limited liability and all of its directors and executive officers reside in Malaysia. Substantially all of the assets of such persons and of PETRONAS are located in Malaysia. As a result, it may not be possible for investors to effect service of process outside of Malaysia upon such persons or to enforce against such persons or PETRONAS judgments obtained in courts outside of Malaysia, including judgments predicated upon civil liability provisions of the federal securities laws of the United States. PETRONAS has been advised by the Group General Counsel, Legal Services Unit of PETRONAS that there is doubt as to the enforceability in Malaysian courts, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

OFFERING CIRCULAR SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular.

The Company

Petroleum Nasional Berhad ("PETRONAS") is the national oil and gas company of Malaysia and is wholly-owned by the Government of Malaysia. PETRONAS, together with its subsidiaries and associated companies, is a fully integrated oil and gas company engaged in a broad spectrum of upstream and downstream oil and gas operations and petrochemical operations. PETRONAS was incorporated in 1974 under the Malaysian Companies Act and derives its powers from the Petroleum Development Act of 1974, which vests in PETRONAS sole ownership and control of Malaysia's petroleum resources. PETRONAS' Articles of Association currently provide that the Government of Malaysia is the only entity entitled to be a shareholder of PETRONAS. At January 1, 1996, Malaysia had 4.0 billion barrels of proved and probable oil reserves and 80.2 trillion standard cubic feet of proved and probable natural gas reserves.

PETRONAS' upstream activities include the exploration for and production of crude oil and natural gas. PETRONAS manages all upstream activities within Malaysia and engages a number of international oil and gas companies to participate in exploration, development and production of oil and gas in Malaysia pursuant to production sharing contracts. During the exploration phase of these production sharing contracts, the contractors are required to spend a minimum amount of money to explore the areas covered by the contracts, which exploration includes the acquisition of new seismic data and drilling a specified number of wells. If oil or gas is discovered and commercial production commences, PETRONAS retains a percentage of the total production as its entitlement.

PETRONAS' downstream activities include (i) the sale of its crude oil and natural gas entitlements, (ii) the liquefaction of natural gas and the sale and transportation of liquefied natural gas ("LNG"), (iii) the processing and transmission of natural gas and the sale of natural gas products, such as liquefied petroleum gas ("LPG") and processed gas, (iv) the manufacture and sale of refined petroleum products, including fuel oil, diesel, motor gasoline, jet fuel, kerosene and lubricants, (v) the manufacture and sale of various petrochemical products, and (vi) the trading of crude oil, petroleum products and petrochemical products.

PETRONAS believes that Malaysia's abundant offshore gas reserves provide an opportunity for PETRONAS to play an important role in satisfying the growing energy demands of Malaysia and other Asian countries. To facilitate the development of these natural gas reserves, PETRONAS has undertaken a capital expenditure program designed to (i) increase the capacity of its natural gas processing and transmission facilities through the implementation of the Peninsular Gas Utilization Project, (ii) expand the market for natural gas through expansion of its petrochemical operations, which use processed gas as a feedstock, and (iii) encourage the use of natural gas as an alternative fuel source for power plants and as a substitute for traditional energy sources, including natural gas for vehicles and natural gas fueled coolant systems.

Building on the success of its petroleum businesses in Malaysia, PETRONAS is increasing its focus on identifying and developing overseas investment opportunities. PETRONAS' objective is to establish a globally integrated oil and gas operation and to become a "Leading Oil and Gas Multinational of Choice". In the upstream segment, PETRONAS is pursuing the strategy of augmenting Malaysia's petroleum resources through exploration, development and production activities outside Malaysia. In the downstream segment, PETRONAS' strategy is to add value to PETRONAS' petroleum resources by increasing their utilization as feedstocks for production and for export sale. PETRONAS believes that this strategy will capitalize on its experience in developing Malaysia's petroleum resources and its strong financial and human resources.

For the fiscal year ended March 31, 1996, PETRONAS had consolidated revenues of RM22,254 million (US\$8,831 million), consolidated net income of RM6,762 million (US\$2,683 million) and consolidated total assets of RM58,051 million (US\$23,035 million). Management believes PETRONAS is the largest company in Malaysia in terms of revenues and net income.

Malaysia

Malaysia, with a total land area of approximately 330,000 square kilometers, is located in Southeast Asia, just north of the equator, and consists of 13 states and a Federal Territory. Eleven states are located in Peninsular Malaysia and the states Sabah and Sarawak are located on the Island of Borneo. Malaysia has a population of approximately 20.7 million. Malaysia is a parliamentary democracy headed by a constitutional monarch. Federal executive power is vested in the Prime Minister and his cabinet. Since its formation in 1957, Malaysia has been governed by the National Front coalition. Dato' Seri Dr. Mahathir bin Mohamad has been Prime Minister since 1981. In the general elections held in April 1995, the National Front coalition won 162 out of 192 seats in the Federal Parliament.

Since 1991, Malaysia has experienced average annual growth in gross domestic product ("GDP") in excess of 8.7 percent, while maintaining an average annual inflation rate of 4.0 percent. Malaysian GDP grew 9.6 percent in 1995, compared with 9.2 percent in 1994. This growth is supported by sustained output growth in the manufacturing, construction and service sectors. The Government's economic policy has been directed at achieving fully industrialized status by the year 2020 in line with the Government's overall economic and social development plan, "Vision 2020". Malaysia's senior unsecured long-term debt has credit ratings of "A1" (Moody's Investors Service, Inc.) and "A+" with a positive outlook (Standard & Poor's).

The Offering

Issuer	Petroliaam Nasional Berhad.
2001 Notes	US\$600,000,000 principal amount of 6.625% Notes Due 2001.
2006 Notes	US\$800,000,000 principal amount of 7.125% Notes Due 2006.
Bonds	US\$500,000,000 principal amount of 7.625% Bonds Due 2026.
The Offering	The Securities will be offered (i) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and (ii) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act.
Interest Payment Dates	With respect to the 2001 Notes and the 2006 Notes, April 18 and October 18, commencing on April 18, 1997. With respect to the Bonds, April 15 and October 15, commencing on April 15, 1997.
Form and Denomination	The Securities will be issued only in fully registered form without coupons in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof. The Securities will be held in book entry form through the facilities of the Depository. See "Description of the Securities — Book-Entry System and Form of Securities".
Tax Redemption	The Issuer may redeem the Securities upon the occurrence of certain events related to Malaysian tax law requiring the payment by the Issuer of additional amounts as described herein. See "Description of the Securities — Special Tax Redemption".
Certain Covenants	Subject to certain exceptions, the Issuer will not create, incur or guarantee any Indebtedness (as defined in the Fiscal Agency Agreement) secured by a lien, charge, mortgage, pledge or encumbrance without, in any such case, effectively securing the Securities equally and ratably with such Indebtedness. See "Description of the Securities — Certain Covenants".
Events of Default	Each of the 2001 Notes, the 2006 Notes and the Bonds will be subject to certain events of default, including the failure by the Issuer to pay principal or interest on such Securities (which in the case of interest must continue for a period of 30 days) and acceleration of certain other indebtedness. See "Description of the Securities — Events of Default".
Ranking	Each of the 2001 Notes, the 2006 Notes and the Bonds will be the direct, unconditional, unsecured and unsubordinated general obligations of the Issuer and will rank <i>pari passu</i> among themselves and at least equally with all other outstanding unsecured and unsubordinated general obligations of the Issuer.
Use of Proceeds	The net proceeds from the sale of the Securities will be applied to refinance existing foreign currency borrowings for projects in Malaysia and to finance a portion of the capital expenditures related to an LPG extraction project in Malaysia that is being undertaken as part of the expansion of PETRONAS' LNG facilities. See "Use of Proceeds".

Ratings	It is expected that on the date of issuance the Securities will be rated "A1" by Moody's Investors Service, Inc. and "A+" with a positive outlook by Standard & Poor's.
Investment Considerations	For a discussion of certain material factors to be considered by potential investors in connection with an investment in the Securities, see "Investment Considerations".
Listing	Application has been made to list the Securities on the Luxembourg Stock Exchange.

Summary Consolidated Financial and Other Data

The summary consolidated financial data set forth below has been derived from PETRONAS' audited consolidated financial statements for each of the fiscal years in the five-year period ended March 31, 1996. The summary consolidated financial data should be read in conjunction with PETRONAS' audited consolidated financial statements and notes thereto as of March 31, 1995 and 1996 and for each of the years in the three-year period ended March 31, 1996 included elsewhere in this Offering Circular.

	Fiscal Year Ended March 31,					
	1992	1993	1994	1995	1996	1996
	(in millions)					
Income Statement Data:						
Revenues (1)	RM 18,040	RM 18,185	RM 16,818	RM 18,089	RM 22,254	US\$ 8,831
Profit before tax, minority interest and extraordinary items.....	7,726	7,333	6,317	7,083	8,564	3,398
Depreciation and amortization ...	468	712	883	1,046	1,561	619
Interest expense.....	72	188	280	330	855	339
Net income	4,172	4,108	4,063	4,562	6,762	2,683

	At March 31,					
	1992	1993	1994	1995	1996	1996
	(in millions)					
Balance Sheet Data:						
Fixed assets and construction-in-progress	RM 10,526	RM 15,492	RM 21,811	RM 26,372	RM 28,542	US\$ 11,326
Fund investments	18,349	16,145	16,918	16,018	22,676	8,998
Total assets	33,890	37,365	43,626	48,135	58,051	23,035
Long-term debt (2)	2,871	5,496	10,471	12,480	16,913	6,711
Shareholders' equity (3)	15,709	16,717	17,683	19,195	23,117	9,174

	Fiscal Year Ended March 31,					
	1992	1993	1994	1995	1996	1996
Other Data:						
Capital expenditure (in millions) RM	2,765	RM 5,687	RM 7,071	RM 5,637	RM 3,778	US\$ 1,499
EBITDA (in millions) (4) RM	8,266	RM 8,233	RM 7,480	RM 8,459	RM 10,980	US\$ 4,357
Ratio of EBITDA to fixed charges (5)	78.0x	36.1x	18.9x	12.7x	11.5x	—
Ratio of long-term debt to EBITDA	0.35x	0.67x	1.40x	1.48x	1.54x	—
Ratio of long-term debt to long-term debt plus shareholders' equity	0.15x	0.25x	0.37x	0.39x	0.42x	—
Malaysia's Proved and Probable Reserve Levels (6):						
Oil (in millions of barrels) (7) ...	3,743	4,279	4,277	4,112	4,030	—
Natural gas (in billions of standard cubic feet)	67,763	76,669	80,763	85,058	80,202	—
PETRONAS' Share of Production (8):						
Oil (in millions of barrels) (7) ...	152	143	145	152	168	—
Natural gas (in billions of standard cubic feet)	318	339	402	447	585	—

- (1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a breakdown of the major sources of PETRONAS' revenues.
- (2) Net of current portion.
- (3) Shareholders' equity consists of share capital and reserves.
- (4) EBITDA consists of profit before tax, minority interest and extraordinary items, with the addition of amounts previously deducted for depreciation and amortization and interest expense.
- (5) Fixed charges consist of interest expense and interest capitalized during construction for the applicable period.
- (6) At January 1.
- (7) Includes crude oil and condensates.
- (8) PETRONAS' share of production includes its entitlement, the cost and profit oil and gas of Petronas Carigali Sdn. Bhd. and the royalty oil and gas collected by PETRONAS for the federal and state governments of Malaysia.

INVESTMENT CONSIDERATIONS

Prospective purchasers should carefully consider, in addition to the other information contained in this Offering Circular, the following before purchasing any of the Securities:

Impact of Crude Oil Prices

Crude oil prices are subject to changing international supply and demand conditions, which affect the profitability of oil and gas companies. Global political developments, especially in the Middle East, and actions taken by major oil producing or consuming countries can affect world crude oil supply and, as a result, crude oil and petroleum product prices. The financial results of PETRONAS are affected by movements in global crude oil prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Impact of Exchange Rate Fluctuations

Crude oil, petroleum product, natural gas and petrochemical prices are generally set in dollars while certain of PETRONAS' operating costs are incurred in ringgit. As a result, PETRONAS' results can be impacted by changes in the dollar to ringgit exchange rate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Increasing International Activities

PETRONAS expects that in the future an increasing proportion of its revenue will be obtained from overseas operations, including operations in developing countries. See "Business — Upstream Activities — International Exploration and Production" and "— Downstream Activities — International Ventures". As a result, PETRONAS' financial condition and results of operations are expected to be increasingly affected by international and domestic political, economic and operating conditions in or affecting such countries, which may be substantially different than such conditions in Malaysia. Future investments in certain countries may also be affected by international trade or investment sanctions. See "Business — Upstream Activities — International Exploration and Production — Iran". The effect of such sanctions on the market for the securities of companies subject to sanctions will depend upon the nature of the sanctions and their application.

Environmental Protection

Environmental factors are an important consideration in planning, designing and operating upstream and downstream oil and gas facilities. PETRONAS is subject to various environmental laws and regulations concerning land use, air emissions, discharges to waters, waste materials and abandonment of installations. Management believes that PETRONAS is in compliance in all material respects with all applicable environmental laws and regulations. Some risk of environmental costs and liabilities is inherent in the operations of PETRONAS, as it is with all companies in the oil and gas industry, and there can be no assurance that material costs and liabilities will not be incurred in the future. See "Environmental Matters".

Technical Factors

Crude oil and natural gas exploration and production activities are subject to various uncertainties, including those relating to the physical characteristics of crude oil and natural gas fields. These physical characteristics, including the proportion of reserves that can ultimately be produced and the rate of production, are difficult to estimate and as a result ultimate production may differ from current estimates of proved and probable reserves. See "Business — Oil and Gas Reserves".

Limited Liquidity of the Securities

The Securities are new issues of securities with no established trading market. PETRONAS has been advised by the Representatives of the Initial Purchasers that they currently intend to make markets for the Securities as permitted by applicable law; the Representatives of the Initial Purchasers are not obligated to do so, however, and any such market making may be discontinued at any time in their sole discretion. No assurance can be given as to the liquidity of, or the development of a trading market for, the Securities. See "Plan of Distribution".

USE OF PROCEEDS

PETRONAS intends to apply the net proceeds of the Securities, estimated to be US\$1,879,050,000 (before deduction of expenses payable by PETRONAS), to refinance existing foreign currency borrowings for projects in Malaysia and to finance a portion of the capital expenditures related to an LPG extraction project in Malaysia that is being undertaken as part of the expansion of PETRONAS' LNG facilities.

EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, certain information concerning the buying rate in ringgit per dollar as provided by Malayan Banking Berhad (the "Buying Rate"). No representation is made that the ringgit or dollar amounts referred to herein could have been or could be converted into dollars or ringgit, as the case may be, at any particular rate or at all.

<u>Year Ended March 31,</u>	<u>At End of Period</u>	<u>Average Rate (1)</u>	<u>High (2)</u>	<u>Low (2)</u>
		(ringgit per dollar)		
1992	2.5840	2.7191	2.7870	2.5840
1993	2.5930	2.5468	2.6280	2.4920
1994	2.6300	2.5888	2.7300	2.5330
1995	2.5230	2.5601	2.6610	2.5230
1996	2.5200	2.5066	2.5603	2.4375
For the period April 1, 1996 to October 7, 1996	2.5005	2.4966	2.5080	2.4895

(1) The average of the Buying Rates on the last day of each month (and October 7, 1996 for the period ending October 7, 1996) during each period.

(2) The highest and lowest of the Buying Rates on the last day of each month during the period.

CAPITALIZATION

The following table sets forth the current portion of term loans and consolidated capitalization of PETRONAS at March 31, 1996 derived from its audited consolidated financial statements and as adjusted to give effect to the issuance by PETRONAS of the Securities offered hereby, as if such issuance had occurred as of March 31, 1996.

	At March 31, 1996 (1)			
	Actual		As Adjusted	
	(In millions)			
	RM	US\$	RM	US\$
Current portion of term loans	903	358	903	358
Long-term debt:				
Term loans	15,813	6,275	11,721	4,651
The 2001 Notes	—	—	1,512	600
The 2006 Notes	—	—	2,016	800
The Bonds	—	—	1,260	500
Other long-term debt (2)	1,100	436	1,100	436
Total long-term debt	16,913	6,711	17,609	6,987
Shareholders' equity:				
Share capital of RM1,000 per share				
Authorized — 500,000 shares				
Issued and fully paid — 100,000 shares	100	40	100	40
Reserves	23,017	9,134	23,017	9,134
Total shareholders' equity	23,117	9,174	23,117	9,174
Total capitalization	RM 40,030	US\$15,885	RM 40,726	US\$16,161

(1) Except as disclosed herein, there have been no material changes in the consolidated capitalization of PETRONAS since March 31, 1996.

(2) Includes Islamic Debt Securities and Lease Creditor. See "Summary of Differences Between Malaysian GAAP and U.S. GAAP" and Notes 12 and 15 of Notes to the Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial data set forth below has been derived from PETRONAS' audited consolidated financial statements for each of the fiscal years in the five-year period ended March 31, 1996. The selected consolidated financial data should be read in conjunction with PETRONAS' audited consolidated financial statements and notes thereto as of March 31, 1995 and 1996 and for each of the years in the three-year period ended March 31, 1996 included elsewhere in this Offering Circular. PETRONAS' consolidated financial statements are prepared in accordance with Malaysian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of the material differences between Malaysian GAAP and U.S. GAAP with respect to PETRONAS' financial statements, see "Summary of Differences between Malaysian GAAP and U.S. GAAP".

	Fiscal Year Ended March 31,					
	1992	1993	1994	1995	1996	1996
	(in millions)					
Income Statement Data:						
Revenues (1)	RM 18,040	RM 18,185	RM 16,818	RM 18,089	RM 22,254	US\$ 8,831
Profit before tax	7,726	7,333	6,317	7,083	8,564	3,398
Taxes	(3,185)	(2,874)	(2,267)	(2,136)	(2,297)	(911)
Profit after tax	4,541	4,459	4,050	4,947	6,267	2,487
Minority interests' share of consolidated subsidiaries' profit	(368)	(351)	(316)	(388)	(592)	(235)
Extraordinary items (2)	(1)	0	329	3	1,087	431
Net income	RM 4,172	RM 4,108	RM 4,063	RM 4,562	RM 6,762	US\$ 2,683
At March 31,						
	1992	1993	1994	1995	1996	1996
	(in millions)					
Balance Sheet Data:						
Current assets	RM 21,955	RM 20,232	RM 20,139	RM 19,800	RM 27,280	US\$ 10,825
Fixed assets and construction-in-progress	10,526	15,492	21,811	26,372	28,542	11,326
Other assets (3)	1,409	1,641	1,676	1,963	2,229	884
Total assets	RM 33,890	RM 37,365	RM 43,626	RM 48,135	RM 58,051	23,035
Current liabilities	RM 13,144	RM 12,568	RM 12,757	RM 13,675	RM 14,227	5,645
Long-term debt (4)	2,871	5,496	10,471	12,480	16,913	6,711
Deferred liabilities	1,090	1,273	1,147	1,209	1,298	515
Shareholders' equity						
Issued and fully paid — 100,000 shares of RM1,000 each	100	100	100	100	100	40
Reserves	15,609	16,617	17,583	19,095	23,017	9,134
Total shareholders' equity	15,709	16,717	17,683	19,195	23,117	9,174
Minority interests in consolidated subsidiaries	1,076	1,311	1,568	1,576	2,496	990
Total liabilities and shareholders' equity	RM 33,890	RM 37,365	RM 43,626	RM 48,135	RM 58,051	US\$ 23,035

	Fiscal Year Ended March 31,					
	1992	1993	1994	1995	1996	1996
Other Data:						
Capital expenditure (in millions) ...	RM 2,765	RM 5,687	RM 7,071	RM 5,637	RM 3,778	US\$ 1,499
EBITDA (in millions) (5)	RM 8,266	RM 8,233	RM 7,480	RM 8,459	RM 10,980	US\$ 4,356
Ratio of EBITDA to fixed charges (6)	78.0x	36.1x	18.9x	12.7x	11.5x	—
Ratio of long-term debt to EBITDA	0.35x	0.67x	1.40x	1.48x	1.54x	—
Ratio of long-term debt to long-term debt plus shareholders' equity ...	0.15x	0.25x	0.37x	0.39x	0.42x	—
Malaysia's Proved and Probable Reserve Levels (7):						
Oil (in millions of barrels) (8)	3,743	4,279	4,277	4,112	4,030	—
Natural gas (in billions of standard cubic feet)	67,763	76,669	80,763	85,058	80,202	—
PETRONAS' Share of Production (9):						
Oil (in millions of barrels) (8)	152	143	145	152	168	—
Natural gas (in billions of standard cubic feet)	318	339	402	447	585	—

- (1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a breakdown of the major sources of PETRONAS' revenues.
- (2) Includes gain on disposal of investment. See Note 21 to the Consolidated Financial Statements.
- (3) Consists of interest in associated companies, investment in unquoted companies, loan stocks, prepayments and expenditure carried forward.
- (4) Net of current portion.
- (5) EBITDA consists of profit before tax, minority interest and extraordinary items, with the addition of amounts previously deducted for depreciation and amortization and interest expense.
- (6) Fixed charges consist of interest expense and interest capitalized during construction for the applicable period.
- (7) At January 1.
- (8) Includes crude oil and condensates.
- (9) PETRONAS' share of production includes its entitlement, the cost and profit oil and gas of Petronas Carigali Sdn. Bhd. and the royalty oil and gas collected by PETRONAS for the federal and state governments of Malaysia.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the selected consolidated financial information and the consolidated financial statements and notes thereto included elsewhere in this Offering Circular. The financial statements have been prepared in accordance with Malaysian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of the material differences between Malaysian GAAP and U.S. GAAP with respect to PETRONAS' financial statements, see "Summary of Differences between Malaysian GAAP and U.S. GAAP". Unless otherwise indicated, references in this section to years are to PETRONAS' fiscal year ending March 31 in such year.

Results of Operations

Revenues

PETRONAS' revenues from operations are derived primarily from the sale of its share of crude oil and gas production and natural gas products (including LNG, LPG and processed gas), refined petroleum products and petrochemical products.

PETRONAS' revenues increasingly reflect the integration of its upstream and downstream activities. Although sales of crude oil historically represented the largest component of PETRONAS' total revenues, revenues from sale of natural gas and natural gas products have been increasing as a percentage of total revenues. Since 1995, gas revenues have surpassed revenues from sales of crude oil as a result of increased natural gas production and increased use of crude oil in refining activities. In addition, since 1994 revenues from refined petroleum products have grown significantly.

Under the terms of the Production Sharing Contracts (as defined in "Business — Overview"), the PSC Contractors (as defined in "Business — Overview") bear all costs associated with exploration, development and production of crude oil and natural gas. PSC Contractors may recover some of their costs by retaining a percentage of the crude oil and natural gas production, as cost oil or gas, as determined by the Production Sharing Contracts. As a result, PETRONAS' share of crude oil and natural gas production and its revenues are affected by the total amount of oil and gas produced and the amount of oil and gas retained for cost recovery by the PSC Contractors. See "Business — Upstream Activities".

The following table sets forth a breakdown of the sources of PETRONAS' consolidated revenues for each of the fiscal years in the three-year period ended March 31, 1996.

Source of Revenues	Fiscal Year Ended March 31,					
	1994	% of	1995	% of	1996	% of
	(In millions)	Total	(In millions)	Total	(In millions)	Total
Crude oil	RM 5,950	35.4%	RM 5,222	28.9%	RM 5,415	24.3%
Natural gas and gas products:						
Natural gas and processed						
gas	1,356	8.1	2,208	12.2	2,451	11.0
LNG	3,416	20.3	3,333	18.4	4,765	21.4
LPG	381	2.2	556	3.1	697	3.2
Total gas revenues	5,153	30.6	6,097	33.7	7,913	35.6
Refined petroleum products	3,812	22.7	4,696	26.0	6,370	28.6
Petrochemicals	445	2.6	1,079	5.9	861	3.9
Other revenue	1,458	8.7	995	5.5	1,695	7.6
Revenues	<u>RM 16,818</u>	<u>100%</u>	<u>RM 18,089</u>	<u>100%</u>	<u>RM 22,254</u>	<u>100%</u>
					<u>US\$ 8,831</u>	

Crude Oil. PETRONAS' crude oil revenue is derived from the export of a portion of its share of crude oil production by the PSC Contractors. Such revenue is affected by variations in crude oil prices (which are denominated in dollars), exchange rate fluctuations between the ringgit and the dollar, total

crude oil production, fluctuations in PETRONAS' share of total crude oil production and the portion of such production exported (rather than used as a feedstock for PETRONAS' refineries).

Malaysia's crude oil, which is classified as "light" and "sweet", is of high quality and generally commands a premium over benchmark crudes. The following table sets forth for each of the years in the three-year period ended March 31, 1996 the weighted average prices for Malaysian crude oil, the monthly average prices for Brent crude oil (a crude oil used as an industry pricing benchmark), PETRONAS' share of Malaysia's total production and the portion of such production exported.

Crude Oil Data	Fiscal Year Ended March 31,		
	1994	1995	1996
Malaysian crude oil (weighted average price per barrel)	US\$ 17.93	US\$ 17.52	US\$ 18.96
Brent crude oil (average monthly price per barrel) (1)	US\$ 15.95	US\$ 16.52	US\$ 17.48
PETRONAS' share of production (in millions of barrels per year) (2)	145	152	168
PETRONAS' export sales volume (in millions of barrels per year)	124	110	108

(1) Source: OPEC Bulletin.

(2) Includes crude oil and condensates. PETRONAS' share of production includes its entitlement, cost and profit oil of Petronas Carigali Sdn. Bhd. and the royalty oil collected by PETRONAS. A portion of PETRONAS' share of production is sold as crude oil and a portion is used as a feedstock for PETRONAS' refineries and sold as refined petroleum products.

PETRONAS' crude oil revenue increased 3.7 percent to RM5,415 million in 1996 from RM5,222 million in 1995, which in turn decreased 12.2 percent from RM5,950 million in 1994. The increase in 1996 was principally attributable to an 8.2 percent increase in the weighted average price per barrel of Malaysia's crude oil, offset in part by a slight reduction in PETRONAS' export sales volume from 110 million barrels in 1995 to 108 million barrels in 1996, reflecting the increased portion of PETRONAS' share of production used as a feedstock for its refineries. The price increase was also offset in part by a strengthening of the ringgit against the dollar compared to 1995. The decrease in 1995 was principally the result of a reduction in export sales, from 124 million barrels in 1994 to 110 million barrels in 1995, as a result of an increase in the portion of PETRONAS' share of production utilized as feedstock for its refineries following the capacity expansion of PETRONAS' refinery in Kertih and the completion of the first train of PETRONAS' new refinery in Melaka. A slight decline in weighted average crude oil prices and the strengthening of the ringgit against the dollar also contributed to the decline in crude oil revenue in 1995.

Natural Gas and Gas Products. PETRONAS' total gas revenues are derived from the sale of its share of gas produced by the PSC Contractors and the sale of gas purchased from the PSC Contractors. The gas is sold in the domestic or international market as natural and processed gas, LNG and LPG.

Natural gas and gas products are generally sold pursuant to long-term contracts and priced in dollars. Processed gas is sold principally to domestic power plants and other industrial end users and to Powergen (Senoko) Pte. Ltd. of Singapore pursuant to long-term contracts at prices established by reference to fuel oil prices in Singapore. LNG is principally sold overseas pursuant to long-term contracts and is priced in dollars by reference to a basket of various crude oil prices. LPG is sold on a spot basis and under contract and the price varies with the world market price for petroleum products.

Total gas revenues are largely dependent on demand, plant processing capacity, related world crude oil prices and on the fluctuation between the ringgit and the dollar. The following table sets forth, for each of the years in the three-year period ended March 31, 1996, the total processing capacity of

PETRONAS' gas processing plants and LNG plants and the weighted average price for PETRONAS' LNG and LPG.

Natural Gas Data	As at and for the Fiscal Year Ended March 31,		
	1994	1995	1996
Gas processing plant capacity, at year end (in millions of standard cubic feet per day)	750	1,000	1,000
LNG plant capacity, at year end (in millions of metric tons per annum)	8.1	8.1	15.9
LNG (weighted average price per million British thermal units)	US\$ 3.19	US\$ 3.20	US\$ 3.38
LPG (weighted average price per metric ton)	US\$ 141.96	US\$ 184.17	US\$ 209.33

Natural gas and processed gas revenue increased 11.0 percent to RM2,451 million in 1996 from RM2,208 million in 1995, which in turn increased 62.8 percent from RM1,356 million in 1994. The increase in 1996 is a result of both higher volumes of deliveries (principally to power plants in Malaysia) as well as higher prices attributable to increases in the Singapore fuel oil prices used as a reference for the price in contracts with such users. The increase in 1995 is a result of the commencement of operations of PETRONAS' fourth gas processing plant in August 1994, which increased processed gas capacity from 750 million standard cubic feet per day ("mmscfd") to 1,000 mmscfd, and the increased use of natural gas for power generation.

LNG revenue increased significantly by 43.0 percent to RM4,765 million in 1996 from RM3,333 million in 1995, which in turn was a 2.4 percent decrease from RM3,416 million in 1994. The increase in 1996 is a result of higher sales volume due to the commencement of operation of the second LNG plant and an increase in LNG prices. See "Business — Downstream Activities — Natural Gas — LNG".

PETRONAS' revenue from the sale of LPG increased 25.4 percent to RM697 million in 1996 from RM556 million in 1995, which in turn was a 45.9 percent increase from RM381 million in 1994. The increase in 1996 was due to a 13.7 percent increase in the weighted average LPG price, an increased volume of both domestic and international sales of LPG and a strengthening of the ringgit against the dollar. The increase in 1995 was a result of an increase in production volume following the commencement of operations of PETRONAS' fourth gas processing plant and a 29.7 percent increase in the weighted average LPG price. As a result of the integration of PETRONAS' downstream operations, LPG revenues are affected by the use of LPG components as a feedstock for PETRONAS' petrochemical operations.

Refined Petroleum Products. Revenue from sales of refined petroleum products (which include fuel oil, diesel, motor gasoline, jet fuel, kerosene and lubricants) is affected by refinery throughput, the price of refined products and exchange rate fluctuations.

Refined petroleum products revenue increased 35.6 percent to RM6,370 million in 1996 from RM4,696 million in 1995, which in turn was a 23.2 percent increase from RM3,812 million in 1994. The increase in both 1996 and in 1995 reflect increased refinery throughput and increase in prices for major refined petroleum products. Refinery throughput increased to 48 million barrels in 1996 from 40 million barrels in 1995 and 11 million barrels in 1994.

Petrochemicals. Petrochemical revenue decreased by 20.2 percent to RM861 million in 1996 from RM1,079 million in 1995, which in turn increased 142.5 percent from RM445 million in 1994. The decrease in 1996 is primarily due to the significant drop of revenue from methanol as a result of a decline in methanol prices and the strengthening of the ringgit, offset in part by revenues from production of ethylene from a plant that came on stream during the fiscal year. The increase in 1995 is attributable to the impact of a full year of operations of the methyl tertiary butyl ether ("MTBE") and polypropylene plants, together with an increase in the prices of petrochemicals generally and methanol in particular. See "Business — Downstream Activities — Petrochemical Projects".

Other Revenue. The most significant source of PETRONAS' other revenue is income from its fund investments. (Fund investment income for 1996, 1995 and 1994 as a percentage of other revenue

Costs and Expenses

	Fiscal Year Ended March 31,			
<u>Costs and Expenses</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>
		(In millions)		
Operating expenses.....	RM 7,607	RM 7,769	RM 9,130	US\$ 3,623
Depreciation and amortization	883	1,046	1,561	619
Interest expense	280	330	855	339
Manpower	460	512	562	223
Royalties	1,271	1,349	1,582	628
Total	RM 10,501	RM 11,006	RM 13,690	US\$ 5,432

Minority Interests' Share of Consolidated Subsidiaries' Profit. This amount principally reflects the minority interests' share of profit from Petronas Dagangan Berhad and Petronas Gas Berhad; shares in these subsidiaries were offered to the public in PETRONAS' 1994 and 1996 fiscal years. This amount also reflects the minority interests' share of profit from the two LNG plants in Sarawak.

Taxes

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petroleum products, petrochemicals and fund investment income, is currently subject to a statutory income tax rate of 30 percent.

PETRONAS' effective tax rate decreased from approximately 30 percent in 1995 to approximately 27 percent in 1996. This decrease in the effective tax rate is primarily due to the beneficial impact of tax incentives available for certain expanding operations. Pursuant to the Malaysian Income Tax Act, consolidated tax returns are not required.

Liquidity and Capital Resources; Capital Expenditures

Liquidity and Capital Resources

PETRONAS' primary source of working capital during the three years ended March 31, 1996 has been funds generated from operations. Total funding requirements, including capital expenditures, dividends, satisfaction of debt obligations, investments, taxes and other working capital requirements, for 1994, 1995 and 1996 were RM13,560 million, RM12,193 million and RM18,545 million, respectively. Of these totals, a significant percentage in each year, 56.2 percent in 1994, 64.3 percent in 1995 and 54.3 percent in 1996, was satisfied by funds generated from operations, including fund investment income. The balance of its funding requirements were satisfied primarily through external borrowings and liquidation of fund investments. Additional cash was generated from the sale of shares of PETRONAS' subsidiary, Petronas Dagangan Berhad (1994) and Petronas Gas Berhad (1995), in connection with their initial public offering and the listing of the shares on the Kuala Lumpur Stock Exchange, which raised proceeds of RM511 million and RM1,671 million, respectively.

PETRONAS' financing strategy is to ensure that its total long-term borrowings at any one time do not exceed 30 percent of total assets. At March 31, 1996, PETRONAS' total long-term borrowings represented 29.0 percent of its total assets.

PETRONAS' outstanding debt is primarily denominated in ringgit, dollars, Japanese yen and French francs. Through various arrangements with banks, PETRONAS has swapped a substantial portion of its Japanese yen and French franc repayment obligations for dollar denominated repayment obligations. A significant portion of PETRONAS' revenue is denominated in dollars.

The dividend declared by PETRONAS in 1996 was RM3,100 million, the same amount as declared in each of 1994 and 1995. The Board of Directors of PETRONAS recommends the level of dividend to its shareholders.

Capital Expenditures

PETRONAS has outstanding capital commitments that have been approved and committed to contract but are not provided for in its audited financial statements. These commitments totalled RM6,773 million as of March 31, 1994, RM4,114 million as of March 31, 1995 and RM6,502 million as of March 31, 1996. These include further work on the PGU Project, the construction of the PETRONAS Melaka Refinery Complex ("PSR-2") and the PETRONAS Fertilizer (Kedah) plant. See "Business — Downstream Activities" and Note 22 of Notes to Consolidated Financial Statements.

In addition, PETRONAS has substantial capital commitments that have been approved but have not been committed to contract and are not provided for in its audited financial statements. These commitments were RM20,292 million as of March 31, 1994, RM18,663 million as of March 31, 1995 and RM16,888 million as of March 31, 1996. Capital commitments outstanding as of March 31, 1996 include proposed further work on the PGU Project, oil and gas field development plans and a third LNG plant. Commitments in this category are subject to change as projects become committed to contract or are reviewed. See Note 22 of Notes to Consolidated Financial Statements.

Of the capital commitments referred to in the preceding two paragraphs, approximately RM10,752 million, RM5,030 million, RM3,476 million, RM2,757 million and RM1,375 million are expected to be incurred in the years 1997, 1998, 1999, 2000 and 2001, respectively. Because capital commitments that

have been approved but not committed to contract may be subject to change, and because PETRONAS may from time to time determine to undertake additional capital projects, actual capital expenditures in future years may be more or less than the amounts shown. PETRONAS expects to fund its future capital expenditures through drawdowns under existing term loans, additional external borrowings and funds generated from operations.

Capital expenditures on fixed assets and construction projects decreased 20.3 percent from RM7,071 million in 1994 to RM5,637 million in 1995 and decreased 33.0 percent to RM3,778 million in 1996. Approximately 72 percent of capital expenditures in 1994 and approximately 76 percent of capital expenditures in 1995 were funded through drawdowns under existing term loans. The balance in each year came primarily from funds generated from operations, including fund investment income. In 1996, capital expenditures on fixed assets and construction projects were entirely funded by the drawdowns of existing loans and additional external borrowings. Capital expenditures in 1994, 1995 and 1996 consisted of RM901 million, RM1,663 million and RM2,218 million, respectively, of upstream investment and RM6,170 million, RM3,974 million and RM1,560 million, respectively, of downstream investment.

BUSINESS

Overview

PETRONAS is the national oil and gas company of Malaysia and is wholly-owned by the Government of Malaysia. PETRONAS was incorporated in 1974 under the Malaysian Companies Act and derives its powers from the Petroleum Act. Section 2 of the Petroleum Act vests in PETRONAS, the "entire ownership in, and exclusive rights, powers, liberties and privileges of exploring, exploiting, winning and obtaining petroleum whether onshore or offshore Malaysia". The Petroleum Act also vests in PETRONAS the right to process and refine petroleum, to manufacture petrochemical products and to market these items. All entities, including wholly and partially-owned subsidiaries of PETRONAS, other than PETRONAS are required to obtain a Government license or permit for such activities.

PETRONAS' upstream activities include the exploration for and production of crude oil and natural gas (collectively, the "upstream activities"). PETRONAS manages all upstream activities within Malaysia and engages a number of international oil and gas companies (the "PSC Contractors") to participate in exploration, development and production of oil and gas in Malaysia pursuant to production sharing contracts (the "Production Sharing Contracts"). During the exploration phase of these Production Sharing Contracts, the PSC Contractors are required to spend a minimum amount of money to explore the areas (the "blocks") covered by the Production Sharing Contracts, which includes the acquisition of new seismic data and drilling a specified number of wells. If oil or gas is discovered and commercial production commences, PETRONAS retains a percentage of the total production as its entitlement (PETRONAS' "entitlement"). The Production Sharing Contracts provide for the recovery of costs by the PSC Contractors and the sharing of crude oil and natural gas production between PETRONAS and the PSC Contractors. Since 1985, Petronas Carigali Sdn. Bhd. ("PETRONAS Carigali"), a wholly-owned subsidiary of PETRONAS engaged in the international and domestic exploration, development and production of crude oil and natural gas, has had an option to participate in each Production Sharing Contract as a PSC Contractor with a minimum interest of 15 percent.

PETRONAS exports a portion of its share of crude oil and natural gas production to customers, primarily in the Asia-Pacific region. PETRONAS' downstream activities include (i) the sale of its crude oil and natural gas entitlements, (ii) the liquefaction, sale and transportation of LNG, (iii) the processing and transmission of natural gas and the sale of natural gas products, such as LPG and processed gas, (iv) the manufacture and sale of refined petroleum products, including fuel oil, diesel, motor gasoline, jet fuel, kerosene and lubricants, (v) the manufacture and sale of various petrochemical products, and (vi) the trading of crude oil, petroleum products and petrochemical products (collectively, the "downstream activities").

PETRONAS believes that Malaysia's abundant offshore gas reserves provide an opportunity for PETRONAS to play an important role in satisfying the growing energy demands of Malaysia and other Asian countries. To facilitate the development of these natural gas reserves, PETRONAS has undertaken a capital expenditure program designed to (i) increase the capacity of its natural gas processing and transmission facilities through the implementation of the PGU Project, (ii) expand the market for natural gas through expansion of its petrochemical operations, which use processed gas as a feedstock, and (iii) encourage the use of natural gas as an alternative fuel source for power plants and as a substitute for traditional energy sources, including natural gas for vehicles and natural gas fueled coolant systems.

Building on the success of its petroleum businesses in Malaysia, PETRONAS is increasing its focus on identifying and developing overseas investment opportunities. PETRONAS' objective is to establish a globally integrated oil and gas operation and to become a "Leading Oil and Gas Multinational of Choice". In the upstream segment, PETRONAS is pursuing the strategy of augmenting Malaysia's petroleum resources through exploration, development and production activities outside Malaysia. In the downstream segment, PETRONAS' strategy is to add value to PETRONAS' petroleum resources by increasing their utilization as feedstocks for production and for export sale. PETRONAS believes that this strategy

will capitalize on its experience in developing Malaysia's petroleum resources and its strong financial and human resources.

At March 31, 1996, PETRONAS had 40 wholly-owned subsidiaries, 15 partly-owned subsidiaries and 17 associated companies. PETRONAS' unconsolidated revenues and net income for the year ended March 31, 1996 were 62.0 percent and 82.0 percent, respectively, of the consolidated revenues and net income of PETRONAS for the same period.

Oil and Gas Reserves

PETRONAS determines Malaysia's crude oil and natural gas reserve estimates utilizing estimates of field reserves provided by the PSC Contractors. The methods used to estimate these reserves are based on internationally recognized techniques recommended by the Society of Petroleum Engineers in Dallas, Texas. PETRONAS' reserve estimates as of January 1 of any year are generally made public in June or July of such year, and are normally not audited by an independent petroleum engineer unless required for a unitization agreement (whereby PSC Contractors agree to operate two or more fields as one unit) or prior to a new natural gas project.

PETRONAS' estimates of Malaysia's crude oil and natural gas reserves include both proved and probable reserves. Proved reserves refer to the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Probable reserves refer to the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate have a fair to good probability to be recoverable in future years from known reservoirs under existing economic and operating conditions.

At January 1, 1996, Malaysia had proved and probable oil reserves of 4.0 billion barrels. At the current production level of approximately 630,000 barrels per day ("bpd") (excluding condensates), which is expected to continue over the next several years, Malaysia's current oil reserves would last for approximately 17 years. PETRONAS continues to explore for oil both domestically and internationally in an effort to augment Malaysia's oil reserves.

Through its Production Sharing Contracts, PETRONAS manages the level of crude oil production within Malaysia in line with the National Depletion Policy, which stipulates that the annual production of crude oil be limited to three percent of the "oil initially in place" for major fields. Major fields are fields with at least 400 million barrels of crude oil. "Oil initially in place" includes all crude oil previously extracted, current proved and probable reserves and estimates of other oil resources regardless of the current economics of extraction.

The following table sets forth Malaysia's proved and probable oil and condensate reserves at January 1 for each of the years 1992 through 1996.

Proved and Probable Oil Reserves	At January 1,				
	1992	1993	1994	1995	1996
	(In millions of barrels)				
Sabah	604	631	641	590	550
Sarawak	1,267	1,205	1,202	1,067	950
Peninsular Malaysia	1,872	2,443	2,434	2,455	2,530
Total	<u>3,743</u>	<u>4,279</u>	<u>4,277</u>	<u>4,112</u>	<u>4,030</u>

At January 1, 1996, Malaysia had proved and probable natural gas reserves of 80.2 trillion standard cubic feet ("tscf"). These reserves are expected to have a production life of approximately 30 to 40 years in light of expected production levels as well as continuing growth in demand for natural gas in Malaysia.

The following table sets forth Malaysia's proved and probable gas reserves at January 1 for each of the years 1992 through 1996.

Proved and Probable Gas Reserves	At January 1,				
	1992	1993	1994	1995	1996
	(in billions of standard cubic feet)				
Non-Associated Gas (1):					
Sabah	1,848	2,707	2,932	5,679	4,861
Sarawak	31,864	36,868	37,882	37,511	33,031
Peninsular Malaysia	22,486	23,881	26,606	28,184	28,331
Total non-associated gas	56,198	63,456	67,420	71,374	66,223
Associated Gas:					
Sabah	1,127	1,658	1,216	1,253	1,207
Sarawak	3,767	3,758	4,230	4,209	4,276
Peninsular Malaysia	6,671	7,797	7,897	8,222	8,496
Total associated gas	11,565	13,213	13,343	13,684	13,979
Total	67,763	76,669	80,763	85,058	80,202

(1) Non-associated gas is found in a reservoir that does not contain crude oil. Approximately 83 percent of Malaysia's natural gas reserves are non-associated. Certain non-associated gas fields have been dedicated to supply existing and future planned gas projects. The timing of the development of such fields is dependent upon demand for gas and the development of related infrastructure and downstream facilities.

With Malaysia's substantial proved and probable natural gas reserves, PETRONAS believes it has an opportunity to play an important role in satisfying the growing energy demands of Malaysia and other Asian countries. As a result, PETRONAS expects natural gas production to continue to play a significant role in PETRONAS' growth. For a further discussion of PETRONAS' plans to increase utilization and distribution of Malaysia's natural gas resources, see "Business — Downstream Activities".

Crude oil and natural gas exploration and production activities are subject to various uncertainties, including those relating to the physical characteristics of crude oil and natural gas fields. These physical characteristics, including the proportion of reserves ultimately able to be produced and the rate of production, are difficult to estimate and as a result, ultimate production may differ from current estimates of proved and probable reserves.

Upstream Activities

Domestic Exploration and Development

PETRONAS is actively engaged in exploration, development and production of oil and gas in Malaysia through its Production Sharing Contracts. The success ratio for oil discovery in Malaysian waters was one oil discovery for every 4.3 exploration wells drilled during the period from 1990 through the end of calendar year 1995. If gas is included, the success ratio for discovery in Malaysia increases to one in 2.4.

Malaysia has 515,600 square kilometers of land and seabed available for oil and gas exploration, of which 152,262 square kilometers are currently covered by Production Sharing Contracts. Until 1993, oil and gas exploration and production activities in Malaysia took place in the broad continental shelf which provides favorable conditions for oil and gas exploration. Within this shelf, five major sedimentary basins in Malaysia have been identified as petroleum bearing. The water depth of these areas is between 25 and 181 meters. Malaysia's deeper offshore areas, with water depths of 200 meters or more, have only recently been opened to oil and gas exploration. See "Business — Upstream Activities — Production Sharing Contracts".

Malaysia's existing oil and gas fields are located in the continental shelf offshore of the states of Sabah and Sarawak and in the continental shelf offshore of the state of Terengganu on the east coast of

Peninsular Malaysia. To date, exploration activities in the continental shelf have resulted in discoveries of 121 commercial oil fields and 202 commercial gas fields.

The current focus of development activity is on the gas field development of the Central Luconia, Lutong, Jintan and Helang gas fields offshore Sarawak and the Resak/Beranang and Fekina gas fields offshore Peninsular Malaysia, the oil field development activity of Malong, Yong, Sotong, Anding and Larut oil fields offshore Peninsular Malaysia, the Kinabalu oil field offshore Sabah and Asam Paya oil field offshore Sarawak and the oil and gas field development of the Orkid, Raya, Jerneh, Lawit and Duyong oil and gas fields offshore Peninsular Malaysia.

The following table shows the seismic data and other exploration, development and production activity undertaken by the PSC Contractors for each of the fiscal years in the five-year period ended March 31, 1996.

	Fiscal Year Ended March 31,				
	1992	1993	1994	1995	1996
Seismic data acquisition (line km) (1):					
2-D	16,167	13,113	27,610	18,529	12,620
3-D	30,791	54,033	20,538	15,339	129,205
Wells (2):					
Exploration	43	19	26	19	16
Appraisal	18	13	5	3	13
Development	72	82	71	114	99
Exploration, development and production investment (in millions) (3)	RM 4,892	RM 4,888	RM 5,477	RM 5,487	RM 4,587

(1) Seismic data, which is measured in terms of line kilometers covered, is a key tool used in oil and gas exploration to determine the likely existence of petroleum deposits. 3-D data acquisition has become increasingly important in recent years, as the enhanced detail of this data provides time and cost benefits in analysis and use of the information obtained.

(2) Exploration wells are drilled to determine the existence of an oil or gas field. Appraisal wells are drilled to determine the extent of an identified field, and development wells are drilled for the purpose of extracting the oil or gas.

(3) Total exploration, development and production investment for fiscal 1996 by the PSC Contractors, excluding the Production Sharing Contracts in which PETRONAS Carigali has a 100 percent interest.

Production

At present, PETRONAS has 33 producing oil fields and several others under development. These oil fields produce five blends of crude: Tapis, Labuan, Miri, Bintulu and Dulang. All of these blends are of high quality and generally command a premium price on the world market.

For fiscal 1996, Malaysia's crude oil and condensate production was 261 million barrels, an increase from the fiscal 1995 production level of 246 million barrels. Production levels are expected to be maintained at approximately 255 million barrels per year over the next five years. PETRONAS uses its share of crude oil production for export sales to customers principally in the Asia-Pacific region and for refining and sale of petroleum products.

The following table sets forth Malaysia's crude oil production and PETRONAS' share in such production for each of the fiscal years in the five-year period ended March 31, 1996.

Oil (1)	Fiscal Year Ended March 31,				
	1992	1993	1994	1995	1996
	(in millions of barrels)				
Total production in Malaysia	242	240	234	246	261
PETRONAS' share of production (2)	152	143	145	152	168

(1) Includes crude oil and condensates.

(2) PETRONAS' share of production includes its entitlement, PETRONAS Carigali's cost and profit oil and the royalty oil collected by PETRONAS.

Currently, only nine of PETRONAS' 202 gas fields are producing, three are under development and the remainder may be developed in the future. For fiscal 1996, Malaysia's natural gas production was approximately 1,070 billion standard cubic feet.

Natural gas production is projected to increase through the year 2000 as a result of the completion of the PGU Project.

Not all natural gas produced is available for sale. Natural gas may also be re-injected into the well, used for petroleum operations or either lost or flared. During fiscal 1996, 78 percent of the natural gas produced was sold in domestic and international markets. The following table sets forth Malaysia's annual natural gas production available for sale and PETRONAS' annual entitlement to such gas for each of the fiscal years in the five-year period ended March 31, 1996.

Natural Gas	Fiscal Year Ended March 31,				
	1992	1993	1994	1995	1996
	(in billions of standard cubic feet)				
Total production in Malaysia(1)	539	624	735	833	1,070
PETRONAS' share of production(2)	318	339	402	447	585

(1) Net of flared gas, reinjected gas and gas used for petroleum operations.

(2) PETRONAS' share of production includes its entitlement, PETRONAS Carigali's cost and profit gas and the royalty gas collected by PETRONAS.

PETRONAS uses its share of gas production in its downstream activities for processing, liquefaction and sale in the domestic market and abroad. In addition, PETRONAS purchases gas produced by the PSC Contractors for such uses.

Production Sharing Contracts

PETRONAS' exploration, development and production activities are carried out by means of Production Sharing Contracts with a number of international oil and gas companies and with its wholly-owned subsidiary, PETRONAS Carigali.

PETRONAS' Production Sharing Contracts are similar to production sharing contracts used by oil and gas companies internationally. The contract obligates the PSC Contractor to provide all the financing and bear all the risk of exploration, development and production activities in exchange for a share of the total production. As in most international production sharing contracts, the PSC Contractor is allowed to recover its costs from total oil and gas produced from the area, after royalties ("cost" oil or gas), up to a maximum recovery limit specified in the Production Sharing Contract. The remainder ("profit" oil or gas) is shared between the PSC Contractor and PETRONAS on a volume-dependent basis.

Since its incorporation in 1974, PETRONAS has signed 48 Production Sharing Contracts with 41 oil and gas companies from 15 different countries. A Production Sharing Contract may be awarded to a consortium of PSC Contractors, and one PSC Contractor may be party to several Production Sharing Contracts. As of June 1996, there were 28 Production Sharing Contracts in operation. The majority of the Production Sharing Contracts currently in operation were signed following a 1985 liberalization of the terms and conditions of such contracts which allowed for accelerated cost recovery and improved ratios of profit oil and gas for the PSC Contractors.

Under the terms of all Production Sharing Contracts signed after 1985, PETRONAS Carigali participates as a PSC Contractor with a minimum interest of 15 percent. PETRONAS Carigali's interest is "carried" from the time of signing of the contract to the completion by the other PSC Contractors of specified work commitments or fulfillment of minimum financial and drilling commitments or upon commercial success (the "carried interest period"). Upon expiration of the carried interest period, PETRONAS Carigali must determine whether to continue its participation in the Production Sharing Contract or opt out of the contract. If PETRONAS Carigali exercises its option to retain its interest in the contract after the carried interest period, PETRONAS Carigali bears the costs of future operations in

accordance with its participating interest in the Production Sharing Contract. During the carried interest period, regardless of whether PETRONAS Carigali exercises its option, all exploration and other costs are borne by the other PSC Contractors.

The following table summarizes the basic terms of PETRONAS' current Production Sharing Contracts.

<u>Allocations</u>	<u>Shallow Water Blocks</u>	<u>Deep Water Blocks 200 to 1,000 meters</u>	<u>Deep Water Blocks over 1,000 meters</u>
Royalties (% of gross production)	10%	10%	10%
Cost oil (% of gross production) (maximum)	50%	70%	75%
Cost gas (% of production available for sale) (maximum)	60%	60%	60%
Profit oil and gas (range depending upon volume of production) (PETRONAS: PSC Contractor):			
Oil	50:50 to 70:30	30:70 to 50:50	14:86 to 50:50
Gas	50:50 to 70:30	40:60 to 60:40	40:60 to 60:40

The Production Sharing Contracts are of limited duration. Exploration and development periods are five years and four years, respectively, for shallow water blocks (water depths up to 200 meters) and seven years and six years, respectively, for deep water blocks (water depths of 200 meters or more). If no commercial discovery is made in a block by the end of the exploration period, a PSC Contractor may relinquish the block, which may then be reawarded by PETRONAS under a new Production Sharing Contract. If a commercial discovery in a field is made, the development period for that field begins. During the development period, the PSC Contractor will generally drill wells at several strategic spots over the reservoir and install the facilities necessary to produce crude oil or gas. The production phase of the Production Sharing Contracts lasts, with respect to each field discovered, for a period of 15 years for shallow water blocks and 25 years for deep water blocks from the date of first commercial production from such field. In the case of the discovery of a gas field, the Production Sharing Contracts provide for an additional five-year holding period between the exploration and development phases, and the production phase may be extended for an additional five years.

Through use of the Production Sharing Contracts, PETRONAS is able to insulate itself from the capital costs and risk of failure associated with exploration activities, while maintaining a significant share in any discovery through its entitlements. PETRONAS further benefits from the Production Sharing Contract as it owns all exploration and production data and all the other assets acquired and used by the PSC Contractors in the performance of the Production Sharing Contracts. Although these assets are owned by PETRONAS, the PSC Contractors have the right to use the assets for the duration of the Production Sharing Contracts, and the value of such assets is not reflected on the balance sheet of PETRONAS. Based on the financial statements of the PSC Contractors, the estimated net book value of the assets employed by the PSC Contractors (excluding PETRONAS Carigali) in connection with Production Sharing Contracts at December 31, 1995 was RM10,343 million.

Upon expiration of a Production Sharing Contract, PETRONAS may enter into a new Production Sharing Contract with its PSC Contractors, on mutually agreeable terms and in accordance with good oil field practices, covering the fields under production to permit the PSC Contractor additional time to produce the reserves in such fields.

The PSC Contractors exploring for oil and gas in Malaysian waters include Esso Production Malaysia Inc., Mobil Petroleum Malaysia Inc., Nippon Oil Exploration (Sarawak) Ltd., Occidental Petroleum (Malaysia) Ltd., PETRONAS Carigali, Sarawak Shell Berhad and Sabah Shell Petroleum Company. Of these, Esso Production Malaysia Inc., Sabah Shell Petroleum Company, International Petroleum Corp. Malaysia Ltd., Sarawak Shell Berhad and PETRONAS Carigali are the main operators of PETRONAS' producing oil and gas fields.

International Exploration and Production

PETRONAS is seeking to augment Malaysia's petroleum resources and has expanded into international exploration and development activities. The principal vehicle through which PETRONAS conducts these activities is Petronas Carigali (Overseas) Sdn. Bhd. ("PETRONAS Overseas"), a wholly-owned subsidiary of PETRONAS Carigali established in 1990.

Vietnam. In 1992, PETRONAS Overseas, as a member of a consortium of international oil companies, was awarded a contract to develop the Dai Hung oil field in Vietnam. During June 1996, the Dai Hung oil field was producing approximately 13,000 bpd. PETRONAS Overseas holds a 20 percent interest in the consortium through its wholly-owned subsidiary, Petronas Carigali (Dai Hung) Sdn. Bhd. The reserves in the Dai Hung oil field have proven to be substantially below original expectations.

In addition, PETRONAS Overseas, through its wholly-owned subsidiary, Petronas Carigali (Vietnam) Sdn. Bhd., has a production sharing contract with an 85 percent interest in Blocks 01 and 02, offshore Vietnam. Commercial discoveries have been made in the Ruby and Emerald Fields in the Blocks. Production of oil in these fields is expected to commence in late 1997.

Malaysia-Thailand Joint Development Area. Malaysia and Thailand have signed an agreement to establish a Malaysia-Thai Joint Authority (the "MTJA") to own the petroleum resources in an overlapping economic zone in the Gulf of Thailand, with an area of approximately 7,250 square kilometers divided into three blocks. Malaysia and Thailand each own 50 percent of the MTJA. In 1994, the MTJA signed two production sharing contracts covering three blocks. Seismic studies for all three blocks were completed in 1994. One of the blocks is held in equal shares by Petronas Carigali (JDA) Sdn. Bhd. ("Carigali (JDA)"), a wholly-owned subsidiary of PETRONAS Carigali, and Triton Oil Company of Thailand, and exploratory drilling in this block commenced in May 1994. The other two blocks, are held in equal shares by Carigali (JDA) and PTTEP International Limited. Based on MTJA data, Malaysia's portion of the gas reserves in the blocks is approximately 1.6 trillion standard cubic feet.

Philippines. In the Philippines, PETRONAS Overseas signed in 1995 a farm-in agreement and a joint operating agreement for two blocks in the Cotabato basin in April 1995. PETRONAS Overseas holds a 50 percent interest in each of the two blocks. PETRONAS Overseas' partners in the blocks are the PNOC Exploration Corporation and Petrofields Exploration and Development Company Incorporated. Exploration in the blocks is currently underway.

Pakistan. In Pakistan, PETRONAS Overseas signed a Petroleum Concession Agreement with the Oil & Gas Development Corporation of Pakistan (OGDC) on March 19, 1996 to explore the Fort Abbas Block of 3,810 square kilometers in Punjab Province. PETRONAS Overseas holds a 40 percent interest in the project. In June of 1996, PETRONAS Overseas signed a Deed of Assignment with British Gas Exploration and Production Limited and the Government of Pakistan to undertake general oil and gas exploration in the Gambat Block of approximately 6,600 square kilometers in Sindh Province. PETRONAS Overseas holds a 40 percent interest in the project.

Syria. PETRONAS Overseas has a 20 percent interest in the East Ash-Sham block in Syria. Commercial production is scheduled to commence in 1997.

Turkmenistan. In Turkmenistan, a wholly-owned subsidiary of PETRONAS Overseas has signed a Production Sharing Contract for Block 1, Turkmenistan. The block covers an area of approximately 1,467 square kilometers in the Apsheron Sill. This production sharing contract was the first such contract awarded by the Government of Turkmenistan. Production is scheduled to commence in late 1998.

Iran. In July 1995, a wholly-owned subsidiary of TOTAL S.A. entered into a Service Contract with the National Iranian Oil Company for the development of the Sirri A and Sirri E oil fields offshore Iran. Pursuant to a Sale and Purchase Agreement entered into in June 1996, TOTAL transferred to a wholly-owned subsidiary of PETRONAS Overseas 30 percent of TOTAL's interest in the project in July 1996. PETRONAS estimates that its total investment in the project will be approximately US\$180 million. TOTAL

continues to hold a 70 percent interest in the project and is acting as the development operator of the project.

PETRONAS does not believe that this investment will result in its designation as a sanctioned person under the U.S. Iran and Libya Sanctions Act of 1996, which became effective on August 5, 1996 and applies to certain transactions involving oil and gas development in Iran made pursuant to agreements with the Government of Iran or entities in Iran entered into on or after that date. Should PETRONAS in the future make investments in oil and gas developments in Iran, such investments, depending on their terms and conditions, could result in sanctions under the Act. Potential sanctions under the Act include, among others, a prohibition on U.S. financial institutions making loans or providing credits to any sanctioned person of more than \$10 million in any 12-month period and denial of licenses or other permission to export certain technology from the United States to sanctioned persons.

China. In August 1996, Petronas Overseas signed a Petroleum Contract with China National Offshore Oil Corporation ("CNOOC") and Chevron Overseas Petroleum Limited to jointly undertake oil and gas exploration in an offshore block in the Liaodong Bay area, Gulf of Bohai. PETRONAS and Chevron, as PSC Contractors, hold 40 percent and 60 percent participating interests in the venture. In the event of a discovery, CNOOC has the right to acquire up to a 51 percent interest in the project.

Downstream Activities

As a fully integrated oil and gas company, PETRONAS' downstream activities include the export sale of crude oil and natural gas, the refining of crude oil and sale of petroleum products, the liquefaction and processing of natural gas and the sale of LNG, LPG and processed gas, and the manufacture and sale of petrochemical products. PETRONAS believes that Malaysia's abundant off-shore gas reserves provide an opportunity for PETRONAS to play an important role in satisfying the growing energy demands and furthering the economic development of Malaysia and other Asian countries. To facilitate the development of these natural gas reserves, PETRONAS has undertaken a capital expenditure program designed to (i) increase the capacity of its natural gas processing and transmission facilities through the implementation of the PGU Project, (ii) expand the market for natural gas through expansion of its petrochemical operations, which use processed gas as a feedstock, and (iii) encourage the use of natural gas as an alternative fuel source for power plants and as a substitute for traditional energy sources, including natural gas for vehicles and natural gas fueled coolant systems.

Oil Refining

PETRONAS refines a wide range of petroleum products for domestic consumption and export, including motor gasoline, jet fuel, kerosene, diesel, naphtha and residual fuel oil.

Existing Refining Facilities. PETRONAS' refining activities are conducted at PETRONAS' refinery in Kertih, Peninsular Malaysia (the "PETRONAS Kertih Refinery") and at PETRONAS' new refinery complex in Melaka, Peninsular Malaysia (the "PETRONAS Melaka Refinery Complex"). A small portion of PETRONAS' crude oil is refined in Singapore.

The PETRONAS Kertih Refinery has a rated capacity of 40,000 bpd of Malaysian light, sweet crude. PETRONAS Kertih Refinery is owned and operated by Petronas Penapisan (Terengganu) Sdn. Bhd., a wholly-owned subsidiary of PETRONAS. The PETRONAS Melaka Refinery Complex will house two refining trains. The first train ("PSR-1") was completed in April 1994 and commenced operations in 1994, and has a rated capacity of 100,000 bpd of light, sweet crude and condensates. PSR-1 is owned and operated by Petronas Penapisan (Melaka) Sdn. Bhd. ("PETRONAS Penapisan (Melaka)"), a wholly-owned subsidiary of PETRONAS.

Additional Refining Facilities. Construction has begun on the second train of the PETRONAS Melaka Refinery Complex ("PSR-2"), which is designed to have a rated capacity of 100,000 bpd of imported, sour crude. The ability to refine non-indigenous sour crude will provide PETRONAS with greater flexibility in satisfying regional demand for petroleum products. PSR-2 is owned by Malaysia Refining

Company Sdn. Bhd., a joint venture company in which PETRONAS owns a 45 percent interest, and will be operated by PETRONAS Penapisan (Melaka). PETRONAS' partners are Conoco Asia Ltd. and Den Norske Statsoljeselskap A.S. (Statoil). PSR-2 has an estimated cost of approximately RM2,467 million (US\$979 million) and is scheduled to commence operations in 1998. In addition, the PETRONAS Kertih Refinery will be expanded to include a condensate splitting facility with a rated capacity of 60,500 bpd of condensate. The naphtha produced will be used as feedstock for the proposed aromatics project discussed below to be located adjacent to the PETRONAS Kertih Refinery.

Natural Gas — LNG

Malaysia is the third largest LNG exporting country in the world after Indonesia and Algeria. All of the production from PETRONAS' initial LNG plant is exported to Japan pursuant to long-term supply contracts with various public and private energy companies. All production from PETRONAS' second LNG plant has been committed to public and private energy companies in Japan, South Korea and Taiwan. The major buyers of PETRONAS' LNG include Tokyo Electric Co., Tokyo Gas Co. Ltd., the Japanese Gas Consortium, Korean Gas Corp. and Taiwan's Chinese Petroleum Corporation. Natural gas for the plants is supplied from the Central Luconia gas fields offshore Sarawak.

Existing Facilities. PETRONAS has a majority interest in two LNG plants in Bintulu, Sarawak, with a total capacity of 15.9 million metric tons per annum ("mmtpa") of LNG. PETRONAS' first LNG plant commenced operations in 1983 and is owned by Malaysia LNG Sdn. Bhd. ("MLNG"), a joint venture company in which PETRONAS holds a 65 percent interest. PETRONAS' partners in the venture are Shell Gas B.V., Mitsubishi Corporation and the Government of the State of Sarawak. The MLNG plant is among the world's largest, producing 8.1 mmtpa of LNG.

The second LNG plant, adjacent to the MLNG plant, has three processing trains with a combined capacity of 7.8 mmtpa of LNG, and has been in full operation since March 1996. The total cost for the second LNG plant is approximately RM5,100 million (US\$2,024 million). The plant is owned by Malaysia LNG Dua Sdn. Bhd., a joint venture company in which PETRONAS holds a 60 percent interest. PETRONAS' partners in the venture are Shell Gas B.V., Mitsubishi Corporation and the Government of the State of Sarawak.

Proposed Facilities. PETRONAS is planning the construction of a third LNG plant to utilize newly discovered gas reserves offshore Sarawak. The third plant, scheduled to come onstream in 2001, will initially consist of two trains, each with a capacity of 3.4 mmtpa, and may be expanded to include a third train in the future. Planning of the facility is in the detailed design stage. The facility will be owned by a joint venture company, Malaysia LNG Tiga Sdn. Bhd. in which PETRONAS holds a 60 percent equity interest and its joint venture partners (the Sarawak State Government, Nippon Oil Company, Occidental LNG (Malaysia) Ltd. and Shell Gas B.V.) each hold a 10 percent interest.

To provide PETRONAS' with greater flexibility in the transportation of LNG to its customers, PETRONAS Tankers Sdn. Bhd. ("PETRONAS Tankers"), a wholly-owned subsidiary, has contracted to acquire five new LNG tankers at an estimated aggregate cost of RM3,946 million. As of June 30, 1996, four tankers had been delivered and commenced service. The fifth tanker is scheduled for delivery in May 1997. PETRONAS Tankers has entered and will enter into 20-year charter parties with MLNG for hire of the tankers.

Natural Gas — Gas Processing and Transmission

PGU Project. For over a decade, PETRONAS has been involved in the planning, development and construction of the PGU Project, a RM9,655 million (US\$3,831 million) infrastructure development project through which natural gas is processed and piped as fuel for power generation and for industrial and residential use. PETRONAS Gas owns, operates and maintains the PGU processing, transmission and related facilities and, pursuant to an agreement with PETRONAS, acts as a dedicated throughput service company processing PETRONAS' gas and transmitting it to PETRONAS' customers. Throughput fees payable under this agreement consist principally of a fixed monthly "reservation charge", which is

payable regardless of the volume of natural gas delivered to PETRONAS Gas, and a "flowrate charge", which is payable based on the volume of natural gas processed by PETRONAS Gas.

PETRONAS Gas was listed on the Kuala Lumpur Stock Exchange in September, 1995. A portion of the shares of PETRONAS Gas were issued to domestic investors at RM5.30 per share, while the balance were offered to domestic and foreign investors at a minimum price of RM5.30 per share pursuant to a competitive bidding process. The last reported transaction price for the shares as reported on the Kuala Lumpur Stock Exchange on October 7 was RM10.20 per share. Following completion of the offering, PETRONAS held, and continues to hold, a 75 percent interest in PETRONAS Gas.

The PGU Project has served as the principal catalyst for the development of Peninsular Malaysia's offshore gas fields, the use of natural gas products for power generation and the expansion of Malaysia's petrochemical industry.

The PGU Project consists of three stages. Stage 1 ("PGU-I"), completed in 1984, involved the construction of an export terminal and a 250 mmscfd gas processing plant, which separates natural gas into methane, propane and butane, and the laying of a 32 kilometer pipeline connecting the processing plant to the export terminal (for export of propane and butane) and to the industrial end users and power plants (for sale of methane).

Stage 2 ("PGU-II") consists of the construction of three additional gas processing plants, which separate natural gas into methane, ethane, propane and butane, a 680 kilometer trans-peninsular pipeline that connects the western and southern parts of Peninsular Malaysia and Singapore and a dew point control unit ("DPCU"), which provides standby processing capacity. The transmission pipeline was completed at the end of 1991. Two of the three gas processing plants commenced operations in 1992 and the third gas processing plant commenced operations in 1994, resulting in a total current processing capacity of 1,000 mmscfd of natural gas. The DPCU commenced operations in August 1995.

Stage 3 ("PGU-III") involves extending the pipeline northwards along the west coast of Peninsular Malaysia to the border with Thailand in three phases, the construction of two additional gas processing plants with a combined capacity of 1,000 mmscfd and an additional DPCU, and the laying of a parallel pipeline along the route of PGU-I and PGU-II to provide additional transmission capacity and back-up transmission security. After completion of PGU-III, the PGU Project will have a total gas processing capacity of 2,000 mmscfd. The two additional gas processing plants and the initial PGU-III pipeline are expected to be completed in 1998 and the parallel pipeline is expected to be completed in 2000.

The principal end-users of the natural gas supplied by the PGU Project are Powergen (Senoko) Pte. Ltd. of Singapore, power stations of Tenaga Nasional Berhad and Malaysia's independent power producers, PETRONAS' petrochemical plants and the Perwaja Steel Mill. Contracts for the sale of processed natural gas are entered into between PETRONAS and the respective end-users and are generally long term, ranging from 15 to 21 years.

The PGU Project has facilitated the use of processed gas by smaller industries and residential end-users. In line with the phased implementation of the PGU Project, Gas Malaysia Sdn. Bhd. ("Gas Malaysia"), was established in 1992 to distribute methane from the PGU pipeline to individual industrial, commercial and residential locations in Peninsular Malaysia. PETRONAS holds a 20 percent interest in Gas Malaysia.

Petrochemical Projects

PETRONAS is continuing the development of its petrochemical business, which uses indigenous natural gas and gas products as feedstock. PETRONAS' petrochemical projects include a methanol plant, an MTBE and polypropylene complex, an ethylene and polyethylene complex, an ethylbenzene/styrene monomer plant and two fertilizer plants. As a part of its overall strategy to encourage the use of natural gas, PETRONAS is evaluating further opportunities to expand its petrochemical business, including overseas.

Methanol. In 1992, PETRONAS acquired a methanol plant located in Labuan, Sabah from the Government of Malaysia. The plant commenced operations in 1985 and is now owned and operated by Petronas Methanol (Labuan) Sdn. Bhd., a wholly-owned subsidiary of PETRONAS. The methanol plant, which utilizes natural gas from offshore Sabah, has the capacity to produce 660,000 mtpa of methanol. PETRONAS sells methanol to the MTBE plant in Kuantan, Peninsular Malaysia pursuant to a long-term sales contract and the balance is exported or sold to customers in Malaysia. Methanol is used to produce, among other things, urea formaldehyde, glycerine, methyl ester, fatty alcohol and rubber gloves.

MTBE/Polypropylene. Two integrated petrochemical plants which have the capacity to produce 300,000 mtpa of MTBE, 80,000 mtpa of propylene and 80,000 mtpa of polypropylene commenced operations in Kuantan, Peninsular Malaysia in late 1992. The MTBE plant is owned by MTBE Malaysia Sdn. Bhd., a wholly-owned subsidiary of PETRONAS. The polypropylene plant is owned by Polypropylene Malaysia Sdn. Bhd., a joint venture company in which PETRONAS holds an 80 percent interest. Idemitsu Petrochemical Co. Ltd. ("IPC") and Neste Oy Corporation are PETRONAS' partners in that project.

The feedstocks for these two plants are butane and propane, which are produced by PETRONAS' gas processing plants, and methanol from PETRONAS' methanol plant in Labuan, Sabah. MTBE is a high-quality additive for increasing the octane level and reducing the lead component in gasoline. Propylene, which is produced at the MTBE plant, is the monomer used to make polypropylene, one of the fastest growing base polymers for the manufacture of woven bags, plastics, films, ropes, chairs and other industrial products. The propylene produced at the MTBE plant is used as feedstock for the adjacent polypropylene plant.

Ethylene/Polyethylene. Two integrated petrochemical plants in Kertih, Peninsular Malaysia commenced operations in 1995, to produce polyethylene and ethylene. The first train of the polyethylene plant commenced operations in May 1995 and the second train commenced operations in July 1995 providing a total rated capacity of 200,000 mtpa. Polyethylene (Malaysia) Sdn. Bhd. ("PEMSB"), a joint venture company, owns and operates the plant. PETRONAS holds a 40 percent interest in the company and BP Chemicals Investments Limited ("BP Chemicals") is its partner. The ethylene plant commenced operations in September 1995 with a rated capacity of 320,000 mtpa and supplies ethylene to the polyethylene plant. The plant is owned and operated by Ethylene Malaysia Sdn. Bhd. ("EMS"), a joint venture company, in which PETRONAS holds a 72.5 percent interest. PETRONAS' partners are IPC and BP Chemicals. Total cost of the two plants was approximately RM1,716 million (US\$681 million). An 80,000 mtpa expansion of the ethylene plant is in progress, and is expected to be completed by the end of 1997.

Ethane for the ethylene plant is produced by PETRONAS' gas processing plants. Ethylene is a basic building block for the manufacture of petrochemicals, and polyethylene is an ethylene derivative which is used extensively in the fabrication of plastic products.

Urea/Ammonia. PETRONAS, in association with four other ASEAN (Association of South East Asian Nations) member countries, has established a fertilizer complex in Bintulu, Sarawak utilizing natural gas as its feedstock. ASEAN Bintulu Fertilizer Sdn. Bhd., in which PETRONAS holds a 63.5 percent interest, owns and operates the plant. The plant has the capacity to produce 648,000 mtpa of urea and 432,000 mtpa of ammonia and is the largest granular urea plant in Asia.

The construction of a second ammonia and urea plant to be located in Kedah, Peninsular Malaysia is currently underway. The plant will have the capacity to produce approximately 600,000 mtpa of urea and approximately 375,000 mtpa of ammonia and is expected to be completed in 1998 at a cost of approximately RM1,084 million (US\$430 million). The plant is owned and will be operated by PETRONAS' wholly-owned subsidiary PETRONAS Fertilizer (Kedah) Sdn. Bhd. A portion of the output is expected to be sold in Malaysia in substitution for imported ammonia and urea.

Urea is an important source of nitrogen and is used as a commercial fertilizer. It can also be used in the manufacture of adhesives, molding powders, varnishes and foams. Ammonia is the base chemical

used in the production of fertilizers but has other applications, such as a refrigerant in both compression and absorption refrigeration systems.

Ethylbenzene/Styrene Monomer. PETRONAS is participating in a joint venture enterprise with IPC to construct and operate a 215,000 mtpa ethylbenzene and 200,000 mtpa styrene monomer plant, which will utilize ethylene and benzene as feedstock. The plant is located in Pasir Gudang, Peninsular Malaysia and is expected to commence operations in 1997. The estimated cost of the plant is approximately RM438 million (US\$174 million). PETRONAS holds a 30 percent interest in the joint venture.

The ethylene for the plant will be sourced from the ethylene plant in Kertih, Peninsular Malaysia, and the benzene will be imported until completion of the aromatics project discussed below. Styrene monomer is a raw material used for the production of polystyrene and unsaturated polyester resins. These polymers are used in the manufacture of plastic casings, insulation materials and rubber goods.

Aromatics. In May 1996, PETRONAS and Mitsubishi Corporation signed a Shareholders Agreement to form a joint venture company (Aromatics Malaysia Sdn. Bhd.) to undertake Malaysia's first aromatics project. The plant will be located adjacent to the PETRONAS Kertih Refinery and will use naphtha as feedstock, which will be sourced from the PETRONAS Kertih Refinery. The plant is designed to produce 420,000 mtpa of paraxylene and 150,000 mtpa of benzene. PETRONAS and Mitsubishi Corporation will each have a 50 percent interest in the project. The estimated cost of the project is RM1,706 million (US\$677 million) and the plant is expected to commence operations in late 1999. Paraxylene is used primarily to produce purified terephthalic acid, which in turn is used to produce polyester fiber or bottles. Benzene is used primarily to produce styrene monomer.

Vinyl Chloride Monomer. PETRONAS has begun development of a 400,000 mtpa vinyl chloride monomer plant in Kertih. The plant is a joint venture project between PETRONAS, Land & General Berhad and Mitsui VCM Holdings (Malaysia) Sdn. Bhd., each holding a 60 percent, 20 percent and 20 percent interest in the joint venture, respectively. The plant is scheduled to be completed in 1998, and the estimated costs of the plant is approximately RM791 million (US\$314 million). Ethylene for use at the plant will be sourced from EMSB. Vinyl chloride monomer is used primarily to produce polyvinyl chloride (PVC).

New Petrochemical Complex. In May 1996, PETRONAS signed a letter of intent with Union Carbide Corporation with respect to the possible development of a petrochemical complex. The complex, which would initially include an ethylene/propylene cracker and facilities for production of various ethylene/propylene derivative products, would be located in Tok Arun on the east coast of Peninsula Malaysia. The project would be expected to serve the export market. PETRONAS is expected to hold a 67 percent interest in the ethylene/propylene cracker project and a 50 percent interest in the ethylene/propylene derivatives project. The projects are expected to be completed in 2000, and the preliminary estimated cost of the plant is approximately RM5,000 million (US\$1,879 million). The ethylene/propylene plant is expected to produce 600,000 mtpa of ethylene and 86,000 mtpa of propylene, while the ethylene/propylene derivatives project is expected to produce, among others, 580,000 mtpa of ethylene glycol and 546,000 mtpa of ethylene oxide. PETRONAS believes its relationship with Union Carbide Corporation, one of the world's leading producers and distributors of oxide and glycol derivatives, will strengthen PETRONAS' competitive position in the area of ethylene/propylene production.

Acrylic Acid. In April 1996, PETRONAS entered into a letter of intent with BASF Aktiengesellschaft ("BASF"), where PETRONAS is expected to hold a 40 percent interest in a joint venture project to produce acrylic acid. The project is expected to be completed in 1999, at an estimated cost of approximately RM527 million (US\$209 million), and is expected to produce 160,000 mtpa of acrylic acid. Acrylic acid is used primarily for the production of textiles, adhesives, emulsion paints, paper coatings, polish and leather finishes. The acrylic acid from the project is expected to be exported. PETRONAS believes its relationship with BASF, one of the world's leading producers and distributors of acrylic acid, will benefit PETRONAS' acrylic business in the future.

Chlor-Alkali/EDC. In April 1996, PETRONAS signed a letter of intent with the Chemical Company of Malaysia Berhad ("CCM") and the Asahi Glass Co. Ltd.-Mitsubishi Corporation consortium to construct, own and operate a chlor-alkali plant and an EDC plant in Kertih. The plants, designed to produce 270,000 mtpa of caustic soda, 240,000 mtpa of chlorine and 330,000 mtpa of EDC, are estimated to cost approximately an aggregate of RM655 million (US\$260 million), and are expected to be completed in 1999. PETRONAS will hold a 20 percent interest in the chlor-alkali project and a 50 percent interest in the EDC project. Asahi Glass Co. Ltd. is the largest producer of chlor-alkali in Asia, while Mitsubishi Corporation is the leading marketer of caustic soda and EDC in Asia. Chlor-Alkali is used in the production of chlorine and caustic soda, while EDC is a feedstock for the production of vinyl chloride monomer and polymer.

Petrochemical Storage Terminal. In July 1996, PETRONAS signed a letter of intent with GATX Terminals (PTE) Ltd., Dialog Group Berhad and Malaysian Capital Ventures Sdn. Bhd. to carry out a joint venture project in Kertih and Kuantan for the construction of centralized chemical storage facilities. PETRONAS will hold a 40 percent interest in the project. The storage facilities, with an aggregate design throughput of approximately 3.25 mmtpa, are expected to be completed in 1999 at an estimated aggregate cost of RM308 million (US\$122 million).

Other Gas Business

PETRONAS has implemented a program involving the use of natural gas as an alternative motor vehicle fuel. Commercialization of this program is being undertaken by Petronas NGV Sdn. Bhd., a wholly-owned subsidiary of PETRONAS. In addition, PETRONAS is currently implementing a project involving the supply of chilled water for air-conditioning generated by a natural gas fueled co-generation plant. The project is being undertaken by Gas District Cooling (M) Sdn. Bhd., a joint venture company formed with Tokyo Gas Company Limited, Mitsui and Co. Limited, Mitsubishi Corporation and PETRONAS. PETRONAS holds a 60 percent interest in Gas District Cooling (M) Sdn. Bhd. The cooling system will be used at PETRONAS' new headquarters as well as the new Kuala Lumpur International Airport.

Domestic Marketing

PETRONAS' domestic marketing activities are carried out by Petronas Dagangan Berhad ("PETRONAS Dagangan"), which sells fuel oil, diesel, motor gasoline, kerosene, lubricants and LPG produced by PETRONAS' downstream facilities through a nationwide retail network. PETRONAS Dagangan also provides jet fuel at airports and bunker fuel at ports. As of March 31, 1996, PETRONAS Dagangan has a network of 474 service stations, eight LPG bottling plants, eleven bulk storage depots and ten aviation depots in Malaysia.

PETRONAS Dagangan was the first company in Malaysia to market unleaded gasoline, which it sells under the brand name PRIMAS. PETRONAS Dagangan has succeeded in capturing the second largest share of the Malaysian market for petroleum products and has emerged as the market leader in jet fuel, fuel oil and LPG.

PETRONAS Dagangan owns 50 percent of a Multi-Product Pipeline and the Klang Valley Distribution Terminal (KVDT). Among other things, this project includes an approximately 145 kilometer pipeline that will transport gasoline, jet-fuel and diesel oil from PETRONAS' refinery in Melaka and Shell's refinery in Port Dickson to the KVDT which will be located south of Kuala Lumpur. PETRONAS Dagangan is also participating in a joint venture company to develop an aviation fuel storage facility at the new Kuala Lumpur International Airport being developed in Sepang.

PETRONAS Dagangan purchases its refined petroleum products from Petronas Trading Corporation Sdn. Bhd. ("PETCO"), a wholly-owned subsidiary of PETRONAS. PETCO purchases refined petroleum products from PETRONAS' refineries and other sources.

In 1994, the shares of PETRONAS Dagangan were listed on the Kuala Lumpur Stock Exchange. The last reported transaction price for the shares as reported on the Kuala Lumpur Stock Exchange on

October 7, 1996 was RM7.30 per share. As of March 31, 1996 PETRONAS held a 73.9 percent interest in PETRONAS Dagangan.

International Ventures

Consistent with its strategy of international expansion, PETRONAS is expanding its activities throughout Asia and elsewhere in the world through joint ventures and subsidiaries engaged in the importation, processing, storage, transportation and marketing of PETRONAS' oil and gas products.

South Africa. In June 1996, PETRONAS announced the acquisition of a 30 percent interest in Engen Limited, a South African holding company with investments in oil and related industries. PETRONAS' total investment for the interest was approximately US\$436 million. The Engen group's business is the exploration for and production of crude oil and gas, the refining of crude oil, the marketing and distribution of refined petroleum and petrochemical products in Southern Africa and provision of convenience services through its retail network in Southern Africa. Among other things, Engen Limited operates a 105,000 bpd refinery and has a network of approximately 1,400 service stations, including 84 service stations located outside of South Africa. Engen's shares are listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange and had a market capitalisation of approximately US\$1 billion at the time of PETRONAS acquisition. PETRONAS is now Engen Limited's largest shareholder and two of the 15 Engen Limited's directors are PETRONAS representatives.

Engen Limited has two listed subsidiaries, Energy Africa Limited and Engen Botswana Limited. Engen holds approximately 60 percent of Energy Africa Limited, which is an oil and gas exploration and production group listed on the Johannesburg Stock Exchange. Energy Africa Limited has existing production interests in the North Sea, Oman and Congo, and exploration and development activities in South Africa, Namibia, Angola, Congo and Gabon. Engen Limited holds 70 percent of Engen Botswana Limited, a company listed on the Botswana Share Market, which markets and distributes petroleum products throughout Botswana.

Vietnam. In February 1996, PETRONAS signed an agreement to undertake a detailed feasibility study with respect to Vietnam's first refinery project, proposed to be built at Dung Quat, 130 kilometers south of Danang. The agreement to undertake this study was signed with the partners in the project, Vietnam Oil and Gas Corporation, LG Chemical Ltd., Stone & Webster International Projects Corp., Conoco Asia Limited, Chinese Petroleum Corporation and China Investment & Development Co. Ltd. A PETRONAS-Conoco Asia Limited consortium is expected to hold a 30 percent interest in the project. The project would involve the construction of a 130,000 bpd refinery at an estimated total cost of US\$1.2 billion. The feasibility study is expected to be completed by the end of 1996.

PETRONAS has also established a joint venture company, Thang Long LPG Co., with Viet Nam Gas Company to import, store, bottle and market LPG in northern Vietnam. The Vietnamese joint venture company is currently planning to construct an LPG bottling facility in Haiphong.

Philippines. PETRONAS Philippines Inc., a wholly-owned subsidiary of PETRONAS, together with several Philippine partners, has formed a joint venture company, PETRONAS Energy Philippines, Inc., which will undertake the importation, storage and distribution of LPG in Mindanao. PETRONAS Philippines will hold a 40 percent interest in the venture.

Cambodia. PETRONAS currently has a wholly-owned subsidiary with a network of eleven service stations in Phnom Penh and is planning to open additional service stations by the end of 1996. In May, 1996 PETRONAS obtained a contract to supply diesel and fuel oil to Cambodia's independent power producers.

China. PETRONAS has a 20 percent interest in a joint venture company, Zhenjiang Zhonghai PETRONAS NIC Oil and Gas Co. Ltd., which was formed in September 1995 with China National Offshore Oil Donghai Corporation, Nissho Iwai and Danyang Petroleum Gas Corporation. The joint venture will construct an LPG terminal and three LPG bottling plants to receive, store, bottle and distribute LPG in the Gaozi area, Jiangsu Province, China.

PETRONAS also has a 30 percent interest in a joint venture company, Guangdong Yangjiang Hailing (Sinopec-PETRONAS-NIC) Petrochemical Co. Ltd., formed under a joint venture agreement signed in April 1996. The joint venture will construct an LPG bottling plant in Zhapo on Hailing Island, Yangjiang in Guangdong Province, China.

Yemen. PETRONAS has a 40,000 bpd crude oil processing arrangement with the Aden Refinery Company, which operates a refinery with an operating capacity of 125,000 bpd. PETRONAS' petroleum products from the Aden Refinery Company are used primarily to supply the African and Indian sub-continent market.

Seychelles. PETRONAS has obtained a 30 years terminaling arrangement with SEYPEC to serve the East African market. PETRONAS has been allocated storage capacity of 30,000 metric tons.

Argentina. In order to capitalize on its experience in the construction, operation and maintenance of natural gas pipelines, in December 1992 PETRONAS acquired a 15 percent interest in Gasinvest S.A., which owns and operates gas transmission facilities in Argentina, for approximately US\$32 million.

Australia. In June 1994, PETRONAS acquired an effective 23.5 percent interest in a 1,300 kilometer pipeline facility in Australia for approximately A\$67 million. PETRONAS' partners in the Australian pipeline are Novacorp International and AGL Ltd.

Trading

PETCO purchases refined petroleum products and LPG from PETRONAS and sells it to PETRONAS Dagangan, and abroad and trades non-indigenous crude and petroleum products in the international market. PETCO does not take significant uncovered trading positions.

Malaysian International Trading Corporation Sdn. Bhd., a wholly-owned subsidiary of PETRONAS, sells fertilizers, agro-chemicals, industrial chemicals, petrochemicals and general merchandise. It also procures equipment and spare parts for PETRONAS and third parties.

Other Activities

Research and Development

The Petroleum Research and Scientific Services Sdn. Bhd., a wholly-owned subsidiary of PETRONAS, was established to provide research and development support services to PETRONAS, the PSC Contractors and other corporations.

Kuala Lumpur City Centre Project

The construction of PETRONAS' new corporate headquarters (two 88 story towers) is currently underway. The headquarters complex is being built as part of the Kuala Lumpur City Centre project and is expected to be completed in early 1997 at a cost of approximately RM2,751 million (US\$1,092 million). The headquarters complex is owned by Midciti Resources Sdn. Bhd. PETRONAS holds an effective 73.7 percent interest in Midciti Resources Sdn. Bhd., which will lease the headquarters to PETRONAS. The Kuala Lumpur City Centre project is being undertaken by KLCC (Holdings) Sdn. Bhd. on 100 acres of prime land situated in central Kuala Lumpur. Thirty-seven acres will be commercially developed and the balance will be developed as a park. PETRONAS owns a 49.5 percent interest in KLCC (Holdings) Sdn. Bhd.

Competition

The most significant factors impacting PETRONAS' ability to export its crude oil and natural gas are fluctuating prices and varying demand.

PETRONAS faces competition in the marketing and distribution of petroleum products in the domestic retail market. Competition for domestic sales of such products comes principally from the international petroleum companies that have refineries within, or accessible to, Malaysia and operate service stations in Malaysia. These companies include Shell, Esso, Mobil, Caltex and BP. These same

companies also compete in the provision of fuel to industrial users and government agencies. Retail prices of petroleum products at service stations in Malaysia are regulated by the Malaysian government. PETRONAS also faces competition in the marketing of its petrochemical products from other petrochemical producers in Malaysia and in the region.

PETRONAS faces no competition in the domestic sale of natural gas products. This sector is expected to continue to grow as Malaysia plans to satisfy its growing energy needs primarily through use of natural gas for power generation. PETRONAS' export sales of LNG are made pursuant to long-term supply contracts.

PETRONAS competes with major international oil and gas and petrochemical companies in its international and certain of its domestic operations.

Insurance

PETRONAS maintains a set of comprehensive insurance policies with third parties for all its business activities, including insurance against certain environmental accidents such as oil spills.

Human Resources

At March 31, 1996, PETRONAS and its subsidiaries employed a total of 13,640 people.

PETRONAS believes it is important to provide its employees with ongoing training and offers its staff training courses covering plant operations and management, refinery operations, marketing and general management. PETRONAS Management Training Sdn. Bhd., a wholly-owned subsidiary, provides functional and management development training for PETRONAS and the oil and gas industry in Malaysia in general. In addition, PETRONAS' foreign partners, primarily the foreign PSC Contractors, are required to provide training to PETRONAS employees under the Production Sharing Contracts.

Approximately 5,465 of PETRONAS' employees belong to the three regional branches of its in-house union. PETRONAS' union agreements typically have a term of three years. The agreements with two of the union branches expired at the end of June 1995. One of the agreements was renewed and signed in March 1996 while the other agreement has been referred to the Industrial Court of Malaysia. Pending the decision of the Industrial Court of Malaysia regarding the second agreement, the terms of the expired agreement remain in effect. The agreement with the third union branch expired in June 1992. The parties have been unable to reach agreement on the terms of a new agreement and the matter is currently before the High Court of Malaysia on appeal. Pending agreement on the terms of the new agreement with the third union branch, the terms of the expired agreement remain in effect. Management believes it generally has a good relationship with its employees and with its in-house union.

PETRONAS maintains a non-contributory pension plan for all employees. The pension fund, PETRONAS' Retirement Benefit Fund, is governed by a trust deed and is administered by a board of trustees. Based upon actuarial advice received by management, PETRONAS believes the plan is adequately funded. In addition, PETRONAS and its employees contribute to the Employee Provident Fund, a mandatory employee retirement fund administered by a Board appointed by the Malaysian Government.

MANAGEMENT

Directors

The Articles of Association of PETRONAS provide that the Board of Directors shall consist of not less than two and not more than 15 directors. The Board of Directors of PETRONAS currently comprises eight individuals, all of whom were appointed by the shareholders of PETRONAS. Pursuant to PETRONAS' Articles of Association, the Board consists of the Chairman, the executive members (the President and Chief Executive Officer and the Senior Vice-Presidents) and non-executive members. While one-third of the non-executive members of the Board are up for reappointment at each annual meeting, the Chairman and the executive members are not subject to annual re-appointment.

The current directors of PETRONAS are as follows:

<u>Name</u>	<u>Current Position / Occupation</u>	<u>Director Since</u>
Tan Sri Datuk Seri Azizan bin Zainul Abidin	Chairman	February 10, 1988
Dato' Mohd. Hassan bin Marican	President and Chief Executive Officer	February 27, 1989
Tan Sri Datuk Clifford F. Herbert	Secretary General, Ministry of Finance	August 30, 1994
Dato' Zaki bin Tun Azmi	Advocate and Solicitor	October 1, 1988
Tan Sri Dato' Ali Abul Hassan bin Sulaiman	Director General, Economic Planning Unit — Prime Minister's Department	August 27, 1991
Dato' Syed Alwi bin Syed Nordin	Director General, Implementation, Coordination Unit — Prime Minister's Department	December 1, 1993
Dato' Mohamad Idris bin Mansor	Senior Vice-President	October 1, 1993
Dato' Hamzah bin Bakar	Senior Vice-President	March 14, 1995
Dato' Iskandar Dzakurnain bin Badarudin (alternate to Tan Sri Datuk Clifford F. Herbert)	Secretary, Tax Analysis Division Ministry of Finance	September 28, 1994

Management Committee

The Management Committee of PETRONAS is primarily responsible for overseeing PETRONAS' operations. The Management Committee is comprised of executive members of the Board of Directors and senior management. The current members of the Management Committee are as follows:

<u>Name</u>	<u>Current Position</u>	<u>Date Joined PETRONAS</u>
Dato' Mohd. Hassan bin Marican	President and Chief Executive Officer	February 1, 1989
Dato' Mohamad Idris bin Mansor	Senior Vice-President, Managing Director/CEO PETRONAS Carigali	February 1, 1976
Dato' Hamzah bin Bakar	Senior Vice-President, Refining & Marketing	June 2, 1980
Mohd. Ali bin Yasin	Vice-President, Gas & Petrochemical	March 3, 1975
Haji Mohamed Zohari bin Mohamed Shaharun	Vice-President, Technology Resource Management	April 24, 1981
Tan Sri Dato' Mohd. Noordin bin Hassan	Vice-President, Human Resource Management	September 7, 1994

<u>Name</u>	<u>Current Position</u>	<u>Date Joined PETRONAS</u>
Ishak bin Imam Abas	Vice-President, Finance	March 2, 1981
Muri bin Muhammad	Vice President, Gas Business	August 1, 1975
Anwarrudin bin Ahamad Osman	Managing Director/CEO, PETRONAS Dagangan	May 2, 1975
Abdul Rahim bin Abu Bakar	Managing Director/CEO, PETRONAS Gas	May 1, 1995
Abdul Hamid Ibrahim	Managing Director/CEO, MLNG	June 1, 1976

Compensation

The aggregate compensation paid by PETRONAS to the members of its Management Committee in the fiscal year ended March 31, 1996 for services in all capacities was approximately RM3.934 million (US\$1.561 million).

SHARE OWNERSHIP

The following table sets forth certain information as of March 31, 1996 with respect to the owners of PETRONAS' shares.

<u>Name of Owner</u>	<u>Percent of Ownership</u>
The Minister of Finance (Incorporated) of Malaysia	99.99
The Federal Land Commissioner of Malaysia	0.01

RELATIONSHIP WITH THE GOVERNMENT OF MALAYSIA

PETRONAS was established by the Government of Malaysia in 1974 to own and manage the petroleum resources of Malaysia. PETRONAS' Articles of Association provide that the Government of Malaysia is the only entity entitled to be a shareholder of PETRONAS.

Under the Malaysian Companies Act, as owner of PETRONAS, the Government controls the approval of all corporate matters that require shareholder resolution, including approval of dividends and appointment of directors. Various Government officials currently serve on PETRONAS' Board of Directors, including the Secretary General of the Ministry of Finance, the Director General, Economic Planning Unit — Prime Minister's Department and the Director General, Implementation, Coordination Unit — Prime Minister's Department.

PETRONAS plays an important role in the implementation of the Government of Malaysia's oil and gas policy. In addition to its relationship with the Government as its shareholder, PETRONAS consults informally with the Government on matters relating to energy policy and central planning. Since its incorporation, PETRONAS has played an integral role in helping Malaysia achieve the objectives set forth in each of the Governments' five-year economic plans. See "Appendix A — Malaysia — Economic Policy and Planning".

Absent a contractual obligation, the Government of Malaysia is not liable for PETRONAS' obligations.

ENVIRONMENTAL MATTERS

Malaysia has adopted a legislative framework for the control of pollution and the protection of the environment in Malaysia which includes the Environmental Quality Act 1974 and the regulations enacted pursuant thereto and the Petroleum (Safety Measures) Act 1984 and the regulations enacted pursuant thereto. As a fully integrated oil and gas company, PETRONAS and its activities are subject to these laws and regulations. In addition, PETRONAS' overseas activities are subject to the laws of various other

jurisdictions. Management believes that PETRONAS is in compliance in all material respects with all applicable environmental laws and regulations. However, some risk of environmental costs and liabilities is inherent in the operations of PETRONAS, as it is with all companies in the oil and gas industry, and there can be no assurance that material costs and liabilities will not be incurred in the future.

PETRONAS, as owner and manager of the oil and gas resources of Malaysia, has established its own detailed environmental requirements that include environmental impact assessment ("EIA") studies, oil spill contingency plans, post-EIA monitoring, environmental auditing and inspections, environmental studies and monitoring for all PETRONAS projects.

LITIGATION

PETRONAS is not currently involved in any material litigation or similar dispute.

DESCRIPTION OF THE SECURITIES

The Securities will be issued pursuant to a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated as of August 1, 1995 between PETRONAS and The Bank of New York, as Fiscal Agent (the "Fiscal Agent"), which provides for the issuance of unlimited series of debt securities. The following summaries of certain provisions of the 2001 Notes, the 2006 Notes, the Bonds and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to the provisions of the 2001 Notes, the 2006 Notes, the Bonds and the Fiscal Agency Agreement.

General

The 2001 Notes will be limited to US\$600,000,000 aggregate principal amount and will mature on October 18, 2001, the 2006 Notes will be limited to US\$800,000,000 aggregate principal amount and will mature on October 18, 2006 and the Bonds will be limited to US\$500,000,000 aggregate principal amount and will mature on October 15, 2026 (each such maturity date, a "Maturity Date"). The Securities are the direct, unconditional, unsubordinated and unsecured general obligations of PETRONAS. Each of the 2001 Notes, the 2006 Notes and the Bonds will rank *pari passu* among themselves, without any preference of one over the other by reason of priority of date of issue or otherwise, and at least equally with all other outstanding unsubordinated general obligations of PETRONAS.

Each of the 2001 Notes, the 2006 Notes and the Bonds will bear interest from October 18, 1996 at the rates per annum shown on the cover page of this Offering Circular, respectively. Interest on the 2001 Notes and the 2006 Notes will be payable semi-annually on April 18 and October 18, commencing April 18, 1997 and interest on the Bonds will be payable semi-annually on April 15 and October 15, commencing on April 15, 1997 (each such interest payment date for the 2001 Notes, the 2006 Notes and the Bonds, an "Interest Payment Date"), to the persons in whose name the Securities (or any predecessor Securities) are registered at the close of business on the fifteenth day preceding such Interest Payment Date. Interest on the Securities will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Any payment of principal or interest otherwise required to be made in respect of a Security on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment. "Business Day" means any day, other than a Saturday or Sunday, that is not a day on which banking institutions are authorized or required by law or executive order to be closed in New York City or Kuala Lumpur. Persons in whose name a registered Security is held are herein referred to as "Holders".

PETRONAS' senior unsecured long-term debt has credit ratings of "A1" (Moody's Investors Service, Inc.) and "A+" with a positive outlook (Standard & Poor's).

The Global Securities

The Securities sold outside the United States in offshore transactions (the "Unrestricted Securities") in reliance on Regulation S under the Securities Act, subject to certain exceptions, will be

represented by one or more global certificates in fully registered form without coupons (collectively, the "Unrestricted Global Security") deposited with a custodian for, and registered in the name of, a nominee of the Depository for the accounts of Euroclear and Cedel. Until and including the 40th day after the commencement of the offering of the Securities (the "Restricted Date"), beneficial interests in the Unrestricted Global Security may be held only through Euroclear or Cedel.

The Securities sold in reliance on Rule 144A under the Securities Act (the "Restricted Securities"), subject to certain exceptions, will be represented by one or more global certificates in fully registered form without coupons, (collectively, the "Restricted Global Security", and together with the Unrestricted Global Security, the "Global Securities") deposited with a custodian for, and registered in the name of, a nominee of the Depository. The Restricted Global Security will be subject to certain restrictions on transfer as set forth in a legend appearing thereon as described in "Notice to Investors". On or prior to the Restricted Date, an interest in the Unrestricted Global Security may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Security only upon receipt by the Fiscal Agent of (A) instructions from the Depository directing the Fiscal Agent to effect the exchange or transfer of an interest in a Unrestricted Global Security and (B) a written certification (in the form provided for in the Fiscal Agency Agreement) from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After the Restricted Date, such certification from the transferor will no longer be required for purposes of such transfers. Interests in the Restricted Global Security may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Security, whether before, on or after the Restricted Date, only upon receipt by the Fiscal Agent of, among other things, a written certification (in the form provided for in the Fiscal Agent Agreement) from the transferor. Any interest in the other Global Security will, upon transfer, cease to be an interest in such Global Security and become an interest in the other Global Security and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interest in such other Global Securities for as long as it remains such an interest. Interests in the Securities represented by such Global Securities will be shown on, and transfers thereof will be effected only through, records maintained by the Depository and its direct and indirect participants, including Euroclear and Cedel.

The Depository for a Global Security or its nominee, as the case may be, as registered Holder of such Global Security will be considered the sole owner or holder of the Securities represented by such Global Security for all purposes under such Securities and the Fiscal Agency Agreement, unless otherwise provided therein.

Principal and interest payments on any Securities represented by a Global Security registered in the name of the Depository or its nominee will be made to the Depository or its nominee, as the case may be, as the registered owner of such Global Security. None of PETRONAS, the Fiscal Agent or any paying agent for such Securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in such Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

PETRONAS expects that the Depository, upon receipt of any payment of principal or interest, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Securities as shown on the records of the Depository. PETRONAS also expects that the payments by participants to owners of beneficial interests in such Global Securities held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the account of customers registered in "street names", and will be the responsibility of such participants.

The Depository has advised PETRONAS as follows: The Depository is a limited purpose trust company organized under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a

"clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the Depository is available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a Depository participant, either directly or indirectly.

Settlement and Clearance

Initial settlement for the Securities will be made in same-day funds.

Upon the issuance of the Global Securities, the Depository or its Custodian will credit, on its book-entry registration and transfer system, the respective principal amounts of the 2001 Notes, the 2006 Notes or the Bonds, as the case may be, represented by such Global Securities to the accounts of persons that have accounts with the Depository ("participants"). The accounts to be initially credited shall be designated by or on behalf of the Initial Purchasers. Ownership of beneficial interests in the Global Securities will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in such Global Securities will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depository or its nominee for such Global Securities (with respect to interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants).

Subject to compliance with the transfer restrictions applicable to the Securities described above and under "Notice to Investors" below, cross-market transfers between the Depository, on the one hand, and direct or indirect Euroclear or Cedel accountholders, on the other, will be effected in the Depository, in accordance with the Depository's rules. Such cross-market transactions will require delivery of instructions to Euroclear or Cedel by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Cedel will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving beneficial interests in the relevant Global Security in the Depository and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depository. Euroclear accountholders and Cedel accountholders may not deliver instructions directly to the depositories for Euroclear or Cedel.

Because of time-zone differences, credits of securities received in Euroclear or Cedel as a result of a transaction with a Depository participant will be made during the securities settlement processing day dated the business day following the Depository's settlement date and such credits will be reported to the relevant Euroclear or Cedel participant on such business day. Cash received in Euroclear or Cedel as a result of sales of securities by or through a Euroclear accountholder or a Cedel accountholder to a Depository participant will be received with value on the Depository's settlement date but will be available in the relevant Euroclear or Cedel cash account only as of the business day following the Depository's settlement date. Settlement between Euroclear or Cedel accountholders and Depository participants cannot be made on a delivery versus payment basis. The arrangements for transfer of payments must be established separately from the arrangements for transfer of securities, the latter being effected on a free delivery basis. The customary arrangements for delivery versus payment between Euroclear and Cedel accountholders or between Depository participants are not affected.

Although the Depository, Euroclear and Cedel have agreed to the procedures described above in order to facilitate transfers of securities among participants of the Depository, Euroclear and Cedel, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither PETRONAS nor the Fiscal Agent will have any responsibility for the performance by the Depository, Euroclear or Cedel or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Restrictions on Transfer

The Securities may not be sold or otherwise transferred except in accordance with the restrictions described under "Notice to Investors".

Definitive Securities

In the event that (i) the Depository notifies PETRONAS in writing that at any time the Depository is unwilling or unable to continue as Depository or ceases to be a "clearing agency" registered under the Exchange Act, and a successor Depository is not appointed by PETRONAS within 90 days after PETRONAS is notified by the Depository or becomes aware of such condition or (ii) the 2001 Notes, the 2006 Notes and the Bonds have become immediately due and payable pursuant to the Fiscal Agency Agreement, PETRONAS will issue the 2001 Notes, the 2006 Notes and the Bonds in definitive form (collectively, the "Definitive Securities" and each a "Definitive Security") in exchange for the Global Securities representing such 2001 Notes, such 2006 Notes or such Bonds. Any Securities to be issued in definitive form will be issued only in fully registered form without coupons in denominations of \$100,000 and integral multiples of \$1,000 in excess thereof.

Payment of the principal of any Definitive Security shall be made, upon presentation and surrender of such Security, by check drawn on a bank in The City of New York at the option of the Holder, either (i) at the corporate trust office of the Fiscal Agent in the Borough of Manhattan, The City of New York, or (ii) subject to any applicable laws or regulations and the right of PETRONAS to terminate the appointment of any such paying agency, at such other paying agencies as PETRONAS may designate from time to time. Payments of interest on any Security shall be made by check drawn on a bank in The City of New York mailed to the address of the person entitled thereto as such address shall appear on the securities register (the "Securities Register") maintained by the Fiscal Agent pursuant to the Fiscal Agency Agreement. PETRONAS and the Fiscal Agent may deem and treat the registered Holder of any Definitive Security as the absolute owner of the Security (notwithstanding any notice of ownership or other writing on such Security) for the purposes of receiving payment on such Security or on account of such Security and for all other purposes.

The Holders of Definitive Securities shall present directly at the corporate trust office of the Fiscal Agent in New York or of any other transfer agent all requests for the registration of any transfer of such Securities, for the exchange of such Securities for new Definitive Securities in authorized denominations and for the replacement of such Securities in the case of mutilation, destruction, loss or theft. Every certificate representing Definitive Securities presented or surrendered for registration of transfer or for exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to PETRONAS and the Fiscal Agent, duly executed by the Holder thereof or his attorney duly authorized in writing. The registration of any transfer of Definitive Securities in the Securities Register is also subject to any reasonable requirements of PETRONAS. Except for the expenses of delivery other than by regular mail, no service charge shall be made for any exchange or registration of transfer, but PETRONAS may require payment of a sum sufficient to cover any stamp tax or other governmental charge payable in connection therewith. No registrations of transfers or exchanges of Definitive Securities shall be made of any such Securities that have been called for redemption.

The Fiscal Agency Agreement provides that Definitive Securities will be issued to replace Definitive Securities which have been mutilated, destroyed, stolen or lost upon payment of certain costs associated with such replacement and on certain terms as to evidence and indemnity. In the case of destroyed, stolen or lost Definitive Securities, replacement Definitive Securities will not be issued if either PETRONAS or the Fiscal Agent has notice that such Securities have been acquired by a bona fide purchaser. Mutilated Definitive Securities must be surrendered before replacements will be issued. In the event any such mutilated, destroyed, stolen or lost Definitive Security has become or is about to become due and payable, PETRONAS in its discretion may, instead of issuing a new Definitive Security, pay or cause to be paid such Security.

All Definitive Securities issued as a result of any transfer, exchange or replacement of Securities will be delivered to the Holder at the corporate trust office of the Fiscal Agent or (at the risk of the Holder) sent by mail to such address as is specified by the Holder in the Holder's request for transfer, exchange or replacement.

Special Tax Redemption

The Securities may be redeemed at the option of PETRONAS, in whole but not in part, upon not less than 30 nor more than 60 days' notice, at any time, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption only if, as a result of any change in or amendment to the laws of Malaysia (or of any political subdivision or taxing authority thereof or therein) or any regulations or rulings promulgated thereunder or any change in the official interpretation or official application of such laws, regulations or rulings, or any change in the official application or interpretation of, or any execution of or amendment to, any treaty or treaties affecting taxation to which Malaysia (or such political subdivision or taxing authority) is a party, which change, amendment or treaty becomes effective on or after the date of this Offering Circular, PETRONAS is or would be required on the next succeeding due date for a payment with respect to the Securities to pay additional amounts with respect to the Securities as described below under "Description of the Securities — Additional Amounts". Prior to any redemption of the Securities, PETRONAS shall deliver to the Fiscal Agent a certificate stating that PETRONAS is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred.

Maturity; Purchase

Unless previously redeemed, purchased or cancelled as described herein, each Security shall mature on its respective Maturity Date, and on such Maturity Date, the Holder of such Security shall be entitled to a payment equal to the principal amount and premium, if any, of such Security outstanding on such Maturity Date.

PETRONAS may at any time purchase Securities by tender (available to all Holders alike) or in the open market at any price. If PETRONAS shall acquire any Securities, such acquisition shall not operate as or be deemed for any purpose to be a satisfaction of the indebtedness represented by such Securities unless and until such Securities are delivered to the Fiscal Agent for cancellation and are cancelled and retired by the Fiscal Agent.

Additional Amounts

All payments of principal and interest by PETRONAS in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Malaysia, or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, PETRONAS will pay such additional amounts as may be necessary in order that the net amounts received by the Holders of the Securities after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Securities in the absence of such withholding or deduction, except that no such additional amounts shall be payable in respect of any Security:

- (i) to or on behalf of a Holder or beneficial owner who is subject to such taxes, duties, assessments or governmental charges by reason of having some connection with Malaysia otherwise than by reason only of the holding of any Securities or the receipt of principal or interest in respect of any Securities; or
- (ii) to or on behalf of a Holder or beneficial owner who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or

(iii) to or on behalf of a Holder or beneficial owner who presents such Security (where presentation is required) for payment more than 30 days after the Relevant Date except to the extent that the Holder or beneficial owner thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such 30-day period; or

(iv) any combination of (i), (ii) or (iii) above.

The obligation to pay taxes, duties, assessments and governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Securities; provided that, except as otherwise set forth in the Securities and in the Fiscal Agency Agreement, PETRONAS shall pay all stamp and other duties, if any, which may be imposed by Malaysia, the United States or any respective political subdivision thereof or any taxing authority of or in the foregoing, with respect to the Fiscal Agency Agreement or as a consequence of the initial issuance of the Securities.

As used herein, the "Relevant Date" means the date on which such payment first becomes due, except that, if the amount of the moneys payable has not been received in New York City by the Fiscal Agent on or prior to such date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the holders of the Securities.

Any reference in the Securities to principal or interest shall be deemed also to refer to any additional amounts which may be payable as described above.

Certain Covenants

Negative Pledge

So long as any of the Securities are outstanding, PETRONAS (not including any of its subsidiaries) shall not create, incur, or have outstanding any mortgage, pledge, lien, charge, encumbrance or any other security interest ("Lien") upon the whole or any part of its property or assets, present or future, to secure for the benefit of the holders of any existing or future Indebtedness of itself or any other person (or to secure for the benefit of the holders thereof any guarantee or indemnity in respect thereof) without, in any such case, effectively providing that the Securities shall be secured equally and ratably with or prior to such Indebtedness (or such guarantee or indemnity in respect thereof), unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Indebtedness (other than the Indebtedness secured by liens described in clauses (i) through (v) below) plus Attributable Debt of PETRONAS in respect of Sale/Leaseback Transactions as described under clause (x) in "Limitation Upon Sale and Leaseback Transactions" below, would not exceed 10 percent of Consolidated Net Tangible Assets.

The foregoing restriction will not apply to Indebtedness secured by:

(i) any Lien existing on the date of the Fiscal Agency Agreement;

(ii) any Lien existing on any property or asset prior to the acquisition thereof by PETRONAS or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(iii) any Lien on any property or asset securing Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, provided that such Lien attaches to such property concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof;

(iv) any Lien securing Indebtedness owing to or held by PETRONAS; or

(v) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses, provided that such Indebtedness is not increased and is not secured by any additional property or assets.

For purposes hereof, the following definitions shall apply:

"Indebtedness" means any obligation for the payment or repayment of money borrowed which has a final maturity of one year or more from its date of incurrence or issuance.

Limitation Upon Sale and Leaseback Transactions

So long as any of the Securities are outstanding, PETRONAS (not including any of its subsidiaries) may not enter into any Sale/Leaseback Transaction, unless either (x) the Attributable Debt of PETRONAS in respect of such Sale/Leaseback Transaction and all other Sale/Leaseback Transactions (other than transactions as are permitted by clause (y) below), plus the aggregate outstanding principal amount of Indebtedness secured by Liens then outstanding (excluding any such Indebtedness secured by Liens described in clauses (i) through (v) under "Negative Pledge" above) without equally and ratably securing the Securities, would not exceed 10 percent of Consolidated Net Tangible Assets, or (y) PETRONAS, within 12 months after such Sale/Leaseback Transaction, applies to the retirement of Indebtedness of PETRONAS which is not subordinate to any security issued under the Fiscal Agency Agreement, an amount equal to the greater of (A) the net proceeds of the sale or transfer of the property or other assets which are the subject of such Sale/Leaseback Transaction or (B) the fair market value of the property or other assets so leased (in each case as determined by PETRONAS). The foregoing restriction shall not apply to any transaction between PETRONAS and a subsidiary.

"Attributable Debt" means, with respect to any Sale/Leaseback Transaction, the lesser of (x) the fair market value of the property or other assets subject to such transaction and (y) the present value (discounted at a rate per annum equal to the discount rate of a capital lease obligation with a like term in accordance with Malaysian GAAP) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents) during the term of the lease.

"Consolidated Net Tangible Assets" means, with respect to any Series, the total amount of assets of PETRONAS and its consolidated subsidiaries as set forth on the most recent available audited balance sheet of PETRONAS and its consolidated subsidiaries and computed in accordance with Malaysian GAAP, including investments in associated companies but after deducting therefrom (a) all current liabilities, (b) expenditures carried forward, including all goodwill, trade names, trademarks, patents, unamortized debt, discount and expense and other like intangible assets, if any, and (c) all write-ups of fixed assets, net of accumulated depreciation thereon, occurring after (x) March 31, 1995, with respect to any Series issued prior to March 31, 1996, or (y) with respect to any Series issued on or after March 31, 1996 (including the 2001 Notes, the 2006 Notes and the Bonds), the date of the most recent audited balance sheet of the Company and its consolidated subsidiaries next preceding the date on which such Series is issued.

"Sale/Leaseback Transaction" means any arrangement with any person that provides for the leasing by PETRONAS, for an initial term of three years or more, of any property or other assets, whether now owned or hereafter acquired, which are to be sold or transferred by PETRONAS after the date of the Fiscal Agency Agreement to such person for a sale price of US\$1,000,000 (or the equivalent thereof) or more where the rental payments are denominated in a currency other than ringgit.

Consolidation, Merger and Sale of Assets

PETRONAS, without the consent of the Holders of any of the Securities, may consolidate with, or merge into, or sell, transfer, lease or convey its assets substantially as an entirety to any corporation organized and existing under the laws of Malaysia, provided that (i) any successor corporation expressly assumes PETRONAS' obligations under the Securities and the Fiscal Agency Agreement, (ii) after giving effect to the transaction, no Event of Default (as defined below) and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, and (iii) certain other conditions specified in the Fiscal Agency Agreement are satisfied.

Events of Default

The occurrence and continuance of the following will constitute events of default ("Events of Default") with respect to any series of Securities (including the 2001 Notes, the 2006 Notes and the Bonds): (i) default in the payment of any installment of interest upon any of such Securities as and when the same shall become due and payable, and continuance of such default for a period of 30 days; or (ii) default in the payment of all or any part of the principal of any of such Securities as and when the same shall become due and payable, whether at maturity, upon redemption or otherwise; or (iii) failure on the part of PETRONAS duly to observe or perform any other of the covenants or agreements on the part of PETRONAS contained in such Securities or in the Fiscal Agency Agreement for a period of 60 days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" under such Securities and demanding that PETRONAS remedy the same, shall have been given by registered or certified mail, return receipt requested to PETRONAS at the office of the Fiscal Agent by the Holders of at least 10 percent in aggregate principal amount of such Securities at the time outstanding; or (iv) any indebtedness of PETRONAS for borrowed money in the aggregate outstanding principal amount of US\$30,000,000 or its equivalent in any other currency or currencies or more either (a) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by PETRONAS or (b) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by PETRONAS in respect of indebtedness of any other person in the aggregate outstanding principal amount of US\$30,000,000 or its equivalent in any other currency or currencies not being honored when, and remaining dishonored after becoming, due and called, provided that, if any such default under any such indebtedness shall be cured or waived, then the default under such Securities by reason thereof shall be deemed to have been cured and waived; or (v) the Government of Malaysia ceasing to own and control (directly or indirectly) at least 51 percent of the issued and outstanding capital stock of PETRONAS; or (vi) certain events of bankruptcy or insolvency relating to PETRONAS. An Event of Default with respect to any series of Securities would not necessarily constitute an Event of Default with respect to any other series of Securities issued under the Fiscal Agency Agreement.

In each such case, the Holders of not less than 25 percent in aggregate principal amount of such Securities then outstanding, by notice to PETRONAS as provided in the Fiscal Agency Agreement may declare the principal of all such Securities, and the interest accrued thereon, to be due and payable immediately. However, such Securities shall not be due and payable immediately if, prior to the time when PETRONAS receives such notice, all events of default provided for herein in respect of such Securities shall have been cured. If, at any time after the principal of such Securities shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered, PETRONAS shall pay or deposit with the Fiscal Agent a sum sufficient to pay all monies then due with respect to such Securities (other than amounts due solely because of such declaration) and cures all other Events of Default with respect to such Securities, then the Holders of more than 50 percent in aggregate outstanding principal amount of such Securities may waive all defaults and rescind and annul such declaration and its consequences.

Prescription

Any monies paid by PETRONAS to the Fiscal Agent for the payment of the principal of or interest on any Securities and remaining unclaimed at the end of two years after such principal or interest shall have become due and payable and shall have been paid to the Fiscal Agent by PETRONAS, shall then be repaid to PETRONAS, and upon such repayment, all liability of the Fiscal Agent with respect to such monies shall thereupon cease and the Holder of any Securities representing a claim therefor shall thereafter look only to PETRONAS for payment thereof.

Under New York law, any legal action upon the Securities must be commenced within six years after the payment thereof is due. Thereafter the Securities will generally become unenforceable.

Modification, Amendment and Waiver

Amendments to the Fiscal Agency Agreement may be made, without the consent of Holders of Securities, for the purpose of adding to the covenants of PETRONAS for the benefit of such Holders, surrendering any right or power conferred upon PETRONAS, securing the Securities pursuant to the requirements of such securities or otherwise, or curing any ambiguity, or correcting or supplementing any defective provision contained in the Fiscal Agency Agreement, or in regard to such matters or questions arising under the Fiscal Agency Agreement as PETRONAS and the Fiscal Agent may deem necessary or desirable, provided such action shall not adversely affect in any material respect the interests of the Holders of such Securities at the time outstanding. In all other cases, amendment of the Fiscal Agency Agreement will require consent of the Holders.

Modifications and amendments to the Fiscal Agency Agreement or any series of Securities (including the 2001 Notes, the 2006 Notes and the Bonds) requiring consent of Holders of such Securities may be made, and future compliance therewith or past defaults by PETRONAS may be waived, with the consent of PETRONAS and the Holders of more than 50 percent in aggregate principal amount of such Securities, at the time outstanding, affected by such modification, amendment or waiver or of such lesser percentage as may act at a meeting of Holders; provided that no such modification, amendment or waiver of the Fiscal Agency Agreement or any Security may, without the consent of each Holder affected thereby, (i) change the stated maturity of the principal of or interest on any such Security; (ii) reduce the principal of or interest on any such Security; (iii) change the currency of payment of the principal of or interest on any such Security; or (iv) reduce the above-stated percentage of aggregate principal amount of such Securities outstanding or reduce the quorum requirements or the percentage of votes required for the taking of any action.

Meetings of Holders of Securities

PETRONAS at any time may, and at any time after any series of Securities (including the 2001 Notes, the 2006 Notes and the Bonds) shall have become immediately due and payable due to an Event of Default, upon a request in writing made by Holders holding not less than 25 percent of the aggregate outstanding principal amount of such Securities, the Fiscal Agent shall, convene a meeting of Holders of such Securities. At a meeting of the Holders of such Securities, persons entitled to vote a majority in aggregate principal amount of such Securities, at the time outstanding shall constitute a quorum. In the absence of a quorum at any such meeting, the meeting may be adjourned; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned; at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25 percent in aggregate principal amount of such Securities at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any resolution at a meeting of Holders of such Securities to modify or amend, or to waive compliance with, any of the covenants or conditions referred to above (other than those set forth below as requiring the consent of each Holder of a Security, affected thereby) shall be adopted if passed by the lesser of (i) a majority in aggregate principal amount of such Securities then outstanding or (ii) 75 percent in aggregate principal amount of such Securities represented and voting at the meeting.

Notices

The Fiscal Agency Agreement provides that notices to Holders of Securities shall be sufficiently given if in writing and mailed, first-class postage prepaid, to the Holders at each Holder's last address as it appears in the Securities Register and published once in a leading daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and in a leading daily newspaper of general circulation in the United States (which is expected to be *The Wall Street Journal*) or, under certain limited circumstances, in other English language newspapers of general circulation in Europe or the United States. PETRONAS has additionally undertaken in the Securities, so long as the Securities are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, to publish any notices required under the Fiscal Agency Agreement or the Securities or the rules of the

Luxembourg Stock Exchange in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Fiscal Agent

The Fiscal Agent may resign at any time or may be removed by PETRONAS. If the Fiscal Agent resigns, is removed or becomes incapable of acting as Fiscal Agent or if a vacancy occurs in the office of the Fiscal Agent for any reason, a successor fiscal agent will be appointed in accordance with the provisions of the Fiscal Agency Agreement.

The corporate trust office of the Fiscal Agent is located at 101 Barclay Street, Floor 21W, New York, New York 10286.

Governing Law and Enforceability

The Fiscal Agency Agreement and the Securities will be governed by and construed in accordance with the law of the State of New York.

PETRONAS has consented to the jurisdiction of the courts of the State of New York and the United States courts located in The City of New York with respect to any action that may be brought in connection with the Securities and has appointed CT Corporation Systems, 1633 Broadway, New York, New York 10019 USA as agent for service of process.

UNITED STATES TAXATION

Interest on the Securities will not be exempt from United States taxation generally. In the opinion of Cleary, Gottlieb, Steen & Hamilton, United States counsel for PETRONAS, under United States federal income tax law as currently in effect, holders of Securities that are not United States persons will not be subject to United States federal income taxes, including withholding taxes, on payments of interest on the Securities so long as the requirements described in the second succeeding paragraph are satisfied, unless:

- (i) the holder is an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, to which the interest is attributable, or
- (ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is received by a corporation the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

The gain realized on any sale or exchange of the Securities by a holder that is not a United States person will not be subject to United States federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States, or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and either (A) such gain is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States.

The Fiscal Agent will be required to file information returns with the United States Internal Revenue Service with respect to payments made to certain United States persons on the Securities. In addition, certain United States persons may be subject to a 31 percent United States backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the Fiscal Agent, and may also be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the Securities. Persons holding Securities who are not United States persons may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup

withholding tax. The United States Treasury Department recently proposed regulations that, if finalized, would change the procedural requirements for establishing an exemption from information reporting and backup withholding.

A Security held by an individual holder who at the time of death is a nonresident alien will not be subject to United States federal estate tax.

As used herein, the term "United States person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, or any estate or trust the income of which is subject to United States federal income taxation regardless of its source, and the term "United States" means the United States of America (including the States and the District of Columbia), its possessions, territories and other areas subject to its jurisdiction.

MALAYSIAN TAXATION

A non-resident of Malaysia is subject to income tax on interest income at the rate of 15 percent, which is satisfied through withholding by the borrower. The rate of tax on interest income received by a non-resident, and withholding thereon, may be reduced pursuant to double taxation treaties between Malaysia and certain other countries. At present, there is no such treaty in effect between Malaysia and the United States. Repayment of principal is not subject to any form of tax in Malaysia.

Notwithstanding the foregoing, PETRONAS has obtained an exemption from the Minister of Finance of Malaysia with respect to the Securities, and non-residents will not be required to pay income tax in Malaysia with respect to interest on the Securities, and there will be no withholding on the Securities. If interest payments to non-residents become subject to Malaysian withholding tax, PETRONAS would, subject to certain exceptions, be obligated to pay certain additional amounts with respect to the Securities. In such event, PETRONAS may be entitled to redeem the Securities. See "Description of the Securities — Additional Amounts" and "— Special Tax Redemption".

Under Malaysian law, a company is regarded as a "non-resident" if the management and control of its affairs are not exercised in Malaysia at any time by its directors or other controlling authority. The rules regarding the residency status of individuals are complex but are generally based upon the length of time spent in Malaysia.

Malaysia has no estate, gift, inheritance, capital transfer, capital gains or similar tax. In addition, neither the issuance nor transfer of the Securities outside Malaysia will give rise to any stamp, issue, registration or similar taxes or duties.

The above summaries of United States and Malaysian tax law are not intended to constitute a complete analysis of all tax consequences relating to the ownership of the Securities. Investors are advised to consult their own tax advisors in determining the tax consequences in their particular situation.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the Purchase Agreement, dated as of October 10, 1996 (the "Purchase Agreement"), among PETRONAS and the Initial Purchasers named below (the "Initial Purchasers") for whom CS First Boston Corporation and Salomon Brothers Inc are acting as representatives (the "Representatives"), PETRONAS has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from PETRONAS severally but not jointly, the principal amounts of the Securities set forth opposite their names below:

<u>Initial Purchaser</u>	<u>Principal Amount of 2001 Notes</u>	<u>Principal Amount of 2006 Notes</u>	<u>Principal Amount of Bonds</u>
<i>Joint Lead Managers</i>			
CS First Boston Corporation	US\$246,000,000	US\$328,000,000	US\$250,000,000
Salomon Brothers Inc	246,000,000	328,000,000	250,000,000
<i>Senior Co-Lead Managers</i>			
ABN AMRO Bank N.V.	18,000,000	24,000,000	—
Deutsche Bank AG London	18,000,000	24,000,000	—
Lehman Brothers International (Europe)	18,000,000	24,000,000	—
Rashid Hussain Securities Sdn Bhd	18,000,000	24,000,000	—
<i>Co-Lead Managers</i>			
Banque Paribas	6,000,000	8,000,000	—
Daiwa Europe Limited	6,000,000	8,000,000	—
Merrill Lynch International	6,000,000	8,000,000	—
Midland Bank plc	6,000,000	8,000,000	—
Nomura International plc	6,000,000	8,000,000	—
Swiss Bank Corporation	6,000,000	8,000,000	—
Total	US\$600,000,000	US\$800,000,000	US\$500,000,000

The Purchase Agreement provides that the obligations of the Initial Purchasers are subject to certain conditions precedent. The Purchase Agreement provides that, in the event of a default by an Initial Purchaser, in certain circumstances, the purchase commitments of non-defaulting Initial Purchasers may be increased or the Purchase Agreement may be terminated. PETRONAS has been advised by the Representatives that the Initial Purchasers propose to offer the Securities to investors initially at the offering prices to investors set forth on the cover page of this Offering Circular, and that after the initial offering to investors, the prices to investors may be changed.

The Securities have not been registered under the Securities Act and may not be offered or sold within the United States except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and in offshore transactions in reliance on Regulation S under the Securities Act.

Each of the Initial Purchasers severally represented and agreed that (i) it has not offered or sold and, prior to the completion of the period six months from the closing date, will not offer or sell any Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the Securities to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

Each Initial Purchaser has severally represented and agreed that it will not offer or sell the Securities in Malaysia or outside Malaysia with a view to resale in Malaysia.

Each Initial Purchaser has severally represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, in Japan to or for the account of any resident of Japan any Securities, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Each Initial Purchaser has severally represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, except in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (ii) it has not issued and will not issue any invitation or advertisement relating to Securities in Hong Kong (except if permitted to do so by the securities laws of Hong Kong) other than with respect to Securities intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal, or holding, of securities, whether as principal or as agent.

Each Initial Purchaser has severally represented and agreed that it has not circulated or distributed and will not circulate or distribute the Offering Circular nor any other document or material relating to the offering of the Securities, nor has it offered or sold nor will it offer or sell the Securities directly or indirectly, (i) to persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of the Securities to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of an exemption invoked under Division 5A Part IV of the Companies Act, Chapter 50 of Singapore and to persons to whom the Securities may be offered or sold under such exemption.

The Purchase Agreement provides that PETRONAS will reimburse the Initial Purchasers for certain expenses and indemnify the Initial Purchasers against certain liabilities, including civil liabilities under the Securities Act, or will contribute to payments the Initial Purchasers may be required to make in respect thereof.

The Securities are new issues of securities with no established trading market. PETRONAS has been advised by the Representatives that they currently intend to make markets in the Securities as permitted by applicable law; the Representatives are not obligated to do so, however, and any such market making may be discontinued at any time in their sole discretion. No assurance can be given as to the liquidity of, or the development of a trading market for, the Securities.

It is expected that delivery of the Securities will be made against payment therefor on or about the date specified in the last paragraph of the cover page hereof, which is the fifth business day following the date hereof. Under Rule 15c6-1 of the U.S. Securities and Exchange Commission under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Securities on the date hereof or the next succeeding business day will be required, by virtue of the fact that the Securities initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Securities who wish to trade Securities on the date hereof or the next succeeding business day should consult their own advisor.

NOTICE TO INVESTORS

The Securities are being offered and sold in the United States to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in transactions exempt from the registration requirements of the Securities Act and outside the United States pursuant to Regulation S under the Securities Act.

In addition, until 40 days after the commencement date of the offering, an offer or sale of the Securities within the United States by a dealer (whether or not participating in the offering), may violate

the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Each purchaser of Securities will be deemed to have represented and agreed as follows:

1. It is either (i) a qualified institutional buyer as defined in Rule 144A under the Securities Act, it is aware that the seller of the Securities may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A and it is acquiring such Securities for its own account or for the account of one or more qualified institutional buyers for whom it is authorized to act, or (ii) it is purchasing such Securities in an offshore transaction pursuant to Regulation S under the Securities Act;

2. It understands that the Securities have not been and will not be registered under the Securities Act; and

3. The Securities represented by the Restricted Global Security may be offered, sold, pledged or otherwise transferred only (i) to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the Securities Act, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, or (iii) pursuant to the exemption provided by Rule 144 under the Securities Act (if available), in each case in accordance with any applicable securities laws of any state of the United States.

Terms used in this section have the meanings given to them by Regulation S under the Securities Act.

Each purchaser of the Securities understands that the Restricted Global Security (and any Security issued in exchange therefor or in exchange for any other Security previously issued in exchange therefor) will bear a legend to the following effect unless otherwise permitted under the Fiscal Agency Agreement or agreed to by PETRONAS:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SUCH SECURITY MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

VALIDITY OF THE SECURITIES

The validity of the Securities will be passed upon for PETRONAS by Cleary, Gottlieb, Steen & Hamilton, New York, New York, United States counsel for PETRONAS, and by the Group General Counsel, Legal Services Unit of PETRONAS and for the Initial Purchasers by Milbank, Tweed, Hadley & McCloy, New York, New York, United States counsel for the Initial Purchasers. Cleary, Gottlieb, Steen & Hamilton may rely as to all matters of Malaysian law on the Group General Counsel, Legal Services Unit of PETRONAS. The Group General Counsel, Legal Services Unit of PETRONAS may rely upon Cleary, Gottlieb, Steen & Hamilton as to all matters of New York law.

EXPERTS

The consolidated financial statements and accompanying notes to the consolidated financial statements of PETRONAS included in this Offering Circular have been audited by KPMG Desa Megat & Co., independent public accountants, and are included herein in reliance upon their reports with respect thereto and upon the authority of said firm as experts in accounting and auditing.

GENERAL INFORMATION

1. The 2001 Notes have been accepted for clearance through Euroclear and Cedel with the Common Code of 7010443. For the 2001 Notes, the CINS Number is Y68851AH0, the CUSIP Number is 716708AD4 and the International Securities Identification Number ("ISIN") is USY68851AH03.

The 2006 Notes have been accepted for clearance through Euroclear and Cedel with the Common Code 7010451. For the 2006 Notes, the CINS Number is Y68851AJ6, the CUSIP Number is 716708AE2 and the ISIN is USY68851AJ68.

The Bonds have been accepted for clearance through Euroclear and Cedel with the Common Code 7045492. For the Bonds, the CINS Number is Y68851AK3, the CUSIP Number is 716708AF9 and the ISIN is USY68851AK32.

2. Application has been made to list the Securities on the Luxembourg Stock Exchange by PETRONAS through its listing agent, Banque Internationale à Luxembourg S.A. The legal notice relating to the issue of the Securities and the Articles of Association of PETRONAS will be registered prior to the listing with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where such documents are available for inspection and where copies thereof can be obtained upon request. As long as the Securities are listed on the Luxembourg Stock Exchange, PETRONAS will maintain a paying and transfer agent in Luxembourg, which initially will be Banque Internationale à Luxembourg S.A.

3. PETRONAS has obtained or will obtain prior to the delivery of the Securities all necessary consents, approvals and authorizations in connection with the issue and performance of the Securities, except as disclosed in this Offering Circular.

4. Except as disclosed in this Offering Circular, there has been no material adverse change in the financial position or prospects of PETRONAS or any of its subsidiaries since March 31, 1996.

5. Other than as referred to elsewhere in the Offering Circular, PETRONAS is not involved in any litigation or arbitration proceedings that may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Company or any of its subsidiaries, nor is PETRONAS or any of its subsidiaries aware that any such proceedings are pending or threatened.

6. A copy of the Articles of Association of PETRONAS and copies of the Fiscal Agency Agreement and the Purchase Agreement (or, pending execution thereof, drafts thereof subject to modification) will, for so long as the Securities are listed on the Luxembourg Stock Exchange, be available for inspection during usual business hours on any weekday (except public holidays) at the office of PETRONAS's paying and transfer agent in Luxembourg. As long as any of the Securities remain outstanding, copies of PETRONAS's annual report in English containing the audited consolidated financial statements in English and, for so long as PETRONAS includes them therein, the audited unconsolidated financial statements in English, will be delivered to and be obtainable from the specified offices of PETRONAS's paying and transfer agent in Luxembourg. PETRONAS currently does not publish interim financial reports.

7. The registered office of PETRONAS is Menara Dayabumi, Kompleks Dayabumi, Jalan Sultan Hishamuddin, 50778 Kuala Lumpur, Malaysia.

SUMMARY OF DIFFERENCES BETWEEN MALAYSIAN GAAP AND U.S. GAAP

The consolidated financial statements of PETRONAS have been prepared in accordance with Malaysian GAAP, which differs in certain respects from U.S. GAAP. Malaysian GAAP generally follows International Accounting Standards. A summary of the differences which may have a significant effect on consolidated net income or shareholders' equity is set out below.

Revaluation of Land and Buildings

Malaysian GAAP allows the periodic revaluation of land and buildings. Under U.S. GAAP, such revaluations are not permitted.

Deferred Tax

Malaysian GAAP requires that deferred tax be provided for based upon timing differences, using the liability method, between the accounting and tax treatment of income and expenditure. However, provision for deferred tax may not be required if it is probable the liability will not arise in the foreseeable future (at least three years ahead) and there are no indications it will arise thereafter. However, the amount not provided for (both current and cumulative) is required to be disclosed in the financial statements.

Under U.S. GAAP, SFAS No. 109, "Accounting for Income Taxes" requires deferred tax liabilities and assets to be recognized for the estimated future tax effect attributable to temporary differences. The measurement of deferred tax assets will be reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Proposed Dividend

Under Malaysian GAAP, proposed dividends on ordinary shares, as recommended by the board of directors at the time of board approval of the financial statements, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under U.S. GAAP, dividends are recorded in the period in which they are declared.

Pension Costs

Malaysian GAAP requires a charge for the cost of providing pensions for eligible employees during the year, as well as an actuarial valuation at least once every three years.

Under U.S. GAAP, SFAS No. 87, "Employers' Accounting for Pensions" allows for a much narrower choice of valuation methods and, in addition, SFAS No. 87 requires more detailed disclosure than Malaysian GAAP. Depending on the method chosen under Malaysian GAAP, it is possible that a valuation under U.S. GAAP could result in different amounts being recognized as the annual pension expense.

Zero Coupon Debt Securities with Detachable Warrants

Under U.S. GAAP, APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", detachable warrants are required to be stated at fair value in a company's financial statements and interest should be imputed on the zero coupon debt securities at fair value at the date of the offering for such zero coupon securities. Malaysian GAAP has no such requirement.

Cash Flow Statements

Under U.S. GAAP, a statement of cash flows is required to be produced using the "cash concept". Currently, the applicable standard under Malaysian GAAP requires presentation of a statement of source and application of funds using the "working capital concept".

Cash flow statements show the sources and uses of cash for operating, investing and financing activities rather than the sources and applications of net liquid funds (including, among other things, changes in the components of working capital) shown by the statements of source and application of funds.

Extraordinary Items

The criteria for extraordinary items are similar under both Malaysian GAAP and U.S. GAAP. The criteria are that:

- (i) the item must be of an unusual nature; and
- (ii) the item must not be expected to occur frequently.

The interpretation of these requirements under Malaysian GAAP is applied less restrictively than U.S. interpretation. Therefore, items classified as extraordinary under Malaysian GAAP may not be so classified under U.S. GAAP.

Supplementary Oil and Gas Disclosures

Under U.S. GAAP, SFAS No. 69, "Disclosures about Oil and Gas Producing Activities", a company with significant oil and gas producing activities is required to disclose in the form of supplementary information the following:

- (i) proved oil and gas quantities;
- (ii) costs incurred in property acquisition, exploration and development activities;
- (iii) results of operations for oil and gas producing activities; and
- (iv) a standardized measure of discounted future net cash flows relating to proved oil and gas reserves quantities.

Currently, there is no equivalent accounting standard under Malaysian GAAP.

Expenditure Carried Forward

Under Malaysian GAAP, a company's preliminary and pre-operating expenses may be capitalized. Preliminary expenses are written off in the first year of operations while pre-operating expenses are written off over a period of five years commencing with the first full year of operation.

U.S. GAAP requires such expenses to be written off when incurred.

Long-Term Debt

U.S. GAAP requires a five year summary of principal repayment requirements. There is no such requirement under Malaysian GAAP.

Related Party Transactions

Transactions and amounts due from or to officers, employees and other related parties must be disclosed pursuant to U.S. GAAP, SFAS No. 57, "Related Party Disclosures". Under Malaysian GAAP, the only disclosure requirement relates to transactions between a holding company and a subsidiary company or between fellow subsidiaries. The Malaysian Companies Act, however, requires the disclosure of certain transactions between a company and its directors as well as the remuneration paid to the directors or to third parties for services rendered by the directors.

Information by Segment

Malaysian GAAP segment disclosure is similar to U.S. GAAP, SFAS No. 14, "Financial Reporting for Segments of Business Enterprises", which requires disclosure of certain financial information for public companies (net sales, operating income, identifiable net assets) by segments (product lines, domestic and foreign activities). Under U.S. GAAP, however, separate segment disclosure would be required for exploration and production activities and for various downstream activities. Such additional segment disclosure is not required under Malaysian GAAP.

Impairment of Long-Lived Assets

Under U.S. GAAP, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" is applicable to financial statements for the periods beginning after December 15, 1995. This accounting standard requires the recognition and measurement of impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and

used. The accounting standard requires that when impairment is indicated for long-lived assets the carrying value of such assets should be evaluated based on the lowest asset grouping for which there are identifiable cash flows. If the expected future net cash flows from operating those assets (undiscounted and before interest charges) is less than their carrying value an impairment write-down to fair value is required. The discounted expected future net cash flows of the impaired assets may be used as a measure of fair value. Additionally, the accounting standard requires the reporting of long-lived assets and certain identifiable intangible assets to be disposed of at the lower of the carrying value or fair value less cost to sell.

Malaysian GAAP requires that long-lived assets be stated at net realizable value should impairment occur. PETRONAS regularly assess the value of its oil and gas properties based on the estimated undiscounted future cash flows on a field by field basis and appropriate adjustments are made in the accounts for any impairment in value.

Investments in Debt and Equity Securities

Under U.S. GAAP, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for investments in debt securities. Those investments are classified in three categories and accounted for as follows:

(i) Held-to-Maturity. Debt securities that the organization has the positive intent and ability to hold to maturity are reported at amortized cost whereby an original issue discount or premium is amortized to income over the term of the security.

(ii) Trading. Debt and equity securities that are bought and held for the purpose of selling in the near term are reported at fair value with the unrealized gain or loss included in income for each reporting period.

(ii) Available-for-Sale. Debt and equity securities not classified as either trading or held-to-maturity securities are reported at fair value with the unrealized gains and losses excluded from income and reported as a separate component of share capital until sold.

Malaysian GAAP requires quoted shares and securities held as current assets to be stated at the lower of cost and market value. Investments held for long-term purposes are stated at cost less any provision for permanent diminution in value.

Foreign Currency

Under Malaysian GAAP, foreign currency transaction gains or losses related to capital projects in progress are capitalized. Under U.S. GAAP, SFAS No. 52, "Foreign Currency Translation" all foreign currency transaction gains and losses, except those that pertain to intercompany transactions of a long-term nature and those transactions designated and effective as a hedge of a net investment in a foreign entity, are recognized in income.

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Reference in the following financial statements and notes thereto to the "Group" are to PETRONAS and its consolidated subsidiaries and to the "Company" are to PETRONAS only. The consolidated financial statements are expressed in ringgit and, solely for the convenience of the reader, March 31, 1996 numbers have been translated into dollars at the rate of RM2.5200 per US\$1.00. This translation should not be construed as a representation that any or all of the amounts shown could be converted into dollars at this or any other rate.

INDEPENDENT AUDITORS' REPORT

The Shareholders

Petroleum Nasional Berhad (PETRONAS)

We have audited the accompanying consolidated balance sheets of Petroleum Nasional Berhad and its subsidiaries as of March 31, 1995 and 1996, and the consolidated income statements and consolidated statements of source and application of funds for each of the years in the three-year period ended March 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We have conducted our audits in accordance with generally accepted auditing standards in Malaysia.

In our opinion, the financial statements referred to above give a true and fair view of the consolidated financial position of Petroleum Nasional Berhad and its subsidiaries at March 31, 1995 and 1996, and the consolidated results of its operations and its consolidated source and applications of funds for each of the years in the three-year period ended on March 31, 1996 and comply with the Malaysian Companies Act, 1965.

KPMG DESA MEGAT & CO.
Kuala Lumpur, Malaysia

Date: 25 June 1996

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

**CONSOLIDATED BALANCE SHEETS AT MARCH 31, 1995 AND 1996
(in millions)**

		At March 31,		
	Note	1995	1996	1996
ASSETS				
Current Assets:				
Stocks	3	RM 712	RM 703	US\$ 279
Trade debtors	4	1,430	1,988	789
Other debtors	5	1,523	1,787	709
Fund investments	6	16,018	22,676	8,998
Cash and bank balances		117	126	50
Total Current Assets		19,800	27,280	10,825
Fixed Assets	7	15,863	23,686	9,399
Expenditure Carried Forward	8	63	127	50
Construction-in-Progress	9	10,509	4,856	1,927
Interest in Associated Companies	11	1,322	1,547	614
Investment in Unquoted Companies		264	290	115
Loan Stocks		215	185	73
Long-Term Receivables		99	80	32
Total Assets		<u>RM 48,135</u>	<u>RM 58,051</u>	<u>US\$ 23,035</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Trade creditors		RM 705	RM 569	US\$ 226
Other creditors		2,573	3,682	1,461
Lease creditors	12	10	11	4
Term loans	13	1,368	903	358
Dividend payable		2,480	2,480	984
Provision for taxation		3,439	3,482	1,382
Proposed dividend		3,100	3,100	1,230
Total Current Liabilities		13,675	14,227	5,645
Lease Creditors	12	11	—	—
Term Loans	13	12,169	15,813	6,275
Deferred Liabilities	14	1,209	1,298	515
Islamic Debt Securities	15	300	1,100	436
Shareholders' Equity:				
Share capital	16	100	100	40
Reserves	17	19,095	23,017	9,134
		19,195	23,117	9,174
Minority Interests		1,576	2,496	990
Total Liabilities and Shareholders' Equity		<u>RM 48,135</u>	<u>RM 58,051</u>	<u>US\$ 23,035</u>

See accompanying Notes to the Consolidated Financial Statements.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

**CONSOLIDATED INCOME STATEMENTS
FOR EACH OF THE THREE YEARS ENDED MARCH 31, 1994, 1995 AND 1996
(in millions)**

	Note	Fiscal Year Ended March 31,			
		1994	1995	1996	1996
Revenues	18	RM 16,818	RM 18,089	RM 22,254	US\$ 8,831
Profit before tax	19	6,317	7,083	8,564	3,398
Taxes	20	(2,267)	(2,136)	(2,297)	(911)
Profit after tax		4,050	4,947	6,267	2,487
Minority interests' share of consolidated subsidiaries' profit		(316)	(388)	(592)	(235)
Extraordinary items	21	329	3	1,087	431
Net income		4,063	4,562	6,762	2,683
Unappropriated profits brought forward		4,618	5,444	6,906	2,741
Profit available for appropriation		8,681	10,006	13,668	5,424
Appropriations:					
Dividends — exempt from tax under Section 84 of the Petroleum (Income Tax) Act, 1967		3,100	3,100	3,100	1,230
Capitalization of unappropriated profits for bonus shares by a subsidiary company		137	—	476	189
Unappropriated profits carried forward	17	RM 5,444	RM 6,906	RM 10,092	US\$ 4,005

See accompanying Notes to the Consolidated Financial Statements.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS
FOR EACH OF THE THREE YEARS ENDED MARCH 31, 1994, 1995 AND 1996
(in millions)**

	Fiscal Year Ended March 31,			
	1994	1995	1996	1996
SOURCE OF FUNDS				
Profit before taxation, minority interests and extraordinary item ..	RM 6,317	RM 7,083	RM 8,564	US\$ 3,398
Extraordinary items	329	3	1,087	431
Adjustment for items not involving the movement of funds:				
Share of associated companies' profit	(61)	(4)	19	8
Depreciation and amortization	883	1,046	1,561	619
Fixed asset expensed off	11	24	4	2
Extraordinary items			(1,087)	(431)
(Gain) on disposal of investment	(308)	(3)	(—)	(—)
(Gain) / Loss on disposal of fixed assets	(4)	1	(3)	(1)
(Gain) / Loss on foreign exchange translation — term loans ..	333	(473)	(316)	(125)
Provision for exploration cost	100	150	200	79
Amortization of expenditure carried forward	18	14	24	9
Prepaid rental expensed off	—	2	27	11
Exchange difference account	—	(4)	(3)	(1)
Funds generated from operations	7,618	7,839	10,077	3,999
Funds from other sources:				
Drawdown of term loans	5,074	4,259	5,693	2,259
Proceeds from sale of fixed assets	57	7	61	24
Additional investments by minority shareholders of subsidiary companies	57	3	518	205
Proceeds from issuance of debt securities by a subsidiary company	213	—	550	218
Redemption of loan stock	30	30	30	12
Proceeds from partial disposal of investment in a subsidiary company	—	—	1,671	663
Proceeds from disposal of investment	511	3	—	—
Reserve on consolidation	—	52	(55)	(22)
	<u>5,942</u>	<u>4,354</u>	<u>8,468</u>	<u>3,359</u>
	<u>RM 13,560</u>	<u>RM 12,193</u>	<u>RM 18,545</u>	<u>US\$ 7,358</u>
APPLICATION OF FUNDS				
Dividend paid to				
— shareholders of the Company	RM 3,100	RM 3,100	RM 3,100	US\$ 1,230
— minority shareholders of subsidiary companies	230	286	233	92
Decrease in minority interest	—	94	—	—
Expenditure carried forward	16	17	88	35
Investment in unquoted and associated companies	64	64	120	48
Addition to fixed assets and construction-in-progress	7,071	5,637	3,778	1,499
Term loans	571	1,263	2,236	887
Loan stock	—	—	—	—
Deferred liabilities	49	45	136	54
Lease creditor	9	9	10	4
Taxation paid	2,747	2,206	2,216	879
Long term receivables	35	2	8	3
Increase / (Decrease) in working capital (see below)	(332)	(530)	6,620	2,627
	<u>RM 13,560</u>	<u>RM 12,193</u>	<u>RM 18,545</u>	<u>US\$ 7,358</u>
INCREASE / (DECREASE) IN WORKING CAPITAL				
Stocks	RM (27)	RM 283	RM (9)	(4)
Trade debtors & other debtors	(829)	196	823	327
Fund investments	774	(900)	6,658	2,642
Trade creditors & Other creditors	(219)	(440)	(973)	(386)
Amount due from associated companies	(13)	249	112	44
	(314)	(612)	6,611	2,623
Movement in net liquid funds:				
Cash and bank balances	(18)	82	9	4
	<u>RM (332)</u>	<u>RM (530)</u>	<u>RM 6,620</u>	<u>US\$ 2,627</u>

See accompanying Notes to the Consolidated Financial Statements.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year remained unchanged and consist of the exploitation of oil and gas through production sharing contracts and the marketing of petroleum and petroleum products. The principal activities of the subsidiary and associated companies are stated in Note 10 and Note 11 respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Accounting

The consolidated financial statements of the Group are prepared under the historical cost convention modified by the revaluation of certain landed properties of a subsidiary company and in compliance with approved accounting standards in Malaysia.

2.2 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies as stated in Note 10 to the consolidated financial statements. The consolidation is based on the financial statements of the subsidiary companies made up to March 31, 1996.

All internal transactions are eliminated on consolidation and the turnover and profits relate to external transactions only. The total assets and liabilities of subsidiary companies are included in the Group balance sheet and the interest of minority shareholders in the net assets employed is stated separately.

Goodwill arising on consolidation in relation to the acquisition of subsidiary companies is written off against reserve arising on consolidation.

2.3 Associated Company

An associated company is a company in which the Group owns, as a long term investment, between 20 percent and 50 percent of the issued equity capital and in which the Group exercises significant influence, including representation on the Board of Directors, over the financial and operating policies of the company.

The Group's share of the results of associated companies is incorporated in the consolidated profit and loss account in place of dividend received or receivable from the associated companies. The Group's share of reserves and retained profits less losses is added to the cost of investment in the consolidated balance sheet.

2.4 Long-term Receivables

Prepaid rental of service station sites is debited to Long-Term Receivables. The prepayments are expensed off on a straight line basis over the period of the agreements.

2.5 Fixed Assets and Depreciation

Fixed assets other than freehold land and oil and gas properties are depreciated on a straight line basis over the estimated useful lives of the related assets. Freehold land is not depreciated while depreciation of oil and gas properties is computed on the unit of production method.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Oil and gas properties cost are accounted for under the successful efforts method of accounting.

The annual rates of depreciation used are:

Buildings	2% to 5%
Leasehold Land	Over the lease period of 3 to 999 years
Plant	5%
Expendable capital improvements	33⅓%
Office equipment and furniture and fittings	15%
Other plant and equipment	15%
Computer software and hardware	20%
Motor vehicles	25%
Vessels	5%

Leasehold land and leased properties are depreciated over the remaining life of the leases. Buildings on leasehold land are depreciated over the remaining life of the leases or over 50 years, whichever is the shorter period. Fixed assets costing less than RM5,000 per individual item are expensed in the year of purchase.

During the year, the Group carried out a review of its policies as regards capitalization and the estimated useful lives of fixed assets. The change was applied retroactively but has no material effect on the financial statements.

2.6 Leases

Assets employed under long term lease arrangements which transfer substantially all the risks and rewards of ownership to the Group are capitalized as fixed assets and the corresponding obligations are treated as a liability. Financing / service charges on such leases are charged to the consolidated profit and loss account on the "sum-of-digits" method over the term of the lease.

2.7 Finance Charges and Foreign Currency Exchange Differences Relating to Project in Progress

Finance charges and foreign currency exchange differences including revaluation gain or loss on specific and identifiable borrowings to finance projects in progress are capitalized as part of the costs of the projects until the projects are ready for their intended use.

2.8 Stocks

Stocks are valued at the lower of cost and net realizable value. Cost of crude oil and condensate and refined petroleum products include crude oil costs, export duty, transportation charges and processing costs where applicable and is determined on a first in first out (FIFO) basis. Cost of liquefied natural gas (LNG), urea, ammonia and petrochemical products includes raw material costs and production overheads and is determined on the weighted average basis.

Cost of stores, spares and others is determined on the weighted average basis.

2.9 Quoted Shares and Securities

Quoted shares and securities held as current assets are stated at the lower of cost and market value.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2.10 Investments

Investments held for long term purposes are valued at cost less any provision for diminution in value which, in the opinion of the directors, is permanent in nature.

2.11 Expenditure Carried Forward

Expenditure carried forward in the subsidiary companies consist of preliminary and pre-operating expenses. Preliminary expenses will be written off in the first year of operation while pre-operating expenses will be written off over a period of five years commencing from the first complete year of commercial operation.

2.12 Retirement Benefits

The Group contributes monthly to the Group Retirement Benefit Fund (the "Fund") based on the eligible employees' monthly salary less statutory contribution, to finance the retirement benefits payable to the eligible employees in accordance with the group retirement benefit scheme. The assets of the Fund are held separately for the Group by the Trustees and the liability of the Fund is determined by the accrued benefit method calculated based on Projected Service Benefit Liability for the eligible employees. The monthly maximum tax allowable contribution is paid to the Fund by the Group. The excess is paid by the Group to a special account in the Company as a provision for retirement benefits.

An actuarial valuation of the Fund is conducted by a qualified independent actuary at least once in every three years. The last available valuation was done on 23 May 1995 and this valuation showed that the net realisable value of the Fund assets are sufficient to meet the actuarially determined value of vested benefits.

2.13 Deferred Taxation

Deferred taxation is provided under the liability method in respect of all material timing differences except where it is reasonably expected that the tax effect of such deferrals will continue in the foreseeable future and there are no indications they will reverse thereafter.

2.14 Foreign Currency Transactions

Transactions in foreign currencies have been translated into Ringgit Malaysia at rates of exchange ruling on the transaction dates. Assets and liabilities in foreign currencies at balance sheet date have been translated at rates ruling on the balance sheet date or at the agreed exchange rate under the currency exchange arrangement. Gains and losses on exchange arising from translation of these assets and liabilities are dealt with in the profit and loss account except that gains and losses arising from the conversion of long term foreign currency loans in relation to project in progress are capitalised.

On consolidation, the assets and liabilities of foreign incorporated subsidiaries are translated into ringgit at the exchange rates approximating those ruling at balance sheet date while the results of the current year are translated at the average exchange rate. The difference arising from such translation is taken to Exchange Difference Account.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. STOCKS

	At March 31,		
	1995	1996 (in millions)	1996
Petroleum products	RM 218	RM 223	US\$ 89
Crude oil and condensate	104	23	9
Petrochemical products	63	36	14
Liquefied natural gas	56	40	16
Stores, spares and others	292	404	160
	733	726	288
Provision for obsolescence and diminution in value	(21)	(23)	(9)
	<u>RM 712</u>	<u>RM 703</u>	<u>US\$ 279</u>

4. TRADE DEBTORS

	At March 31,		
	1995	1996 (in millions)	1996
Trade debtors	RM 1,452	RM 2,010	US\$ 798
Provision for doubtful debts	(22)	(22)	(9)
	<u>RM 1,430</u>	<u>RM 1,988</u>	<u>US\$ 789</u>

5. OTHER DEBTORS

	At March 31,		
	1995	1996 (in millions)	1996
Staff housing and vehicle loans	RM 387	RM 423	US\$ 168
Loans to directors of Company and subsidiary companies	4	6	2
Other debtors, deposits and prepayments	1,132	1,358	539
	<u>RM 1,523</u>	<u>RM 1,787</u>	<u>US\$ 709</u>

The staff housing and vehicle loans are given in accordance with the terms and conditions of the staff housing and motor vehicle loan scheme approved by shareholders.

The loans to directors of the Company relate to housing and motor vehicle loans given to certain executive directors on terms and conditions as approved by shareholders.

The loans to directors of subsidiary companies relate to housing and motor vehicle loans given to full time staff of the Group who are also directors of subsidiary companies.

These loans are given in accordance with the terms and conditions of the staff housing and motor vehicle loan scheme approved by shareholders.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. FUND INVESTMENTS

	At March 31,		
	1995	1996	1996
		(in millions)	
Quoted shares in Malaysia	RM 84	RM 86	US\$ 34
Deposits with licensed banks	9,533	13,592	5,394
Deposits with finance companies	997	3,182	1,263
Deposits with other corporations	493	626	248
Malaysian Government Securities	4,393	4,338	1,721
Other securities — quoted	518	852	338
	<u>RM 16,018</u>	<u>RM 22,676</u>	<u>US\$ 8,998</u>
Market value:			
Quoted shares in Malaysia	RM 89	RM 102	US\$ 40
Malaysian Government Securities	4,751	4,673	1,854
Other securities — quoted	<u>518</u>	<u>852</u>	<u>338</u>

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

7. FIXED ASSETS

		At March 31, 1995			
	Cost/ Valuation	Accumulated depreciation	Net book value	Depreciation charge for the year	
		(in millions)			
At 1991 valuation:					
Freehold land	RM 1	RM —	RM 1	RM —	
Leasehold land					
long lease	41	3	38	1	
short lease	1	—	1	—	
Buildings	50	4	46	1	
At cost:					
Freehold land	217	—	217	—	
Leasehold land					
long lease	811	77	734	13	
short lease	39	6	33	2	
Short leasehold properties	369	101	268	12	
Oil and gas properties	2,419	917	1,502	231	
Buildings	1,168	269	899	38	
Plant	13,727	3,462	10,265	699	
Expendable capital improvements	25	21	4	4	
Office equipment and furniture and fittings	163	79	84	20	
Other plant and equipment	308	148	160	29	
Computer software and hardware	149	58	91	24	
Motor vehicles	76	56	20	12	
Vessels	1,523	23	1,500	23	
	<u>RM 21,087</u>	<u>RM 5,224</u>	<u>RM 15,863</u>	<u>RM 1,109</u>	
Less: Amount capitalized in expenditure carried forward				(1)	
				<u>1,108</u>	
Less: Cumulative amount to March 31, 1995 of the effect of the change in depreciation policy				(62)	
				<u><u>RM 1,046</u></u>	

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	At March 31, 1996						
	Cost/ Valuation		Accumulated depreciation		Net book value		Depreciation charge for the year
	(in millions)						
At 1991/5 valuation:							
Freehold land	RM	3	RM	—	RM	3	RM —
Leasehold land							
long lease		41		4		37	1
short lease		1		—		1	—
Buildings		51		5		46	1
At cost:							
Freehold land		210		—		210	—
Leasehold land							
long lease		856		89		767	14
short lease		46		9		37	1
Short leasehold properties		369		113		256	12
Oil and gas properties		4,462		1,328		3,134	413
Buildings		1,370		309		1,061	40
Plant		19,678		4,123		15,555	886
Expendable capital improvements		37		22		15	3
Office equipment and furniture and fittings		190		116		74	29
Other plant and equipment		404		187		217	28
Computer software and hardware		155		75		80	21
Motor vehicles		88		66		22	12
Vessels		2,296		125		2,171	101
	RM	30,257	RM	6,571	RM	23,686	RM 1,562
Less: Amount capitalized in — expenditure carried forward							(1)
							RM 1,561

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

At March 31, 1996				
	Cost/ Valuation	Accumulated depreciation	Net book value	Depreciation charge for the year
	(In millions)			
At 1991/5 valuation:				
Freehold land	US\$ 1	US\$ —	US\$ 1	US\$ —
Leasehold land				
long lease	16	1	15	—
short lease	—	—	—	—
Buildings	20	2	18	—
At cost:				
Freehold land	83	—	83	—
Leasehold land				
long lease	340	36	304	6
short lease	18	4	14	—
Short leasehold properties	146	44	102	5
Oil and gas properties	1,771	527	1,244	164
Buildings	544	123	421	16
Plant	7,809	1,636	6,173	352
Expendable capital improvements	15	9	6	1
Office equipment and furniture and fittings	76	46	30	11
Other plant and equipment	160	74	86	11
Computer software and hardware	62	30	32	8
Motor vehicles	35	26	9	5
Vessels	911	50	861	40
	<u>US\$ 12,007</u>	<u>US\$ 2,608</u>	<u>US\$ 9,399</u>	<u>US\$ 619</u>
Less: Amount capitalized in — expenditure carried forward				(—)
				<u>US\$ 619</u>

The properties stated at revaluation in 1991/5 were adopted by the directors based on valuations of independent professional valuers on the comparison approach method.

The titles to certain freehold and leasehold land are in the process of being registered in the Company's and subsidiary company's names.

Included in fixed assets of the Group is a plant with a net book value at March 31, 1996 of RM38 million (US\$15 million) (March 31, 1995 — RM42 million) acquired under a long term lease.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. EXPENDITURE CARRIED FORWARD

	At March 31,		
	1995	1996	1996
	(in millions)		
Preliminary expenses.....	RM —	RM —	US\$ —
Pre-operating expenses	63	127	50
	<u>RM 63</u>	<u>RM 127</u>	<u>US\$ 50</u>

Included in pre-operating expenses for the year are:

	At March 31,		
	1995	1996	1996
	(in millions)		
Depreciation and amortization	RM 1	RM —	US\$ —
Rental of land and buildings	1	1	—

9. CONSTRUCTION-IN-PROGRESS

	At March 31,		
	1995	1996	1996
	(in millions)		
Oil and gas properties	RM 2,197	RM 2,372	US\$ 941
Other projects	8,312	2,484	986
	<u>RM 10,509</u>	<u>RM 4,856</u>	<u>US\$ 1,927</u>

The additions to construction-in-progress of the Group include the following:

	At March 31,		
	1995	1996	1996
	(in millions)		
Unrealized gain of foreign exchange	RM (105)	RM (21)	US\$ (8)
Rental of land and buildings	1	—	—
Interest on term loans	338	102	US\$ 40
Depreciation	—	—	—

10. INTEREST IN SUBSIDIARY COMPANIES

Companies Incorporated in Malaysia

	Effective percentage holding		Principal activity
	March 31, 1995	March 31, 1996	
Asean Bintulu Fertilizer Sdn. Bhd.	63.5	63.5	Production and sale of urea and ammonia.
Ethylene Malaysia Sdn. Bhd.	60.0	72.5	Production and sale of ethylene.
Gas District Cooling (M) Sdn. Bhd. (1)	60.0	60.0	Intended to operate gas-fired district cooling plants.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Effective percentage holding		Principal activity
	March 31, 1995	March 31, 1996	
Petronas Fertilizer (Kedah) Sdn. Bhd.(1)	100.0	100.0	Intended to produce and sell urea and ammonia.
Malaysia LNG Sdn. Bhd.	65.0	65.0	Liquefaction and sale of liquefied natural gas.
Malaysia LNG Dua Sdn. Bhd.	60.0	60.0	Liquefaction and sale of liquefied natural gas.
Malaysia LNG Tiga Sdn. Bhd.....	—	70.0	Intended to liquefy, process and sell liquefied natural gas.
Malaysian International Trading Corporation Sdn. Bhd.	100.0	100.0	General trading.
MTBE Malaysia Sdn. Bhd.	100.0	100.0	Production and sale of methyl tertiary butyl ether and propylene.
OGP Technical Services Sdn. Bhd. ...	60.0	60.0	Provision of technical and project management services.
Petronas Carigali Sdn. Berhad(1)	100.0	100.0	Exploration and production of oil and gas.
Petronas Carigali (Overseas) Sdn. Bhd.(1)	100.0	100.0	Exploration and production of oil and gas.
Petronas Carigali (JDA) Sdn. Bhd.(1)	100.0	100.0	Exploration and production of oil and gas.
Petronas Carigali (Dai Hung) Sdn. Bhd.(1)	100.0	100.0	Exploration and production of oil and gas.
Petronas Carigali International Sdn. Bhd. (Formerly known as Petronas Carigali (Yemen) Sdn Bhd) (1) ...	100.0	100.0	Exploration and production of oil and gas.
Petronas Carigali (Turkmenistan) Sdn. Bhd.(3)	—	100.0	Intended to undertake exploration and production of oil and gas.
Petronas Carigali (Vietnam) Sdn. Bhd.(1)	100.0	100.0	Exploration and production of oil and gas.
Petronas Dagangan Berhad(2)	74.7	73.9	Marketing of petroleum products and operation of service stations.
Petronas Gas Berhad(2)	100.0	75.0	Processing and transmission of natural gas.
Petronas Trading Corporation Sdn. Bhd.	100.0	100.0	Trading of crude oil and petroleum products.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Effective percentage holding		Principal activity
	March 31, 1995	March 31, 1996	
Petronas Penapisan (Melaka) Sdn. Bhd.	100.0	100.0	Refining of crude oil.
Petronas Penapisan (Terengganu) Sdn. Bhd.	100.0	100.0	Refining of crude oil.
Petronas Tankers Sdn. Bhd.(1)	100.0	100.0	Investment holding and provision of management services to the owners and operators of LNG vessels.
Institute of Technology PETRONAS Sdn. Bhd.(1)	100.0	100.0	Intended to be institute of higher learning.
Puteri Intan Sdn. Bhd.(1)	100.0	100.0	Own and operate LNG vessel.
Puteri Delima Sdn. Bhd.(1)	100.0	100.0	Own and operate LNG vessel.
Puteri Nilam Sdn. Bhd.(1)	100.0	100.0	Own and operate LNG vessel.
Puteri Zamrud Sdn. Bhd.(1)	100.0	100.0	Intended to own and operate LNG vessels.
Puteri Firuz Sdn. Bhd.(1)	100.0	100.0	Intended to own and operate LNG vessels.
Polypropylene Malaysia Sdn. Bhd.	80.0	80.0	Production and marketing of polypropylene.
Petronas Hartabina Sdn. Bhd.(1)	100.0	100.0	Property holding.
Petronas Property Management Services Sdn. Bhd.(1)	100.0	100.0	Property and building project management services.
Petronas Management Training Sdn. Bhd.(1)	100.0	100.0	Provision of training services.
Petronas Methanol (Labuan) Sdn. Bhd.	100.0	100.0	Production and sale of methanol.
Petronas Gas Supply (Labuan) Sdn. Bhd.	100.0	100.0	Dormant.
Petronas Research & Scientific Services Sdn. Bhd.	100.0	100.0	Provision of research and technology development services.
Aromatics Malaysia Sdn. Bhd.(3)	—	100.0	Intended to produce and sell aromatic products.
Vinyl Chloride (Malaysia) Sdn. Bhd.(3)	—	60.0	Intended to produce and sell vinyl chloride.
Eagle Aircraft (M) Sdn. Bhd.(1)	60.0	51.4	Investment holding company.
Petronas Maritime Services Sdn. Bhd.(1)	100.0	100.0	Provision of marine advisory services.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Effective percentage holding		Principal activity
	March 31, 1995	March 31, 1996	
Sungai Udang Port Sdn. Bhd. (1)	100.0	100.0	Port management.
Kerteh Port Sdn. Bhd. (1)	100.0	100.0	Own and operate a port.
Sanzbury Stead Sdn. Bhd.	100.0	100.0	Property holding.
Petronas NGV Sdn. Bhd. (1)	100.0	100.0	Promoting and developing the use of natural gas for vehicles.
Malaysian International Trading Corporation (Japan) Sdn. Bhd.	—	100.0	Intended to undertake general trading.
Styrene Monomer (M) Sdn. Bhd. (3)	—	100.0	Intended to produce and sell ethylbenzene and styrene monomer.
Petronas Technical Services Sdn. Bhd. (3)	—	100.0	Intended to be an investment holding company.
Gas District Cooling (KLIA) Sdn. Bhd. (subsidiary company of Gas District Cooling (M) Sdn. Bhd.) (3)	—	36.0	Intended to operate co-generation plants and sale of chilled water and electricity.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Companies Incorporated Overseas

	Effective percentage holding		Country of incorporation	Principal activity
	March 31, 1995	March 31, 1996		
Petronas Australia Pty. Ltd (4)	100.0	100.0	Australia	Investment holding company.
Petronas Argentina S.A. (4)	100.0	100.0	Argentina	Investment holding company.
Eagle Aircraft Pty. Ltd. (4)	60.0	60.0	Australia	Production and sale of light aircraft.
Japan Malaysia LNG Co. Ltd. (5)	65.0	70.0	Japan	Provision of services in relation to the importation of liquefied natural gas into Japan.
Petronas Philippines Inc. (4) . . .	100.0	100.0	Philippines	Investment holding company
Mitcoleum Consultancy Services Pte. Ltd.	51.0	—	Singapore	Company has been liquidated during the year.
Petronas (Thailand) Co. Ltd. (4)	100.0	100.0	Thailand	Investment holding company.
Petronas Cambodia Co. Ltd. (4)	100.0	100.0	Cambodia	Trading of petroleum products.

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- (1) These subsidiary companies are audited by other firms of accountants.
(2) The shares of this subsidiary company are quoted on the Main Board of The Kuala Lumpur Stock Exchange.
(3) The accounts of these subsidiaries were not audited for the period/year ended March 31, 1996 as they were newly incorporated and are dormant.
(4) These subsidiary companies are audited by overseas offices of KPMG Peat Marwick.
(5) This subsidiary is not required to be audited in its country of incorporation.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. INTEREST IN ASSOCIATED COMPANIES

		At March 31,	
	1995	1996	1996
		(in millions)	
Investment at cost	RM 1,027	RM 1,121	US\$ 445
Share of profit	42	23	9
Amount due from associated companies	125	237	94
	1,194	1,381	548
Term loan due from an associated company	128	166	66
	<u>RM 1,322</u>	<u>RM 1,547</u>	<u>US\$ 614</u>

The term loan due from an associate company represents loans obtained by the Company and on-lent to the associated company on the same terms and conditions.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The associated companies and their principal activities are:

Companies Incorporated in Malaysia	Effective percentage holding			Principal activity
	1995	1996		
Polyethylene (Malaysia) Sdn. Bhd.	40.0	40.0		Production and marketing of polyethylene.
KLCC (Holdings) Sdn. Bhd. and its subsidiaries	49.5	49.5		Property investment and property development.
Midciti Resources Sdn. Bhd.	49.5	49.5		Property holding.
Gas Malaysia Sdn. Bhd.	20.0	20.0		Selling, marketing, distribution and promotion of natural gas.
Malaysian Refining Company Sdn. Bhd.	50.0	45.0		Intended to refine crude oil.
Petronas Carigali (PTTEPI) Co. Sdn. Bhd. ...	50.0	50.0		Exploration and production of oil and gas.
Petronas Carigali (Triton) Operating Co. Sdn. Bhd.	50.0	50.0		Exploration and production of oil and gas.
Idemitsu SM Sdn. Bhd.	—	30.0		Intended to produce and market styrene monomer.
Lub Dagangan Sdn. Bhd. (associated company of Petronas Dagangan Berhad) ..	15.0	15.0		Marketing of lubricants.
Putrajaya Holdings Sdn. Bhd.	—	40.0		Property owner and developer.

Companies Incorporated Overseas	Effective percentage holding		Country of Incorporation	Principal activity
	1995	1996		
Petronas Energy Philippines, Inc.	—	40.0	Philippines	Intended to market petroleum products.
Duta Inc.	—	40.0	Philippines	Property holding.
Subic Bay Petroleum Products Ltd. ..	50.0	—	Cayman Islands	Breakbulking, terminaling of products and merchandising.
Gasinvest Australia Pty Ltd.	48.0	48.0	Australia	Investment holding company.
Thang Long LPG Joint Venture Co. Ltd.	—	49.0	Vietnam	Importation and marketing of liquefied petroleum gas in Vietnam.
Zhenjiang Zhonghai PETRONAS NIC Oil and Gas Co. Ltd.	—	20.0	Peoples' Republic of China	Importation and marketing of liquefied petroleum gas in the Peoples' Republic of China.
East Australian Pipeline Ltd. (associated company of Gasinvest Australia Pty Ltd.)	—	24.0	Australia	Transmission of natural gas.
Petronas Unique Petroleum Co. Ltd.	—	49.0	Thailand	Intended to develop and operate service stations.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. LEASE CREDITOR

This relates to an asset leased from Bank Islam Malaysia Berhad under the Al-Ijarah lease financing facility.

	At March 31,		
	1995	1996	1996
		(in millions)	
Lease creditor	RM 22	RM 11	US\$ 4
Less: Unexpired service charges	(1)	(—)	—
	<u>RM 21</u>	<u>RM 11</u>	<u>US\$ 4</u>
Due within twelve months	RM 10	RM 11	US\$ 4
Due after twelve months	11	—	—
	<u>RM 21</u>	<u>RM 11</u>	<u>US\$ 4</u>

13. TERM LOANS

The details of term loans are as follows:

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Repayment Terms</u>
Group		
Unsecured		
Two loans totalling ¥11.8 billion	A mix of 5.4% to 5.7% and floating rate of LIBOR + (½% to ¾%)	Fourteen semi-annual equal instalments commencing September 1989.
Two loans totalling ¥38.4 billion	4.0% and 5.0%	Vary from thirty-one to thirty- seven semi-annual equal instalments commencing from August 20, 1987 and February 20, 1993.
Revolving credit of RM500 million	BLR and rates varying from 4.52% to 6.92%	On call.
RM700 million Redeemable Notes	First 5 years at 8.75% and subsequent years at 9.3%	Mature on December 20, 2001 and March 21, 2002.
FRF2.28 billion	8.0%	Twenty semi-annual instalments, commencing January 1997 to January 1998.
One loan totalling US\$112.8 million	LIBOR + 0.5% until completion and then LIBOR + 0.7%	Full repayment in March 2003.
One loan totalling US\$340 million	LIBOR minus 0.25%	Ten semi-annual equal instalments effective September 1998.
One loan totalling US\$20 million	4.75%	Thirteen semi-annual instalments commencing February 1996.
One loan totalling US\$410 million	LIBOR + 0.75%	Over a period of six years commencing June 1997.

**PETROLIAM NASIONAL BERHAD
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Repayment Terms</u>
Six loans totalling US\$780.79 million	LIBOR + (0.15% to 0.75%)	Ten to twenty semi-annual instalments commencing January 1995 to January 1996.
One loan totalling US\$86.7 million	LIBOR + 0.3%	Fully repaid during the year.
One loan totalling RM168 million	ECOF + 0.55%	Full repayment in July 1999.
Secured		
One loan totalling US\$221 million	LIBOR + 0.75%	Fully repaid during the year.
One loan totalling US\$60.5 million	LIBOR + 0.75%	Thirteen semi-annual instalments commencing four years from the date of Agreement — December 1994.
One loan totalling RM30 million	ECOF + 0.75% or BLR + 0.5%	Thirteen semi-annual instalments commencing four years from the date of Agreement — December 1994.
One loan totalling RM78 million	ECOF + 0.75% or BLR + 0.5%	Fully repaid during the year.
The above term loans are secured by fixed charges over properties located at Lot No. 110, 111 and 112 in Gebeng Industrial Estate, Mukim of Sungai Karang, District of Kuantan, Pahang Darul Makmur and debentures creating fixed and floating charges over all the assets of two of the subsidiary companies. The charges over properties located at Lot No. 110 and 111 have been released during the year.		
One loan totalling RM7.90 million	BLR	One hundred and twenty monthly instalments commencing 1 January 1989.
The above term loan is secured by way of fixed and floating charges over the LPG Import Terminal cum Bottling Plant (excluding land) in Kuching, Sarawak.		
One loan totalling RM50.00 million	BLR + 0.25%	Fully repaid during the year.
The loan is secured by a debenture creating a first floating charge over the current assets of a subsidiary company.		
US\$450 million	LIBOR + 1%	Twelve semi-annual instalments commencing from May 1997.
The loan is secured by a debenture creating a first fixed and floating charge on all the assets of the subsidiary company.		
Group and Company (reloaned to subsidiary and associated companies).		
Unsecured		
One loan totalling ¥42 billion	4.0%	Thirty-six semi-annual instalments commencing July 1995.
US\$500 million Bonds	6.875%	Full repayment in July 2003.

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Repayment Terms</u>
¥50 billion Bonds	4.1%	Full repayment on December 2003.
Two loans totalling ¥28.4 billion	4.0% to 4.5%	Thirty-four to thirty-six semi-annual instalments commencing June 1992 to September 1992.
Four loans totalling RM650 million	6.50% to 8.19%	Nine to twenty-one semi-annual instalments commencing May 1993 to May 1996.
One loan totalling ¥11 billion	LIBOR + 1.0875% to 2.5875%	Twelve semi-annual instalments commencing March 1995.
Two loans totalling US\$378 million	LIBOR + 0.7%	Seventeen semi-annual instalments commencing November 1998.
Two loans totalling US\$283 million	LIBOR + 0.275% to 0.3175%	Twenty semi-annual instalments commencing March 1996.

At balance sheet date, the amounts outstanding obtained by the company and reloaned to its subsidiary and associated companies are payable as follows:

	<u>1995</u>	<u>1996</u>
	<u>(In millions)</u>	
Associated companies:		
After twelve months	<u>128</u>	<u>166</u>

Group and Company

Twelve loans totalling RM409 million	2.0% to 8.0%	Vary from five to fifteen annual instalments commencing June 1989.
Notes totalling US\$375 million	7.125%	Full repayment on August 2005.
Bonds totalling US\$625 million	7.75%	Full repayment on August 2015.
Syndicated loan totalling US\$47.3 million	LIBOR + 0.35%	Seventeen semi-annual equal instalments commencing November 1998.

14. DEFERRED LIABILITIES

	<u>At March 31,</u>		
	<u>1995</u>	<u>1996</u>	<u>1996</u>
	<u>(in millions)</u>		
Removal of offshore installations	RM 66	RM 103	US\$ 41
Deferred taxation	581	606	240
Provision for exploration cost	559	572	227
Provision for dry-docking	3	17	7
	<u>RM 1,209</u>	<u>RM 1,298</u>	<u>US\$ 515</u>

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. ISLAMIC DEBT SECURITIES

The securities with a nominal value of RM1,100,000,000 were issued by subsidiary companies, are unsecured and shall be redeemed by the holder as follows:

	<u>Redemption Date</u>
(i) RM300,000,000	24 February 1999
(ii) RM800,000,000	17 August 2000

16. SHARE CAPITAL

	<u>At March 31,</u>		
	<u>1995</u>	<u>1996</u>	<u>1996</u>
	<u>(in millions)</u>		
Authorized:			
500,000 shares of RM1,000 each	RM 500	RM 500	US\$ 198
Issued and fully paid:			
100,000 shares of RM1,000 each	RM 100	RM 100	US\$ 40

17. RESERVES

	<u>At March 31,</u>		
	<u>1995</u>	<u>1996</u>	<u>1996</u>
	<u>(in millions)</u>		
Non-Distributable:			
Capital Reserve			
Balance at 1 April	RM 139	RM 142	US\$ 56
Capitalization of unappropriated profits for bonus shares by a subsidiary company	—	476	189
Share premium received by subsidiary companies on issue of shares	2	318	126
Balance at 31 March	141	936	371
Reserve on consolidation	52	(3)	(1)
Exchange Difference Account	(4)	(8)	(3)
Distributable:			
General Reserve	12,000	12,000	4,762
Unappropriated profits	6,906	10,092	4,005
	<u>RM 19,095</u>	<u>RM 23,017</u>	<u>US\$ 9,134</u>

18. REVENUES

Revenues comprises:

(a) Company

- (i) sales of crude oil and gas;
- (ii) production sharing income in respect of supplementary payments, production and discovery bonuses and research cess;
- (iii) sales of processed gas and petroleum products;

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- (iv) income from fund investments and dividends;
- (b) Group
 - (i) revenue of the company excluding dividend from subsidiaries and associates;
 - (ii) revenue of the subsidiaries which is derived from:-
 - (a) sales of crude oil & gas
 - (b) sales of petrochemical products
 - (c) sale of liquefied natural gas & petroleum products
 - (d) rental income on land & buildings
 - (e) income from fund investment

19. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at:

	Fiscal Year Ended March 31,			
	1994	1995	1996	1996
	(in millions)			
After charging:				
Interest expense on term loan	RM 280	RM 330	RM 855	US\$ 339
Depreciation	883	1,046	1,561	619
Directors' remuneration	3	2	3	1
Rental of land and buildings	45	37	47	19
Rental of plants, machineries, equipments and motor vehicles	6	24	34	13
Audit fees	1	1	2	1
Provision for:				
Doubtful debts	11	3	—	—
Stock obsolescence	9	5	9	4
Amortization of expenditure carried forward	18	15	24	9
Fixed assets expensed off	11	24	4	2
Provision for exploration cost	100	150	200	79
Tabung Amanah Negara	100	100	100	40
Retirement benefits	19	24	53	21
Loss on foreign exchange	177	59	—	—
(Gain) / Loss on disposal of fixed assets	(4)	1	—	—

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fiscal Year Ended March 31,			
	1994	1995	1996	1996
	(in millions)			
And crediting:				
Interest income from:				
Deposits	582	510	853	338
Loan stock	19	17	12	5
Malaysian Government Securities	404	373	363	144
Other securities — bonds	113	6	18	7
Others	15	62	61	24
Dividend income:				
Quoted corporations in Malaysia	2	1	2	1
Unquoted corporations in Malaysia	10	6	9	4
Rental income on land and buildings	39	33	29	12
Gain on foreign exchange	—	—	22	9
Provision for bad and doubtful debt written back	—	—	1	—

20. TAXATION

	Fiscal Year Ended March 31,			
	1994	1995	1996	1996
	(in millions)			
Income Tax:				
Current year	RM 2,431	RM 2,295	RM 2,663	US\$ 1,057
Associated companies' income tax	20	2	1	—
Foreign taxation	—	—	1	—
(Over) / Under provision of prior years	(8)	(117)	(392)	(156)
	2,443	2,180	2,273	901
Deferred taxation	(176)	(44)	24	10
	<u>RM 2,267</u>	<u>RM 2,136</u>	<u>RM 2,297</u>	<u>US\$ 911</u>

21. EXTRAORDINARY ITEMS

	Fiscal Year Ended March 31,			
	1994	1995	1996	1996
	(in millions)			
Gain on disposal of investment	RM 308	RM 3	RM 1,070	US\$ 425
Gain on disposal of rig, plant and equipment	19	—	17	6
Insurance claim on damaged properties	2	—	—	—
	<u>RM 329</u>	<u>RM 3</u>	<u>RM 1,087</u>	<u>US\$ 431</u>

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

22. CAPITAL COMMITMENTS

Outstanding commitments in respect of capital expenditure at balance sheet date not provided for in the accounts are:

	Fiscal Year Ended March 31,		
	1995	1996 (in millions)	1996
Approved and contracted for	RM 4,114	RM 6,502	US\$ 2,580
Approved but not contracted for	18,663	16,888	6,702
	<u>RM 22,777</u>	<u>RM 23,390</u>	<u>US\$ 9,282</u>

The Group also have commitments to subscribe for shares amounting to NIL (1995 — RM24.75 million).

23. PRODUCTION SHARING INCOME

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 the petroleum resources is carried out by means of production sharing contracts with international oil and gas companies and with its subsidiary company.

23.1 Research Cess, Supplementary Payments and Crude Oil/Gas Entitlement

The determination of research cess, supplementary payments and the Company's entitlements to crude oil/gas produced subsequent to December 31, 1990 have been based on the returns submitted by contractors and is dependent on agreement being reached on the method of valuation of crude oil/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. The Company's entitlements to crude oil and natural gas are taken up as income on the basis of liftings and sales respectively made by the Company.

23.2 Fixed Assets

Under the production sharing contracts, title to all equipment and other assets purchased or acquired by oil contractors exclusively for the purpose of petroleum operations, and which costs are recoverable as cost oil/gas, has passed to the Company. The value of these assets are not taken up in the accounts of the Company except for the assets of a subsidiary company who is also a contractor to the Company under the production sharing contracts.

23.3 Stock

Under the production sharing contracts, title to all crude oil held in stock by the oil contractors lies with PETRONAS and title to the contractors' entitlement passes only upon delivery at point of export.

24. COMPARATIVES

In consideration of the vesting by the Government of Malaysia of the entire ownership, rights, powers, liberties and privileges of exploiting petroleum resources on land and offshore Malaysia, the Company has to pay a fixed percentage of the gross value of production to the federal and state

**PETROLIAM NASIONAL BERHAD
AND ITS SUBSIDIARY COMPANIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

governments as royalty. The value of this royalty is now accounted as cost of sale instead of deduction from the gross turnover. The change in comparatives is as follows:

	<u>As amended</u>	<u>As previously reported</u>
		(in millions)
Turnover — Financial year ended March 31, 1995	18,089	17,106
— Financial year ended March 31, 1994	<u>16,818</u>	<u>15,695</u>

MALAYSIA

The following information regarding Malaysia is included for information only and has been obtained from public official sources of the Government of Malaysia.

General

Malaysia is located in Southeast Asia, just north of the equator, and consists of two major land masses, Peninsular Malaysia and the states of Sabah and Sarawak, which are located on the Island of Borneo. Peninsular Malaysia is separated from the states of Sabah and Sarawak by 640 kilometers of the South China Sea. The total land area of Malaysia is approximately 330,000 square kilometers.

Malaysia has a population of approximately 20.7 million. As of 1995, approximately 58 percent of the population of Malaysia was Malay and other indigenous peoples (together, referred to as "Bumiputera"), approximately 26 percent was Chinese, and approximately 16 percent was Indian and other races.

The official language of Malaysia is Bahasa Malaysia, but English is widely spoken.

Government

Peninsular Malaysia attained independence from Britain in 1957 as the Federation of Malaya. In 1963, Malaysia was formed as the successor to the Federation of Malaya, incorporating Sarawak and Sabah, and Singapore. In August 1965, Singapore withdrew from Malaysia. Malaysia now consists of 13 states and a Federal Territory.

Malaysia is a parliamentary democracy headed by a constitutional monarch. The King of Malaysia is elected for a five-year term by a Conference of Rulers consisting of the nine hereditary sultans of the federation. The framework of government is determined by a constitution adopted at the time of independence. Federal executive power is vested in the Prime Minister and his cabinet. Dato Seri Dr. Mahathir bin Mohamad has been Prime Minister since 1981.

Since its formation, Malaysia has been governed by the National Front coalition comprising 3 major component parties, namely: United Malays National Organization (UMNO), the Malaysian Chinese Association (MCA), the Malaysian Indian Congress (MIC), and a number of smaller parties. An opposition to the coalition exists but it has never been able to capture sufficient support to win control of the Federal Parliament. In the general elections held in April 1995, members of the National Front coalition were elected to 162 out of 192 seats in the Federal Parliament.

Economic Policy and Planning

Since 1966, the Malaysian Government has formulated and implemented a series of five-year plans for the development of the Malaysian economy. These plans have been guided by the development policies set forth in the New Economic Policy ("NEP") introduced in 1970, the New Development Policy ("NDP"), which succeeded the NEP in 1991, and in a working paper presented by the Prime Minister in February 1991 entitled "Malaysia: The Way Forward" and known as "Vision 2020". The goal of the NEP and the NDP generally have been to eradicate poverty and to redistribute wealth through growth. In particular, they are aimed at increasing the share of Malaysia's wealth held by Bumiputera and the participation of Bumiputera in the economy. The Malaysian government's implementation of these five-year plans and development policies has had a major influence on the Malaysian economy.

Overall Economic Performance

The Malaysian economy grew in 1995, with real GDP expanding by 9.6 percent compared with 9.2 percent in 1994. This growth is supported by sustained output growth in the manufacturing (14.7 percent in 1995 compared with 14.7 percent in 1994), the construction (15.2 percent and

14.1 percent, respectively) and the service (8.9 percent and 9.7 percent, respectively) sectors. Growth in the output of the mining sector increased to 7.4 percent in 1995.

Selected Economic Data

The following table sets forth selected economic data relating to Malaysia for the years 1990 to 1994:

	Year Ended December 31,					
	1990	1991	1992	1993	1994	1995
	(In millions, except percentages)					
Gross domestic product ("GDP") (base year 1978) (RM)	79,430	86,302	93,071	100,838	109,915	120,489
Growth in real GDP (percentage change)	9.7	8.7	7.8	8.3	9.2	9.6
Consumer price index (percentage change) ..	3.1	4.4	4.7	3.6	3.7	3.5
Producer price index (percentage change) ...	0.9	4.1	1.1	1.4	4.9	4.5
Unemployment rate (percentage)	5.6	4.3	3.9	3	2.9	2.8
Total exports (f.o.b.) (RM)	79,646	94,497	103,657	121,214	153,688	186,869
Total imports (c.i.f.) (RM)	79,119	100,831	101,440	117,423	155,919	196,516
Trade balance (RM)	527	(6,334)	2,217	3,791	(2,231)	(9,647)
Current balance (RM)	(4,470)	(12,459)	(4,200)	(6,349)	(10,998)	(18,140)
Exchange rate (RM per US\$) (1)	2.7	2.73	2.61	2.70	2.56	2.50
Foreign Currency Reserves (RM)	27,025	30,468	47,218	76,474	68,202	63,796
Government (deficit) surplus (RM)	(5,516)	(5,640)	(1,243)	354	4,408	586

(1) Rates are as of December 31 of the year indicated, except for 1995, which is the rate as of the end of August 1995.

Sources: *Economic Reports* 1992/1993 to 1994/1995, Ministry of Finance of Malaysia, Bank Negara *Annual Reports* 1991 to 1995.

Labor

As a result of the sustained growth of the economy over the past few years, the unemployment rate declined to approximately 2.8 percent in 1995 from 2.9 percent in 1994. Most sectors of the economy, especially the construction, plantation, manufacturing and services sectors, are currently facing labor shortages. To help alleviate these shortages, the Malaysian Government has permitted the employment of foreign labor and continues to emphasize and promote training programs to upgrade the skills and quality of the labor force. These labor shortages have created upward pressure on wages in recent years. In 1995, wages increased by approximately 11 percent.

The Financial Sector

Malaysia's financial sector has grown to accommodate the development of the economy and today comprises a banking system, a range of non-banking financial institutions and a securities market.

Malaysian financial institutions can be divided into two main categories: monetary institutions and other financial institutions. Monetary institutions are comprised of Bank Negara Malaysia and deposit-taking banks. Deposit-taking banks are in turn divided into commercial banks, finance companies, merchant banks and discount houses according to their legal status and the banking business in which they may engage. Other financial institutions consist of provident and pension funds, insurance companies and industrial finance institutions.

Monetary Policy

Established in 1959, Bank Negara Malaysia is the central bank and the sole currency issuing bank in Malaysia. Bank Negara is responsible for formulating and implementing monetary policy and supervising financial institutions in Malaysia. Bank Negara also holds Malaysia's official foreign exchange reserves, administers exchange control regulations and acts as lender of last resort for the banking system.

Bank Negara implements monetary policy by influencing the reserve positions of banking institutions, principally through changes in the terms and conditions of reserve and liquidity requirements, discount operations, swap transactions with banks, recycling of Government deposits and open market operations. In 1995, Bank Negara undertook certain measures to contain inflows of short-term foreign funds and reduce inflationary pressures.

The exchange rate of the Malaysian currency, the ringgit, generally floats freely in the foreign exchange market in accordance with prevailing market conditions. Bank Negara intervenes only when necessary to avoid excessive changes in the exchange rate and to maintain orderly market conditions.

Malaysia's senior unsecured long-term debt has credit ratings of "A1" (Moody's Investors Service, Inc.) and "A+" with a positive outlook (Standard & Poor's).

Foreign Investment

The Malaysian Government has taken steps to encourage foreign investment, particularly in the manufacturing sector. The Malaysian Government generally encourages the formation of joint ventures between foreign and Malaysian investors for the production of export goods. Foreign equity participation of up to 100 percent in such ventures is permitted, provided that the company exports 80 percent or more of its output.

Foreign Trade

Foreign trade is significant to the Malaysian economy. While primary commodities continue to decline as a percentage of total export earnings, accounting for approximately 17 percent in 1995 as compared to 18.4 percent in 1994, the contribution of manufactured products to total export earnings has become more important, rising over the last several years from 32.8 percent in 1985 to approximately 79.6 percent in 1995. The expansion of manufacturing exports is attributable to Government encouragement of export-oriented industries and the growth of manufacturing activity. Electronics components, electrical machinery and textiles comprised the bulk of exports of manufactured goods in 1995. Major commodity exports include timber, palm oil and crude oil.

Japan, the United States and Singapore have historically been Malaysia's most important trading partners; however, Malaysia's trade with its Asian neighbors, including Hong Kong, Taiwan and China, is increasing.

INTERNATIONAL BUSINESS

TURKMENISTAN
EXPLORATION
AND DEVELOPMENT

SYRIA
DEVELOPMENT

IRAN
DEVELOPMENT

CAMBODIA
PRODUCT
RETAILING

CHINA
EXPLORATION
LPG
DISTRIBUTION

YEMEN
CRUDE OIL
PROCESSING

VIETNAM
EXPLORATION AND
PRODUCTION
LPG DISTRIBUTION
PRODUCT STORAGE
AND TERMINALLING

PAKISTAN
EXPLORATION

PHILIPPINES
EXPLORATION
LPG
DISTRIBUTION

ARGENTINA
GAS
TRANSPORTATION

SEYCHELLES
PRODUCT
TERMINALLING
AND TRADING

SOUTH AFRICA
REFINING AND
PRODUCT
RETAILING

AUSTRALIA
GAS TRANSPORTATION



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US\$1,900,000,000

Petroliam Nasional Berhad

US\$600,000,000

6.625% Notes Due 2001

US\$800,000,000

7.125% Notes Due 2006

US\$500,000,000

7.625% Bonds Due 2026

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**CS First Boston
Salomon Brothers Inc**

Representatives of the Initial Purchasers

**Offering Circular
Dated October 10, 1996**