

Performance Review

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Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of PETRONAS Gas Berhad for the financial year ended 31 March 2005.

FINANCIAL

The Company registered commendable results both in terms of financial earnings as well as plant efficiency and reliability this year. Buoyed by increased demand for gas primarily from the power sector, throughput revenue rose to RM1,824.4 million from RM1,756.5 million last year. Revenue from the Centralised Utility Facilities (CUF) has also increased to RM482.9 million from RM473.7 million this year as a result of higher offtake of utilities by our industrial customers.

With higher revenue generated from both gas transportation and sale of utilities, the Company recorded a 3.5% increase in total revenue from RM2,230.2 million last year to RM2,307.3 million this year. Notably, the Company's pre-tax profit increased by 20.6% from RM740.9 million to RM893.3 million and profit after tax increased by 28.2% from RM641.9 million to RM823.2 million.

The Board of Directors is recommending a final dividend of 20 sen per share tax-exempt. Together with the interim tax-exempt dividend of 10 sen per share paid out on 15 December 2004, the total net dividend for the year will amount to 30 sen per share, tax-exempt.

OPERATIONS

The improvements achieved were partly attributable to the ability of the Company to enhance overall efficiency and improve business margin due to better cost control. The year under review saw the Company further improving its plant operations and performance. We managed to operate all our gas processing plants above the design capacity to cater for the increase in gas demand during the review period. At the same time, the Company was also able to improve its plant operations reliability with a record achievement of 99.5%, exceeding both last year's level of 98.7% as well as the target set for the period under review. The ability to operate above design capacity at close to perfect reliability levels speaks volumes on the integrity and high operational standards of our plants.

We also achieved extremely high delivery reliability for our products during the year. Delivery reliability for ethane, propane and butane were 99.4%, 99.4% and 100% respectively. This reliable supply of feedstock, especially ethane, has benefited our petrochemical plant customers.

leadership



We are constantly striving for new heights of excellence
to consolidate our position as an industry leader



Chairman's Statement

The Plant Rejuvenation Revamp project, at Gas Processing Plant (GPP) 1 and the Export Terminal, to extend the life of these facilities for another 20 years was completed in May 2005, enabling the plant to produce higher level of Propane and Butane going forward.

The year also saw the successful commissioning of gas from the Malaysia-Thailand Joint Development Area (JDA) in February 2005. The introduction of JDA gas into the PGU system marks another milestone as we seek to position Malaysia as the regional hub for pipeline gas transportation within ASEAN. The Gas Separation Plant in Songkhla, part of the Trans Thailand-Malaysia project, is expected to be completed before end of 2005. LPG produced from the plant will enter the PGU system from the tie-in point at Changlun to Prai. We have also embarked on a project to construct a second pipeline to Singapore to complement our existing export pipeline. Basic engineering design has been completed and the project is scheduled for completion by June 2006.

We have now taken full control of Operations and Maintenance of our CUF facilities, which was previously contracted out. Our staff have been fully trained and have demonstrated their ability to operate the facilities. To further increase reliability, the Steam Generator Expansion Project has been commissioned at Gebeng CUF.

CORPORATE

The Company continues to maintain high standards of Health, Safety and Environment (HSE) in all areas of operations. Throughout the year, we have ensured that adherence to our Health, Safety and Environment Management System (HSEMS) remains top priority. Consequently, the Company was able to attain the good results this year without compromising on health, safety and the environment. Staff and contractors continue to undergo the required HSE training programmes. We have ensured that all of our initiatives are in strict compliance to our HSEMS. The Company received a number of awards in recognition of its good HSE practices in the year under review. Our Transmission Operations Division (TOD) was awarded the Gold Medal Award and CUF was awarded the Gold Award for Occupational Safety from the UK-based Royal Society for the Prevention of Accidents (ROSPA). TOD also received the Gold Merit Award whereas POD and CUF were awarded the Gold Award from the Malaysian Society of Occupational Safety and Health (MSOSH) for good HSE practices.

As the Company grows, we continue to invest heavily in training and human resource development to enhance staff capabilities, competencies and build future leaders to sustain superior performance. We have developed a Building Leaders Programme to instill desired leadership qualities. We have also identified potential leaders to be groomed so that they may rise to the challenge and take up future leadership roles. We continue to upgrade our non-executive technical staff through competency building and multi-tasking programmes.

Chairman's Statement

During the year, the Company was accorded the National Annual Corporate Reports Award (NACRA) under the Industrial Product Category for its high quality reporting. This is our seventh year running as recipient of this prestigious award, further underlining our commitment towards safeguarding the interests of our investors through quality reporting. We shall continue to uphold the high standards of reporting to maintain the confidence of investors.

The Company continued to build and gain the community's confidence on its operations with numerous public awareness programmes throughout the year. We are pleased that these programmes have helped raise the local community's understanding of our operations, including safety of pipelines. Our Young Professionals Club has also played an active role in academic development of the students from our adopted schools.

During the year, the Company entered into a Call Option Agreement with PETRONAS to acquire PETRONAS' 20% equity interest in Gas Malaysia Sdn. Bhd. This option, if exercised, is expected to contribute positively to the earnings of the Company and would allow better forward integration in its operations.

Looking ahead, demand for gas is expected to increase by an average of 6% per annum from 2005 to 2010 in line with the nation's forecasted economic growth. Part of this demand will be met by the inflow of gas from the Joint Development Area. With the promising prospects, the Company will strive to sustain its superior operational performance to meet the demand growth and at the same time fully prepare ourselves to overcome the challenges ahead. We will continue to emphasise on developing the required capability and talent to steer the Company to greater heights as we continue our journey towards becoming A Leading Gas Processing and Transmission Company of Choice.

In closing, I would like to express my sincere appreciation to the Government of Malaysia and our stakeholders for their continued support. I am also very grateful to the Members of the Board, the management and staff of the Company for their continued commitment, dedication and contribution to the growth and success of the Company.



Tan Sri Dato Sri Mohd Hassan bin Marican
Chairman



teamwork



Our dedicated people are focused on working as one
to meet the challenges of the future



The Company with its strong financials, outstanding operations and capable staff together with an intense performance will position us well in our quest to be a strategic, high performing business entity.

Chief Executive Officer's Report

The last financial year was indeed an exciting year for PETRONAS Gas Berhad (PGB) when we turned in strong and successful operating and financial results. The Company saw substantial improvements in all areas of profitability, operational reliability and efficiency. The unyielding focus by all staff on operations and cost containment efforts has seen the Company forge ahead with excellent results.

SIGNIFICANT IMPROVEMENTS IN FINANCIAL PERFORMANCE

The Company's throughput revenue increased from RM1,756.5 million to RM1,824.4 million due to higher gas demand from the power sector. Revenue from the Centralised Utility Facilities (CUF), recorded an increase of 1.9% or RM9.2 million to RM482.9 million from RM473.7 million. The increase was in tandem with higher offtake of industrial utilities by customers. Overall, the Company's total revenue increased slightly to RM2,307.3 million from the previous year's RM2,230.2 million.

The Company's pre tax profit increased by 20.6% to RM893.3 million from the previous year's RM740.9 million. Profit after tax increased by 28.2% to RM823.2 million with earnings per share of 41.60 sen as compared to last year's RM641.9 million and 32.4 sen respectively.

During the year, the Company made a payment of RM350 million as full settlement of the outstanding balance of the RM900 million Murabahah Notes Issuance Facility (MUNIF) raised in 1999. In the previous year Malaysian Rating Corporation Berhad (MARC), reaffirmed the short term rating of MARC-1ID and long term rating of AAA ID for the facility, which reflects the Company's strong ability to meet its financial commitments. The facility expired on 13 May 2004.

The Company also paid RM500 million of its Al-Bai' Bithaman Ajil Bonds. The facility was rated MARC a long term rating of AAAID. The facility expired on 25 May 2004.

The Company entered into the syndicated Al-Bai' Bithaman Ajil Financing Facility of upto RM600 million on 31 March 2004. During the year, the Company made a drawdown of RM600 million of this facility and subsequently settled RM200 million of the said facility.

FOCUSING ON ORGANISATIONAL IMPROVEMENTS

We have begun to realise the benefits of the recent restructuring and realignment of the Company focusing on our strategies, processes, people, technology and knowledge to manage the challenges facing the Company. A survey conducted in November 2004 to gauge the perception of staff on the realignment indicated positive results and the Company has started looking into areas which require focus.

To build superior asset performance for the plants through a structured performance improvement change and focusing on PETRONAS' excellence journey in becoming a Global Champion, Operation Performance Improvement (OPI) was launched in April 2004. The team members comprised of selected PETRONAS staff from various Operating Units. In the year under review, OPI conducted situational assessments of the Company's plant operations and identified few key areas which required interventions. The strong support from staff at all levels to resolve those identified issues has resulted in significant improvements in plant operations, as reflected in the Company's business achievements. After the success at the gas processing plants, OPI has started the roll out at Centralised Utility Facilities (CUF) in January 2005 with the objective to drive specific performance initiatives to close performance gaps and increase the reliability of the facilities.

The implementation of the Master Procurement Plan (MPP), first introduced in FY 2002/2003, has enabled the Company to effectively plan its procurement activities and realise savings through consolidated buying and economies of scale. The MPP has also enabled the Company to identify long term requirements and establish Price and Service Agreements. Strategic sourcing opportunities have been identified and the management of the performances of suppliers and vendors are currently being intensified.

The e-Procurement pilot project is currently at the enhancement and awareness phase. During this phase, more Price Agreements and vendors are identified to be included in the project and necessary training is provided to the relevant users of the system. The enhancement and awareness phase aims to achieve a higher utilization rate for the e-Procurement. Subsequently, the e-invoicing and e-bidding are planned to be implemented in staggered stages to complement the e-Procurement.

quality

