www.petronaschemicals.com

PETRONAS CHEMICALS GROUP BERHAD (459830-K) Annual Report 2014







As the chemical industry faces ever increasing challenges, it is imperative for chemical players to up their game by relying more heavily on their core strengths to boost their competitive edge. For that, PETRONAS Chemicals Group Berhad (PCG) is accelerating excellence in operations, marketing and sales, and innovation in order to hit performance targets, by leveraging further on our core strengths, which are full integration from feedstock to end-products; well-diversified portfolio of products and customers; world-class operational excellence with good utilisation rate; competitive cost advantage; as well as capable and driven talents.

Accelerating EXCELLENCE

Notice is hereby given that the

17th

ANNUAL GENERAL MEETING of the Company will be held at Conference Hall 1 and 2, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia on Monday,

13th April 2015 at 10.30 a.m.

Note: Refer to page 271 for complete Notice of Annual General Meeting.

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Proxy Form

OUR VISION

The preferred chemical company providing innovative customer solutions

OUR SHARED VALUES

Loyalty Integrity Professionalism

Cohesiveness

















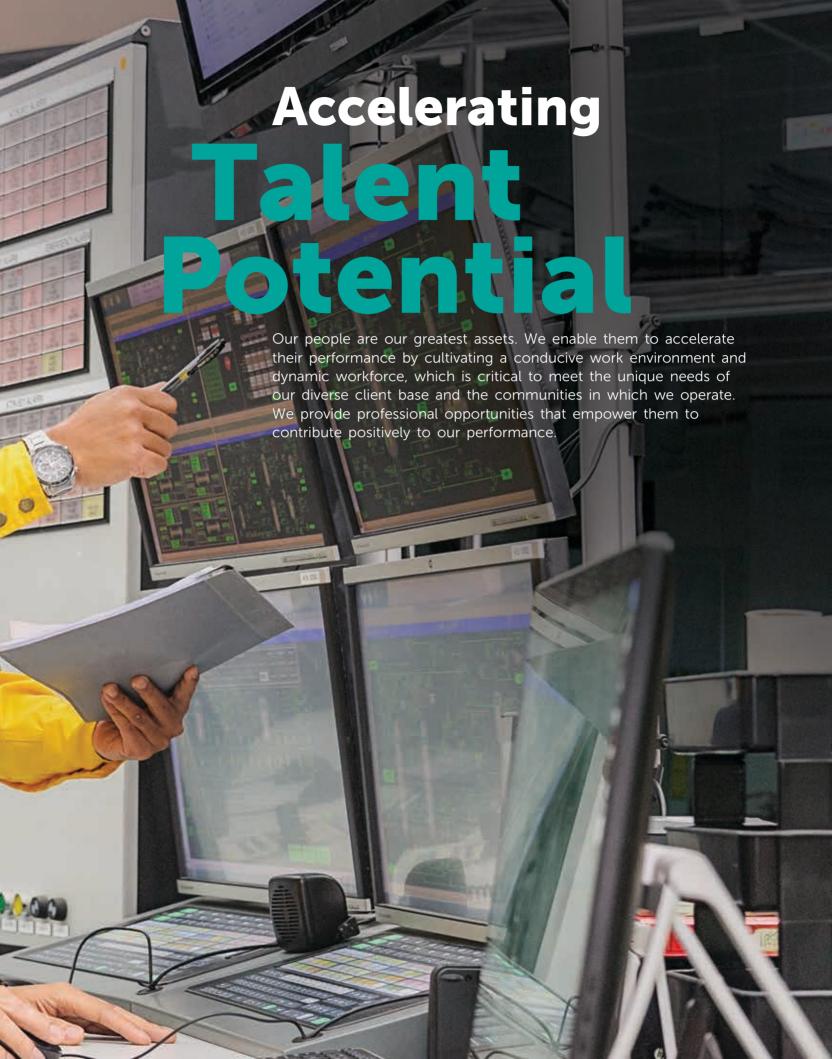


Accelerating Innovative Solutions

The cornerstone of innovation excellence lies in our ability to challenge ourselves and pursue bold ideas to be creative and innovative. By improving existing products, we are able to provide customised solutions to cater to our customers' needs.









Caring for the environment is central to the way we do our business. At the crux of our efforts is the focus on upholding sustainable practices to conserve the pristine condition of Mother Nature. By utilising innovative and environmentally sound ideas, we endeavour to operate in an economically, environmentally and socially responsible manner.





KEY HIGHLIGHTS

REVENUE RM14.6 billion

RM4.6

PROFIT BEFORE TAX RM3.6 billion

TOTAL ASSETS RM28.5



8 sen
PER ORDINARY
SHARE





OPERATIONAL EXCELLENCE AND HEALTH, SAFETY AND ENVIRONMENT

- One of the best Health, Safety and Environment performance since listing
- (S) Improved plant reliability and utilisation

MARKETING AND SALES

- Secured licence for PETRONAS Chemicals
 Marketing (Labuan) Ltd as a Labuan International
 Commodity Trading Company
- Incorporated overseas subsidiaries in Thailand – PCM (Thailand) Company Limited and China – PCM (China) Company Limited

INNOVATION

Developed and commercialised a new innovative customer solution, CF45, a solar panel cutting fluid

GROWTH

- SAMUR Project is on track for completion and commissioning by 2016
- Integrated aroma ingredients complex is progressing as planned
- Reached final investment decision for 2-Ethylhexanoic Acid (2-EHA) Project at BASF PETRONAS Chemicals Sdn Bhd

GROUP FINANCIAL HIGHLIGHTS

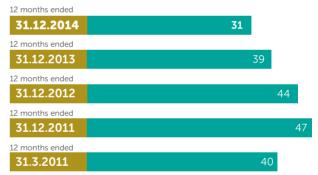
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS:

	12 months ended 31.3.2011	12 months ended 31.12.2011	12 months ended 31.12.2012	12 months ended 31.12.2013	12 months ended 31.12.2014
Revenue	14,574	16,237	16,599	15,202	14,597
Profit Before Tax	4,256	5,461	4,550	4,547	3,551
Profit Before Tax as % Revenue	29%	34%	27%	30%	24%
Profit After Tax	3,458	4,288	3,837	3,504	2,726
Profit After Tax as % Revenue	24%	26%	23%	23%	19%
Earnings Per Share (sen) – Basic	40	47	44	39	31
EBITDA	4,674	6,076	5,778	5,076	4,644
EBITDA Margin	32%	37%	35%	33%	32%

Revenue (RM Million)

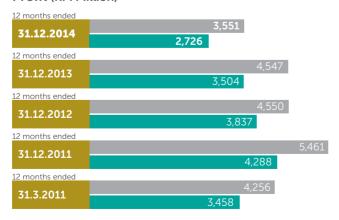


Earnings Per Share (sen) – Basic



Profit (RM Million)

Profit After Tax



Profit as % Revenue



- Profit Before Tax s % Revenue
 - Profit After Tax as % Revenue

STATEMENT OF FINANCIAL POSITION ITEMS:

RM million/Year ended	As at 31.3.2011	As at 31.12.2011	As at 31.12.2012	As at 31.12.2013	As at 31.12.2014
Total Assets	29,350	26,095	25,920	27,731	28,463
Total Equity	20,984	19,642	21,906	23,389	24,477
Total Liabilities	8,366	6,453	4,014	4,342	3,986
Net Tangible Asset per Share (RM)	2.18	2.26	2.54	2.72	2.84

Note: Comparative figures for 31 March 2011 were prepared under FRS while figures for 31 December 2011, 31 December 2012, 31 December 2013 and 31 December 2014 were prepared under MFRS.

The Group changed its financial year end in 2011 from March to December, making it a nine-month reporting period from 1 April to 31 December. To allow for meaningful comparison, comparatives for 31 December 2011 were based on a twelve-month period.

Total Assets (RM Million)



Total Liabilities (RM Million)



Total Equity (RM Million)



Net Tangible Assets per share (RM)



Polyethylene

Polyethylene is a very versatile material that is primarily used in the production of plastics packaging. It is most commonly used for consumer products such as shopping bags, food packaging, toys and detergent bottles.





PCG AT A GLANCE

Listed on Bursa Malaysia Securities Berhad with three decades of experience in the chemicals industry, PETRONAS Chemicals Group Berhad was established as part of PETRONAS Group to maximise value from Malaysia's natural gas resources.

As the leading integrated chemicals producer in Malaysia and one of the largest producers in South East Asia, PETRONAS Chemicals Group Berhad's portfolio covers a wide range of chemicals.





Comprises 26 companies producing and marketing a wide range of chemical products.

- Operates two integrated petrochemical complexes, one in Kertih, Terengganu and the other in Gebeng, Pahang.
- Four manufacturing complexes in Gurun, Kedah; Bintulu, Sarawak; and Federal Territory of Labuan that produce fertilisers and methanol including a new fertilisers manufacturing complex in Sipitang, Sabah (SAMUR Project) which will commence production in 2016.



5 major operating business segments:

- Olefins, Glycols & Derivatives
- Polymers
- Aromatics and MTBE
- Methanol
- Ammonia and Fertilisers

Ourrent total production capacity of over 10 million metric tonne per annum (mtpa).*

- The largest producer of methanol in South East Asia and fourth largest in the world*.
- The second largest producer of urea in South East Asia with the completion of SAMUR Project*.
- The third largest producer of LDPE in South East Asia*.
- Sole producer of methanol, urea, paraxylene, methyl tertiary butyl ether (MTBE), ethanolamines, ethoxylates, glycol ethers, butanol and butyl acetates in Malaysia.
- Joint-venture partners include BASF, BP, Idemitsu Kosan, Mitsubishi Corporation, Sasol Limited, Vopak, Dialog, NAFAS and Japan Energy Corporation.

Based on installed capacity, includes our equity share of joint venture and associate companies' capacities accordingly.

OUR MILESTONES

1985-1995

1992

- Achieved first production of Propylene, Polypropylene and MTBE in Gebeng Complex.
- Acquired Methanol plant in Labuan Complex.



1995

Commenced production of Ethylene and Polyethylene in Kertih Integrated Petrochemical Complex.

1996-2000

1997

2000

 Commenced production of Acrylic Acid in Gebeng Complex.

> Commenced production of Benzene, Paraxylene, Ammonia, Vinyl Chloride Monomer, Polyvinyl Chloride and Acetic Acid in Kertih Integrated Petrochemical Complex.

Petrochemical Complex

19999

Commenced production of Styrene

Monomer in Pasir Gudang.

Commenced production of Urea, Ammonia and Methanol in Gurun Complex.

OUR MILESTONES

2001-2010

2002

- Commenced production of Olefins, Glycols and Derivatives plants in Kertih Integrated Petrochemical Complex.
- Commenced production of Polyvinyl Chloride in Baria-Vung Tau, Vietnam.

2004

Expanded production capacities of Urea and Ammonia in Bintulu Complex.

2006

Expanded production capacities of Urea and Ammonia in Gurun Complex.

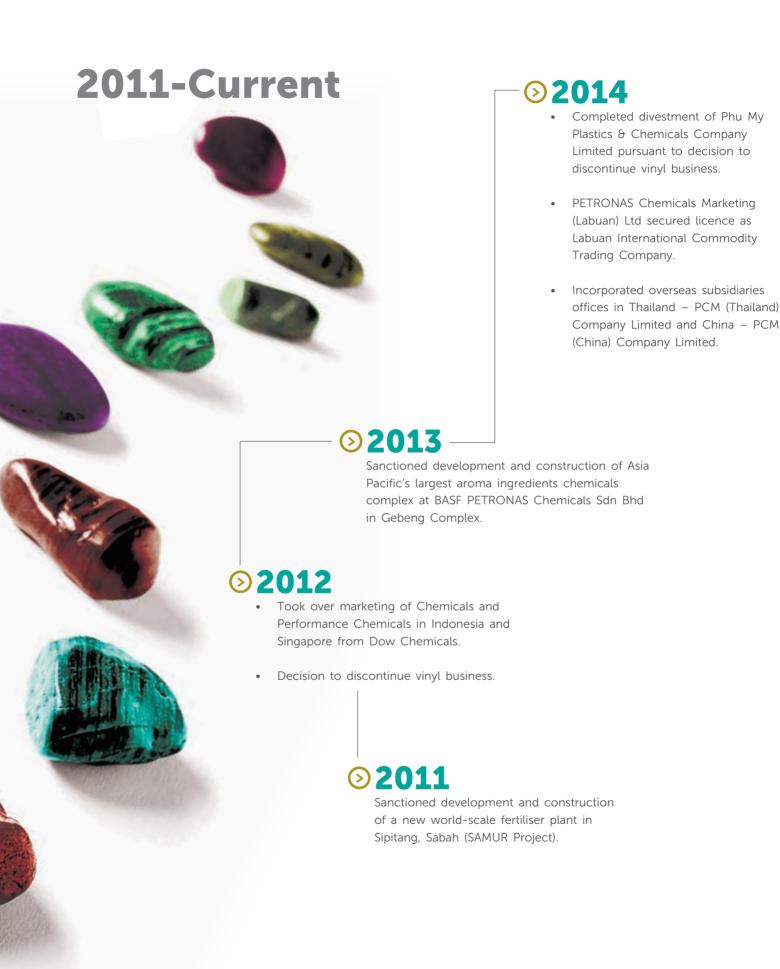
2009

- Commissioned Mega Methanol plant in Labuan Complex.
- Acquired interest in PETRONAS Chemicals Olefins, PETRONAS Chemicals Glycols and PETRONAS Chemicals Derivatives from Dow Chemicals.

2010

- Acquired interest in PETRONAS
 Chemicals Ethylene and PETRONAS
 Chemicals Polyethylene from BP.
- Listed on Main Market of Bursa Malaysia Securities Berhad.







OUR OPERATIONS

1. Kertih Integrated Petrochemical Complex, Terengganu

- Ammonia
- Benzene
- O Butanol
- O Butyl Acetate
- O Carbon Monoxide
- **Solution Ethanolamines**
- O Ethoxylates

- **Solution** Ethylene Glycols
- Glycol Ethers
- Oxogas
- O Paraxylene
- Openion of the property of
- Propylene
- Acetic Acid*

2. Gebeng Integrated Petrochemical Complex, Pahang

- Methyl Tertiary Butyl Ether (MTBE)
- N-Butane
- Propylene
- Acrylics*
- Butanediol*
- Oxo-alcohols*

3. Federal Territory of Labuan

Methanol

4. Bintulu, Sarawak

- Ammonia
- O Urea





5. Gurun, Kedah

- Ammonia
- Methanol
- O Urea
- NPK Fertilisers*

6. Pasir Gudang, Johor

Styrene Monomer*

^{*} Products produced by joint venture and associate companies.

OUR PRODUCT PORTFOLIO

We are driven by our passion to improve the quality of life for millions of people around the world. Besides offering value-added products that benefit customers, we seek to build a future of continuous innovation through customised solutions.

Our portfolio covers a wide range of olefins, glycols and derivatives, polymers, aromatics, MTBE, methanol, ammonia and fertilisers products. Besides ethylene and propylene, which are used as feedstock for other products, we also market intermediate products such as butanol including performance chemicals.

We host a worldwide network of distribution centres and distribution partners as well as tailor-made logistics solutions and packaging types. Through effective product delivery and product handling, We ensure that customers are able to reap the benefits of excellent service through effective product delivery and product handling.

OLEFINS, GLYCOLS & DERIVATIVES





Key Product	Description	Feedstock	Application
Ethylene	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas	Ethane	Feedstock for production of polyethylene and other derivatives, including ethylene oxide, an intermediate product in the production of ethylene glycol, surfactants also used to produce styrene monomer
Propylene	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas	Propane	Feedstock for the production of polypropylene, acrylic acids, acrylic esters and oxo-alcohols
Mono- Ethylene Glycol (MEG)	An ethylene oxide derivative as a versatile intermediates in wide range of applications	Ethylene Oxide Water	Polyester resins for fibres and polyethylene terephthalate (PET) containers and bottles, antifreeze, electronic applications and brake fluid formulation
Di-Ethylene Glycols (DEG)	Diethylene glycols has a significant role in the industry as a versatile intermediates in wide range of applications	Ethylene Oxide	Fibreglass application and brake fluid formulation
Performance Chemicals	Chemicals produced in smaller volume with higher unit values and used for critical applications requiring stringent performance	Ethylene Oxide, Ammonia, Fatty Alcohol	Production of surfactants, personal care products, cement and construction applications, detergents and emulsifiers



POLYMERS

Key Product	Description	Feedstock	Application
Polyethylene (LLDPE, HDPE, LDPE)	A polymer derived from polymerisation of ethylene	Ethylene	Feedstock in the manufacture of plastic products, including film, pipes, wires, cables and ducting



AROMATICS

Key Product	Description	Feedstock	Application
Paraxylene	An aromatic hydrocarbon in the form of a colourless, flammable liquid	Heavy Naphtha	Production of purified terephthalic acid, which in turn is used in the manufacture of polyester for packaging applications, soft drink bottles, fibres and film
Benzene	An aromatic hydrocarbon in the form of a colourless, flammable liquid	Heavy Naphtha	Feedstock for styrene monomer production and raw material for derivatives used in manufacture of disposable food containers, cutlery and packing electrical appliances



MTBE

Key Product	Description	Feedstock	Application
Methyl Tertiary Butyl Ether (MTBE)	An organic ether that is volatile, combustible in the form of a colourless liquid that is categorised as an oxygenate due to its ability to boost the oxygen content and octane rating of gasoline	Butane, Methanol	Gasoline additive to boost octane levels to improve burning of fuel and reduce level of emissions

OUR PRODUCT PORTFOLIO





METHANOL

Key Product	Description	Feedstock	Application
Methanol	Simplest organic alcohol and is a colourless, flammable liquid	Methane	Use in the production of formaldehyde, acetic acid, chloromethanes and methyl methacrylate, which in turn are used in the production of resins, adhesives, paints, plastics, flavourings, silicones and plexiglass

AMMONIA & FERTILISERS





Key Product	Description	Feedstock	Application
Urea	A high nitrogen content fertiliser for plant nutrient	Ammonia, Carbon Dioxide	Commercial fertiliser used in the production of many crops; raw material for the manufacture of adhesives, moulding powders, varnishes and foams
Ammonia	A nitrogen and hydrogen compound in the form of colourless gas with a characteristic pungent odour	Methane, Hydrogen, Nitrogen	Feedstock for the production of urea and other industrial applications, including as a refrigerant and latex anti-coagulant

JOINT VENTURE AND ASSOCIATE PRODUCTS





Key Product	Description	Feedstock	Application
Acrylics	Clear colourless liquid with a characteristic odour. Forms homopolymers and copolymers; readily undergoes polymerization and addition reactions with a wide variety of organic acid and inorganic compounds	Propylene	Use in manufacturing superabsorbents, detergents, flocculants and fibres
Oxo-Alcohols	Clear and neutral liquid with a characteristic odour. It is miscible with all common solvents, eg alcohols, ketones, aldehydes, ethers, glycols and aromatic and aliphatics hydrocarbons	Propylene	Use in coatings, pharmaceuticals and cosmetics
Butanediol	Colourless liquid, highly polar with an odour characteristic of acetone. This hygroscopic diol is soluble in water, alcohols, esters, ketones, gylcol ether and glycol ether acetates; immiscible in aromatic and aliphatics hydrocarbons	Butane	Production of polyesters and polyurethanes
Styrene Monomer	Raw materials in liquid form derived from complex petrochemical processes. It is a clear, colourless, flammable liquid, distinctive aromatic odour	Benzene, Ethylene	Raw material for the production of polystyrene which is used to make packaging containers. Used in high-impact plastic such as acrylonitrile butadiene styrene (ABS), latex paints and most synthetic rubber
Acetic Acid	Chemical intermediate in the form of colourless liquid	Methanol, Carbon Monoxide	Raw material for petrochemical intermediates and end-products, including vinyl acetate monomer for coatings and adhesives, acetate esters, cellulose acetate, acetic anhydride and monochloroacetic acid

OUR REACH

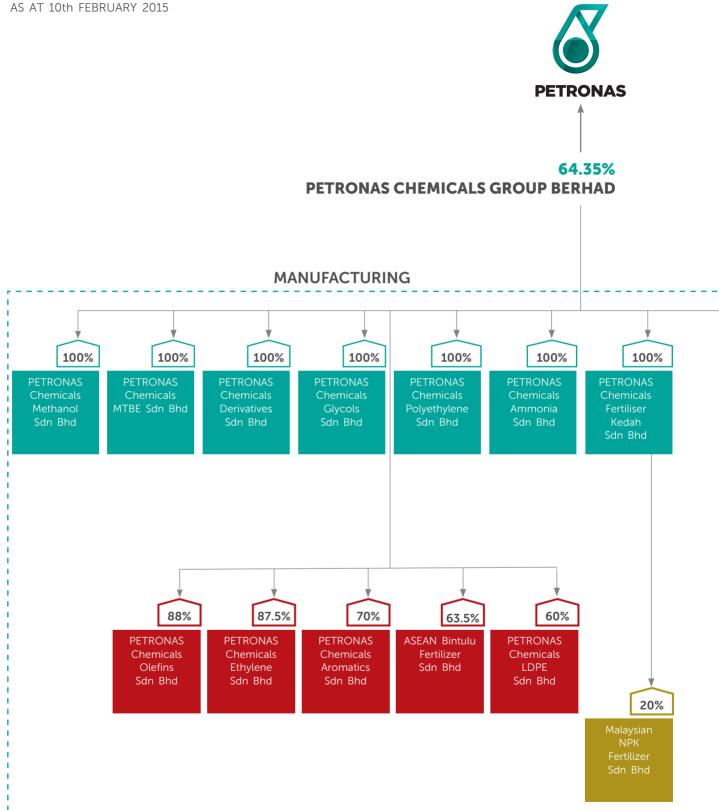
We market a wide range of chemical products to customers in 30 countries worldwide, particularly in South East Asia and Asia Pacific. Besides Malaysia, we are present in **China**, **India**, **Thailand**, **Indonesia**, **Japan**, **South Korea**, **Taiwan**, **the Philippines**, **Vietnam**, **Singapore**, **Australia** and **New Zealand**.

PCG is also physically present in Thailand, China, India, Indonesia, Vietnam and the Philippines through our overseas subsidiaries and representative offices.

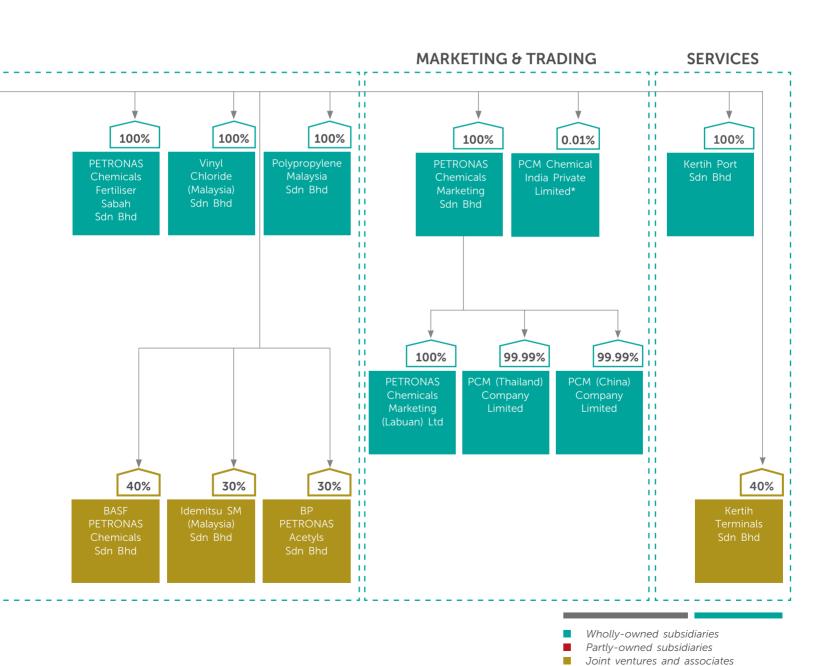
In total, 67% of our product volume is sold to key ASEAN markets, with a large portion of it being sold to the Malaysian domestic market. At least 15% of our product volume is also sold to the key growth chemical markets in Asia Pacific such as China, Japan and South Korea.







^{*} Subsidiary pursuant to Malaysian Financial Reporting Standard 10, formerly known as MITCO Labuan India Private Limited



CORPORATE INFORMATION

DIRECTORS

Datuk Wan Zulkiflee bin Wan Ariffin (Chairman)

Datuk Sazali bin Hamzah (President/Chief Executive Officer)

Vimala a/p V.R. Menon

Ching Yew Chye

Dong Soo Kim

Datuk Ir. Kamarudin bin Zakaria

Rashidah binti Alias @ Ahmad

Datuk Toh Ah Wah

BOARD AUDIT COMMITTEE

Vimala a/p V.R. Menon (Chairman)

Ching Yew Chye

Dong Soo Kim

Rashidah binti Alias @ Ahmad

Datuk Toh Ah Wah

NOMINATION AND REMUNERATION COMMITTEE

Ching Yew Chye (Chairman)

Vimala a/p V.R. Menon

Dong Soo Kim

COMPANY SECRETARIES

Syed Marzidy bin Syed Marzuki

Kang Shew Meng

REGISTRAR

Symphony Share Registrars Sdn Bhd Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46, 47301 Petaling Jaya Selangor Darul Ehsan, Malaysia

Tel : (+603) 7841 8000 Fax : (+603) 7841 8151

REGISTERED OFFICE

Tower 1

PETRONAS Twin Towers Kuala Lumpur City Centre 50088 Kuala Lumpur, Malaysia

Tel : (+603) 2051 5000 Fax : (+603) 2051 1501

BUSINESS ADDRESS

Level 15, Tower 1
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia
Tel : (+603) 2051 5000
Fax : (+603) 2051 3888

PRINCIPAL BANKERS

CIMB Bank Berhad
JP Morgan Chase Bank Berhad

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

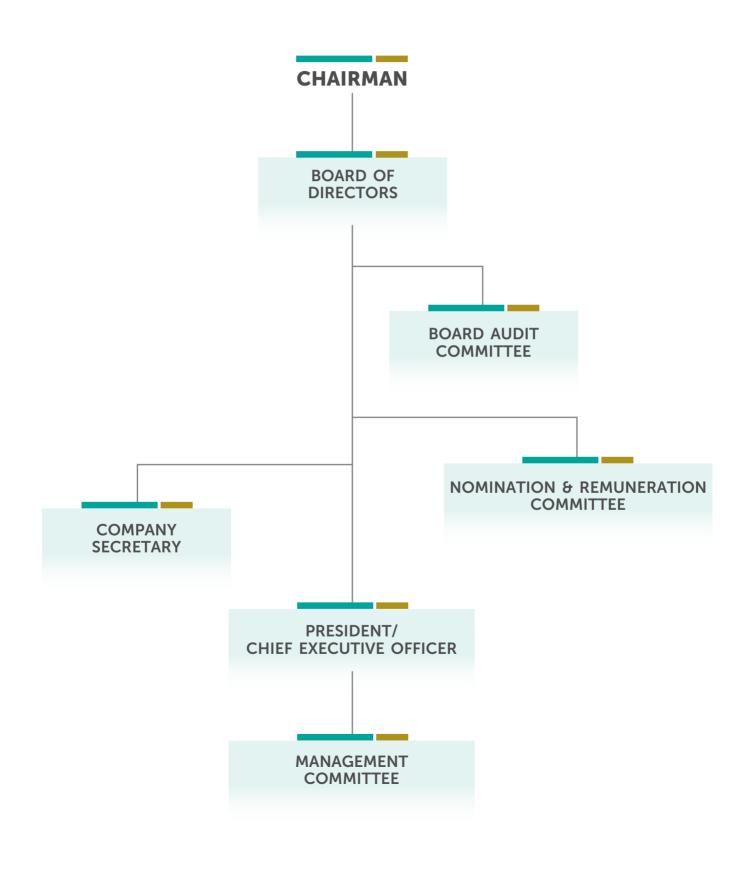
AUDITORS

KPMG

WEBSITE

www.petronaschemicals.com

ORGANISATIONAL STRUCTURE



BOARD OF DIRECTORS



Standing from left to right

Syed Marzidy bin Syed Marzuki • Dong Soo Kim • Datuk Ir Kamarudin bin Zakaria Datuk Toh Ah Wah • Ching Yew Chye • Kang Shew Meng

Seated from left to right

Vimala a/p V.R. Menon • Datuk Wan Zulkiflee bin Wan Ariffin (Chairman)
Datuk Sazali bin Hamzah (President/CEO) • Rashidah binti Alias @ Ahmad



PROFILE OF BOARD MEMBERS

Datuk Wan Zulkiflee bin Wan Ariffin, a Malaysian, age 54, is a Non-Independent Non-Executive Director. He is the Chairman of PETRONAS Chemicals Group Berhad since 22 June 2010.

He holds a Bachelor of Engineering Degree in Chemical Engineering from the University of Adelaide, South Australia.

In 2000, he attended the INSEAD Senior Management Development Program and in 2004, he attended the Advanced Management Program at Harvard Business School. He was conferred the Honorary Fellowship by the Institution of Chemical Engineers, UK in November 2005.

He joined PETRONAS in 1983 as a Process Engineer involved in the development of several Gas Processing Plants. In the ensuing years, he held various positions within the PETRONAS Group including serving in the Office of President as Executive Assistant to the President as well as in the International Projects Management Division of OGP Technical Services and the Strategy and Business Development Unit of PETRONAS.

He was the Managing Director and Chief Executive Officer of PETRONAS Gas Berhad, a public listed subsidiary of PETRONAS, from 2003 to 2007 and Vice President of Gas Business from April 2006 until April 2010.

Datuk Wan Zulkiflee is currently the Chief Operating Officer of PETRONAS and the Executive Vice President and Chief Executive Officer for Downstream Business. Effective 1 April 2015, he will assume the role of President/Chief Executive Officer of PETRONAS.

He is also the Chairman of PETRONAS Dagangan Berhad, Board Member of Johor Petroleum Development Corporation and the Industry Advisor to the Engineering Faculty of University Putra Malaysia.

Datuk Wan Zulkiflee was appointed to the Board of PETRONAS Chemicals Group Berhad on 15 December 2008. During the year, he has attended eight (8) Board meetings.



Nationality: Malaysian Experience: 32 Years

DATUK WAN ZULKIFLEE BIN WAN ARIFFIN

Chairman

Non-Independent Non-Executive Director

Datuk Sazali bin Hamzah, a Malaysian, age 48, is an Executive Director. He is the President/Chief Executive Officer (CEO) of PETRONAS Chemicals Group Berhad (PCG) since 1 May 2014.

He holds a Bachelor of Chemicals Engineering from Lamar University, Texas, USA and has more than 25 years of work experience. In 2013, he attended the Advanced Management Programme in The Wharton School at University of Pennsylvania.

He joined PETRONAS in 1990 as a process technologist and progressed through various roles, including plant manager in 2009. In 2003, he participated in a PETRONAS corporate strategic study which enabled him to lead a change programme that enhanced plant performance and operational excellence.

He was involved in the implementation and commercial operation of several PETRONAS major projects such as Kertih Aromatics, Melaka Refinery Revamp, COGEN power plant and Base Oil plant.

In 2010, he led a highly specialised team providing technical services and support to all operating plants in PETRONAS, subsequently heading Project Management Delivery division and overseeing PETRONAS Downstream projects of high capital value.

Prior to joining PCG, he was the Managing Director/ CEO of PETRONAS Penapisan (Melaka) Sdn Bhd.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 8 May 2014. He also sits on the Board of several companies in PETRONAS, as well as the Board of Institution of Chemical Engineers UK, Malaysian branch. During the year, he attended six (6) Board meetings.

He has completed the Mandatory Accreditation Programme on 6 & 7 August 2014 as required by Bursa Malaysia Securities Berhad.



Nationality: Malaysian Experience: 25 Years

DATUK SAZALI BIN HAMZAH President/CEO Executive Director

PROFILE OF BOARD MEMBERS

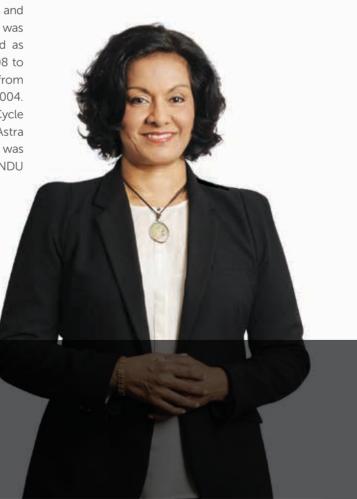
Vimala a/p V.R. Menon, a Malaysian, age 60, is an Independent Non-Executive Director. She is Chairman of the Board Audit Committee and Senior Independent Non-Executive Director. She is also a member of the Nomination and Remuneration Committee.

She is a Chartered Accountant, a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Malaysian Institute of Accountants.

She qualified as a Chartered Accountant in 1981 and began her career at Deloitte KassimChan in 1982. In 1984, she joined Edaran Otomobil Nasional Berhad (EON Berhad) and served as Executive Director of Finance and Corporate Services of EON Berhad until 2007. She was subsequently appointed to Proton Holdings Berhad as Director of Finance and Corporate Services from 2008 to 2009. She served on the Boards of EON Berhad from 1990 to 2006 and EON Bank Berhad from 1994 to 2004. She was also a member of the Boards of Jardine Cycle & Carriage Limited from 1994 to 2003 and PT Astra International Tbk, Indonesia from 2000 to 2003. She was recently appointed to the Board of Trustees of PEMANDU Corporation on 21 July 2014.

Currently, she is a Director and Audit Committee Chairman of Cycle & Carriage Bintang Berhad. She also serves as an Independent Director on the Board of PETRONAS Dagangan Berhad and is the Chairman of Board Audit Committee for PETRONAS Dagangan Berhad.

She was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 August 2010. During the year, she attended seven (7) Board meetings, six (6) Board Audit Committee meetings and five (5) Nomination and Remuneration Committee meetings.



Nationality: Malaysian Experience: 33 Years

VIMALA A/P V.R. MENON
Independent Non-Executive Director

Ching Yew Chye, a Malaysian, age 61, is an Independent Non-Executive Director. He is Chairman of the Nomination and Remuneration Committee and a member of the Board Audit Committee. He holds a Bachelor of Science (Honours) degree from the University of London, United Kingdom.

He is a seasoned management and information technology professional. In 1978, he joined Scicon Consultancy in the United Kingdom. In 1982, he joined Accenture plc (Accenture), a global management consulting, technology services and outsourcing company. From 1997 to his retirement in 2007, he assumed various regional senior management roles in

Accenture, including Managing Partner of the Financial Services Industry Group-Asia, Geographic Council Chairman-Asia and Managing Partner for the South Asia Region. He was also a member of the Accenture Global Executive Committee from 2001 to 2004 and served on several committees/task forces to craft Accenture's global strategy.

He is currently an Independent Non-Executive Director of HSBC Bank Malaysia Berhad and Genting Plantations Berhad.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 August 2010. During the financial year, he attended eight (8) Board meetings, six (6) Board Audit Committee meetings and five (5) Nomination and Remuneration Committee meetings.



Nationality: Malaysian Experience: 32 Years

CHING YEW CHYE
Independent Non-Executive Director

PROFILE OF BOARD MEMBERS

Dong Soo Kim, a Korean, age 68, is an Independent Non-Executive Director. He is also a member of the Board Audit Committee and the Nomination and Remuneration Committee. He holds a Bachelor of Science degree in Chemical Engineering from the University of California, Berkeley, USA and a Master of Science degree in Chemical Engineering from the University of Idaho, USA.

He began his career with the Dow Chemical Company in 1975 as the plant superintendent of its chloride/caustic plant. He then served as the Director of Corporate Planning in Hanwha Chemical Corporation from 1983 to 1987. In 1987, he joined DuPont Korea as a Project Manager and has held several senior managerial positions including Site Manager, Business Director and Global Fluoroproduct Operations Director. In 1996, he was appointed Corporate Officer of E. I. DuPont, Vice President and General Manager of Global

Non-Wovens Business. In 1998, he became the President of DuPont Asia Pacific, the first Asian to take the role in more than 200 years of DuPont history and retired in 2009. After his retirement, he served as the Advisor of DuPont Asia Pacific until January 2011.

He is currently the advisor to Samsung SDI, a producer of electronics material, batteries and chemicals headquartered in Seoul, Korea and serves as a partnercoach at Korean Coaching Management Institute.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 August 2010. During the year, he attended eight (8) Board meetings, six (6) Board Audit Committee meetings and five (5) Nomination and Remuneration Committee meetings.



Nationality: Korean
Experience: 40 Years

DONG SOO KIM

Independent Non-Executive Director

Datuk Ir Kamarudin bin Zakaria, a Malaysian, age 60, is a Non-Independent Non-Executive Director. He holds a Bachelor of Science Degree in Chemical Engineering from the University of Surrey, United Kingdom.

He is a Fellow of the Institute of Chemical Engineers, UK. He is also a professional engineer registered with the Board of Engineers Malaysia.

He joined PETRONAS in 1984 and is currently the Vice President of Group HSE & Operations Excellence providing strategic oversight relating to operational risk and assurance. Prior to his current assignment, he has held various senior positions in PETRONAS covering manufacturing both in chemical and refining, technical assurance, technical solution and managing Petrochemical business.

He was part of the pioneer team of PCG's maiden plant, ASEAN Bintulu Fertilizer Sdn Bhd where he rose to the position of General Manager (Plant). He was a member of the Management Committee of PETRONAS from 2007 to 2010. He also sits on the Board of several companies within the PETRONAS Group.



He was appointed to the Board of PETRONAS Chemicals Group Berhad on 23 October 2007. During the year, he attended eight (8) Board meetings.

Nationality: Malaysian Experience: 31 Years

DATUK IR KAMARUDIN BIN ZAKARIA Non-Independent Non-Executive Director

PROFILE OF BOARD MEMBERS

Rashidah binti Alias @ Ahmad, a Malaysian, age 42, is a Non-Independent Non-Executive Director and a member of the Board Audit Committee. She holds a Bachelor of Commerce in Accounting from the University of New South Wales, Australia. She is a Fellow of the Institute of Chartered Accountants in Australia (ICAA).

She began her career in 1994 at Arthur Andersen, a firm of Chartered Accountants, where she was involved in audit and various advisory assignments. Since joining PETRONAS in 1998, she has held various positions within PETRONAS covering areas of corporate planning, corporate bonds issuance, initial public offerings, financial reporting, planning and budgeting, and shared services.

She is currently the Senior General Manager of Group Treasury in PETRONAS, where she is responsible for managing the centralised treasury operations for the PETRONAS Group, covering aspects of liquidity and debt management, fund investment, foreign exchange and treasury advisory. She currently sits on the Board of several companies in the PETRONAS Group.

She was appointed to the Board of PETRONAS Chemicals Group Berhad on 15 September 2011 and was subsequently appointed as member of the Board Audit Committee on 1 November 2013. During the year, she attended seven (7) Board meetings and six (6) Board Audit Committee meetings.



Nationality: Malaysian Experience: 21 Years

RASHIDAH BINTI ALIAS @ AHMAD

Non-Independent Non-Executive Director

Any family relationship with any other Director and/or major shareholder.

Any conflict of interest with PETRONAS Chemicals Group Berhad.

Any conviction for offences within the past 10 years other than traffic offences.

Datuk Toh Ah Wah, a Malaysian age 57, is an Independent Non-Executive Director. He holds a Bachelor of Commerce from Concordia University in Montreal, Canada.

He began his career with Rothmans in mid-1981 and remained with the organisation throughout his professional career, this included being merged into British American Tobacco ("BAT") in 1999.

For the first 10 years, his roles were primarily in marketing and sales. He then began a succession of increasingly challenging line roles throughout Greater China, New Zealand, South Asia and South East Asia

culminating in his appointment as Managing Director of BAT Malaysia in 2009. He was the first and only Malaysian to have ever held the position of Managing Director in BAT's 101 years history in Malaysia. He retired from BAT Malaysia Berhad in mid-2013 after serving the organisation for 14 years.

He currently serves as an Independent Director of Tian Wah Press Holdings Berhad and CT BAT International Co Limited which is based out of Hong Kong. He is a council member of the Badminton Association of Malaysia.

Datuk Toh Ah Wah was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 June 2014 and was subsequently appointed member of the Board Audit Committee on 11 August 2014. During the year, he attended four (4) Board meetings and two (2) Board Audit Committee meetings.

He has completed the Mandatory Accreditation Programme on 19 & 20 May 2009 as required by Bursa Malaysia Securities Berhad.



Nationality: Malaysian
Experience: 34 Years

DATUK TOH AH WAHIndependent Non-Executive Director

MANAGEMENT TEAM

From left to right:

William Kuek

Head of Health, Safety and Environment

Akbar bin Md Thayoob Head of Commercial Division

Ruziah Azdi binti Abd Rahman

Head of Corporate Affairs and Administration

Datuk Muhammad Shah bin Ali

Head of Project Directorate

Farina binti Farikhullah Khan

Chief Financial Officer



From left to right:

Syed Marzidy bin Syed Marzuki Head of Legal and Corporate Secretariat

Datuk Sazali bin HamzahPresident/Chief Executive Officer

Abdul Aziz bin Othman Head of Strategic Planning and Ventures **Mohd Yusri bin Mohamed Yusof** Head of Manufacturing Division

Datin Zarina binti Zakaria @ Mohamad Head of Human Resource Management

Dr Ross Forrest Gilmour Chief Innovation & Technology Officer



PROFILE OF MANAGEMENT TEAM



Datuk Sazali bin Hamzah, age 48, holds a Bachelor of Science in Chemical Engineering from Lamar University, Texas, USA. He attended the Advanced Management Programme at The Wharton School, University of Pennsylvania. In 2012, he was conferred the Associate Fellow Engineers by the Institution of Chemical Engineers.

He started his career with PETRONAS in 1990 as an Engineer and progressed through various roles in refinery and petrochemical business which spans over 25 years. He held several senior management positions in PETRONAS including Senior Technical Manager of PETRONAS Penapisan (Terengganu) Sdn Bhd, Plant Manager in PETRONAS Penapisan (Melaka) Sdn Bhd, Senior General Manager of PETRONAS Group Technology Solutions, and Senior General Manager of Project Management of Technology and Engineering Division of PETRONAS. He was also selected to be a member of PETRONAS Corporate Strategic Study and Implementation in 2003.

He was involved in the implementation and commercial operation of several PETRONAS major projects such as Kertih Aromatics, Melaka Refinery Revamp, COGEN power plant and Base Oil plant. Prior to joining PETRONAS Chemicals Group Berhad, he was the Managing Director/Chief Executive Officer of PETRONAS Penapisan (Melaka) Sdn Bhd.

He was appointed as President/CEO of PETRONAS Chemicals Group Berhad on 1 May 2014. He also sits on the Board of several companies in PETRONAS, as well as the Board of Institution of Chemical Engineers UK, Malaysian branch.



Farina binti Farikhullah Khan, age 42, graduated with Bachelor of Commerce in Accounting from University of New South Wales, Australia in 1993. She is a Fellow of the Institute of Chartered Accountants in Australia. In September 2013, she attended the Advanced Management Programme at Harvard Business School.

She started her career in Australia with Pricewaterhouse Coopers where she was involved in the area of audit and business services. In 1997, she joined PETRONAS as an Executive in Corporate Planning and Development Division. In the ensuing years, she held various senior management positions including Senior Manager of Strategy and Portfolio (Petrochemicals) in Group Strategic Planning of PETRONAS and General Manager of Finance in PETRONAS Carigali Sdn Bhd. In July 2010, she was appointed as Chief Financial Officer, Exploration and Production Business of PETRONAS.

She assumed her current position in December 2013 and is responsible for the management of all financial and fiscal aspects of the Group, as well as risk management, supply chain management, investor relations and information system.

She also sits on the Board of several companies in PETRONAS.

Mohd Yusri bin Mohamed Yusof, age 49, graduated with a Bachelor of Science in Chemical Engineering from Oklahoma State University, USA. He attended the Advanced Management Programme at The Wharton School, University of Pennsylvania.

He has served PETRONAS in various subsidiaries for the past 26 years and has held several senior management positions in PETRONAS including Manager of Manufacturing in PETRONAS Chemicals Glycols Sdn Bhd, Manager of Strategy and Portfolio (Oil Business) in Group Strategic Planning of PETRONAS, General Manager of PETRONAS Chemicals Ethylene Sdn Bhd and Chief Executive Officer of PETRONAS Chemicals Olefins Sdn Bhd, PETRONAS Chemicals Derivatives Sdn Bhd and PETRONAS Chemicals Glycols Sdn Bhd.

In January 2014, he was appointed as Head of Manufacturing Division to lead the overall manufacturing facilities to deliver operational excellence for the Group.

He also sits on the Board of several companies in PETRONAS.

PROFILE OF MANAGEMENT TEAM

Akbar bin Md Thayoob, age 51, graduated from University of West Virginia, USA with a Bachelor of Science in Civil Engineering.

He started his journey with PETRONAS as a Project Engineer in 1987 and was later assigned to various projects under Gas Business Unit. After a stint at PETRONAS Corporate Planning and Business Development Unit, he was appointed as the General Director/Chief Executive Officer (CEO) of Phu My Plastics & Chemicals Co Ltd in Vietnam. Returning to Malaysia in 2008, he was appointed as CEO of PETRONAS Chemicals LDPE and subsequently, Head of the Office of Executive Vice President, Downstream Business. Prior to joining PETRONAS Chemicals Group Berhad as Head of Commercial, he was the Head of Retail Business Division of PETRONAS Dagangan Berhad.

He assumed his current position in December 2013 and is responsible for the Group's overall commercial activities. In addition, he also assumes the position of CEO of PETRONAS Chemicals Marketing Sdn Bhd and PETRONAS Chemicals Marketing (Labuan) Ltd.

He also sits on the Board of several companies in PETRONAS.

Abdul Aziz bin Othman, age 49, graduated in 1987 with a Bachelor of Science in Mechanical Engineering from George Washington University, USA.

He joined PETRONAS in 1987 as a Mechanical Engineer in PETRONAS Gas Berhad where he was involved in various process and pipeline engineering projects. In the ensuing years, he held several senior management positions including Head of Strategy and Business Planning in PETRONAS Gas Business and General Manager of Centralised Utilities and Facilities in PETRONAS Gas Berhad. In 2009, he was appointed as Chief Executive Officer of Vinyl Chloride Malaysia Sdn Bhd.

He assumed his current position in August 2011 and is responsible for the overall planning, development and implementation of business strategies and growth of the Group.

He also sits on the Board of several companies in PETRONAS.



AKBAR BIN MD THAYOOB
Head of Commercial Division

ABDUL AZIZ BIN OTHMAN
Head of Strategic Planning and Ventures

Datuk Muhammad Shah bin Ali, age 54, graduated with a Bachelor of Science in Chemical Engineering from Ohio University, USA in 1985.

He started his career with PETRONAS in 1985, as an Engineer for a petrochemical project and assumed various roles in his career which spans over 30 years. He held several senior management positions including Senior General Manager in Crude Oil Group of PETRONAS, Managing Director/Chief Executive Officer (CEO) of Asean Bintulu Fertilizer Sdn Bhd, and CEO of PETRONAS Trading Corporation Sdn Bhd. He was heavily involved in several plant projects namely PETRONAS Penapisan (Melaka) Sdn Bhd PSR-1 Project, Kertih Aromatics Project and also Kertih and Kuantan Integrated Petrochemical Complex Project.

He joined PETRONAS Chemicals Group Berhad in January 2012 as the Head of Fertiliser and Methanol Business Division. He assumed his current portfolio in October 2013, and is responsible for the delivery and execution of the Group's key projects.

He also sits on the Board of several companies in PETRONAS.

Syed Marzidy bin Syed Marzuki, age 46, graduated with LL.B (Hons) from University Malaya in 1993, and later obtained his Master of Laws from University of Southampton, United Kingdom in 2001.

Before starting his career with PETRONAS in 2002, he served the Malaysian Attorney-General Chambers for a span of 10 years as Senior Federal Counsel and Deputy Public Prosecutor. During his earlier years in PETRONAS, he was the Head/General Counsel of PETRONAS Carigali Sdn Bhd and was in charge of both Domestic and International Exploration and Production Affairs covering more than 30 countries. Prior to joining PETRONAS Chemicals Group Berhad, he was the Head/General Counsel of Petroleum Management Unit of PETRONAS.

He assumed his current position in February 2014 and is in charge of all legal affairs and company secretarial services of the Group. In addition, he is a Board member of the Association of International Petroleum Negotiators based in Houston, Texas.

He also sits on the Board of several companies in PETRONAS.



DATUK MUHAMMAD SHAH BIN ALI

Head of Project Directorate

SYED MARZIDY BIN SYED MARZUKI Head of Legal and Corporate Secretariat

PROFILE OF MANAGEMENT TEAM

Dr Ross Forrest Gilmour, age 55, graduated with a Bachelor of Agriculture in Plant Breeding and Genetics, and a PhD from University of Queensland, Australia.

His early career included a stint as Programme Leader for Barley and Oat Improvement at Department of Agriculture, Western Australia and ForBio Asia Pty Ltd as Geneticist and also as Regional Director covering Australia, Malaysia and Singapore. In 2000, he joined Wheat and Barley for Grains Research and Development Corporation as Investment Manager. Prior to joining PETRONAS Chemicals Group Berhad, he was the Programme Leader for Agricultural Biotechnology at E.I du Pont de Nemours and Company, in USA.

He joined PETRONAS Chemicals Group Berhad in October 2013 as Chief Innovation & Technology Officer and is currently responsible for the delivery of innovative customer solutions as well as shaping and building of innovation institutionalised capability within the Group.

Datin Zarina binti Zakaria @ Mohamad, age 47, graduated with Bachelor of Science in Business Administration from the University of Southern California, USA in 1991.

She started her career with PETRONAS in 1992 as a System Analyst for a span of seven years, prior to pursuing her career in Human Resource. In her 22 years of experience, she held various senior management positions in PETRONAS and has covered several Human Resource portfolios, such as people strategy, people management, people planning and organisational design. Prior to joining PETRONAS Chemicals Group Berhad, she was the Head of Human Resource Management (Production and Development – Malaysia) in PETRONAS Carigali Sdn Bhd, a position she held since June 2012.

She assumed the current position in October 2014 and is responsible for people strategies, talent development and management, as well as Human Resource services for the Group.



DR ROSS FORREST GILMOUR
Chief Innovation & Technology Officer

DATIN ZARINA BINTI ZAKARIA @ MOHAMAD Head of Human Resource Management



Ruziah Azdi binti Abd Rahman, age 51, holds a Bachelor of Science in Business Management (Economics and Finance) from University of Tennessee, USA.

She has more than 25 years of experience in retail services, advertising and promotions, franchise development, media and branding. She has held various senior management positions in PETRONAS Dagangan Berhad and East Coast Economic Region (ECER). Prior to joining PCG, her last position was the General Manager of Corporate Communications in ECER.

She assumed her current position since the inception of PETRONAS Chemicals Group Berhad in 2011 and is currently responsible for the planning, development and implementation of all corporate branding strategies, stakeholder and media management strategies for the Group as well as its overall digital presence.

William Kuek, age 52, holds a postgraduate degree in Business Administration from the Leicester University, United Kingdom and Occupational Safety & Hygiene from University of Edith Cowan, Australia.

He started his career with ASEAN Bintulu Fertilizer Sdn Bhd in 1985 as an Instrumentation Lead for a span of eight years, prior to forging a career in Health, Safety and Environment (HSE). In his 22 years of experience, he held various positions in PETRONAS covering several portfolios in Instrumentation, Security, Quality Assurance/Quality Control and HSE. He was then the Regional Safety, Health and Environment (SHE) Manager for Nestle Middle East FZE from 2010 to 2013.

He rejoined PETRONAS in 2013, assuming his current position, and is currently responsible for managing the overall HSE performance for the Group.

Paraxylene

Paraxylene is a key feedstock to produce Purified Terephathalic Acid (PTA) which acts as an intermediate for the production of polyester in the textile industry.

Our Performance

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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report of PETRONAS Chemicals Group Berhad (PCG) for the Financial Year ended 31 December 2014.

The year under review marks the completion of our first intensive cycle of heavy maintenance and statutory turnaround activities since our listing in 2010, which had commenced from Quarter 3 of 2013. With the completion, the Group achieved significant improvement in plant performance during the year.

Our operational excellence was key in weathering the challenging market conditions which prevailed throughout 2014. Faced with narrower product spreads and limitation in gas supply availability, the Group proved its resilience and delivered fair results.

ECONOMIC AND INDUSTRY LANDSCAPE

The world economy recovered slightly in 2014 with global gross domestic product (GDP) registering growth of 3.3% compared to 3.0% in 2013 on the back of higher growth in the US and Europe. The US posted stronger GDP growth at 2.4% from 2.2% in the previous year, fuelled by improved consumer sentiment, increased spending and favourable labour market conditions. The Eurozone finally emerged from recession, recording a 0.8% growth in GDP from a contraction of 0.5% in the previous year.

Closer to home, progressive financial reforms aimed at enabling China's financial institutions to determine the quantity and quality of investments appear to have fallen short. The tighter financial conditions coupled with weaker industrial activity resulted in China recording a lower GDP growth of 7.4% compared to 7.8% in 2013, the slowest in almost a guarter of a century.

Similarly, the economies of Association of South East Asian Nations (ASEAN) also inched lower, with GDP growth of 4.5% compared with 5.2%.



CHAIRMAN'S STATEMENT



The modest growth in the global economy with slower pace of activities in China and ASEAN translated into moderate demand growth for crude oil during the year under review. In contrast, rapid growth of production from prolific tight oil fields in the US and other non-OPEC countries resulted in significant crude oil supply overhang. This was further exacerbated by OPEC's decision in November 2014 not to curtail production, leaving the market to set the oil prices instead.

Consequently, Brent crude oil price plunged from a year-high of USD115 per barrel in June to an average of USD55 per barrel in December. Brent crude oil price averaged at USD99 per barrel for the year compared to USD108 per barrel in 2013, which is the lowest in four years. Naphtha price moved in tandem with crude oil price, declining by 7% to USD94 per barrel.

For the first half of 2014, the petrochemical industry within Asia Pacific benefited from tight supply conditions arising from outages and delayed start-up of several crackers within the region. However, rapidly declining crude oil prices in the last quarter led to most petrochemical product prices trending considerably lower towards the year-end.

Against this volatile market landscape, the Group remained focused on delivering our value proposition as a highly resilient integrated petrochemical player with a focus on operational excellence, marketing and sales excellence and innovative customer solutions.

OUR PERFORMANCE

The Group recorded its one of the best Health, Safety and Environment (HSE) performance in 2014 which resulted from the concerted efforts to strengthen our HSE preventive programmes and the internalisation of safety values among all employees and contractors as we strive for zero tolerance towards HSE incidences.

We also improved on our operational excellence during the year under review with higher plant utilisation rate attained at 80% compared with 78% in 2013. Several of our plants sustained world-class operational excellence, as measured through reliability and utilisation.

This higher level of operational performance was achieved despite continued gas supply constraints affecting the Group's methanol facilities as well as statutory turnaround activities undertaken at several plants. Excluding gas supply limitation at the methanol facilities, Group plant utilisation would have been higher at 87%.

Our business strategies continue to focus on value preservation and accelerating growth to enhance PCG as a competitive regional player with strong presence in basic petrochemicals, while diversifying into derivatives, specialties and solutions.

The Group also intensified its marketing and sales efforts during the year to maximise returns especially in the key focus market of South East Asia while at the same time remaining agile and proactive in addressing the market vagaries. We maintained our market reach with 60% revenue derived outside Malaysia, in particular Asia Pacific. The domestic market contributed 40% of our revenue, reaffirming our position as Malaysia's largest olefins producer and the sole producer of methanol and urea.

These factors helped alleviate the impact of weaker market conditions on financial performance. For the year under review, Group revenue stood at RM14.6 billion compared to RM15.2 billion in 2013, whilst profit attributable to shareholders stood at RM2.5 billion compared to RM3.1 billion in the previous year. Earnings per share attributable to our shareholders was 31 sen for the year.

The Group continues to record healthy business performance as a result of our integrated business model from feedstock to end-products, diversified products portfolio and competitive cost advantage.

DIVIDEND

During the financial year, the Group paid a second interim single tier dividend of 12 sen per ordinary share amounting to RM960 million in respect of the financial year ended 31 December 2013 to shareholders on 18 March 2014. A first interim single tier dividend of 8 sen per ordinary share amounting to RM640 million in respect of the financial year ended 31 December 2014 was paid to shareholders on 12 September 2014.

The Board of Directors had declared a second interim single tier dividend of 8 sen per ordinary share amounting to RM640 million in respect of the financial year ended 31 December 2014 which is payable on 24 March 2015.

OUR GROWTH

In realising PCG's vision, our business strategies continue to focus on value preservation and accelerating growth to enhance PCG as a competitive regional player with strong presence in basic petrochemicals, while diversifying into derivatives, specialities and solutions.

A key growth project to strengthen our petrochemical basic product portfolio is our Sabah Ammonia Urea (SAMUR) project which takes advantage of growing urea demand and gas availability in Sabah. This project is progressing well towards completion and commissioning in 2016, whereupon our urea portfolio will double, propelling PCG as the second largest urea producer in South East Asia.

To diversify our portfolio into higher margin derivatives, specialities and solutions, PCG, together with BASF, is currently constructing Asia Pacific's first integrated aroma chemicals complex at BASF PETRONAS Chemicals Sdn Bhd in Gebeng, Kuantan. Additionally, we are also collaborating with BASF to produce 2- ethylhexanoic acid production plant at BASF PETRONAS Chemicals' site.

To ensure the success of our business strategy, we continue to invest in the development of our people's capabilities, particularly in the area of operational excellence, and marketing and sales. We have also introduced a culture change programme specifically designed to inspire our employees to outperform by enhancing their core values through the inculcation of strong corporate cultural beliefs.

CHAIRMAN'S STATEMENT

OUTLOOK

Based on International Monetary Fund (IMF) data in January 2015, the global economy is expected to improve with GDP growth expectation of 3.5% for the year. Economies of net and major oil consuming countries, such as the US and those in Europe, are expected to gain from softer oil prices, as they could potentially see increased consumer spending and industrial activity.

The US economy is anticipated to expand at 3.6%, although growth may be curbed by an increase in interest rates. Eurozone's economy is also expected to improve with GDP growth of 1.2% on accommodative monetary policy, although legacy debt overhang, fiscal challenges, high unemployment and deflationary pressures could still pose downside risks.

In Asia Pacific, China's GDP growth could taper to 6.8% in 2015 as fiscal reform continues and broadbase stimulus remains limited. Improvements in India and ASEAN's economies where GDPs are forecasted to grow at 6.4% and 5.2% respectively would still support regional demand growth.

Looking ahead, petrochemical demand is expected to be fairly healthy with ethylene demand projected to grow at comparable levels to 2014. However, debottlenecking of shale-based ethane crackers in the US, as well as commencement of new crackers in India and coal and methanol-based olefin plants in China would introduce additional capacity into the market. The higher supply, coupled with potentially softer feedstock cost as crude oil price is yet to settle at a comfortable level, could lead to higher uncertainty on petrochemical product prices.





APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to welcome YBhg Datuk Toh Ah Wah to the Board as an independent and non-executive director, and member of the Audit Committee since June 2014.

Once again, I would like to record the Group's appreciation to YBhg Datuk Dr Abd Hapiz Abdullah for his leadership as President/Chief Executive Officer up to 30 April 2014.

I am pleased to welcome YBhg Datuk Sazali Hamzah as President/Chief Executive Officer of PCG effective 1 May 2014. I have full confidence and trust in his leadership to further accelerate the Group's performance and growth.

My warmest gratitude to our shareholders and stakeholders for the continued support and confidence in PCG, both through successes and challenges in charting our way forward.

I would also like to record my appreciation to the PCG Board of Directors for their invaluable contribution and the PCG Management Committee for their effective stewardship. Thank you to our employees as well for their unwavering dedication and effort throughout the year under review.

I look forward to your continued support in steering PCG towards excellence to realise its vision of becoming the preferred chemical company providing innovative customer solution.

Datuk Wan Zulkiflee

Chairman

PRESIDENT/CEO'S MESSAGE

Dear Shareholders,

As this is my inaugural note to you as the President/Chief Executive Officer (CEO) of PETRONAS Chemicals Group Berhad (PCG), I wish to begin by thanking the Board of Directors for giving me the opportunity to helm this organisation at its most exciting period of growth potential.

Amidst challenging market conditions due to stiffer competition and declining crude oil prices, the Group is pleased to be able to deliver strong EBITDA margin for the Financial Year Ended 31 December 2014.



PRESIDENT/CEO'S MESSAGE

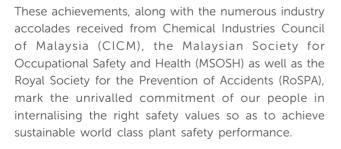
OPERATIONAL PERFORMANCE

In the face of a highly challenging petrochemical market environment, we continued to have utmost regard for Health, Safety and Environment (HSE).

Overall, we were successful in safely executing close to three million man-hours of turnaround activities with no major HSE incident. All our efforts thus far have led to one of our best HSE performance, with significant improvement in loss-time-injury frequency (LTIF) in 2014.

The Group achieved a higher overall plant utilisation rate of

80% for 2014



With tighter controls and improvement measures in place, we successfully completed our statutory turnaround activities for the year under review effectively, on schedule and within cost. On top of this, a record number of our plants successfully attained world class operational excellence standard.

The net result is that the Group achieved a higher overall plant utilisation rate of 80% for 2014 compared to 78% in the previous year. Correspondingly, production volume grew by some 2.7% to 7.7 million metric tons (MT) from 7.5 million MT in 2013. This was achieved despite the Group undertaking heavy statutory turnaround and planned maintenance activities during the year.

The year 2015 will see us undertaking a lower level of statutory turnaround activities compared to the last two years. We will continue to drive operational excellence throughout the Group through flawless turnaround execution, continuous plant reliability improvement and supplier relationship management.





We have been working closely together with our upstream suppliers to increase availability and reliability of methane gas supply via the Dalak pipeline project. The Dalak pipeline that is being constructed will bring in gas from new sources of supply directly to our methanol facility in Labuan by 2016.

In addition, the ethane recovery enhancement initiative at PETRONAS Gas Processing Plant and continued development of new gas fields offshore Peninsular Malaysia by PETRONAS are expected to increase the ethane supply availability and reliability.

Olefins & Derivatives

The Group's Olefins & Derivatives segment undertook a second year of heavy statutory turnaround and planned maintenance activities in 2014. The statutory turnaround activities were undertaken at the smaller cracker as well as MTBE plant whilst the aromatics plant carried out planned maintenance activities in the first half of the year. Nevertheless, through proactive steps taken to accelerate plant reliability improvement, the Olefins and Derivatives segment recorded a higher plant utilisation rate of 86% in 2014 compared to the previous year's 83%. Notably, both of the Group's crackers, several of the related downstream facilities and the aromatics plant performed above the industry benchmark. The stronger operational performance translated into higher production volume of 3,581.1 KMT compared to 3,439.1 KMT in the previous year.

Fertilisers & Methanol

The Fertilisers & Methanol segment achieved significantly better plant reliability during the year following concerted maintenance activities undertaken since 2013 to address plant issues, particularly at the methanol facilities. This was, however, offset by methane gas supply limitations affecting the Group's methanol facilities due to technical issues with upstream supplier equipment and facilities. The Group also undertook statutory turnaround activities during the year at the Bintulu urea plant and at the smaller methanol plant. Consequently, the segment recorded higher plant utilisation rate of 75% compared to the previous year's 74% as well as a higher production volume of 4,073.6 KMT compared to 4,049.7 KMT in the previous year. Excluding methane gas supply constraint at the methanol facilities, plant utilisation for the segment would have been higher at 87%.

PRESIDENT/CEO'S MESSAGE

PETROCHEMICAL MARKET OVERVIEW

The bearish market sentiment that persisted in 2013 had largely continued into 2014, fuelled mainly by China's softer economic growth as a result of weak credit growth and stalled stimulus measures.

The first half of the year under review saw firmer petrochemical product prices on the back of higher ethylene and polymer prices following shutdown at several regional producers' facilities. The exception were aromatics and propylene where lower prices were recorded as a result of oversupply with new capacities coming on stream. In addition, lower downstream demand also affected ethylene glycols and aromatics prices.

Almost all product prices began to decline in the second half of the year as a result of the lower feedstock cost in tandem with falling crude oil and naphtha prices.

Methanol prices were lower as key regional producers resumed production with prices falling further towards the end of the year in line with declining crude oil prices. The fertilisers market saw softening market conditions on the back of ample supply. Urea prices fell during the second half of 2014 as Chinese exports surged following more competitive tax structure.

Consequently, Asia IPEX, a price index comprising a basket of 12 key petrochemical products, registered a drop from 323 to 312 in 2014.

FINANCIAL PERFORMANCE

For the financial year ended 31 December 2014, Group revenue stood at RM14.6 billion compared to RM15.2 billion in the previous year following lower prices, albeit cushioned by favourable exchange rate movement. Although production volume increased in tandem with plant utilisation, sales volume was comparable as the higher production included intermediary products which were subsequently consumed by downstream facilities.

Group EBITDA was RM4.6 billion compared to RM5.1 billion in the previous year on the back of narrower product spreads. Nevertheless, despite adverse market conditions, our EBITDA margin remained strong at 32% for the year.



Despite adverse market conditions, our EBITDA margin remained strong at

32% for the year

Whilst the industry may remain challenging in the near future, we foresee that demand will remain positive in key markets in line with forecasted GDP growth. In addition, PCG's well-diversified portfolio of products, competitive cost advantage and strong cash position will sustain and enable us to weather the price uncertainties going forward.

Our focus on the three key areas of operational excellence, marketing and sales excellence, and innovation is beginning to show the results that we anticipated. We shall continue to accelerate our efforts in these areas, coupled with cost optimisation, to drive growth and return value to our shareholders.

GROWTH STRATEGY

PCG continues to focus on value preservation and growth in petrochemicals basic while diversifying further into higher-margin derivatives, specialties and solutions.

A major growth project aimed at capacity growth in petrochemical basic is our Sabah Ammonia Urea (SAMUR) project in Sipitang, Sabah which would increase the Group's urea capacity by 1.2 million metric tons per annum (mtpa), almost doubling our current installed capacity of 1.4 million mtpa and will position PCG as the second largest urea producer in the region.

Two growth projects aimed at further diversifying our products portfolio into derivative, specialties and solutions are being carried out in partnership with BASF at BASF PETRONAS Chemicals Sdn Bhd's site in Gebeng, Kuantan. They are the integrated aroma chemicals complex and 2-ethylhexanoic acid production plant.

All three projects are targeted to come on stream as scheduled in 2016.



Also, as part of our marketing and sales excellence efforts, we have incorporated two overseas marketing subsidiaries, namely PCM (Thailand) Company Limited in Thailand and PCM (China) Company Limited in China, with a view to being close to our customers and further grow our presence in key markets. During the year, we also obtained the Labuan International Commodity Trading Company license for our Labuan marketing subsidiary.

It is my firm belief that these strategies and plans will not only strengthen PCG's resilience in the face of the current chemical industry challenges but will also propel the Company ahead in realising its long term growth aspirations.

CORPORATE RESPONSIBILITIES

In line with our role as a responsible corporate citizen, the Group is focused on maximising value among stakeholders from across the communities in which we operate.

Throughout 2014, numerous corporate social responsibility (CSR) programmes were organised to promote sustainable practices in environmental protection such as beach cleaning and river care. These are strategically coupled with effective community outreach initiatives that are specially designed to assist underprivileged families such as Back-to-School and Program Sentuhan Kasih.

PRESIDENT/CEO'S MESSAGE

Our signature CSR effort in collaboration with the Malaysian Nature Society, ecoCare has resulted in the establishment of the Environmental Education Centre in Kertih, which has entered its second year of operation. It continues to drive awareness of those living in its immediate vicinity in particular, as well as the public in general, about the importance of mangrove preservation and the ecosystem of the Kertih River.

In terms of human capability development, we continue to support our talents by providing them a wide range of opportunities for their professional and leadership growth. With the introduction of Downstream Cultural Beliefs that place strong emphasis on six qualities, namely deliver value, focused execution, step-up, nurture trust, tell me and shared success, we aim to inculcate a strong corporate culture and behaviours that will help achieve the vision of PETRONAS' Downstream Business to become a merit-based high performing business, which would also realise PCG's vision of "preferred chemical company providing innovative customer solutions".

These cultural beliefs will enable us to not only excel in performance, but also emerge as wholesome strategic thought partners to one another, who are savvy in business and people management, and who contribute to the wellbeing of the people and nation.

APPRECIATION

The year 2014 has been a challenging one for PCG, as we strive to maintain our competitive edge in the face of market uncertainty and the lacklustre pace of economic growth. Our resilience was put to the test and consequently, we benefited from the opportunities that came with these challenges.

On behalf of the PCG management and staff, I would like to record my deepest thanks to our Chairman and President & CEO of PETRONAS YBhg Datuk Wan Zulkiflee Wan Ariffin for his stewardship, endless support and appreciation. To fellow members of the Board, I am indebted to your invaluable advice in steering the group forward in uncharted waters towards greater success.

To my predecessor, YBhg Datuk Dr Abd Hapiz Abdullah, I thank you for laying strong foundations for the Group for me to build upon further.

To our valued customers, business partners, regulatory bodies and agencies, and our parent company PETRONAS, thank you for your constant encouragement that has so motivated us at PCG to accelerate excellence in every task that is undertaken.

To our esteemed shareholders, the aim to maximise value remains at the fore of our business agenda, and we will do everything in our power to achieve and deliver the very best in good times and more so in challenging times.

My final note of gratitude is especially dedicated to the PCG family, who have worked tirelessly to realise the group's aspirations. I am confident that with your exceptional brand of commitment to excellence, integrity and teamwork, we will be able to fulfil all objectives that position us as the "preferred chemical company providing innovative customer solutions'.



DATUK SAZALI HAMZAHPresident/CEO

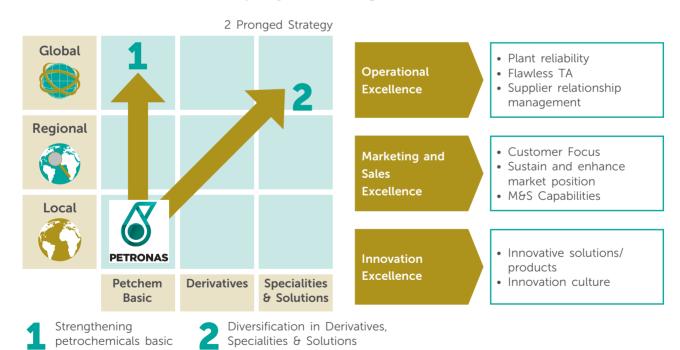
STRATEGY

The chemical industry is known to be cyclical and is affected by crude oil price movement. Similarly, PETRONAS Chemicals Group Berhad (PCG) is also subjected to this cyclicality and oil price volatility.

For PCG, we have positioned ourselves to become "the preferred chemical company providing innovative customer solutions" by focusing on value creation through strengthening petrochemical basic and diversifying into selective derivatives, specialities and solutions.

Corporate Vision

Preferred Chemical Company Providing Innovative Customer Solutions



This two-prong strategy for growth will increase our volume-play advantage as a competitive regional player while harnessing value-play from higher margin products, which also enhance resilience against market volatility.

To remain competitive and maintain our market leadership in the region, our refined strategic direction focuses on three core capabilities, which are operational excellence, marketing and sales excellence, and innovation excellence.

BUSINESS STRATEGY

OPERATIONAL EXCELLENCE

- Plant Reliability We continuously implement internal reliability and efficiency enhancement programmes as well as invest in technical capabilities of our people. We will continue the momentum to achieve consistent top quartile world-class plant performance and Health, Safety & Environment performance at all our operating units.
- Turnaround We have centralised the turnaround function and installed tighter controls to better manage our contractors to ensure turnaround activities are executed safely, effectively and on schedule.
- Supplier Relationship Management We continue to work on strengthening our relationship with our feedstock and utilities suppliers. The completion of the Dalak pipeline in 2016 is a long term solution for methane supply reliability, while the ethane recovery initiative at our suppliers' facilities will improve ethane supply.

MARKETING & SALES EXCELLENCE

- **Customer Focus** We ensure that we understand and anticipate the needs and requirements of our end-customers to develop customised solutions and provide high value product applications with premium pricing.
- Sustain & Enhance Market Position We focus on domestic and key markets in the Asia Pacific region where we have geographical advantage. We have representative offices in Vietnam, Indonesia, Philippines, and India. In order to enhance our regional presence and increase market share, we have also incorporated overseas marketing subsidiaries in Thailand as well as in China.
- Marketing & Sales Capabilities We continue to improve our market savviness and pricing expertise with the right systems and tools that enhance our ability to capture better value. This will enhance our competitive edge and resilience in deriving better price formulas and timely conclusion of sales to achieve higher spreads.

INNOVATION EXCELLENCE

- Innovative Solutions/Products We pursue collaborations and work closely with our customers to develop new products and process technology opportunities that bring competitive advantage to PCG in three main industries – automotive, agriculture and food production, and personal care.
- Innovation culture We cultivate innovation mindset to deliver breakthrough performance through establishment of idea and innovation management platform accessible throughout PCG, as well as positioning innovation as a key leadership attribute.

We have also embarked on an organisational transformation to ensure focused responsibilities and capabilities to execute operational, marketing and sales, and innovation excellence.

This has enabled us to deliver strong operational and financial performance, as well as pursue our growth strategy to achieve our corporate vision.

GROWTH PROJECTS

In line with our two-prong strategy to achieve our vision, we have embarked on the following growth projects.

- Strengthening Petrochemical Basic
 Sabah Ammonia Urea (SAMUR) Project The world-class SAMUR project will add 1.2 million metric tonnes per annum (mtpa) to our existing 1.4 million mtpa urea production capacity, propelling PCG as the second largest urea producer in South East Asia.
- Diversification in Derivatives, Specialty & Solutions Integrated Aroma Ingredients Complex The aroma project, through joint-venture company BASF PETRONAS Chemicals Sdn Bhd, will produce Citral and its precursors as well as Citronellol and L-menthol. This is a key initiative to move from commodity-based products toward specialty chemicals.

2-Ethylhexanoic Acid (2-EHAcid) Project – A new world-class facility, this project will produce specialty chemical 2-EHAcid, also through joint venture company BASF PETRONAS Chemicals, will be the first of its kind in the ASEAN region.

Urea & Ammonia Derivatives Study – To further develop urea and ammonia derivatives to meet the rising demand in Asia Pacific, a memorandum of understanding (MoU) signed with Grupa Azoty Zaklady Azrowe "Pulawy" entails a preliminary study on the technical, economy, raw material supply, logistics, infrastructure and utilities to effectively tap the urea and ammonia derivatives market potential.

Refinery & Petrochemical Development (RAPID) Project – RAPID is a major downstream growth project for PETRONAS to further strengthen its position as a key player in the Asian chemicals market, focusing on key growth areas of differentiated and specialty chemicals. Given the project's strong fit with PCG's vision and strategy, it is a significant potential growth opportunity for PCG to broaden our products portfolio into diversification in derivatives, specialty and solutions and expand our existing production capacity.

PORTFOLIO OPTIMISATION

• Phu My Plastics & Chemical Company (PMPC)

Divestment – We have divested our Vietnam-based subsidiary Phu My Plastics and Chemical Company Ltd in June 2014 following the discontinuation of our vinyl business in 2013, as it was not closely integrated in the Group's value chain. We will continue to ensure maximum value from our integrated value chain through our continuous portfolio optimisation strategy.

CORPORATE GOVERNANCE

We believe that the integration and balance of economic, environmental and social issues in the way we plan, execute and monitor our various business strategies are critical to our continuing growth and success.

We continue to play our role as a good corporate citizen by contributing to the wellbeing of the community where we operate through corporate social responsibility (CSR) initiatives that focus on education and environment.

We remain committed to ensure that our business practices are in line with globally recognised standards for Environment, Social & Governance (ESG) practices. PCG is one of the 10 companies out of 200 largest companies ranked by market capitalisation, in the FTSE4Good Bursa Malaysia (F4GBM) Index launched on 23 December 2014.

As at 28 November 2014, PCG is one of the companies in the list of Shariah-compliant Securities approved by the Shariah Advisory Council of the Securities Commission Malaysia.

GROUP FINANCIAL REVIEW

GROUP FINANCIAL PERFORMANCE

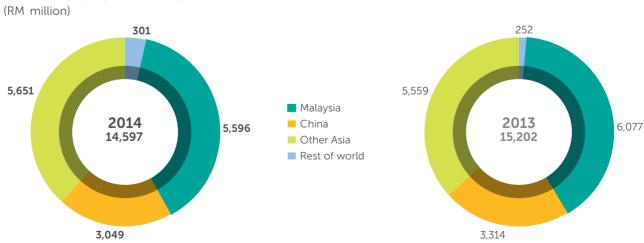
RM Mil	12 months ended 31.3.2011	ended	12 months ended 31.12.2012	12 months ended 31.12.2013	12 months ended 31.12.2014	Decrease 12 months comparison
Revenue	14,574	16,237	16,599	15,202	14,597	(4%)
Cost of Revenue	10,299	10,425	10,935	10,160	10,150	_
Profit Before Tax	4,256	5,461	4,550	4,547	3,551	(22%)
Profit After Tax	3,458	4,288	3,837	3,504	2,726	(22%)

Revenue

PCG registered revenue of RM14.6 billion during the year under review compared to RM15.2 billion recorded in the previous year. This was attributable to lower average realised product prices amidst challenging petrochemical market conditions for nearly all products, particularly in the second half of the year following the fall in crude oil price. This was, however, cushioned by favourable forex movement.

The Group achieved higher level of plant reliability with utilisation rate of 80% compared to 78% in the previous year. The stronger operational performance was achieved following the completion of heavy statutory turnaround and maintenance activities despite methane gas supply limitations at the Group's methanol facilities. Excluding methane supply limitations, Group plant utilisation would have been 87%. Production volume increased in line with plant utilisation. Sales volume, however, was comparable as the higher production included intermediary products which were subsequently consumed by downstream facilities.

Revenue by geographical segment



^{*} The Group changed its financial year end in 2011 from March to December, making it a nine-month reporting period from 1 April to 31 December. To allow for meaningful comparison, comparatives for 31 December 2011 were based on a twelve-month period.

Revenue by Product

	2013			2014	
Product	RM Mil	%	RM Mil	%	
Olefins & Derivatives					
Olefins	1,414	9.3	1,519	10.4	
Polymers	2,270	14.9	2,613	17.9	
Glycols	1,125	7.4	1,173	8.0	
Performance Chemicals	1,114	7.3	1,532	10.5	
Other Chemicals & Derivatives	2,078	13.7	1,541	10.6	
Benzene & Paraxylene	3,221	21.2	2,132	14.6	
Total Olefins & Derivatives	11,222	73.8	10,510	72.0	
Fertilisers & Methanol					
Fertilisers	2,310	15.2	2,165	14.8	
Methanol	1,479	9.7	1,651	11.3	
Carbon Monoxide	152	1.0	230	1.6	
Total Fertilisers & Methanol	3,941	25.9	4,046	27.7	
Others*	39	0.3	41	0.3	
Total	15,202		14,597		

^{*} Others: Rendering of services and sales of other products.

Cost of Revenue

Group cost of revenue for the year was comparable at RM10.2 billion despite higher production volume as a result of lower feedstock cost.

Feedstock cost declined by 7% or RM428 million following lower consumption of naphtha and butane, further supported by lower feedstock prices. Feedstock cost continued to be the biggest component of Group cost of revenue, making up to 56% of the total cost for the year.

The reduction in feedstock cost was partially offset by higher manufacturing cost by RM353 million, mainly attributable to higher depreciation and amortisation expenses arising from higher capitalisation of projects and turnaround costs as well as higher energy and utilities costs consistent with higher production.

Operating Expenditure

Group operating expenditure was higher by 38% or RM451 million to RM1.6 billion, mainly due to impairment loss on assets, unrealised forex loss on revaluation of forward contracts following strengthening USD and higher administration expenses. The impairment loss of RM262 million was recognised during the year on assets within the Group's butane-MTBE chain following weaker market outlook for MTBE.

Excluding the impairment and unrealised forex loss, operating expenditure would have been higher by 8% or RM92 million to RM1.3 billion mainly due to administrative expenses.

Administrative expenses increased by 15% or RM74 million primarily due to higher manpower-related costs in line with higher number of manpower, including for SAMUR Project operational readiness.

GROUP FINANCIAL REVIEW

Profit

Amidst challenging market conditions for the petrochemical industry, Group profit before tax for the year declined to RM3.6 billion from RM4.5 billion in the previous year due to narrower product spreads coupled with impairment loss on assets relating to the Group's butane-MTBE chain.

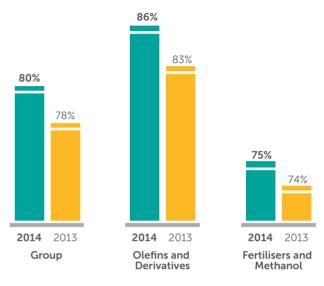
Share of profit from joint ventures and associates fell by 25% to RM166 million as the Group's joint venture and associate companies were not spared from the challenging market conditions and posted lower contribution as a result.

The Group's effective tax rate (ETR) for the year was 23%, similar to last year albeit lower than the corporate tax rate of 25%, largely due to tax exempt interest income relating to funds held under PETRONAS Integrated Financial Shared Services Centre (PETRONAS IFSSC). The Group maintains cash and bank balances in the In-House Account (IHA) managed by PETRONAS IFSSC to enable more efficient cash management.

Overall, profit for the year eased by RM778 million to RM2.7 billion. EBITDA, which excludes the impairment loss as well as other significant non-cash items, was lower by 9% at RM4.6 billion.

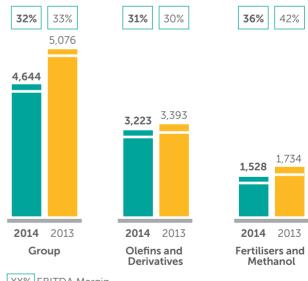
Nevertheless, EBITDA margin remained strong at 32% reflecting the Group's well diversified portfolio of products and competitive feedstock cost.

Plant Utilisation Rate



EBITDA by Segment

(RM million)



XX% EBITDA Margin

SEGMENTAL ANALYSIS

Olefins and Derivatives Segment

The Olefins and Derivatives segment continued to be the key contributor to the Group, representing 72% of Group revenue.

The segment registered higher plant utilisation of 86% for the year compared to 83% in the previous year, mainly driven by lower level of statutory turnaround and maintenance activities. As a consequence, production volume increased during the year. This, however, did not translate into higher sales volume as the higher production included intermediary products which were subsequently consumed by downstream facilities.

Market conditions for Olefins and Derivatives products were mostly bearish during the year under review. Ethylene glycols, derivatives and aromatics prices softened as a result of weaker demand from polyester industry, lower demand from downstream producers as well as additional capacities coming on-stream respectively. In contrast, polymer prices strengthened, supported by stronger ethylene prices attributable to tight supply in the region particularly during the earlier part of the year. In the second half of the year, almost all of the product prices were adversely affected by the fall in crude oil price.

As a result of lower average product prices, revenue for the segment was lower by 6% or RM712 million to RM10.5 billion. Profit for the year declined to RM1.8 billion from RM2.3 billion on the back of lower product spreads as well as impairment loss on assets relating to the Group's butane-MTBE chain of RM262 million.

Correspondingly, EBITDA was lower by 5% or RM170 million at RM3.2 billion compared to the previous year whilst EBITDA margin was 31%. As the main contributor of EBITDA, the Olefins and Derivatives segment accounted for 68% of Group EBITDA.

Fertilisers and Methanol Segment

The Fertilisers and Methanol segment contributed RM4.2 billion or 28% of Group revenue, an increase of 3% or RM105 million from the previous year on the back of higher volumes but offset by lower product prices in tandem with market conditions.

The segment's plant utilisation was slightly higher compared to the previous year at 75%. This follows significant improvement in plant reliability achieved, which countered the impact of methane gas supply limitations at the Group's methanol facilities. Production and sales volume were higher during the year. Excluding methane gas supply limitations, segment's plant utilisation would have been 87%.

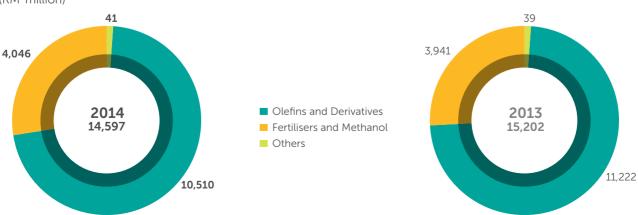
The fertiliser market was subdued during the year under review as a result of softer demand and higher supply availability due to more competitive export tax structure in China. Methanol price normalised on the back of supply resumption at the key regional producers.

Profits for the segment declined to RM898 million from RM1.1 billion, largely affected by lower spreads due to declining average product prices in line with market.

Consequently, EBITDA dropped by 12% or RM206 million from RM1.7 billion to RM1.5 billion, representing 32% of Group EBITDA. EBITDA margin stood at 36%.







GROUP FINANCIAL REVIEW

GROUP FINANCIAL POSITION

Total Assets

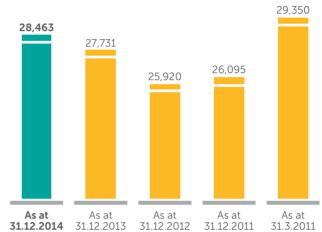
The Group's total assets increased by 3% or RM732 million to RM28.5 billion as at 31 December 2014 from RM27.7 billion as at 31 December 2013.

Property, plant and equipment grew by 8% to RM14.3 billion with additions of RM2.5 billion made during the year under review, relating to SAMUR Project of RM1.4 billion as well as other plant operational capital expenditure of RM1.1 billion. This was negated by depreciation charge of RM1.2 billion as well as impairment loss of RM262 million on assets relating to Group's butane-MTBE chain following weaker market conditions.

Trade and other receivables increased by 4% or RM64 million due to higher revenue recorded in the fourth quarter of the year, the strongest quarter for the Group. The same quarter in the previous year had lower trade and other receivables on the back of lower sales volume as the Group was undertaking statutory turnaround and maintenance activities at its main cracker and related downstream facilities.

Total Assets

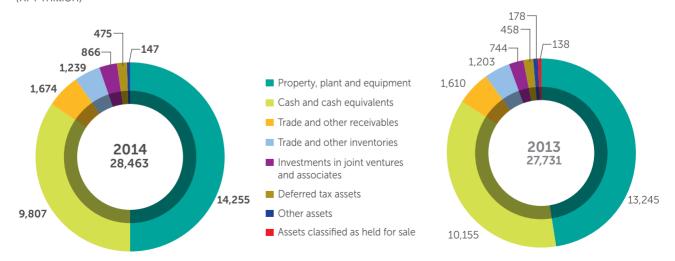
(RM million)



Group cash and cash equivalents remained healthy at RM9.8 billion, lower by 3% or RM348 million due to higher net cash outflow for investing activities, mainly relating to SAMUR Project and operational capital expenditure as well as lower net cash inflow from operating activities, which was partially offset by lower net cash outflow for financing activities.

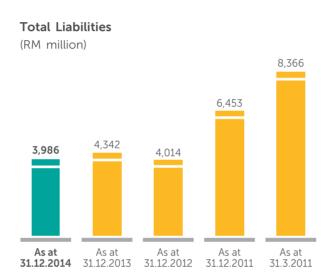
Total Assets

(RM million)



Total Liabilities

As at 31 December 2014, the Group's total liabilities were lower by 8% or RM356 million at RM4.0 billion largely attributable to lower accrued payables for SAMUR Project coupled with lower tax payables following lower profits. However, this was negated by higher trade payables for feedstock purchases in line with higher production volume. The Group remained free of borrowings and carried no long term debt as at 31 December 2014.







GROUP FINANCIAL REVIEW

GROUP CASH FLOW

At the end of the year under review, the Group's cash and cash equivalents was lower by RM348 million at RM9.8 billion.

Net cash inflow from operating activities was lower by RM255 million at RM4.2 billion compared to RM4.4 billion last year, mainly as a result of lower cash receipts from customers consistent with lower revenue during the year under review. This offset lower cash paid to suppliers during the year following lower feedstock cost as well as lower taxation paid.

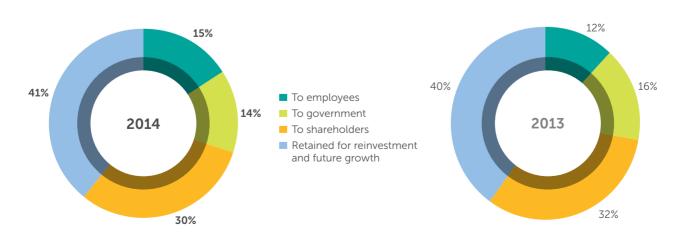
In contrast, net cash outflow for investing activities was higher by RM1.2 billion at RM2.7 billion following higher purchase of property, plant and equipment for SAMUR Project as well as other operational capital expenditure.

Net cash outflow for financing activities was lower by RM304 million at RM1.8 billion, mainly attributable to lower dividend paid to shareholders and to non-controlling interests of subsidiaries in the year under review in line with lower profits.

As at 31 December 2014, the Group had fully utilised the listing proceeds from the Public Issue in 2010 of RM3.6 billion.

STATEMENT OF VALUE ADDED

	Group		Company	
	2014 RM mil	2013 RM mil	2014 RM mil	2013 RM mil
Revenue	14,597	15,202	2,004	3,930
Purchase of goods and services	(9,188)	(9,406)	(110)	(108)
Value added by the companies	5,409	5,796	1,894	3,822
Other Expenses	(209)	(92)	(178)	(485)
Other Income	609	465	467	314
Financing costs	(46)	(8)	(22)	_
Share of profit after tax of equity accounted				
joint ventures and associates	166	221	_	_
Value added available for distribution	5,929	6,382	2,161	3,651
DISTRIBUTION				
To employees				
Employment costs	897	759	180	166
To government				
Taxation	825	1,043	13	19
To shareholders				
Dividends	1,600	1,760	1,600	1,760
Minority Interest	157	301	-	_
Retained for reinvestment and future growth				
Depreciation, amortisation and impairment	1,481	1,076	2	_
Retained profit	969	1,443	366	1,706
	5,929	6,382	2,161	3,651



INVESTOR RELATIONS

Malaysia capital market in 2014 was generally weaker. In the first half of the year, the global market sentiment was affected by uncertainties around China and US economy as well as geopolitical tensions in Iraq and Ukraine. In the second half of the year, the market was hit by the plunge of the crude oil price.

FBM KLCI started on a shaky note in the beginning of the year, however, remained steady towards middle of the year, spurred by indicators of robust expansion in the US economy, as well as positive China preliminary HSBC PMI. In October, the four-year low plunge in Brent price reverberated through the oil and gas industry and the global share market, albeit the confidence in the US economy and Japan economic stimulus programme lent support to the global capital market. Similarly, FBM KLCI was also affected by the crude oil price decline as its related oil and gas stocks fell, although showed resilience against the global volatility from the stronger performances in the telecommunications and real estate sectors. Overall, the FBM KLCI declined by 5% in the period under review, closing at 1,761 points at the last trading day of the year.

During the year under review, PCG share price remained on a tight range of RM6.60 to RM6.80 from January to July 2014, in tandem with movements in the FBM KLCI. Beginning from August, the share price declined following weaker industry outlook due to the crude price fall. The share price settled to close at RM5.45 on 31 December 2014.

Average Daily Traded Volume (ADTV) for 2014 was 3.25 million units, lower than 4.02 million for 2013. Total ADTV from IPO in 2010 to 31 December 2014 was 7.44 million.

The year 2015 started on a bearish note with the benchmark Brent falling further from USD58 per barrel in the beginning of the month, to a low of USD46 per barrel on 13 January 2015, before closing at USD53 per barrel at the end of the month. The US market lent support to overall stronger global market sentiment,

while China's HSBC Purchasing Manufacturing Index (PMI) also edged up, albeit marginally, from 49.6 in December 2014 to 49.7 in January 2015. Consequently, the FBM KLCI also corrected at the start of the year, and rebounded to a high of 1,803 points.

As at 26 February 2015, PCG remains as one of KLCI's top ten counters with a market capitalisation of RM44 billion.

INVESTOR RELATIONS

We actively engage, communicate and build a healthy professional relationship with the investment community to promote transparent sharing of important and correct information to the investors in a timely manner. With the view of enhancing shareholders' confidence and preserving the company's reputation, we have developed a structured Investor Relations programme to deliver PCG key messages to the capital market. Throughout the year, we executed over 140 engagement sessions with key shareholders, analysts and fund managers which took place in the form of meetings and conference calls at our corporate office in Kuala Lumpur, as well as through participation in roadshows and corporate conferences within Malaysia and abroad. These engagements allowed us to continuously improve the company's visibility in the eyes of the domestic and international capital market community, and address their interests and concerns on PCG.

COMPANY VISITS AND NON-DEAL ROADSHOWS

As part of our Investor Relations programme, we regularly engage with our key institutional investors within Malaysia. During the year, we engaged in company visits with our key institutional investors where management from both parties had the opportunity to meet face-to-face to discuss the latest performance updates and growth development of PCG. In addition, we also conducted a corporate day at our Kuala Lumpur office for our local analysts and fund managers.

With the same objective in mind, we also extended our reach to non-Malaysian investors with selected capital market engagements through non-deal roadshows. During the year under review, we conducted international roadshows with targeted global fund managers across Asia, Europe and the United States.

PARTICIPATION IN CORPORATE EVENTS

As one of the biggest public listed companies in Malaysia, PCG fully supports events organised by Bursa Malaysia to showcase the country as an attractive marketplace in the region. As such, we have been actively participating in the Invest Malaysia conferences since our listing in 2010. During the year, we participated in the Invest Malaysia 2014 conferences held in Kuala Lumpur and United Kingdom. Officiated by the Prime Minister of Malaysia at the Kuala Lumpur event, Invest Malaysia brought investors all over the world to meet with selected public listed companies in Malaysia.

Additionally, we also participated in the Asian Investment Conference in Hong Kong which attracted global institutional and hedge fund investors to invest in the Asia Pacific region and exchange insights on global capital market trends.

ANALYST BRIEFING

In conjunction with the company's quarterly financial announcements to Bursa Malaysia, we hosted quarterly analyst briefings in February, May, August and November 2014. The analyst briefings, which are conducted via webcast and conference call, provided a platform for PCG management to have a timely discussion with participating institutional shareholders and analyst on the latest Group performance results. At these analyst briefings, participants were able to enquire details on the quarterly financial results as well as seek clarifications on recent corporate developments.

PLANT VISITS

We recognise the need for our analysts and investors to appreciate the nature of our business and products. During the year, we hosted a number of visits to our facilities in Kertih, Terengganu and Federal Territory of Labuan. Our retail shareholders visited the integrated petrochemical complex in Kertih, where a series of corporate presentations were conducted. PCG also hosted a plant visit to PC Methanol Sdn Bhd in Federal Territory of Labuan for fund managers and analysts from various investment institutions based in Kuala Lumpur, Singapore and Hong Kong.

The plant visits were well received and enabled our shareholders and analysts to have a firsthand experience of the plant environment, as well as heightened awareness on our commitment to environment, social and governance practices, thus increasing their appreciation of our business.

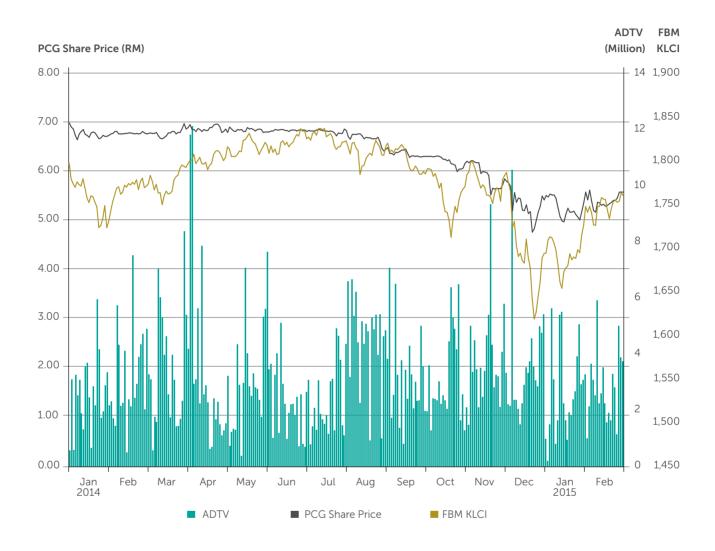
CAPITAL MARKET FEEDBACK

PCG is well covered with regular issuance of reports from around 20 research houses. Our website continues to serve as an important link with our investors. We recently upgraded our website to enhance user experience while accessing our archive of analyst briefings, corporate presentations, annual reports, releases to Bursa Malaysia and other relevant corporate news or information.

Investor Relations can be contacted at

- Email: petronaschemicals_ir@petronas.com.my
- Website: www.petronaschemicals.com

SHARE PERFORMANCE



Closing Prices	RM	Date
High	6.92	1 January 2014
Low	4.69	15 December 2014

Average Daily Traded Volume (ADTV)

3,249,974 units

FINANCIAL CALENDAR

2014

8 May 2014

Announcement of the unaudited quarterly report of consolidated results for the 1st Quarter Ended 31 March 2014

- **11** August 2014

Announcement of the unaudited quarterly report of consolidated results for the 2nd Quarter Ended 30 June 2014

26 August 2014

Date of entitlement of the 1st interim dividend for Financial Year Ended 31 December 2014

12 September 2014

Date of payment of the 1st interim dividend for Financial Year Ended 31 December 2014

6 November 2014

Announcement of the unaudited quarterly report of consolidated results for the 3rd Quarter Ended 30 September 2014

31 December 2014

Date of Financial Year End

18 February 2015

Announcement of the unaudited quarterly report of consolidated results for the 4th Quarter Ended 31 December 2014

9 March 2015

Date of entitlement of the 2nd interim dividend for Financial Year Ended 31 December 2014

-**19** March 2015

Date of Notice of Annual General Meeting and date of issuance of Annual Report 2014

24 March 2015

Date of payment of the 2nd interim dividend for Financial Year Ended 31 December 2014

-13 April 2015

Date of 17th Annual General Meeting

2015

OUR ACHIEVEMENTS



As a leading chemical producer that constantly strives to carry out its business operations in a safe manner, Health, Safety and Environment (HSE) is central to PCG and is embedded within the organisation's DNA.



During the year under review, we have attained the best HSE performance with the successful closure of 3 million manhours of turnaround activities without any major HSE incident. In line with our vision, we strive to reach the world class operational excellence standards by adhering to best practices and internalising the right safety values.

Our HSE efforts have been recognised through various prestigious awards, including the Chemicals Industries Council of Malaysia (CICM) Responsible Care Awards, Malaysian Society for Occupational Safety and Health

(MSOSH) Awards, National Occupational Safety and Health (NOSH) Excellence Awards and Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards.

A new milestone was achieved with PCG meeting the global standards for inclusion in the FTSE4Good Bursa Malaysia Index on 12 December 2014. This recognition is awarded to companies which demonstrate good Environmental, Social and Governance (ESG) practices. It commemorates PCG's unrivalled commitment to enhancing its corporate responsibility while maximising shareholder value.

PCG IN THE NEWS



Pelaburan RM1.5 bilion

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市場情報。

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PCG-GAP-SOGDC MoV augurs

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PCG catat RM3.55 billion

Petronas Chemicals Group ishd (PCG) mencatarkan chanyak RMI 55 bilinir bagi rahun kewangan berakhur 31 Disember 2014 berbanding dengan RM4.55 bihon yang dicatarkan pada 2011

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PETALING JAYA: Petronas Chemicals Group Bhd saw fourth quarter net profit jump 11% to RM500 million on higher volumes, particularly high-margin ethane based and methanol products, offset by impairment loss on assets relating to the group's butane-MTBE chain of RM262 million as a result of weaker market conditions.

This was on higher revenue of RM_{3.9} billion, compared to RM3.3 billion.

The group recorded improved operational performance during the quarter with higher plant utilisation rate of 88% compared to 66% in the corresponding quarter.

The stronger performance was attributable to completion of heavy

statutory turnaround and maintenance activities, improved methane gas supply and utilities supply as well as better plant reliability across both segments.

Both production and sales volume increased in line with stronger

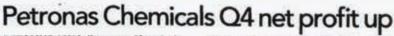
operational performance. Earnings before interest tax depreciation and amortisation (ebitda) surged by 88% or RM629 million to RM1.3 billion.

For the 12 month ended Dec 31, 2014, however, the group saw a 19% decline in net profit to RM2.5 billion compared to RM3.1 billion from the year before.

This was lower revenue of RM14.6 billion, compared to RM15.2 billion in the year before.

PCG completes PMPC stake divestment

KUALA LUMPUR: Petronas Chemicals Group Bhd (PCG) has completed the divestment of its en-tire 93.11 per cent interest in Phu My Plastics (PMPC) and Chemical Co Ltd to Asahi Glass Co Ltd and Mitsubishi Corporation on June 13. The divestment is part of PCG's plan to discontinue its vinyl business, in line with its portfolio optimisation strategy and pursuant to the announce-ment made on November 6 last year, the company said in a statement to Bursa Malaysia. PMPC is located in Vietnam with a production capacity of 100,000 tonnes per year of polyvinyl chloride. Its staff will continue to be employed by the new own





Perolehan PCG RM15.202b

Gebeng jadi pusat petrokimia



PCG capai

prestasi kukuh

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KUALA LUMPUR - Petromas Chemicals Group Ibid. (PCG) mencatatkan peningkatan kountu-ogan sehanyak 33 promasis kepada RM778 juta sairian denaru basil yang lebih tinggi iatu RM859 julion, polin saka keempat tahun kesusuman yang beralihir pada 31 Disember 2014. Sakan itu, keuntuman seba.

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Sazali Hamzah, Presiden dan Retua Pegawai Eksekutif PCG

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Methyl Tertiary Butyl Ether (MTBE)

MTBE is commonly found in unleaded gasoline. It replaces lead use as octane booster to help gasoline burn cleaner, thus reducing harmful emissions from automobiles.





SUSTAINABILITY REPORT

Our business conduct is anchored on integrity and sustainable practices that enhance our stature as a safe and reliable chemical producer. The core of our operations is underpinned by the intention to continuously create value in an economically, environmentally and socially responsible way. We strive to maximise shareholder value by pursuing operational sustainability that balances environmental and societal wellbeing.

As populations grow and development intensifies, we are committed to addressing the realities which depict the current landscape affecting the chemical industry. This is to ensure continued growth and the success of present and future generations where we operate. As a commercial entity, we seek to sharpen our competitive edge in all endeavours, but our role as a responsible corporate citizen enables us to impart sustainable social and environmental benefits.

We remain driven in realising our sustainability agenda in accordance with the following seven (7) key areas of the PETRONAS Corporate Sustainability Framework:

Shareholder Value

Sustaining the company's profitability through value creation, and efficient extraction and manufacturing processes.

Natural Resource Use

Making oil and gas products available at reasonable market prices, promoting efficient use of energy and water, and supporting the use of renewable energy.

Health, Safety and Environment (HSE)

Preventing and eliminating injuries, health hazards and damage to property and conserving the environment.

Product Stewardship

Ensuring that products conform to quality and HSE standards, and meet the needs of society.

Societal Needs

Safeguarding human rights within our sphere of influence, contributing to community needs, investing in training and education, promoting arts and sports, and conducting our business in a transparent manner.

Climate Change

Limiting emissions of greenhouse gases into the atmosphere.

Biodiversity

Ensuring projects and operations do not have significant impact on the diversity of humans, animals and plants.



For the year under review, our sustainability performance was guided by globally accepted industry best practices and policies, as well as effective programmes that successfully engaged governments, local communities, business partners and other stakeholders. In attaining the desired results to achieve our sustainability agenda, we ensure that all our actions correspond to the institutionalised mechanisms that are in place Groupwide to strengthen HSE governance, risk management and operational excellence.

The wellbeing of our people, who are among our major stakeholders, are also our utmost priority. We constantly strive to nurture their growth by providing them an enriching work environment where they are able to push the boundaries of excellence. In addition to enhancing their personal development, we maintain a sense of inclusiveness and togetherness by encouraging them to volunteer in numerous CSR programmes that are exclusively tailored to improve the health and environment of the communities where we operate.

CONSERVING THE ENVIRONMENT



PCG's approach to sustainability begins with the responsible use of energy and water in all our operations. We strive to fulfil customer needs by using resources more efficiently. The benefits of environmental conservation are shared with the communities where we operate, illustrating our role as a responsible corporate citizen.

As a major chemicals industry player in Asia Pacific, PCG is poised to drive change by delivering sustainable and innovative solutions. We work hand in hand with our stakeholders comprising governments, communities, civil society, customers and suppliers to advance our goals in maintaining responsible operations and sustainable chemistry.

Besides achieving higher standards in performance and generating greater value for our business, we endeavour to make continuous progress in promoting pollution prevention, waste minimisation and conservation of energy and other critical resources. Our commitment is to ensure that our operations have a positive impact on our organisation, our communities, and ourselves, in line with socio-economic and environmental requirements.

PCG's sustainability performance was recognised through our inclusion in Bursa Malaysia's FTSE4Good Bursa Malaysia Index on 12 December 2014.



The index recognises Malaysian publicly listed companies that distinguish themselves by consistently demonstrating sustainable business practices. Companies listed in the index were selected from the Bursa Malaysia's top 200 Malaysian stocks. These companies are screened in accordance with transparent and defined Environmental, Social and Governance criteria. The assessments were conducted by an independent third-party based on information that are publicly disclosed by the companies. This provides confidence to our stakeholders of PCG's commitment to generate long term social and environmental benefits through our operations.

AWARDS/RECOGNITION

For the year under review, our efforts at remaining constantly vigilant in observing HSE standards and continuously striving for best practices in HSE have been met with prestigious awards.

Chemical Industries Council of Malaysia (CICM) Responsible Care Awards

Chemical Industries Council of Malaysia (CICM)'s Responsible Care Awards is organised annually to honour and recognise the efforts of chemical companies that implement Responsible Care's Six Codes of Management Practices aimed at continuously improving practices in the areas of health, safety and environment. A voluntary initiative of the global chemical industry initiated in Canada in 1985 and adopted by 53 countries worldwide, Responsible Care is the "voice" and ethics of the global chemical industry that values the health, safety and environmental aspects throughout the life cycle of each chemical product; from its initial research and development, production, utilisation to the end-user and waste stage. Since the launch in 1994 in Malaysia by CICM, more than 100 chemical companies in the country have become signatories of the Responsible Care Programme.

Awards for the year under review:

1. PETRONAS Chemicals LDPE Sdn Bhd

- (i) Distribution Code (Gold)
- (ii) Product Stewardship Code (Gold)
- (iii) Community Awareness & Emergency Response Code (Silver)
- (iv) Employee Health & Safety Code (Silver)
- (v) Pollution Prevention Code (Merit)
- (vi) Process Safety Code (Merit)

2. PETRONAS Chemicals Derivatives Sdn Bhd

- (i) Process Safety Code (Gold)
- (ii) Distribution Code (Silver)
- (iii) Community Awareness & Emergency Response Code (Silver)
- (iv) Pollution Prevention Code (Silver)

CONSERVING THE ENVIRONMENT

3. PETRONAS Chemicals Fertiliser Kedah Sdn Bhd

- (i) Community Awareness & Emergency Response Code (Gold)
- (ii) Pollution Prevention Code (Gold)
- (iii) Process Safety Code (Silver)

4. ASEAN Bintulu Fertilizer Sdn Bhd

- (i) Distribution Code (Silver)
- (ii) Community Awareness & Emergency Response Code (Merit)
- (iii) Process Safety Code (Merit)

5. PETRONAS Chemicals Ammonia Sdn Bhd

- (i) Pollution Prevention Code (Merit)
- (ii) Process Safety Code (Merit)
- (iii) Employee Health and Safety Code (Merit)

6. PETRONAS Chemicals MTBE Sdn Bhd

- (i) Employee Health and Safety Code (Gold)
- (ii) Pollution Prevention Code (Merit)

7. PETRONAS Chemicals Ethylene & PETRONAS Chemicals Polyethylene Sdn Bhd

- (i) Community Awareness & Emergency Response Code (Silver)
- (ii) Employee Health and Safety Code (Merit)

8. PETRONAS Chemicals Methanol Sdn Bhd

- (i) Pollution Prevention Code (Merit)
- (ii) Process Safety Code (Merit)

9. PETRONAS Chemicals Aromatics Sdn Bhd

- (i) Pollution Prevention Code (Silver)
- (ii) Community Awareness & Emergency Response Code (Merit)
- (iii) Process Safety Code (Merit)

10. BASF PETRONAS Chemicals Sdn Bhd

- (i) Distribution Code (Silver)
- (ii) Pollution Prevention Code (Silver)
- (iii) Process Safety Code (Silver)
- (iv) Employee Health and Safety Code (Merit)

11. BP PETRONAS Acetyls Sdn Bhd

- (i) Employee Health and Safety Code (Gold)
- (ii) Process Safety Code (Merit)

Malaysian Society for Occupational Safety and Health (MSOSH) Awards

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

For the year under review, PETRONAS Chemicals Ethylene Sdn Bhd & PETRONAS Chemicals Polyethylene Sdn Bhd won MSOSH's Gold Class I Award.





Three subsidiaries of PETRONAS Chemicals Group Berhad received awards from the Royal Society for Prevention of Accidents (RoSPA) for their excellent performance in occupational safety and health

Royal Society for the Prevention of Accidents (RoSPA) Industry Sector Awards

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

RoSPA's Industry Sector Awards are presented annually to a company within a particular industry or sector with the most outstanding performance in occupational health and safety. Entrants must be able to demonstrate a robust and high quality safety management system

together with a minimum of four years' consistently excellent or continuously improving health and safety performance.

For the year under review, the following PCG subsidiaries received awards from RoSPA:

- PETRONAS Chemicals Ethylene Sdn Bhd & PETRONAS Chemicals Polyethylene Sdn Bhd Gold Award
- 2. PETRONAS Chemicals Methanol Sdn Bhd Silver Award
- 3. PETRONAS Chemicals Ammonia Sdn Bhd 'Commended in the Chemical Industry Sector' Award for Occupational Health & Safety.

CONSERVING THE ENVIRONMENT

Malaysian National Occupational Safety and Health Excellence Awards

The National Occupational Safety and Health (OSH) Excellence Awards are organised by the Malaysian National Council for Occupational Safety and Health (NCOSH). NCOSH is the highest forum in the Ministry of Human Resources where discussions are held regarding the direction, national policy and the implementation of occupational safety and health in Malaysia. The council is made up of representatives from the government, employers, workers as well as non-government organisations.

The council presents the National OSH Excellence Awards annually to organisations which have demonstrated strong commitment and outstanding performance in implementing OSH management systems at their workplace.

For the year under review, PETRONAS Chemicals Ethylene Sdn Bhd & PETRONAS Chemicals Polyethylene Sdn Bhd won the NCOSH Excellence Award for the Petroleum/Gas/Chemicals Industry Category.

Sarawak Chief Minister's Environmental Award (CMEA)

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

For the year under review, ASEAN Bintulu Fertilizer Sdn Bhd won the Sarawak CMEA's Gold Award.

FUELLING SUSTAINABLE DEVELOPMENT

Sustainability to PCG means carrying out our business in a socially responsible and holistic manner. This is to ensure continued growth as well as success for the benefit of present and future generations where we operate.

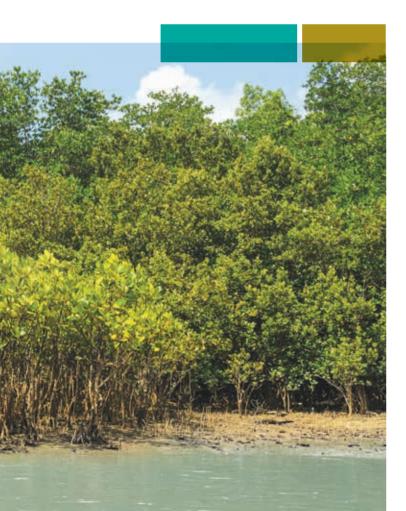
PCG is committed to strengthening our sustainability agenda in line with industry and stakeholder expectations. We embrace responsible management and operational practices, policies and procedures that complement as well as accelerate business performance and delivery.

PCG promotes sustainable development through close engagements with the local agencies and communities as well as the utilisation of innovative technologies for pollution control.



Constructing Artificial Wetlands for Wastewater Treatment

PETRONAS Chemicals Fertiliser Kedah Sdn Bhd, a whollyowned subsidiary of PCG launched its pilot Reed Bed Wastewater Treatment Facility at its existing plant in Kedah, Malaysia on 28 April 2014. The facility is an artificial wetland that utilises the bioremediation concept to treat wastewater from the plant before it is discharged into the local stream. The pilot reed bed is currently used to complement its existing wastewater treatment system.





Developed within a two-acre piece of land, the reed bed wastewater treatment system uses wetland vegetation and microorganisms to reduce the concentration of pollutants in the wastewater. The microorganisms in this system breaks down, remove and transforms hazardous contaminants into less toxic forms. The reed plants, meanwhile, play a significant role in creating an aerobic environment which is required for microorganisms to thrive.

Unlike many other treatment technologies, reed beds are particularly robust. The soil medium acts as a natural buffer that moderates the spikes in the discharged effluent. The system is, therefore, very tolerant of variable flows and loading rates. Reed beds are also low maintenance compared with other treatment technologies. These living systems are naturally regenerative, simple to operate and have low operating costs.

The Reed Bed facility was launched in the presence of representatives from the Department of Environment, Sungai Petani Municipal Council as well as those from neighbouring industries.

CONSERVING THE ENVIRONMENT

PCG Methanol Product Stewardship Programme in Jakarta

As part of PCG's effort to create awareness on product stewardship and hazard communication, a workshop titled Methanol Product Stewardship Programme was organised in collaboration with Methanol Institute in Hotel Bandara Sheraton, Jakarta, on 25 June 2014. It covered risks associated with handling methanol and the appropriate steps needed to mitigate those risks.

Among the topics discussed were methanol bootleg issues and poisoning cases, PCG's product stewardship agenda as well as hazard communication through safety data sheets.

Customers benefited from learning much more about PCG's product stewardship agenda, which includes establishing regulatory database, embracing best practices and Responsible Care, as well as proper risk management.

Product stewardship enforcement in PCG is in line with PETRONAS Sustainability Agenda besides providing a substantial business value proposition. It encourages the ethical and responsible product management practices through the assessment, control and communication of HSE risks throughout the product's life cycle.

PCG 3R Camp and Contests

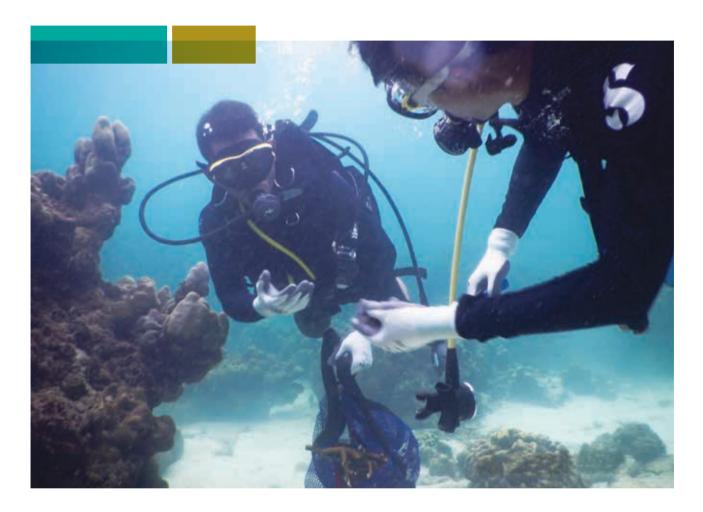
Enhancing the awareness of students and local communities of the need to reduce, reuse and recycle (3R) waste is a core focus of PCG's subsidiary, ASEAN Bintulu Fertilizer Sdn Bhd's (ABF) community engagement. In line with this, ABF embarked on 3R initiatives in 2014.

ABF's 3R Camp was organised from 11 to 13 April 2014. More than 100 local students participated in the camp, which was designed to create and enhance awareness among the students on the need to protect and preserve the environment besides instilling and enhancing the recycling culture among them.

The two-and-a-half-day camp was facilitated by personnel from Sarawak's Natural Resources and Environment Board (NREB) with the assistance of teachers from all participating schools.







Program Enviro-Marine & Propagasi Karang

PCG through its subsidiary, PC Fertiliser Kedah, achieved a new milestone with "Program Enviro-Marine & Propagasi Karang" on 27 December 2014 in Pulau Payar, Langkawi, Kedah.

The objective of this programme is to promote fish breeding areas and the growth of coral reefs. It also aims to create awareness among staff about the importance of conserving the environment, besides reinforcing PCG's role as a responsible corporate citizen that supports the initiatives of local authorities and cares for the wellbeing of its stakeholders.

Prior to the programme's inception, PC Fertiliser Kedah Diving Team with the assistance of the Langkawi Reef Care team submerged two used vessels (F-51-01A/B) of PC Fertiliser Kedah which act as artificial reefs near Pulau Kaca on 30 November 2014. They also conducted coral propagation activities at the artificial reefs. This initiative benefits the environment as it promotes fish breeding area, besides functioning as a research spot for marine ecosystems and coral reefs growth, and an eco-tourism spot for diving and snorkelling.

CONSERVING THE ENVIRONMENT





ecoCare Programme

PCG's signature corporate responsibility programme, ecoCare, has taken a leap forward with the inception of ecoCare Environmental Education Centre (EEC) in 2013. Established by PCG and the Malaysian Nature Society (MNS), the centre is the first of its kind on the east coast of Peninsular Malaysia that educates the public on mangrove conservation.

During the year under review, the centre hosted more than 2,000 visitors from in and outside Malaysia who were keen to learn more about the preservation of the ecologically sensitive mangrove habitat. As an integrated environmental education avenue, the importance of EEC lies in its value to preserve the surrounding coastal vegetation along the Kertih River and sustain mangrove rehabilitation.

To date, over 11,000 square metres of mangrove forest along the Kertih River have been replanted with more than 8,000 mangrove seedlings. Supported by some 250 volunteers from neighbouring villages, the centre has flourished as a popular environmental hub which attracts schoolchildren, teachers, researchers and the community at large.

Aligned with our aim to structure our business in accordance with sustainable practices that add long-term value to the Group, EEC is certainly at the forefront of all CSR efforts as it drives various initiatives which uphold the limitless virtues of a clean and safe environment.

Besides providing a living experience that allows one to be close to nature, EEC also hosts an array of exciting activities for visitors. They include a guided tour of the centre, river cruise, mangrove replanting/seedling collection, bird watching, fireflies tour, night walk and paper recycling/nature craft. Turtle sanctuary and forest ecology activities are also a hit with the crowd.

By increasing local awareness on the importance of mangrove rehabilitation, EEC is instrumental in driving community participation through the role of ecoCare volunteers who support all environmental education programmes.

Through ecoCare Programme and EEC, our presence as a responsible corporate citizen is enhanced, along with our intention to provide environmental stewardship in the areas where we operate.

Beach Cleaning

PCG's commitment to preserving the pristine condition of the beaches forms a significant part of its CSR mission statement. We value the essence of clean and beautiful beaches and their importance to the local communities. The objective of all our beach cleaning efforts rests on our sincere intention to impart awareness to the public on the necessity of environmental conservation in the areas where we operate.

In line with this, PCG's subsidiaries, PC Ethylene and PC Polyethylene held its annual beach cleaning event, "Program Cakna Pantai" on 18 October 2014 in Pantai Kuala Kertih, Terengganu, with the participation of about 1,200 people comprising staff, local associations and the neighbouring folk in the spirit of "gotong royong" (mutual cooperation). Pantai Kuala Kertih is known for its many fishing spots that contribute to the socio-economic development of the community.

The programme was held in collaboration with Majlis Perbandaran Kemaman (MPK), Universiti Malaysia Terengganu, and students from SK Kampung Chabang, SK Payoh and SK Paka 2, as well as residents of Kampung Telaga Papan, Kampung Tengah, Kampung Gelugor, Kampung Labohan and Kampung Cacar. Several activities were organised to increase community interest towards environmental sustainability, such as an innovation contest where participants created every-day items using recyclable materials, beach cleaning contest, colouring contest for young children and the refurbishment of public amenities around the beach.

PCG and several government agencies also joined hands to clean Pantai Taman Damai in Labuan through a beach clean-up programme known as "Program Pemuliharaan Pantai" on 15 November 2014. Some 800 volunteers took part in the inaugural programme, organised by PC Methanol in collaboration with Labuan Corporation, Department of Environment, Department of Marine Park and Department of Fisheries.

A similar initiative was executed by Kertih Port on 27 November 2014 in the form of its Annual Beach Cleaning and Health Safety and Environment (HSE) Awareness Programme. The yearly programme was conducted with the objective to promote HSE culture besides advocating greater awareness of environmental preservation among all participants. Among the local organisations that took part in this effort included Jabatan Bomba & Penyelamat Malaysia Kertih, Polis Diraja Malaysia Kemaman, Kemaman's Health Office, Hospital Kemaman and other operating units within Kertih Integrated Petrochemical Complex.







GROWING IN THE MARKETPLACE

PCG strives to create value for our stakeholders through a business model that is aligned with our aspiration to deliver innovative customer solutions. To this end, we are committed to strengthening our market reach and solutions offering in the most efficient, effective and sustainable manner whilst maintaining our shared values of loyalty, integrity, professionalism and cohesiveness.

SUSTAINABLE PRODUCTS AND SOLUTIONS

PCG believes in and is committed to delivering sustainable products and solutions to maximise returns to its shareholders through focused execution and flawless implementation of its business strategies. As South East Asia's largest integrated gas-based chemicals producer, our competitive strengths are:

- (1) operational flexibility and synergy across the value chain, enabling production efficiency;
- (2) strategic location within or near to key growth markets in Asia Pacific; enabling reliable delivery of quality products to our customers; and
- (3) strong customer relationship management and deep understanding of our customer needs, growth aspiration and culture based on trust and mutual respect.

PCG also actively embraces innovation as one of our key drivers for growth. This encompasses improving delivery, enhancing product quality and existing business models as well as identifying new value-added applications, processes and products.

Through strategic collaborations with our stakeholders, we continue to uphold our customer-focused approach and bring in new ideas and solutions to grow our respective businesses for the future.

To strengthen our market reach, PCG through PETRONAS Chemicals Marketing (Labuan) Ltd has on 26 June 2014, secured the license as Labuan International Commodity Trading Company under the Malaysian Global Incentives for Trading Program (GIFT).

At the same time, PCG has also incorporated overseas subsidiaries in Thailand (PCM (Thailand) Company Limited) and China (PCM (China) Company Limited). The subsidiaries are expected to enhance PCG's marketing and sales excellence by developing new customer base, provide for better customer selection and strengthen customer relation as well as market intelligence. The subsidiaries are also expected to develop the necessary marketing and sales capability to position PCG for future growth.



PCG has also embarked on several growth projects to realise our growth aspiration while contributing towards Malaysia's long term development.

To strengthen our petrochemical basic business, we are expanding our urea capacity through Sabah Ammonia Urea (SAMUR) project in Sipitang, Sabah. With SAMUR Project onboard, we will increase our existing urea capacity to 2.6 million mtpa, propelling PCG's status from the fourth to the second largest producer of urea in South East Asia.

SAMUR Project epitomises our continuous efforts to meet the increasing customer and market demands for urea, especially in the Southeast Asia region. In addition, SAMUR Project will act as a catalyst for the growth of Sabah's petrochemical industry, stimulating growth of support industries such as infrastructure development and logistics.

Additionally, in line with our strategy to diversify our portfolio into derivatives, specialty chemicals and solutions, PCG, together with BASF, is currently constructing Asia Pacific's first integrated aroma chemicals complex in Gebeng, Kuantan. It is also the first integrated aroma ingredients complex outside Europe for BASF, highlighting the confidence of BASF to continue growing its ventures together with PCG.

The complex will include a facility to produce citral and its precursors, as well as associated downstream plants to manufacture aroma chemicals such as citronellol and L-menthol. Slated for completion in 2016, the products from the integrated aroma complex

would help meet resilient demand from growing markets in fragrance and flavour industries, and enable PCG to foray into a new field of highly attractive specialty products that are less susceptible to economic cyclicality typically exhibited by the commodity chemicals market.

Moreover, PCG has achieved final investment decision on 2-EH Acid project, another collaboration with BASF to produce 30 ktpa 2-EH Acid, which has a higher margin business compared to current normal Butyraldehyde at our existing Gebeng complex. 2-EH Acid's highly diversified portfolio of applications includes lubricants, polyvinyl butyral (PVB) plasticisers, paint dryers, cosmetics, polyvinyl chloride (PVC) stabilisers and pharmaceuticals.

With Asia Pacific being a new importer of 2-EH Acid, this project offers the opportunity to capture market opportunities in Asia Pacific and at the same time, expands PCG's portfolio into more attractive downstream products.

Finally, the development of Pengerang Integrated Complex (PIC), currently led by our parent company, PETRONAS has the potential of turning Southern Johor into a new refinery and petrochemical hub in Malaysia, complementing the existing petrochemical complexes in the country's eastern corridors. It will also create multiple economic spin-offs and a new generation of oil and petrochemical professionals, in line with the government's aspirations to turn Malaysia into a leading petroleum industry hub in the region.

GROWING IN THE MARKETPLACE

QUALITY PRODUCTS

As we strive to meet the highest standards and expectations for our petrochemical products, PCG's respective production facilities have established dedicated quality control units and quality management systems, and are certified with relevant ISO standards such as ISO 9001: Quality Management System. In ensuring continuous compliance and effectiveness, the quality management systems at our production facilities are subjected to internal and external audits at annual and periodic intervals respectively.

In the process of manufacturing various products from our production facilities, the various end products are vigorously tested for quality along with the relevant processes associated with producing the end products themselves, such as feedstock and intermediate products qualities, boiler and feed water parameters, and final effluent discharges and emissions, in line with strict requirements of our quality and safe operating limits as well as Malaysian statutory bodies.

Additionally, our products such as methanol, polyethylene polymers and polyethylene glycols adhere to the stringent Halal requirements from Department of Islamic Development Malaysia (JAKIM) as part of our commitment to Muslim consumers. This is in line with PCG's objective to strengthen its brand value and experience among stakeholders who are concerned with safe and clean products that are prepared according to universally accepted Islamic principles. It also enables PCG to sharpen its competitive edge in the halal business avenue.









CREATING A GREAT WORKPLACE



PCG is committed to providing challenging and fulfilling career opportunities to our people, supporting our aspiration to build a high performing workforce within the organisation.

The company continues to place talent management as a key strategy, recognising that an organisation is only as good as its talents. The company attracts, develops, motivates and retains the right talents by creating a highly conducive working environment which ensures that business objectives are achieved through an effective implementation of strategies, plans and tactics.

As of 31 December 2014, PCG had

4,661 employees

of which **76%** and **24%** were technical and non-technical respectively.

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Category	Function	Number of employees
Executive	Technical Non-Technical	1,171 685
Non-Executive	Technical Non-Technical	2,380 425

For the year under review, we focused on leadership and capability development in our bid to achieve and sustain operational excellence, as well as marketing and sales excellence. We also uphold our Shared Values and Cultural Beliefs in our daily conduct of business practices and operations.

Code of Conduct and Business Ethics (CoBE)

PETRONAS remains steadfast in its commitment to maintain the highest standards of integrity and ethical conduct in its business dealings, including compliance with all applicable anti-bribery and corruption laws across the multiple jurisdictions. As part of its ongoing efforts to combat bribery and corruption, the Company has adopted a zero tolerance policy against all forms of bribery and corruption, and seeks to conduct its affairs in an ethical, responsible and transparent manner. PETRONAS also does not tolerate unlawful discrimination in the workplace or on the job. We are committed to maintaining a safe and conducive work environment enriched by diversity and characterised by open communication, trust, fair treatment and respect.

High Performing Workforce

PCG conducted several employee engagement programmes group-wide in 2014 with the objective of catalysing a high performing workforce. "Let's Bond" sessions were organised to reach out to our employees in creating awareness and understanding of PCG's Organisational Transformation.

PCG's Annual Townhall on the other hand was held to align and engage employees on the company's vision and performance, as well as expectations for 2015.

Overall, these engagements help to ensure the employees understand the overall business targets and are motivated towards achieving their respective performance targets.

Employee Performance Management helps employees to support the organisation's business objectives by helping them understand what is expected of them, as well as know how to achieve the expectations and deliver the results.

Clear accountabilities, differentiated rewards and consequences are also applied to all staff to ensure high performance, along with capability development training and coaching.

Leadership

PCG Leadership Framework has been developed to support PETRONAS' efforts in developing and harnessing leaders. The main objective is to develop leadership skills and capabilities of identified leaders and to nurture potential talents in the company.

The company has utilised various platforms, such as Talent Review and Employee Potential Assessment for management to identify and provide career development opportunities for leaders and potential leaders in the company.

These leadership programmes, which are usually conducted in collaboration with PETRONAS Leadership Centre, are designed to support the leadership development of staff in all categories, such as Mentoring Programme and PETRONAS Induction Programme for Executives for new recruits, Building Leaders Programme and Managing Your Leadership Success for potential leaders and managers, and Senior Management Development Programme and Leadership Excellence at PETRONAS for Senior Management.

CREATING A GREAT WORKPLACE



Technical Capability

PCG is committed to ensuring accelerated and continuous skill and capability development of our young technical workforce, so as to ensure that they perform at the highest standards.

The Group capability development framework, such as Accelerated Capability Development programme has been implemented as a standard mechanism to monitor and accelerate the capability development of technical executives.

Similarly, all technicians and plant operators are also subjected to competency development and assessment. The PETRONAS Competency-based Assessment System has been implemented to ensure all technicians and operators achieve the level of competency required by their respective jobs through proper hands-on experience.

Marketing & Sales Capability

As the region's leading chemicals player, a skilled marketing and sales team is essential to ensure that we can maximise our value.

To meet the varying requirements of a rapidly changing chemicals market, our employees' individual development is important to us. We follow a life-long learning approach that emphasises the significance of learning from experience, supplemented by learning from others and learning through structured courses and training programmes.

To further enhance marketing and sales excellence, PCG has, in 2014, introduced the Enhanced Marketing and Sales Capability Framework. In this framework, existing learning modules were enhanced and updated to meet the dynamics of the chemicals industry and PCG's business today, and specific modules were developed to improve the overall marketing and sales capability among staff. To further cater to their learning needs, staff will be given coaching and are expected to take part in the annual Functional Assessments.

Apart from this, staff are also encouraged to participate in other local and international seminars and workshops to enable the acquisition and exchange of knowledge as well as to promote networking.

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety is a key focus area for PCG. Robust systems and initiatives have been developed and implemented to ensure the safety of our workplace. One such initiative is our implementation of PETRONAS' 'ZeTo Rules'. ZeTo Rules refers to the 10 critical safety rules that PCG has adopted to ensure any high risk activities are carried out safely. These rules will safeguard the safety of our employees and contractors while they carry out critical works at our facilities.

PCG's other efforts to achieve sustainable occupational safety and health performance are described below:

1. Plant Turnaround HSE Programme

Periodic planned turnaround is conducted at PCG facilities, where the facilities are shut down for major maintenance works. Maintaining HSE performance during the turnaround are particularly challenging due to the significant increase in manpower that is required to conduct the turnaround, as well as the non-routine nature of the works. To address these challenges, a turnaround HSE Plan is developed several months ahead of the turnaround. This plan outlines PCG's HSE requirements and plans to ensure the







Work with a valid work permit (PTW) required by the job Bekerja menggunakan permit kerja (PTW) sah yang diperlukai



Verify energy isolation before starting work Sahkan pengasingan tenaga sebelum memulakan kerja



Obtain authorisation before overriding or disabling safety critical equipment Dapatkan kebenaran sebelum memintas atau menghentikan peralatan keselamatan kritikal



Obtain authorisation before entering a confined space



Protect yourself against a fall when working at height Lindungi diri daripada terjatuh ketika bekerja di tempat tinggi



Use the correct personal protective equipment (PPE) when handling hazardous chemicals Gunakan peralatan perlindungan diri (PPE) yang betul ketika mengendalikan bahan kimia merbahava



Obtain authorisation before excavation or entering a trench Dapatkan kebenaran sebelum melakukan kerja penggalian atau memasuki parit



Do not position yourself under a suspended load Jangan berada di bawah muatan tergantung



Do not smoke outside designated areas or bring potential ignition sources into process areas without authorisation Jangan merokok di luar kawasan yang dibenarkan atau membawa masuk sebarang sumber penyalaan (ignition source) ke dalam kawasan pemprosesan tanpa kebenaran



Do not use your mobile phone/walkie-talkie while driving, follow the speed limit and use your seat belt $\,$

Jangan gunakan telefon bimbit/walkie-talkie ketika memandu, patuhi had laju dan pakai tali pinggang keledar

Control Hardish Codesh and Control

2. Enhanced Contractor HSE Management

turnaround is carried out without getting a lost

During each turnaround, daily safety briefings are

conducted by PCG management and various

turnaround contractors to remind all workers the

importance of working safely. In addition, PCG and its contractors conduct daily management-led

walkabouts and joint HSE audits at each worksite

to ensure all work is carried out according to PCG's HSE requirements. Fatigue Management is another initiative which ensures that workers do

not exceed the maximum safe working hours per

week. This contributes to the avoidance of any

untoward accidents that may be caused by

time incident.

excessive fatigue.

In addition to contractors who are engaged specifically for turnaround activities, PCG also engages contractors during normal plant operations as well as our logistics provider. These contractors provide some of the necessary manpower and required skills to ensure our facilities are operated efficiently. It is PCG's responsibility to ensure their safety and wellbeing are protected while they carry out work at our facilities. Regular engagements with the management of the various contractors are conducted by PCG to ensure they are aligned with PCG's HSE expectations and requirements. The contractors' HSE performance and participation in PCG's HSE activities are also monitored. PCG also assists our contractors in capacity building by sharing our HSE best practices, systems and experiences with them.

3. Strengthen Preventive HSE Programmes

Petrochemical facilities are inherently complex, with high energy processes and other various hazards. These risks are closely managed by PCG as part of our efforts to safeguard our workforce

from occupational injuries and illnesses. One of the key measures in managing these risks is through the implementation of HSE programmes at all PCG facilities.

HSE programmes are regularly rolled-out to PCG staff to enhance their awareness of the most common hazards that result in workplace injuries. Among them are programmes that focus on hand injuries, lifting operations, working at height, management of change and road safety. They encompass training on the use of safety systems designed to mitigate the risks associated with these hazards, such as Permit to Work system, Management of Change procedures, Job Hazard Analysis and various PETRONAS Technical Standards.

The effectiveness of HSE programmes are reviewed periodically by the HSE Committee of each manufacturing facility. The committee members also assist in implementing HSE initiatives, conduct accident investigations, and any other activities which promotes a safe working culture at PCG.

CREATING A GREAT WORKPLACE

EMERGENCY PREPAREDNESS

While PCG commits considerable efforts to prevent the occurrence of safety incidences, we prepare ourselves to manage all significant emergency/crisis situations at our facilities. This is done through regular emergency exercises based on various potential emergency situations. Larger scale exercises were also conducted with neighbouring facilities and relevant government agencies to ensure good coordination of joint emergency responses.

Joint Emergency Exercise

Joint exercises among PCG subsidiaries are regularly conducted, especially within the Kertih Integrated Petrochemical Complex. On 15 October 2014, a large scale emergency exercise was conducted which involved the following PCG entities:

- PETRONAS Chemicals Ethylene Sdn Bhd,
- PETRONAS Chemicals Polyethylene Sdn Bhd,
- Kertih Port Sdn Bhd, and
- Kertih Terminal Sdn Bhd

The exercise simulated a chemical leak and fire at a jetty facility that is used by the Group. Each facility's Emergency Management Team (EMT) were mobilised to manage the simulated fire and casualties. The exercise scenario also simulated damage to the firefighting systems at the port area, which challenged the EMT members to identify alternative means to fight the fire

The exercise also involved the local fire department, police, health department, marine department and other relevant government agencies. This allowed the Group to practise coordinating their emergency response with these agencies, and for the government agencies to better understand our emergency procedures. This will ensure that potential major emergencies are addressed quickly by all parties.





These exercises assisted the facilities to maintain the readiness of their Emergency Management Teams, while also identifying areas of improvements. The observations from these exercises are used by PCG to further improve its emergency response capabilities and procedures. This will ensure that each facility will be able to manage any potential crisis situation that may occur.

Joint Transportation Emergency Drill

PCG and BASF PETRONAS Chemicals Sdn Bhd held a Joint Transportation Emergency Drill on 24 June 2014, at KM 72.8, Kuala Lumpur – Karak Highway, Pahang. The drill involved a simulation of a multivehicle "collision" on the highway on the westbound side, between two vehicles carrying chemical products and a civilian vehicle.

The objective of this drill was to test the response, communications and coordination between the two companies, the selected transporters, and public services and the government.

In addition to preparing for emergencies at our manufacturing facilities, PCG regularly tests its Business Continuity Plan (BCP). The BCP will be implemented if there is a crisis situation at the PETRONAS Twin Towers, which prevents our workforce from working there. A BCP test was conducted on 10 September 2014. PCG, along with other PETRONAS subsidiaries, participated in the exercise where our critical workforce was mobilised to an Alternative Worksite (AW) or Virtual Office (VO). The systems at the AW and VO were tested to ensure that PCG's critical functions remained operational during the crisis. The test was successfully concluded and lessons learned from it were incorporated into the BCP for continuous improvement.

CARING FOR THE COMMUNITY

As the largest chemicals producer in Malaysia, PCG's fundamental responsibility is to ensure a reliable supply of a diversified range of chemical products in meeting the demands of high population growth. This ultimate objective has been driving the company's operations since its very beginnings, and in the process has contributed significantly to national development for three decades.

People are at the heart of PCG's business. We empower individuals to achieve their best potential through the advocacy of strategic community outreach programmes that aim to promote sustainable socio-economic benefits. This continuous effort is aligned with PCG's role as a responsible corporate citizen that aspires to positively benefit local communities. We constantly strive to enhance our social performance by managing impacts that arise from our business while contributing to society in a responsible manner.

Gaining stakeholder trust and confidence is at the fore of PCG's stakeholder management strategy. We are able to achieve a more focused project execution by addressing stakeholders' priorities in an effective manner through meaningful engagements in the various locations where we operate. At PCG, we uphold the notion of doing business dutifully to improve our competitiveness while understanding and responding to the interests, needs and expectations of our diverse stakeholders.

Another important element which fuels our business existence is giving back to the community. Fostering strong relationships with the community is of

importance to PCG. We recognise our duty to be a good neighbour and thus are an active partner of communities, working closely with schools and charitable organisations to educate, support and connect with our stakeholders.

We embrace a variety of community initiatives that elevate community safety and wellbeing. By addressing poverty effects through Program Sentuhan Kasih, increasing education standards among underprivileged children through Program Sentuhan Ilmu and promoting a better lifestyle through Program Sentuhan Harmoni, we are committed to building a sustainable future for all levels of society. We also encourage our workforce to internalise the culture of volunteerism in several CSR efforts

PCG remains steadfast in its desire to propel the stature of its corporate citizenship to greater heights by lending strong support to PETRONAS' signature community programmes and spearheading wholesome community initiatives that have widespread benefit, especially to those in need.



Program Sentuhan Ilmu PETRONAS

PCG plays an active role in Program Sentuhan Ilmu PETRONAS (PSIP), an adopt-a-school programme that is part of PETRONAS' continuous efforts to promote human capital development in the communities where PETRONAS operates. Throughout the year, PCG's subsidiaries adopt and organise various educational programmes that suit and cater to the communities.

In line with this, PC Ammonia hosted its second fun learning session this year in Sekolah Kebangsaan Paka, Terengganu. Besides reinforcing the importance of education, the activity, which was held on 26 May 2014, also encouraged the participating Year 5 and Year 6 students to deepen their interaction with one another and cultivate the love of knowledge.

The highlight of the session was the Spider Web Challenge, a simple game that illustrates good values, such as teamwork, effective planning and creative thinking. Conducted in groups, the game also brought about a sense of healthy competition, as each team vied to be the fastest in completing the task.

Under the PSIP flagship programme, PETRONAS volunteers from PETROSAINS in Kuala Lumpur made their way to Sekolah Kebangsaan Lubok Darat and Sekolah Kebangsaan Padang Berampah in Sipitang, Sabah on 4 March 2014. The visit, held in collaboration with the State Education Department was aimed at promoting the fun part in learning science and mathematics among underprivileged students.

CARING FOR THE COMMUNITY

During the half-day programme, students in both schools were exposed to hands-on activities that challenged them to think outside the box. There were science shows and a mathematical challenge which helped reinforce their knowledge about the basic principles of science and mathematics.

Geared towards embracing the concept of empowering people through education, PC Fertiliser Kedah also hosted a motivational talk under the PSIP programme, led by renowned speaker, Dr Shukri Abdullah for secondary school students.

The talk aimed at reinforcing the importance of education among students within the vicinity of Jerai, including children of PETRONAS Northern Region staff. Plenty of tips were shared throughout the session to encourage students to cultivate positive habits. Dr Shukri also emphasised the concept of individual will, which he believes would bring success.

Some 450 upper secondary school students from nine schools in Bintulu, Sarawak, attended a one-day Career and Motivational Talk organised by ASEAN Bintulu Fertilizer (ABF) on 23 September 2014. The programme

demonstrates our commitment to assist in the education of schoolchildren of Bintulu in preparation for their future as potential leaders of the community, industry and the nation as a whole.

The Career & Motivational Talk featured well-known motivator, Mohd Sukur Ibrahim, who spoke on the subject of "Insan Bermotivasi" (Motivated Individual). The event also featured an eye-opening segment on the breadth of exciting career opportunities available in PETRONAS and their entry requirements, as well as the working environment and benefits that PETRONAS provides.

Back-to-School Programme

PCG's Back-to-School Programme also took place in Sekolah Kebangsaan Padang Berampah in Sipitang, Sabah, on 19 November 2014, and in PC Fertiliser Kedah, Gurun, Kedah, on 29 November 2014 where more than 1,000 underprivileged students received school supplies. The annual assistance is designed to alleviate the financial burdens of parents besides providing cheer to the students as they start the new academic year.







Program Sentuhan Harmoni

Program Sentuhan Harmoni is an annual effort that supports PCG's long term signature CSR programme that emphasises environmental protection and human capability building. It serves to engage through initiatives that bring positive contributions to key stakeholders in various locations.

PC MTBE organised its own Program Sentuhan Harmoni at Kampung Seberang Balok 1, Kuantan. The *gotong-royong* (mutual cooperation) activity saw some 30 staff of PC MTBE and Kesatuan Kakitangan Petroliam Nasional Berhad as well as villagers rebuilding the bridge that was damaged due to vandalism and natural catastrophes.

The bridge connects three villages, namely Perkampungan Seberang Balok 1, Balok Makmur and Balok Perdana, apart from serving as the main route for schoolchildren to Sekolah Kebangsaan Pelabuhan, Sekolah Menengah Kebangsaan Pelabuhan and Sekolah Kebangsaan Balok Baru.

The initiative held on 9 February 2014 was instrumental in fostering a better relationship between staff of PC MTBE, PETRONAS and the local community.

CARING FOR THE COMMUNITY



Program Sentuhan Kasih

Program Sentuhan Kasih is PETRONAS's community outreach initiative that provides assistance to the poor families in the country during major festive seasons. Launched in 2005, it is designed to instil a sense of giving among staff, besides reaching out to the less fortunate.

PCG subsidiaries have organised various activities throughout 2014 in supporting PETRONAS' CSR notion. The activities range from hosting *iftar* (breaking fast) sessions for the underprivileged, visiting the poor and contributing to charity. The objective of the *iftar* sessions was to strengthen our local stakeholders comprising the communities, local authorities and government agencies, besides aiding the underprivileged, among them the orphans and the elderly. In 2014,

PCG conducted *iftar* sessions in Kuantan, Sungai Petani, Sipitang and Kuala Terengganu to commemorate the holy month of Ramadan which emphasised on the spirit of giving back to the less fortunate. Selected families, included single mothers, received contributions in cash and kind during the *iftar* sessions. The *iftar* session that was held in Kuantan was graced by Pahang Menteri Besar, Dato' Sri Diraja Haji Adnan bin Yaakob.

The maiden PCG Charity Bazaar was also organised during Ramadan to drive volunteerism among staff across PCG Corporate Office and help the underprivileged. The initiative met resounding success with all proceeds being channelled to two charity homes, Tasputra PERKIM and Mahligai Qaseh.





Other Community Engagements

Festive celebrations are among the platforms used to network and foster lasting relationships with PCG's stakeholders, including government authorities, agencies and communities at large. PCG in collaboration with local authorities, organised a Hari Raya Aidilfitri Open House for the Sipitang community at Dewan Serbaguna, Sipitang. Held in moderate fashion to mark respect for the MH17 flight victims, about 5,000 people thronged the hall. The event was graced by the Sabah Chief Minister, Datuk Seri Panglima Haji Musa Haji Aman, who presented school bags to underprivileged children and donations to selected mosques and surau in Sipitang. The Hari Raya get-together enabled the Sipitang community to get up close and personal with their local leaders as well as PETRONAS representatives.

Similarly, PC Fertiliser Kedah celebrated Hari Raya Aidilfitri with external stakeholders through an Open House event on 26 August 2014. About 3,000 guests flocked to Dewan Serbaguna Guar Chempedak, Kedah to join in the merriment of the annual do.

PCG held its maiden Gawai celebration themed "Begempuru Gawai PCG, Sepenemu Sejalai" for stakeholders in Bintulu, Sarawak on 18 June 2014 via its subsidiary, ABF, at Kidurong Club, Bintulu. Around 500 guests were treated to a spread of traditional delicacies as they were entertained with cultural dance performances from various ethnic groups, such as Iban, Bidayuh and Penan, as well as soothing rhythmic tunes from the sape and jatung lutang performers.

The highlight of the event was the "Ngetas and Nebang Ranyai" or the removal of traditional goodies from a ceremonial tree, followed by Gawai Toast and "Ngiling Bidai" to signify the closing of this year's Gawai Dayak celebration.

During the event, PCG also presented gifts to about 31 underprivileged children, including special needs children, from Rancangan Perumahan Rakyat (RPR) Kidurong and Sungai Plant Housing community. The event ended with "Liling", an Orang Ulu long dance, which encouraged the event's guests to dance along as well.



6 FEBRUARY 2014 PROSPERITY TOSS WITH THE STAR

The maiden PCG – The Star Prosperity Toss was held on 6 February 2014 at China Treasures in Sime Darby Convention Centre, Kuala Lumpur. The luncheon served as a platform for PCG's management members to establish an exclusive and well-rooted network with The Star publications, while ushering in the mood of prosperity and happiness for the year.

10-11 FEBRUARY 2014

CHINESE NEW YEAR CELEBRATIONS WITH LOCAL STAKEHOLDERS

In conjunction with Chinese New Year, two exclusive dinners were organised for PCG stakeholders in Penang and Johor Bahru, Malaysia. The former was held in Ixora Hotel, Penang on 10 February 2014 while the latter took place the following day in Mutiara Hotel, Johor Bahru. The events reinforced PCG's commitment to create value for its external stakeholders, reflecting the company's agenda to deliver sustainable customer driven solutions through distinctive operational and marketing excellence.





21 FEBRUARY 2014

PCG'S INSTITUTIONAL SHAREHOLDER VISIT

PCG hosted a corporate engagement meeting with Employees Provident Fund (EPF), the largest institutional shareholder of the company, on 21 February 2014 at PETRONAS Twin Towers, Kuala Lumpur. The delegates from EPF were presented with a run-through of PCG's corporate overview followed by a tour of the PETRONAS Sky Bridge and Observation Deck. This is part of PCG's efforts to constantly conduct strategic conversations with the investment community.





10 APRIL 2014

PRIME MINISTER LAUNCHES INTEGRATED AROMA INGREDIENTS COMPLEX AT BASF PETRONAS CHEMICALS

Malaysian Prime Minister Dato' Sri Mohd Najib Tun Abdul Razak officiated at the ground breaking of the Integrated Aroma Ingredients Complex in Gebeng, Kuantan, on 10 April 2014, set up by BASF and PCG via PCG's joint venture company BASF PETRONAS Chemicals Sdn Bhd. The complex, to be built within the existing BASF PETRONAS Chemicals' site in Gebeng, will house a facility to produce citral and its precursors as well as associated downstream plants to manufacture citronellol and L-menthol. The RM1.5 billion complex will be developed in phases, whereby the first plants of the complex are expected to come on-stream in 2016.

11-13 APRIL 2014

3R CAMP 2014

A total of 100 students from all secondary schools in Bintulu took part in the 3R (Reduce, Reuse & Recycle) Camp, organised by ASEAN Bintulu Fertilizer in collaboration with Natural Resources and Environment Board, Bintulu Development Authority and District Education Office at Advanced Technology Training Centre in Bintulu from 11 to 13 April 2014. The programme did well to create and enhance awareness among students on the need to protect and preserve the environment besides instilling and enhancing the recycling culture among them.





24 APRIL 2014

16TH ANNUAL GENERAL MEETING

PCG held its 16th Annual General Meeting (AGM) on 24 April 2014 at the Kuala Lumpur Convention Centre. More than 1,000 shareholders attended the meeting. PCG's AGM serves as a key mechanism for the company's Board of Directors to communicate with shareholders and to table the audited financial statement to them, apart from being a platform for its various stakeholders to understand more about PCG's diversified business units.

28 APRIL 2014

PCG LAUNCHES REED BED WASTEWATER TREATMENT FACILITY

PC Fertiliser Kedah launched its pilot effluent treatment facility at its existing plant in Gurun, Kedah on 28 April 2014. Known as Reed Bed facility, it is an artificial wetland that involves reed plants and bioremediation technique to filter and treat wastewater from the plant before being processed further and discharged to the river or stream. The pilot facility supports the company's agenda in promoting green and sustainable development.





21 MAY 2014

INSTITUTIONAL INVESTORS' PLANT VISIT

PCG organised an Institutional Investors Plant Visit to PC Methanol on 21 May 2014. The inaugural initiative, in line with the company's organisational transformation, demonstrates PCG's committed approach to increase transparency in the sharing of important information through engagements that build investors' confidence. A total of 25 local fund managers and analysts from 20 different investment institutions took part in the event.

2 JUNE 2014

PCG-MEDIA MEET AND GREET 2014

As part of PCG's continuous efforts to establish and maintain solid rapport with key media figures and experts, a PCG-Media Meet & Greet dinner was organised on 2 June 2014. Held at the Grand Hyatt Kuala Lumpur, the dinner was hosted by PCG President/CEO Datuk Sazali Hamzah, who introduced his new management team and highlighted PCG's new vision of "preferred chemical company providing innovative customer solutions".





14 JUNE 2014

PCG CUSTOMER APPRECIATION GOLF 2014

PCG hosted its fourth golf tournament exclusively for its business stakeholders on 14 June 2014 at Glenmarie Golf and Country Club in Selangor. It was a gesture of appreciation to the company's customers and partners for their continuous support, reflecting PCG's commitment to strengthen its partnerships. Aligned with the spirit of camaraderie that PCG constantly champions, the event kicked off to a great start and ended memorably with 132 golfers participating.

18 JUNE 2014

PCG CELEBRATES GAWAI WITH STAKEHOLDERS IN BINTULU

PCG held its maiden Gawai celebration themed "Begempuru Gawai PCG, Sepenemu Sejalai" for stakeholders in Bintulu, Sarawak on 18 June 2014 via its subsidiary ASEAN Bintulu Fertilizer at Kidurong Club, Bintulu. During the event, PCG presented Gawai Love gifts to about 31 underprivileged children, including special needs children, from RPR Kidurong and Sungai Plant Housing community. This annual event serves as a platform to establish and strengthen good rapport between PCG and its stakeholders in Bintulu.



24 JUNE 2014

PCG AND BASF PETRONAS CHEMICALS HOLD JOINT TRANSPORTATION EMERGENCY DRILL

PCG and BASF PETRONAS Chemicals Sdn Bhd held a Joint Transportation Emergency Drill on 24 June 2014, at KM 72.8, Kuala Lumpur – Karak Highway, Pahang. The drill involved a simulation of a "collision" on the highway between two vehicles carrying chemical products and a civilian vehicle. The objective of this drill was to test the response, communications and coordination between the two companies, the selected transporters as well as public services and the authorities.





25 JUNE 2014

PCG METHANOL PRODUCT STEWARDSHIP PROGRAMME IN JAKARTA

Methanol Product Stewardship Programme, was organised in Hotel Bandara Sheraton, Jakarta, on 25 June 2014. It covered risks associated with handling methanol and the appropriate steps needed to mitigate those risks. Among the topics discussed were methanol bootleg issues and poisoning cases, PCG's product stewardship agenda as well as hazard communication through safety data sheet (SDS). Selected customers benefited from learning much more about PCG's product stewardship agenda, which includes establishing regulatory database, embracing best practices and Responsible Care as well as proper risk management.



17 AUGUST 2014

PCG HARI RAYA OPEN HOUSE IN SIPITANG

PCG, in collaboration with local authorities, organised a Hari Raya Aidilfitri Open House for the Sipitang community on 17 August 2014 at Dewan Serbaguna, Sipitang, Sabah. Among the notable guests included Sabah Chief Minister Datuk Seri Panglima Haji Musa Haji Aman. During the event, school bags were presented to 60 underprivileged children and donations were handed over to some 400 representatives from mosques and surau.



18 AUGUST 2014

PCG HARI RAYA AIDILFITRI OPEN HOUSE

PCG held its Hari Raya Open House for customers and other stakeholders at Kuala Lumpur Convention Centre on 18 August 2014. Some 800 people attended the event which was celebrated on a modest scale in mourning for the victims of flight MH17.



21 AUGUST 2014

TERENGGANU MENTERI BESAR VISITS PC ETHYLENE & PC POLYETHYLENE

PC Ethylene and PC Polyethylene welcomed Chief Minister of Terengganu Dato' Hj Ahmad Razif Abd Rahman to their premises on 21 August 2014. The inaugural visit was hosted by PCG President/CEO Datuk Sazali Hamzah with the objective of strengthening relations between PCG and Terengganu state government.

1 SEPTEMBER 2014

INVEST MALAYSIA LONDON 2014

PCG was among the 13 multinational companies listed on the bourse that took part in Invest Malaysia London 2014. The two-day event was hosted by Bursa Malaysia Berhad with the participation of 48 UK-based fund managers. Also present was Minister in the Prime Minister's Department, Datuk Seri Abdul Wahid Omar, who delivered a keynote address that provided fund managers with insights into the progress and development of Malaysia's economy.





7 SEPTEMBER 2014

CICM RESPONSIBLE CARE RUN 2014

For the fourth consecutive year, PCG was proud to be the Silver Sponsor of the Chemical Industries Council of Malaysia (CICM)'s Responsible Care Run on 7 September 2014 in Rawang, Selangor. This annual race was held to promote greater knowledge and awareness of the chemicals industry's continuous commitment to improving safety, health and environmental performance through the Responsible Care Programme and as part of PCG's effort in promoting healthy lifestyle to all staff. A total of 26 runners from PCG Corporate Office took part in categories ranging from 21km, 10km and 5km.

18 SEPTEMBER 2014

PCG SIGNS MOU WITH GRUPA AZOTY PULAWY AND SOGDC

PCG signed a memorandum of understanding (MoU) with Grupa Azoty Pulawy and Sipitang Oil and Gas Development Corporation Sdn Bhd (SOGDC) in Pulawy, Poland, to conduct a joint feasibility study for producing urea and ammonia derivatives in Sipitang Oil & Gas Industrial Park on 18 September 2014. Witnessed by Sabah Chief Minister, Datuk Seri Panglima Musa Hj Aman, the MoU marked the beginning of a collaboration between the three parties to undertake a preliminary technical, economic, raw material supply, logistic, infrastructure and utilities study for the development of the petrochemical products.





22 SEPTEMBER 2014

PCG RENEWS ETHYLENE GLYCOL TERM SUPPLY CONTRACT WITH RECRON (MALAYSIA)

A signing ceremony for Ethylene Glycol Term Supply between RECRON (Malaysia) Sdn Bhd and PCG's subsidiary PETRONAS Chemicals Marketing Sdn Bhd took place on 22 September 2014 at the Malaysian Petroleum Club in PETRONAS Twin Towers. It commemorated PCG's significant role as RECRON's sole supplier of ethylene glycol for the eighth year, as well as the continuous and long-term collaboration between the two companies.



26 SEPTEMBER 2014

PCG TOWNHALL 2014

Nearly 400 PCG Corporate Office staff participated in an exclusive townhall session at Kuala Lumpur Convention Centre on 26 September 2014. It was PCG's engagement session with the President/Chief Executive Officer Datuk Sazali Hamzah. The objective of the townhall session was to formally introduce Datuk Sazali to all staff besides conveying his expectations and target setting between year 2015 and year 2019. To ensure the message gets cascaded throughout PCG, a series of town hall engagement sessions were subsequently organised in Kuantan, Bintulu, Gurun and Kertih.

12 OCTOBER 2014

PCG JOINS STANDARD CHARTERED KL MARATHON 2014

PCG recorded its biggest participation to date with 289 staff joining the Standard Chartered KL Marathon 2014 on 12 October 2014. The event encourages running as part of a healthy lifestyle, besides supporting good charity causes of the Standard Chartered Foundation, The National Autism Society of Malaysia, Malaysian Nature Society and Hospis Malaysia.





13-15 OCTOBER 2014

SHAREHOLDERS' PLANT VISIT

PCG organised its 4th Shareholder's Plant Visit to Kertih this year, from 13-15 October 2014 for selected retail shareholders. A total of 51 shareholders attended the visit that gave them an insight into PCG's business fundamentals and plant operations.

16-18 OCTOBER 2014

TURKCHEM CHEMSHOW EURASIA 2014

PCG participated in Turkchem Chemshow Eurasia which was held in Istanbul Expo Centre, Turkey, from 16-18 October 2014. The event brought together global giants of the chemicals sector for the sixth time on a platform that enabled them to share best industry practices and learn new innovation. It was a great opportunity for visitors to learn more about PCG business.



23 OCTOBER 2014

PETRONAS WINS ICHEME MALAYSIA AWARDS

PETRONAS chemical engineer Sy Mohd Faiz Sy Mohd Fuzi was presented with the coveted Young Chemical Engineer in Industry Award at the annual Institution of Chemical Engineers (IChemE) Malaysia Awards on 23 October 2014. IChemE is an international body which provides services for and represents the interests of those involved in chemical, biochemical and processing engineering worldwide. The awards are for innovation and excellence, recognising and rewarding achievements in chemical engineering at both individual and team levels. PCG President/CEO Datuk Sazali Hamzah, who is a member of IChemE Malaysia's Board of Directors was also present at the event.



28 OCTOBER 2014 8TH INTERNATIONAL PLASTICS FAIR JAPAN 2014

PCG participated in the 8th International Plastics Fair Japan 2014 which was held from 28 October to 1 November 2014 to seek potential customers and partners for collaboration. The event provided an opportunity for PCG to expand its business in Japan, particularly polymer products, besides keeping abreast with the advancement and development on applications of polymer for current PCG products.





19 NOVEMBER 2014

PCG DONATES SCHOOL SUPPLIES TO SIPITANG CHILDREN

PCG presented school bags to some 600 underprivileged schoolchildren from various schools in Sipitang, Sabah, at its annual Back to School programme held at SK Padang Berampah on 19 November 2014.

21-22 NOVEMBER 2014

STAKEHOLDER VISITS TO SAMUR

Secretary-General of the Ministry of Human Resources (MOHR) Malaysia Dato' Saripuddin Kasim visited the SAMUR project site in Sipitang, Sabah on 21 November 2014, followed by the Sabah State Secretary Tan Sri Sukarti Wakiman on 22 November 2014. The objective of both visits was to get brief information and progress update on SAMUR project since construction kicked off.





1 DECEMBER 2014

PCG JV FORUM 2014

An exclusive forum for PCG and its joint venture partners was held in IOI Marriott in Putrajaya on 1 December 2014. Some 200 participants attended the event, including representatives from BASF PETRONAS Chemicals Sdn Bhd, BP PETRONAS Acetyls Sdn Bhd, Dialog Group Berhad, Idemitsu Kosan, Kertih Terminals Sdn Bhd, Malaysian NPK Fertiliser Sdn Bhd besides Mitsubishi Corporation, Sasol Limited and Vopak Asia.

10 DECEMBER 2014

CICM RESPONSIBLE CARE AWARDS

PETRONAS won six gold, eight silver and 11 merit awards under the Corporate Awards category for the Six Codes of Management Practice at the Responsible Care Awards 2013/2014 and Safe Road Award 2014 Presentation Ceremony organised by Chemical Industries Council of Malaysia (CICM) on 10 December 2014. The awards were presented by Director-General of Department of Occupational Safety and Health, Ir Mohtar bin Musri.



9-11 DECEMBER 2014

PRODUCT STEWARDSHIP PROGRAMME IN CHINA

PETRONAS Chemicals Marketing Sdn Bhd, organised an exclusive Product Stewardship Awareness Programme for Olefins, Glycols and Derivatives (OGD) customers in Shanghai on 9 December 2014 and Guangzhou on 11 December 2014. The one-day programme illustrates PCG's effort to support Responsible Care® commitments to improve environmental protection, occupational safety and health protection, plant safety, product stewardship and logistics. It also encourages dialogue with customers by inculcating among them the awareness on responsible product handling and use among OGD customers in China.



13-14 DECEMBER 2014

PCG FAMILY DAY

To promote PETRONAS' Shared Values, a special PCG Weekend Out was organised for more than 350 PCG Corporate Office staff along with their families at Bayou Lagoon Resort Park, Malacca from 13-14 December 2014. Themed "Bringing the Big Fun to the Big Family," the exciting getaway was meant to strengthen the ties among employees and serve as a token of appreciation for all their contributions to the company.





Methanol

Methanol is a versatile chemical used as an intermediate in the manufacture of countless products such as paints, coatings and adhesives.

Our Governance

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STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors (the Board) is committed to high standards of corporate governance and strives to ensure that it is practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.

In this Statement, the Board reports on the manner the Group has adopted and applied the principles and best practices as set out in the Malaysian Code on Corporate Governance 2012 (MCCG 2012) and the governance standards prescribed in the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) throughout the year under review.

(A) BOARD OF DIRECTORS

Principal responsibilities of the Board

The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. To discharge the Board's stewardship responsibilities, the Board has assumed the following principal responsibilities:-

- (i) Review and approve annual corporate plan, which includes overall corporate strategy, operational plan, marketing plan, human resources plan, financial plan and budget, risk management plan and information technology plan;
- (ii) Oversee and review the performance of the business, and to evaluate whether business is being properly managed;
- (iii) Identify principal risks and ensure the implementation of appropriate systems to monitor and manage these risks;
- (iv) Ensure that there is an appropriate succession plan for members of the Board and Senior Management;

- (v) Review and approve investor relation policy;
- (vi) Review the adequacy and integrity of internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines; and
- (vii) Review and approve financial statements.

Board Composition and Balance

The Board currently has eight (8) members, comprising one (1) Executive Director and seven (7) Non-Executive Directors. Four (4) of the Non-Executive Directors fulfil the criteria of independence as defined in the MMLR of Bursa Malaysia. The balanced proportion of Independent Non-Executive Directors provides effective check and balance in the functioning of the Board.

The Board members are persons of high calibre, experienced and are professionals in their respective fields. Together, the Board members bring a wide range of business and financial experience, skills and technical expertise, diversity in terms of gender, ethnicity and age that are vital to the Board's successful stewardship of the Company and the Group. The Board also believes that the structure of the Board satisfactorily reflects the interest of the shareholders with representation of minority interest through Independent Directors. Profile of each Director is presented on page 42 to page 49 of this Annual Report.

The Board practises a clear division of duties and responsibilities between the Chairman, President/CEO and Non-Executive Directors to ensure a balance of power and authority in the Board. The Chairman is primarily responsible for the orderly conduct and function of the Board whilst the President/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of

the Group's strategies and policies. The President/CEO is assisted by the Management Committee in managing the business on a day-to-day basis, which he consults regularly. The Management Committee ensures effective systems, controls and resources are in place to execute business strategies and decisions taken by the President/CEO and/or the Board.

The Non-Executive Directors have the necessary calibre to ensure that the strategies proposed by the Management are fully deliberated and examined, taking into account the long-term interest of the shareholders and stakeholders. They contribute to the formulation of policy and decision-making through their expertise and experience. They also provide guidance and promote professionalism and competence among management and employees.

The Independent Non-Executive Directors do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with any companies within the Group except for Mr Dong Soo Kim who has been engaged by PETRONAS, the holding company, to provide coaching to selected plant personnel within PETRONAS Group of Companies. Accordingly, the Group believes that the engagement does not compromise the independence of Mr Dong Soo Kim's judgement. The Independent Non-Executive Directors play a significant role in providing unbiased and independent views, advice and judgement taking into account the interest of relevant stakeholders including minority shareholders of the Group.

Ms Vimala a/p V.R. Menon, Chairman of the Board Audit Committee has been appointed as the representative of the Board, to whom any concerns pertaining to the Group may be conveyed by shareholders and other stakeholders.

Board Meetings

The Board meets at least quarterly with additional meetings convened as and when necessary. Board meetings for each financial year are scheduled in advance to facilitate the Directors to plan ahead and fit the Board meetings into their respective schedules.

The Board has a formal schedule of matters reserved at Board meetings which includes corporate plans, annual budgets, operational and financial performance reviews, major investments and financial decisions, management performance assessment, changes to the management and control structure within the Group, including key policies and procedures and delegated authority limits. The Board Audit Committee's reports and the Nomination and Remuneration Committee's reports are also presented and discussed at Board meetings. All proceedings of Board meetings are duly recorded in the minutes of each meeting and signed minutes of each Board meeting are properly kept by the Company Secretary.

During the year ended 31 December 2014, the Board met a total of eight (8) times. Details of attendance of the Board members are as follows:-

Name of Directors		No. of meetings attended
1	Datuk Wan Zulkiflee bin Wan Ariffin	8 out of 8
2	Datuk Sazali bin Hamzah¹	6 out of 6
3	Datuk Dr Abd Hapiz bin Abdullah²	2 out of 2
4	Vimala a/p V.R. Menon	7 out of 8
5	Ching Yew Chye	8 out of 8
6	Dong Soo Kim	8 out of 8
7	Datuk Ir Kamarudin bin Zakaria	8 out of 8
8	Rashidah binti Alias @ Ahmad	7 out of 8
9	Datuk Toh Ah Wah³	4 out of 4

¹ Appointed as President/CEO and director on 1 May 2014 and 8 May 2014 respectively.

² Retired as director and President/CEO on 24 April 2014 and 30 April 2014 respectively.

³ Appointed as director on 13 June 2014

STATEMENT ON CORPORATE GOVERNANCE

Supply of Information

Prior to each Board meeting, the agenda and a set of Board papers encompassing qualitative and quantitative information relevant to the business of the meeting are circulated to all Directors on a timely basis. This enables the Directors to have sufficient time to peruse the Board papers and seek clarifications or further details from the Management or the Company Secretary before each meeting to ensure preparedness for the meeting. Any Director may request matters to be included in the agenda. Urgent papers may be presented and tabled at meetings under supplemental agenda. Board papers prepared are comprehensive and includes objectives, background, critical issues, implications, risks, strategic fit¹, recommendations and other pertinent information to enable informed decision making by the Board.

Presentations and briefings by the Management and relevant external consultants, where applicable, are also held at Board meetings to advise the Board and furnish relevant information and clarification for the Board to arrive at a considered decision.

Access to Board papers and other relevant information are carried out online through a collaborative software which allows the Directors to securely access board documents and collaborate with other Board members and the Company Secretary electronically. The online accessibility facilitates the Directors to read and review documents or communicate with other members during the Board meetings or at any other time.

The Directors have direct access to the Senior Management and have unrestricted access to any information relating to the Group to enable them to discharge their duties. The Directors also have direct access to the advice and services of the Company Secretary and are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of the Directors. The Directors, whether as a full board or in their individual capacity, may seek independent professional advice at the Company's expense in furtherance of their duties.

Board Committees

To assist the Board in discharging its duties, the Board has established two Board Committees whose compositions are in accordance with the best practices as prescribed by the MCCG 2012 and MMLR of Bursa Malaysia. The functions and terms of reference of the Board Committees, as well as authority delegated by the Board to these Board Committees, are reviewed and updated from time to time.

(a) Board Audit Committee

The Board Audit Committee is made up of four (4) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. In line with good corporate governance, the Executive Director is not a member of the Board Audit Committee.

The Board Audit Committee reviews quarterly and annual financial statements, announcements on quarterly results, internal audit reports and ensures that the internal control system and management information system are in compliance with the Company's policies and procedures, applicable laws and regulations. The Board Audit Committee also monitors the effective implementation of programmes to ensure compliance to the Company's Risk Management Policy and ensures that principal risks are identified and monitored and appropriate measures are undertaken to manage these risks.

The report on the Board Audit Committee is presented on page 161 to page 165 and the summary of the terms of references of the Board Audit Committee are included therein.

(b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee is comprised entirely of Independent Non-Executive Directors as per requirement of the MCCG 2012.

The Nomination and Remuneration Committee ensures that the Board comprises members with relevant expertise and experiences drawn from business, financial and technical. The wide spectrum of skills, experiences and diversity in terms of gender, ethnicity and age has added strength in terms of leadership and management.

Further, in accordance with prescribed best practices of corporate governance, the Board hereby presents key activities of the Nomination and Remuneration Committee in page 168 to page 169 of the Annual Report to the shareholders.

Continuing Development Programme for Directors

All the Directors have attended the Mandatory Accreditation Programme as required under the MMLR of Bursa Malaysia. The Directors are regularly updated on the Group's businesses and the competitive and regulatory environment in which the Group operates. As an integral part of orientation programme for new directors, the Company provides comprehensive briefings on the Group's operations and financial performance as well as site visits to the Group's facilities.

The Directors recognise the importance and value of attending conferences, training programmes and seminars in order to keep themselves abreast with the development and changes in the industries in which the Group operates, as well as to update themselves on new statutory and regulatory requirements. During the year under review, the Directors have attended and participated in programmes, conferences and forums that covered the areas of corporate governance, financial, relevant industry updates and global business developments which they considered as useful in contributing to the effective discharge of their duties as Directors. The Directors also participated in the familiarisation visits to the Group's plants.

Re-election and Re-appointment of Directors

In accordance with Article 93 of the Articles of Association of the Company, at every Annual General Meeting (AGM), one-third of the Directors shall retire from office by rotation and may offer themselves for re-election. The Articles of Association also provide that all Directors are subject to retirement by rotation at least once in every three (3) years and shall be eligible for re-election. Directors who are appointed by the Board during the year are subject to re-election by shareholders at the next AGM held following their appointments.

(B) DIRECTORS' REMUNERATION

The remuneration structure of Non-Executive Directors of the Company is as follows:-

- Fees for duties as Directors and additional fees for undertaking responsibilities as Chairman of the Board; and
- Meeting allowances for each meeting attended.

The fees for Non-Executive Directors are determined by the Board and subject to the approval of the shareholders of the Company at AGM. Meeting allowances for all the Non-Executive Directors are determined by the Board. The shareholders at the Company's AGM held in 2013 approved for the Company to pay Directors' fees of up to RM1.5 million.

The Directors' fees and meeting allowances for certain Non-Independent Non-Executive Directors who are also employees of PETRONAS and holding positions of Vice President and above are paid directly to PETRONAS. The presence and participation of the Non-Independent Non-Executive Directors who are employees of PETRONAS give the Board a deeper insight into PETRONAS' operations.

STATEMENT ON CORPORATE GOVERNANCE

For the year under review, the breakdown of the Directors' remunerations is as follows:-

Name of Directors	Directors' Fee (RM)	Board Meeting Allowance* (RM)	Audit Committee Meeting Allowance* (RM)	Nomination and Remuneration Meeting Allowance* (RM)	Total (RM)
Executive Directors:-					
Datuk Sazali bin Hamzah ¹ Datuk Dr Abd Hapiz bin Abdullah ²	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil Nil
Non-Executive Directors:-					
Datuk Wan Zulkiflee bin Wan Ariffin Vimala a/p V.R. Menon Ching Yew Chye Dong Soo Kim Datuk Ir Kamarudin bin Zakaria Rashidah binti Alias @ Ahmad Datuk Toh Ah Wah ³	108,000 72,000 72,000 216,000 72,000 72,000 39,600	36,000 28,000 31,500 31,500 27,000 24,000 14,000	21,000 21,000 21,000 - 12,000 7,000	- 17,500 17,500 17,500 - -	144,000^ 138,500 142,000 286,000 99,000^ 108,000 60,600
Total	651,600	192,000	82,000	52,500	978,100

- 1 Appointed as President/CEO and director on 1 May 2014 and 8 May 2014 respectively.
- ² Retired as director and President/CEO on 24 April 2014 and 30 April 2014 respectively.
- 3 Appointed as director on 13 June 2014.
- * Meeting allowances paid and payable are based on the number of meetings attended by the Directors.
- ^ Fees paid and payable to PETRONAS.

The remuneration package for the Executive Director of the Company is balanced between fixed and performance-linked elements. A portion of the Executive Director's compensation package is variable in nature and is KPI based, which includes the Group's performance. As an Executive Director, he is not entitled to receive directors' fees as well as meeting allowance. During the year, Datuk Dr Abd Hapiz bin Abdullah the former President/CEO and an Executive Director of the Company, received total remuneration paid by the Company amounting to RM1,043,021.

The current President/CEO, Datuk Sazali bin Hamzah, is an employee of PETRONAS and is seconded to the Company. In consideration for the service, the Company is required to pay a management fee to cover all payroll related costs and benefits ordinarily incurred by him in the course of his employment. During the year, the Company paid RM1,097,362 as management fee.

The Company reimburses all expenses incurred by the Directors, where relevant, in the course of carrying out their duties as Directors.

Management staff of the Company are seconded from PETRONAS. Their training and succession planning are aligned to PETRONAS' Human Resources Policies and Strategies. The Board ensures that only appropriate personnel with the relevant skills and experiences are appointed to Management positions of the Company.

(C) RELATIONSHIPS WITH SHAREHOLDERS

Communications between the Company and its investors

The Board recognises the importance of effective communications with the Company's shareholders and other stakeholders including the general public. Information on the Group's business activities and financial performance is disseminated timely through announcements to Bursa Malaysia, postings on the Company's website, press releases, issuance of Annual Report and where required, press conferences.

The President/CEO together with the Chief Financial Officer and the Company's Investor Relations Unit conduct regular dialogues with its institutional shareholders and analysts, and hold quarterly analysts briefings to further explain the Group's quarterly financial results. This is to promote better understanding of the Group's financial performance and operations. Periodically, visits to the Group's facilities or plants are also organised to facilitate better appreciation and insight into the Group's business and operations.

The Company actively updates its website (www. petronaschemicals.com) with the latest information on the corporate and business aspects of the Group. Press releases, announcements to Bursa Malaysia, analyst briefings and quarterly results of the Group are also made available on the website and this helps to promote accessibility of information to the Company's shareholders and all other market participants.

Annual General Meeting (AGM)

The AGM is the principal forum of open dialogue with shareholders. The notice and agenda of AGM together with Forms of Proxy are given to shareholders at least twenty one (21) days before AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxy to attend and vote on their behalf. Each item of special business included in the notice of the AGM will be accompanied by an explanatory statement on the effects of the proposed resolution.

At each AGM, shareholders are encouraged and given sufficient opportunity as well as time by the Board to raise questions on issues pertaining to the Annual Report, resolutions being proposed and the business of the Company or the Group in general prior to seeking approval by show of hands from members and proxies on the resolutions. The Board, Senior Management, external auditors and other advisors, as applicable are present at AGM to provide answers and clarifications to shareholders. The Chairman informs on the availability of poll voting by shareholders on matters raised during the AGM.

STATEMENT ON CORPORATE GOVERNANCE

(D) ACCOUNTABILITY AND AUDIT

Financial reporting

The Board is committed to provide a fair and objective assessment of the financial position and prospects of the Group in the quarterly financial results, annual audited financial statements, Annual Reports and all other reports or statements to shareholders, investors and relevant regulatory authorities.

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements is set out on page 171 of this Annual Report.

Related Party Transactions

All related party transactions including recurrent related party transactions are reviewed by the Board Audit Committee and reported to the Board.

The Company has established its policies and procedures on related party transactions and conflict of interest situations, including recurrent related party transactions, to ensure that they are undertaken on normal commercial terms and are not to the detriment of the Company's minority shareholders.

The Statement on Risk Management & Internal Control includes an overview of the Group's policies and procedures on related party transactions, including recurrent related party transactions, as set out on page 149 to page 157 of this Annual Report.

Risk Management and Internal Control

The Board continues to maintain and review its risk management processes and internal control procedures to ensure a sound system of risk management and internal control to safeguard shareholders' investments and the assets of the Company and the Group.

The Statement on Risk Management & Internal Control which provides an overview of the state of risk management and internal controls within the Group is set out on page 149 to page 157 of this Annual Report.

Relationship with External Auditors

At the last AGM of the Company held on Thursday, 24 April 2014, Messrs KPMG were appointed as the auditors to replace the retiring auditors, Messrs KPMG Desa Megat ϑ Co.

Through the Board Audit Committee, the Company maintains a professional and transparent relationship with its external auditors, Messrs KPMG. The Board Audit Committee regularly meets the external auditors without the presence of the Management. As the need arises, the external auditors will highlight to both the Board Audit Committee and the Board on matters that warrant their attention.

The role of the Board Audit Committee in relation to the external auditors is described in the Board Audit Committee Report on page 161 to page 165 of this Annual Report.

The Malaysian Code on Corporate Governance 2012 (MCCG 2012)

The Board is committed and strives to observe the principles and recommendations of the new MCCG 2012, of which observance is on voluntary basis.

The Group has fully adopted all recommendations of the MCCG 2012 except for the following:-

 Recommendation 2.1 – The Board should establish a Nominating Committee which should comprise exclusively of Non-Executive Directors, a majority of whom must be independent. The chair of the Nominating Committee should be the senior independent Director.

The Nomination and Remuneration Committee is chaired by an Independent Director, Mr Ching Yew Chye, who is not the senior independent director identified by the Board. The senior independent director, Ms Vimala a/p V.R. Menon, is currently the Chairman of the Board Audit Committee. The Group elects to have different chairmanships in Board Audit Committee and Nomination and Remuneration Committee so as to leverage on the different perspectives and dynamics which emanate from such arrangements, as well as to ensure that each independent director has equitable roles and responsibilities respectively. The Group intends to maintain the current arrangement.

 Recommendation 2.2 – The gender diversity policies and targets and the measures taken to meet the targets.

The Company does not have a written gender policy. Nonetheless, currently, there are two female directors on the Board representing 25% of the Board composition.

3. Recommendation 2.3 – The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors.

The remuneration of the Directors is competitive and attractive as it has been benchmarked against the industry. A formal written policy and procedures for directors' remuneration is currently being developed.

 Recommendation 3.5 – The Board must comprise a majority of independent directors where the Chairman of the Board is not an independent board member.

The Chairman of the Company is currently a Non-Independent Non-Executive Director. This is premised on the high level of integration with PETRONAS' business. The Company has appointed an additional Independent Non-Executive Director on 13 June 2014. With the appointment, the Board composition is balanced and the Company intends to maintain the current Board composition.

 Recommendation 5.2 – The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors.

The Board Audit Committee continues to review and to monitor the suitability and independence of external auditors. As part of the annual audit exercise, the Group also obtains assurance from the external auditors confirming their independence throughout the year under review.

STATEMENT ON CORPORATE GOVERNANCE

The roles and responsibilities of the Directors are documented in the Board Charter which sets out the principles and guidelines that are to be applied by the Board and the Board Committees, as well as identifying their functions in the Company and/or Group. This Board Charter will be reviewed to incorporate updates and enhancement, and continues to be relevant to the existing rules and regulations as and when necessary. The Board Charter is accessible to the public for reference on the Company's official website. The Board Charter is published on page 158 to 160 of this Annual Report.

Statement by the Board on Compliance

The Board has deliberated, reviewed and approved this Statement. The Board considers and is satisfied that the Group has fulfilled its obligations under the MCCG 2012, the relevant chapters of the MMLR of Bursa Malaysia on corporate governance and applicable laws and regulations throughout the year ended 31 December 2014.

This Statement is made in accordance with the resolution of the Board of Directors dated 18 February 2015.

Datuk Wan Zulkiflee bin Wan Ariffin Chairman

Datuk Sazali bin HamzahPresident/Chief Executive Officer

(E) ADDITIONAL COMPLIANCE INFORMATION

1. Non-Audit Fee

The amount of non-audit fees paid and payable to the external auditors of the Company for the year ended 31 December 2014 was RM460,000.

2. Sanctions/Penalties

During the year, there were no sanctions or material penalties imposed on the Group, Directors or Management by the relevant regulatory bodies.

3. Material Contracts

There were no material contracts or loans entered into by the Company or its subsidiaries involving directors' or major shareholders' interests, either still subsisting at the end of the year ended 31 December 2014 or entered into since the end of the previous period, except as disclosed in the audited financial statements.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Internal control is an integral part of PETRONAS Chemicals Group's objectives, risk and control continuum. The Board recognises that the Group operates in a dynamic business environment in which the internal control system must be responsive in order to be able to support its business objectives. Hence, the Board continues with its commitment to maintain a firm system of internal control throughout the Group which is in compliance with the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) and the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. The Group also embraces PETRONAS Shared Values of loyalty, integrity, professionalism and cohesiveness which provide the foundation for effective internal control structure.

The Board is pleased to provide the following statement on risk management and internal control framework that are embedded into the organisation's culture, processes and structures.

BOARD'S ACCOUNTABILITY

The Board acknowledges the importance of maintaining a sound system of internal control and a robust risk management practice for good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. The Board affirms its overall responsibility for reviewing the adequacy and the integrity of the Group's risk management and internal control system which ensures compliance with applicable laws, regulations and guidelines.

In view of the limitations that are inherent in any internal control system, this system is designed to manage, rather that eliminate the risk of failure of achieving the Group's objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatements or losses.

The Group has established a process for identifying, evaluating, monitoring and managing significant risks that may materially affect the achievement of corporate objectives. This process is being implemented throughout the Group and the Board will continue to review this process periodically and enhance it as relevant to ensure sustainability.

RISK MANAGEMENT

Risk management is regarded by the Board to be an integral part of the Group's organisational processes, with the objective of maintaining a sound internal control system and ensuring its continuing adequacy and integrity. A Risk Governance Framework, Risk Management Policy and Risk Agenda are in place to guide the implementation of Risk Management strategies and initiatives to institutionalise risk management as a business culture throughout the Group.

The Risk Management Department is entrusted with the responsibility of ensuring effective risk governance and strategic risk plan implementation in the Group. Risk Management Oversight comprising Risk Management Committee, Plant and Facilities Risk Management Committee and Commercial Risk Management Committee are in place to actively oversee and to ensure seamless integration of risk management into the Group's business processes. These committees, which consist of senior management staff, convene regularly and are committed to uphold risk management culture as part of key business activities. Management committees of the Group's subsidiaries are responsible for risk management and internal controls implementation at the respective companies.

The risk profile of the Group has been established based on Enterprise Risk Management concept. The principal risks identified are regularly reviewed whereby the status of key risk indicators and risk mitigations progress are deliberated at the Risk Management Committee and informed to the Board Audit Committee on a quarterly basis. Each principal risk has dedicated owners who are

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

responsible for the effective implementation of control measures, monitoring and tracking of key risk indicators performance, identifying additional risk mitigations and implementing these mitigations. The risks and mitigations are communicated to the line on a timely basis to ensure awareness at all levels.

The Group also establishes its risk appetite and corresponding operational risk tolerance limits for plant operations and marketing activities. Business performance is consistently assessed against the set risk appetite and tolerance limits to ensure necessary interventions are conducted on a timely manner. All critical business decisions across the Group are subjected to comprehensive risk assessments, thus ensuring decisions by the Board and Management are made with due consideration of risk-return trade-offs.

The Group continued to undertake the credit risk assessment based on the standard PETRONAS Credit Risk Rating System (PCRRS) which was used across the PETRONAS Group of Companies. The system evaluates the credit worthiness and assigns credit risk ratings to all of the Group's third party customers. Periodical reviews are conducted on the credit risk ratings of these customers based on their latest financial statements to ensure credit exposure due to financial default is minimised.

The Group reviewed current business practices to ensure zero anti-competitive practices, established a compliance team to deliberate issues related to conduct of business which may infringe the Malaysia Competition Act 2010 and rolled out staff awareness programme including engagement session with Malaysia Competition Commission (MyCC) to promote full compliance to the said Act.

The Group has in place a Business Continuity Management (BCM) programme to ensure business resilience and capability to recover and continue its business within a tolerable timeframe following an incident or crisis. The

Group has developed a Business Continuity Plan (BCP) which prescribes how PCG will resume and recover its critical business, and tested the plan during the year.

In addition, the Group subscribes to the following risk management systems and processes which are in line with PETRONAS:-

- PETRONAS Health Safety Environment Management System (HSEMS) to manage HSE risk and ensure that operations are in tandem with HSE regulatory requirements and industry best practices. In ensuring effective implementation of HSEMS, a Mandatory Control Framework was deployed to measure compliance against PETRONAS mandatory HSE requirements. Arising gap closure plans have been duly incorporated within the HSEMS implementation plan.
- Contractor Risk Assessment (CoRA) to ensure systematic identification, assessment and mitigation of contractors' related risks which are critical to their performance. CoRA is undertaken as part of the procurement process prior to selection of contractor.
- Turnaround Risk Assessment (TaRA) to ensure systematic identification, assessment and mitigation for turnaround activities in subsidiaries which are critical for smooth turnaround execution. During the year under review, there were four subsidiaries which conducted planned statutory turnarounds.
- Project Risk Assessment (PRA) to ensure systematic identification, assessment and mitigation to manage risk associated with projects which is in line with PETRONAS Project Management System (PPMS) requirements.

The Group will continue its focus in the implementation of key Risk Management strategies and initiatives to achieve its risk agenda of institutionalising Risk Management as a business culture throughout the Group.

INTERNAL AUDIT

Internal audits are undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control. The Group has its own dedicated internal audit function that provides a systematic and disciplined approach to evaluate and improve the effectiveness of control and governance processes within the Group. It maintains its impartiality, proficiency and due professional care by reporting directly to the Board Audit Committee.

The internal audit function reviews the internal controls of selected key activities of the Group's businesses based upon an annual internal audit plan which is presented to the Board Audit Committee for approval. The annual audit plan, which covers the Group and its subsidiary companies, is established primarily on a risk based approach. The Board Audit Committee reviews audit reports and directs the Management for the necessary corrective actions. The Management is responsible for ensuring that corrective actions are implemented accordingly. In addition, the status of the audit issues closures is reported to the Board Audit Committee on a quarterly basis.

The interests of the Group in joint ventures and associated companies are primarily served through representation on the Board of Directors of the respective companies. Internal controls of joint ventures and associated companies may be reviewed through shareholders' audit or upon specific request by the Board Audit Committee.

OTHER KEY ELEMENTS OF INTERNAL CONTROL SYSTEMS

In furtherance to the Board's commitment to maintain a sound system of internal control, the Board continues to maintain and implement a strong control structure and environment for the proper conduct of the Group's business operations as follows:-

Board of Directors

The Board meets at least quarterly and has set a schedule of matters, which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The President/CEO leads the management in presentation of board papers and ensures management provides detailed explanation of pertinent issues. In arriving at any decision requiring Board's approval as set out in the Limits of Authority manual on recommendation by the Management, thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group's activities and its operations on a regular basis.

The President/CEO reports to the Board on significant changes in the business and external environments which are relevant to the business. The Chief Financial Officer provides the Board with quarterly performance reports and related financials of the Group.

Board Audit Committee

The Board has delegated the duty of reviewing and monitoring the effectiveness of the Group's system of internal controls to the Board Audit Committee.

The Board Audit Committee assumes the overall duties of reviewing with the external auditors their audit plan, audit report, as well as their findings and recommendations pursuant to the year-end audit. The Board Audit Committee also evaluates the adequacy and effectiveness of the Group's risk management and internal control systems through reviews of internal control issues identified by internal auditors and Management. Throughout the year, the Board Audit Committee was updated on developments in MMLR of Bursa Malaysia, Malaysian Financial Reporting Standards, as well as new legal and regulatory requirements.

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The Board Audit Committee meets at least quarterly and has full and unimpeded access to the internal and external auditors and all employees of the Group.

Further information relating to the activities of the Board Audit Committee is set out in the Board Audit Committee's report as presented on page 161 to page 165 of this Annual Report.

Organisation Structure and Management Committees

An organisational structure, which is aligned to the business and operational requirements, and with clearly defined lines of responsibility, accountability and levels of authority, is in place to assist in implementing the Group's strategies and day-to-day business activities.

The Company has a Management Committee which serves in an advisory capacity to the President/CEO in accomplishing the vision, mission, strategies and objectives set for the Group.

Various functional committees have also been established across the Group to ensure the Group's activities and operations are properly aligned towards achieving the organisation goals and objectives.

Limits of Authority

The Group has established Limits of Authority which define the appropriate approving authority to govern and manage business decision process. The Limits of Authority sets out a clear line of accountability and responsibility which serves as a reference in identifying the approving authority for various transactions including matters that require Board's approval. It provides a framework of authority and accountability within the Group and facilitates decision making at the appropriate level in the Group hierarchy.

Financial Control Framework

The Group has implemented a Financial Control Framework to ensure key internal controls are adequate and effective at all times. The framework requires the documentation of key processes and a structured assessment process to identify control gaps and the required mitigation action. Annually, each key process owner at various management levels is required to provide formal confirmation on level of compliance to key controls for their respective business areas. The Financial Control Framework thus provides further assurance on the quality of the Group's financial reports.

• Corporate Financial Policy

The Group has adopted PETRONAS Corporate Financial Policy which sets forth the policy for financial management activities embedding the principles of financial risk management. The Corporate Financial Policy governs financial risk management practices across the Group. It prescribes a framework in which financial risk exposures are identified and managed.

· Business Plan and Budget

The Group undertakes an annual budgeting and forecasting exercise which includes development of business strategies for the next five years and the establishment of key performance indicators against which the overall performance of the Group, including the respective performance of business segments and companies within the Group, can be measured and evaluated. Detailed operating and capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the Management Committee. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods. The Group's strategic direction is also reviewed through a rigorous assessment process taking into account changes in market conditions and significant business risks.

Code of Conduct and Business Ethics

The Group adopts and practices PETRONAS Code of Conduct and Business Ethics (CoBE) which emphasises and advances the principle of discipline, good conduct, professionalism, loyalty, integrity and cohesiveness that are critical to the success and well-being of the Group. The CoBE contains detailed policy statements on the standards of behaviour and ethical conduct expected of each individual of the Group. The Group also expects that contractors, sub-contractors, consultants, agents and representatives and others performing work or services for or on behalf of the Group to comply with the relevant parts of the CoBE when performing such work or services. The CoBE expressly prohibits improper solicitation, bribery and other corrupt activity not only by employees and directors but also by third parties performing work or services for or on behalf of companies in the PETRONAS Group.

Included as part of the CoBE is the Anti-Bribery and Corruption Policy which explicitly prohibits the giving and acceptance of bribes, in whatever form, by employees including giving and receiving of facilitation payments in all business dealings.

Whistleblowing Policy

The Group has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group employees and member of the public to disclose any improper conduct in accordance with the procedures as provided under the policy.

Under the Whistleblowing Policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who whistleblows internally will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith.

Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts and the rules and procedures involved.

Tender Committee

Tender Committee structure which comprises cross functional representatives has been established to review all major purchases and contracts. The tender committees provide the oversight function on tendering matters prior to approval by the relevant Approving Authorities as set out by the Limits of Authority.

• Employees Performance Management

The Group selects talents for employment through a structured recruitment process. The professionalism and competency of staff are continuously enhanced through a structured training and development programme. A performance management system is in place which measures staff performance against agreed key performance indicators on a semi-annual basis.

Operating Procedures and Guidelines

The Group has developed Operating Procedures and Guidelines which covers business planning, capital expenditure, financial operation, performance reporting, plant operations, marketing and sales, supply chain management, human resource management, information system and health, safety and environment. These define the policies and procedures for day-to-day operations and act as guidelines to the proper measures to be undertaken in a given set of circumstances. The policies and procedures are also reviewed on a regular basis to ensure continuing relevance and effectiveness.

Information and Communications Technology

Information and Communications Technology is extensively deployed in the Group to automate work processes, where possible and to efficiently collect key business information. The Group continues to enhance its information and

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communication systems in ensuring that it can act as an enabler to improve business processes, work productivity and decision making throughout the Group. System reviews are conducted periodically to confirm adequate controls are in place to ensure adherence to the Group's business objectives, policies and procedures.

Related Party Transaction (RPT) and Conflict of Interest (COI)

The Group has established policies and procedures with regards to RPT and COI to ensure full compliance to the MMLR of Bursa Malaysia.

The policies and standard operating procedures require the use of various methods to ensure that RPTs are conducted on normal commercial terms, which are consistent with the Group's normal business practices and policies, and will not be to the detriment of the Group's minority shareholders. Such methods include the review and disclosure procedures as follows:-

- (i) Directors and officers of the Company and its Group shall not enter into transactions with related parties unless these transactions are carried out on normal commercial terms and are not to the detriment of the Group's minority shareholders;
- (ii) All sourcing and sales of PETRONAS Chemicals Group's products, general merchandise and/or shared facilities/services shall be based on market/industry negotiated pricing terms and conditions and/or pricing formulas quoted against international price benchmarks;
- (iii) Whenever practicable and/or possible, at least two (2) other contemporaneous transactions with third parties for substantially similar products/services and/or quantities, other than that which are proprietary in nature or unique to the PETRONAS Group, will be used as comparison to determine whether the price and terms offered to/by the related parties are fair and reasonable and comparable to those offered to/by third parties, bearing in mind, market forces for the demand

and supply of the products/services and its impact on pricing, quality, delivery schedules, preferential terms and conditions, and on the urgency that the products/services are required. Nonetheless, in the event that such quotation or comparative pricing from third parties cannot be obtained, the transactions' prices will be reviewed to ensure that the RPTs/Recurring RPTs (RRPT) are within normal commercial terms and not detrimental to the Group's minority shareholders;

- (iv) RPTs/RRPTs will be reviewed by the Board Audit Committee prior to the approval by either the Board or the shareholders. In the case of transaction/contract entered into by the subsidiary companies, the RPTs/RRPTs will be endorsed by the Board and subsequently approved by the subsidiary company's Board. If a Director or a related party has an interest in a transaction, he or she will abstain from any deliberation and decision-making at the Board or subsidiary company's Board (as the case may be) in respect of the said transaction;
- (v) The Board Audit Committee is responsible to ensure that the policies and procedures relating to RPTs/RRPTs and COI situations are sufficient to ensure that RPTs/RRPTs are carried out on normal commercial terms and not to the detriment of the Group's minority shareholders. The Board has the overall responsibility to ensure compliance to the established guidelines and procedures to approve and monitor RPTs/RRPTs and COI situations. The Board and/or Board Audit Committee may also appoint individuals and Committees to examine the RPTs/RRPTs, as deemed appropriate;
- (vi) On an annual basis, all Directors and any related party of the Group will declare in writing an annual declaration form, designed to elicit information about current/potential relationships and/or COI situations, involving their interest, either directly or indirectly. All Directors and any related party of the Group shall also notify in writing of any interest in RPT or COI situation when it becomes known to them:

(vii) The Group Legal Division performs reviews on all commercial contracts. System based records are maintained to capture the RPTs/RRPTs which have been entered into. Processes concerning negotiations, tendering and/or analysis carried out for transactions between related parties are appropriately documented and retained to support and evidence that such transactions have been carried out on normal commercial terms and are not detrimental to the Group's minority shareholders.

The Company has been granted a waiver from complying with the requirement of Paragraph 10.09 of the MMLR of Bursa Malaysia including having to seek shareholders' approval in relation to the supply, sale, purchase, provision and usage of certain goods, services and facilities which form part of PETRONAS Group integrated operations.

The Group forms part of the integrated oil and gas value chain of the PETRONAS Group. The transactions such as the supply of raw materials are vital to the Group's operations, and alternative supplies will not be readily available as PETRONAS Group is a major supplier and at times, the sole supplier of such raw materials. Due to the integrated nature of the Group's petrochemicals and business operations with the PETRONAS Group, the waiver is of particular significance to ensure the Group does not experience any potential disruption to its operations.

The details of the RRPTs incurred during the year that were waived by Bursa Malaysia are presented on page 157 of this Annual Report.

Management's Accountability

Management is accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control as prescribed above. The President/ CEO and the Chief Financial Officer have provided the Board with assurance that the Group risk management and internal control system is operating adequately

and effectively, in all material aspects, to ensure achievement of corporate objectives. In providing the above assurance by President/CEO and Chief Financial Officer, similar letters of assurance have also been obtained from Management Committee members confirming the adequacy and effectiveness of risk management practice and internal control system within their respective areas.

Conclusion

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

The Board and Management will continue to review and strengthen the Group's risk management and internal control system to ensure ongoing adequacy and effectiveness of the system of internal control and risk management practices to meet the changing and challenging operating environment.

The internal control systems discussed in this statement do not apply to joint ventures and associated companies which falls under the control of their majority shareholders. Nonetheless, the interest of the Group is safeguarded through the representatives on the Board of the joint ventures and associated companies and through the review of management accounts received.

Review of the Statement by External Auditors

The external auditors have reviewed this Statement on Risk Management and Internal Control in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information as adopted by the Malaysian Institute of Accountants and Recommended Practice Guide (RPG) 5 (Revised), Guidance for Auditors on Engagements to Report on

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

the Statement on Risk Management and Internal Control Included in the Annual Report issued by Malaysian Institute of Accountants for inclusion in the Annual Report of the Group for the financial year ended 31 December 2014 and reported to the Board that nothing has come to their attention that cause them to believe that the Statement on Risk Management and Internal Control has not been prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or is factually inaccurate.

ISAE 3000 and RPG 5 (Revised) does not require the external auditors to consider whether the Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. External auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report of

the Company will, in fact, remedy the problems and not required to perform any procedures by way of audit, review or verification of the underlying records or other sources from which the Statement on Risk Management and Internal Control was extracted.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 18 February 2015.

Datuk Wan Zulkiflee bin Wan Ariffin

Chairman

Datuk Sazali bin Hamzah

President/Chief Executive Officer

Recurrent Related Party Transactions that were waived by Bursa Malaysia Securities Berhad from complying with the requirement of Paragraph 10.09 of the Main Market Listing Requirements

Transacting Parties	Nature of transactions	For Year Ended 31/12/2014 RM'000
	Integrated Operations of Our Group	
PCG Group and PETRONAS and its subsidiaries	(i) Supply of fuel and feedstock (such as ethane, propane, butane, dry gas, naphtha, natural gas) by PETRONAS Group	5,672,742
(PETRONAS Group)	(ii) Supply of utilities, electricity and water by PETRONAS Group	678,866
	(iii) Upgrading and pipeline works on the Labuan Gas Terminal by PETRONAS Chemicals Methanol (Labuan) Sdn Bhd	nil
	(iv) Grant to PETRONAS Group for the right of usage of facilities and passage of commodities to facilitate the receipt and distribution of petrochemicals and related products	539
	(v) Provision of operating and maintenance services by PETRONAS Group	3,790
	(vi) Purchase of marine diesel oil from PETRONAS Group	10,335
	Services rendered within the PETRONAS Group	
	(vii) Provision of vessel screening services by PETRONAS Maritime Sdn Bhd	128
	(viii) Provision of freight, transportation and warehousing services by MISC Berhad and its subsidiaries (MISC Group)	58,806
	Others	
	(ix) Sales of petrochemical products and other related products to PETRONAS Group	1,012,741

BOARD CHARTER

1. INTRODUCTION

The Board of Directors (the Board) is committed to high standards of corporate governance and strives to ensure that it is practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.

2. OBJECTIVE

The Board Charter demonstrates that the Board remains fully resolved and committed to employing the principles of integrity, transparency and professionalism to ensure the practice of good corporate governance will safeguard and enhance shareholders' value, and at the same time protect the interests of its stakeholders.

3. ROLES OF BOARD

The Board shall actively strive and be collectively responsible to promote the success of the Group by directing and supervising its business.

In addition to fulfilling its commitment for increased shareholders' value, the Board endeavours to uphold the interests of the Group's customers, employees, suppliers and to the communities where it operates, bearing in mind the circumstances and requirements for successful business. The Board reviews and decides matters related to the overall Group strategy and financial matters.

The duties, powers and functions of the Board are governed by the Articles of Association of the Company, the Companies Act, 1965 in Malaysia and other regulatory guidelines and requirements that are in force.

(a) Board of Directors

The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. To discharge the Board's stewardship responsibilities, the Board has assumed the following principal roles and responsibilities:-

- Review and approve annual corporate plan, which includes overall corporate strategy, marketing plan, human resources plan, financial plan and budget, risk management plan and information technology plan;
- (ii) Oversee and review the performance of the business, and to evaluate whether the business is being properly managed;
- (iii) Identify principal risks and ensure the implementation of appropriate systems to manage these risks;
- (iv) Ensure that there is an appropriate succession plan for members of the Board and Senior Management;
- (v) Develop and implement an investor relations program or shareholders' communications policy;
- (vi) Review the adequacy and integrity of internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines; and
- (vii) Review and approve financial statements.

(b) Chairman

The Chairman of the Board is a Non-Independent Non-Executive Member of the Board who is primarily responsible for the orderly conduct and function of the Board.

There is a clear division of roles and responsibilities between the Chairman and the President/CEO.

(c) President/Chief Executive Officer (CEO)

The President/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group's strategies and policies. He is assisted by the Management Committee in managing the business on day-to-day basis, which he consults regularly.

(d) Board Committees

As part of efforts to ensure the effective discharge of its duties, the Board has delegated certain functions to certain Committees with its own Terms of Reference. The Chairman of the Committees will report to the Board on the decision or outcome of the Committee meetings.

The Board shall establish the following Board Committees with its own specific terms of reference:-

- (i) Audit Committee
- (ii) Nomination and Remuneration Committee

No Alternate Director can be appointed as a member of these Committees. All Board Committees shall be established in accordance with the Main Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia).

4. BOARD FUNCTIONS

(a) Ethics & Compliance

The Board has adopted the PETRONAS Code of Conduct and Business Ethics (CoBE) that seeks to ensure that the Company's and/or Group's Directors, group employees and third parties which perform works or services for the Company and/or Group will act ethically and remain above Board at all times, and that their individual behaviour is in line with PETRONAS's Shared Values i.e Loyalty, Integrity, Professionalism, and Cohesiveness. CoBE also includes appropriate communication and feedback channels which facilitate whistleblowing.

(b) Risk Management

The Board acknowledges the importance of maintaining a sound system of internal control and a robust risk management practice for good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. For this purpose, the Board has adopted a Risk Governance Framework, Risk Management Policy and Risk Agenda.

(c) Environment

The Board acknowledges the need to safeguard and minimise the impact to the environment in the course of achieving the Company's objectives. The Board's agenda reflects the commitment to economic support for longer term sustainability with a focus on the positive impact on the environment, community and society.

(d) Stakeholder Communication

The Board acknowledges the need for effective investor relations and communication with shareholders and to provide them with all relevant information affecting the Company. Hence, the Board adopts an open and transparent policy.

BOARD CHARTER

5. PROCESSES OF BOARDS

(a) Board Meetings

The Board shall meet at least quarterly with additional meetings convened as and when necessary. Prior to each Board meeting, the agenda and a set of board papers encompassing qualitative and quantitative information relevant to the business of the meeting are distributed to all Directors on a timely basis.

In convening the Board meetings, all procedures shall meet the requirements of a valid Board meeting and shall follow the Articles of Association of the Company. All proceedings in Board meetings are recorded as minutes and signed by the Chairman in accordance with the provisions of the Companies Act 1965 in Malaysia.

(b) Financial Reporting/Non-Financial Reporting

The Board is committed to provide a fair and objective assessment of the Group's financial positions and prospects of the Group and ensures that the financial statements are a reliable source of information for shareholders and other stakeholders.

(c) Board Decision

Presentations and briefings by the Management and relevant external consultants, where applicable, are also held at Board meetings to advise the Board. Relevant information and clarification are furnished to the Board in order for the Board to arrive at a considered decision.

6. ENSURING EFFICIENCY

(a) Access of Information

The Company shall provide all Directors with timely and quality information and in the form and manner appropriate for them to discharge their duties effectively. Where necessary, the Directors whether as a full board or in their independent capacity may seek independent professional advice at the Company's expense in furtherance of their duties.

The Directors have direct access to the key management and have unrestricted access to any information relating to the Group to enable them to discharge their duties.

The Directors also have direct access to the advice and services of the Company Secretary and are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of the Directors.

(b) Succession Planning

The Board strives to ensure that all key management positions within the Company are filled with candidates with sufficient calibre.

(c) Directors' Evaluation

Performance assessment of the Directors is being undertaken on yearly basis.

(d) Directors' Compensation

The remuneration packages are aligned with the business strategy and long term objectives of the Company.

(e) Training and Development

The Board shall ensure compliance with Bursa Malaysia's mandatory accredited programme for newly-appointed Directors. The Directors shall also keep abreast with the development and changes in the industries in which the Group operates, as well as corporate governance and financial updates. The Directors are able to assess further training program needs on an on-going basis.

The Board shall undertake a continuous educational and training programme to update Board Members on new developments in risks control, laws, regulations and other business and management-related subjects which may affect the Company's business and compliance requirements.

COMMITTEE REPORT

The Board Audit Committee is pleased to present its report for the year ended 31 December 2014 in compliance with Paragraph 15.15 of Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia).

COMPOSITION

The Board has established the Board Audit Committee with members as follows:-

- (1) Vimala a/p V.R. Menon Chairman (Independent Non-Executive Director)
- (2) Ching Yew Chye
 (Independent Non-Executive Director)
- (3) **Dong Soo Kim** (Independent Non-Executive Director)
- (4) Rashidah binti Alias@Ahmad
 (Non-Independent Non-Executive Director)
- (5) Datuk Toh Ah Wah¹ (Independent Non-Executive Director)
- 1 Appointed as Board Audit Committee member on 11 August 2014

In compliance with the Malaysian Code on Corporate Governance (MCCG 2012) and Paragraph 15.09 (1)(b) of the MMLR of Bursa Malaysia, all five (5) Board Audit Committee members are Non-Executive Directors including four (4) Independent Directors who fulfil the criteria of independence as defined in the MMLR of Bursa Malaysia.

The Chairman of the Board Audit Committee, Ms. Vimala a/p V.R. Menon and Pn. Rashidah Binti Alias @ Ahmad are both qualified accountants. Ms. Vimala a/p V.R. Menon is a member of the Malaysian Institute of Accountants and also a Fellow of the Institute of

Chartered Accountants in England and Wales (ICAEW) whilst Pn. Rashidah binti Alias @ Ahmad is a Fellow of the Institute of Chartered Accountants in Australia (ICAA). In this regard, the Company is in compliance with paragraph 15.09(c)(i) under the MMLR of Bursa Malaysia which requires at least one (1) member of the Board Audit Committee to be a qualified accountant.

Ms. Vimala a/p V.R. Menon has been appointed as the senior independent director to act as the representative of the Board, to whom any concerns pertaining to the Group may be conveyed by shareholders and other stakeholders.

TERMS OF REFERENCE

The summary terms of reference of the Board Audit Committee as set out on page 166 to page 167 of this Annual Report are consistent with the MMLR and the MCCG 2012. All the requirements under the terms of reference are fully complied with.

MEETINGS

The Board Audit Committee met six (6) times during the year ended 31 December 2014 and details of attendance of the Board Audit Committee members are as follows:-

Name of Members	No. of meetings attended
Vimala a/p V.R. Menon	6 out of 6
Ching Yew Chye	6 out of 6
Dong Soo Kim	6 out of 6
Rashidah binti Alias @ Ahmad	6 out of 6
Datuk Toh Ah Wah¹	2 out of 2

1 Appointed as Board Audit Committee member on 11 August 2014

BOARD AUDIT COMMITTEE REPORT

By invitation, the President/CEO, Chief Financial Officer, Head of Risk Management, internal auditors and external auditors are invited to attend Board Audit Committee meetings to appropriately brief and furnish the members of Board Audit Committee with relevant information and clarification to relevant items on the agenda.

At the conclusion of each meeting, recommendations are made for the management to improve the internal controls, procedures and systems of the Company and the Group, where relevant.

The Board Audit Committee meets at least quarterly with additional meetings convened as and when necessary. Board Audit Committee meetings for each year are scheduled in advance to facilitate the Directors to plan ahead and fit the Board Audit Committee meetings into their respective schedules.

All proceedings of Board Audit Committee meetings are duly recorded in the minutes of each meeting and signed minutes of each Board Audit Committee meeting are properly kept by the Company Secretary. The draft Board Audit Committee minutes are circulated to the Board Audit Committee members subsequent to the Board Audit Committee meeting but prior to the Board meeting. This assists the Board Audit Committee Chairman to effectively convey to the Board matters deliberated at the Board Audit Committee meeting.

SUMMARY OF ACTIVITIES OF THE BOARD AUDIT COMMITTEE

During the year ended 31 December 2014, the Board Audit Committee carried out the following activities in discharging its functions and duties:-

External Audit

- (a) Reviewed and recommended the terms of engagement and fees structure of external auditors for Board's approval.
- (b) Reviewed and approved the external auditors audit plan and scope for the year under review.
- (c) Reviewed the external audit report.
- (d) Reviewed the independence and objectivity of the external auditors and the effectiveness of services provided.

Internal Audit

- (a) Reviewed annual internal audit plan to ensure adequacy of resources, competencies and coverage of entities based on risk assessment.
- (b) Reviewed internal audit reports on the effectiveness and adequacy of governance, risk management, operational and compliance processes.
- (c) Reviewed the adequacy and effectiveness of agreed corrective actions undertaken by management on significant and secondary issues raised.
- (d) Reviewed the adequacy of resources and competencies of staff within the Internal Audit Department to execute the internal audit plan.
- (e) Reviewed quarterly the status of agreed corrective actions for internal audit issues.

Financial Results

- (a) Reviewed the quarterly financial results prior to the approval by the Board, to ensure compliance to the MMLR of Bursa Malaysia, the applicable financial reporting standards as well as other relevant legal and regulatory requirements. The review and discussion were conducted with the President/CEO and the Chief Financial Officer of the Company.
- (b) Reviewed the audited financial statements for the year under review prior to the approval by the Board, to ensure that they were prepared in accordance with the provisions of the Companies Act, 1965 in Malaysia and the applicable financial reporting standards. The review and discussions were conducted with the President/CEO and the Chief Financial Officer of the Company.
- (c) Reviewed the relevant corporate governance and internal controls statements for the Annual Report in relation to the audited financial statements, prior to the approval by the Board, to ensure that they were prepared in compliance to relevant regulatory requirements and guidelines.
- (d) Reviewed the impact of the implementation of new and updated Malaysian Financial Reporting Standards.

Corporate Governance

- (a) Reviewed the impact of relevant regulatory changes and ensured compliance by the Company and the Group.
- (b) Reviewed the Company's Board Charter.
- (c) Monitors the development in corporate governance standards pursuant to the MCCG 2012 and applicable rules and regulations.

Related Party Transactions (RPT)/Recurrent Related Party Transactions (RRPT)

- (a) Reviewed the policies and procedures relating to RPTs/RRPTs and conflicts of interests situations, with the objective of ensuring that all RPTs/RRPTs are carried out on normal commercial terms and are not to the detriment of the Company's minority shareholders.
- (b) Ensured that the policies and procedures includes methods and processes to identify, evaluate, monitor, report, approve and disclose accurately and completely, in a timely and orderly manner such situations and transactions.
- (c) Reviewed RPTs/RRPTs for approval or endorsement by the Board to ensure compliance to the Company's policies and procedures on RPT.

The Statement on Risk Management & Internal Control includes an overview of the Group's policies and procedures on RPTs, including RRPTs, as set out on page 149 to page 157 of this Annual Report.

Risk Management

- (a) Reviewed and endorsed all policies, frameworks, guidelines and other key components of risk management for implementation within the Company and throughout the Group.
- (b) Reviewed and endorsed the corporate risk profile for the Group.
- (c) Reviewed the progress of ongoing risk management activities to identify, evaluate, monitor and manage critical risks including the Company's Business Continuity Management Policy and Framework.

BOARD AUDIT COMMITTEE REPORT

Internal Audit Department

The internal audit function of the Group reports directly to the Board Audit Committee to ensure impartiality and independence. Key Performance Indicators (KPIs) of the Head of Internal Audit are reviewed and deliberated at the Board Audit Committee.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business processes within the Group. The Board Audit Committee has full access to internal auditors and received reports on all audits performed.

In the year under review, internal audits were carried out as per the internal audit plan duly approved by the Board Audit Committee. The Board Audit Committee reviewed the resulting reports on the following audits during the year under review:-

- Audit on Kertih Port Sdn Bhd on overall governance, services and third party services.
- Audit on PETRONAS Chemicals Ammonia Sdn Bhd on overall governance, maintenance, procurement and management of change activities.
- Audit on Risk Management Department on overall governance and risk management activities.
- Audit on Strategic Planning and Ventures Department on overall governance, strategic planning, ventures management and business development activities.
- Audit on Kertih Terminals Sdn Bhd on overall governance, service agreements, terminal facilities management and management of change.

- Audit on PETRONAS Chemicals Fertiliser Sabah
 Sdn Bhd on overall governance, SAMUR Project
 Agreements and construction agreements.
- Audit on PETRONAS Chemicals Marketing Sdn Bhd on overall governance, commercial and international business activities.
- Audit on Human Resource Management activities on overall governance, people planning and organisation design, talent sourcing and mobility, leadership and performance management, capability development and management, and remuneration and employee relations.
- Audit on Manufacturing Division on overall governance, service and performance activities, turnaround centralised services, project engineering centralised services and centralised Laboratory Services.
- Audit on BASF PETRONAS Chemicals Sdn Bhd on tendering procedures and processes, trade control, financial derivatives, compliance management and follow-up on customs audit.
- Audit on Record Management Policy & Guidelines on implementation of record Management Policy and Guidelines.
- Special Review on Supply and Distribution Department on Logistics Tender Exercise.
- Special Review on BASF PETRONAS Chemicals Sdn Bhd on adequacy of internal control over the process of managing imported materials exempted from custom duties and taxes.
- Special Review on, SAMUR Project on subcontracts of the SAMUR Project.

- Special Review on PCM Chemical India Private Limited on arising from whistleblowing procedure.
- Special Review on BASF PETRONAS Chemicals Sdn Bhd on tendering procedures and processes, trade control, financial derivatives, compliance management and follow-up on customs audit.
- Follow-up review on PETRONAS Chemicals LDPE Sdn Bhd 2013 audit on operations and product quality management activities.
- Follow-up Review on ASEAN Bintulu Fertilizer Sdn Bhd 2013 audit on overall governance and procurement.

Subsequent to the Board Audit Committee review, the resulting reports from the audits were forwarded to the management with the agreed corrective actions. The Management is responsible for ensuring that agreed corrective actions are taken within the required time frame and reports to the Board Audit Committee quarterly on the status of audit issues resolutions.

The total costs incurred for the internal audit function of the Company and the Group for the financial year was RM6,020,000.

Reporting to the Exchange

The Board Audit Committee is of the view that the Group is not in breach of the MMLR of Bursa Malaysia that warrants reporting to Bursa Malaysia.

Vimala a/p V.R. Menon

Chairman

Board Audit Committee

SUMMARY OF BOARD AUDIT COMMITTEE'S TERMS OF REFERENCE

OBJECTIVE

To provide independent oversight of the Company's financial reporting and internal control systems and to ensure adequate and effective checks and balances within the Company and the Group.

COMPOSITION

The Board Audit Committee shall comprise only non-executive directors with at least three (3) members, where majority shall be independent directors. The committee shall be chaired by an Independent Director. At least one (1) member should have accounting expertise and experience in the field of finance.

RIGHTS

The Board Audit Committee in performing its duties shall have authority to investigate any matter within its terms of reference and given adequate resources to perform its duties. The Board Audit Committee shall have full and unrestricted access to any information or person within the Company and the Group as well as direct communication channels with external auditors and person(s) carrying out the internal audit functions or activities.

DUTIES AND FUNCTIONS

Duties of Board Audit Committee amongst others are to:-

External Audit

- Review and recommend to the Board, the appointment of external auditors and their fees.
- In the event of resignation or dismissal of external auditors, to review and consider any questions in relation to the resignation or dismissal before making recommendations to the Board.
- Review the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved.
- Review the external auditors' management letter and management's responses.
- Establish direct communication channels with the external auditors to ensure full transparency of the audit processes and its findings.
- Ensure that there are proper checks and balances in place so that the provision of non-audit services, if any, does not interfere with the exercise of independent judgement of the external auditors.

Internal Audit

- Ensure independence and authority of the internal audit function and that all audits are carried out with impartiality, proficiency and due professional care.
- Review the internal audit plan, audit reports and consider the findings of internal audits and management's responses.
- Review the adequacy of the scope, functions, competency and resources of the internal audit function.
- Direct and, where appropriate, supervise any special project or investigation considered necessary.

• Financial Reporting Review

- Review the quarterly and yearly financial statements prior to approval by the Board.
- Ensure fair and transparent reporting and prompt publication of the financial accounts.

Internal Control

 Review the adequacy and effectiveness of internal controls systems.

• Risk Management

- Review the adequacy and effectiveness of risk management practices and procedures.
- Review on quarterly basis, the risk profile of the Group.

• Related Party Transaction

 Review all related party transactions and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.

The Board Audit Committee shall hold regular meetings, at least quarterly and shall report to the Board. The Board Audit Committee shall also prepare periodic reports to the Board on work performed to fulfil its primary responsibilities.

The terms of reference and performance of the Board Audit Committee and each of its members will be reviewed by the Board periodically to ensure that the Board Audit Committee and its members have carried out their duties in accordance with the term of reference.

NOMINATION AND REMUNERATION COMMITTEE REPORT

The Nomination and Remuneration Committee is pleased to present its report for the year ended 31 December 2014 in compliance with paragraph 15.08A of Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia).

COMPOSITION

The Board has established the Nomination and Remuneration Committee with members as follows:-

- (1) **Ching Yew Chye** Chairman (Independent Non-Executive Director) Male, age 61, Ethnicity: Chinese
- (2) Vimala a/p V.R. Menon (Independent Non-Executive Director) Female, age 60, Ethnicity: Indian
- (3) **Dong Soo Kim**(Independent Non-Executive Director)
 Male, age 68, Ethnicity: Korean

In compliance with the Malaysian Code on Corporate Governance 2012 (MCCG 2012) and paragraph 15.08A of the MMLR of Bursa Malaysia, all three (3) Nomination and Remuneration Committee members are Non-Executive Independent Directors who fulfil the criteria of independence as defined in the MMLR of Bursa Malaysia.

TERMS OF REFERENCE

The summary terms of reference of the Nomination and Remuneration Committee as set out on page 170 of this Annual Report are consistent with the MMLR of Bursa Malaysia and the MCCG 2012. All the requirements under the terms of reference are fully complied with.

MEETINGS

The Nomination and Remuneration Committee met five (5) times during the year ended 31 December 2014 and details of attendance of the members are as follows:-

Name of Members	No. of meetings attended		
Ching Yew Chye	5 out of 5		
Vimala a/p V.R. Menon	5 out of 5		
Dong Soo Kim	5 out of 5		

The President/CEO, Head of Legal and Corporate Secretariat and Head of HRM are invited to attend the meetings to appropriately brief and furnish the members of Nomination and Remuneration Committee with relevant information and clarification to relevant items on the agenda.

The Nomination and Remuneration Committee meetings for each financial year are scheduled in advance to facilitate the Directors to plan ahead and fit the Nomination and Remuneration Committee meetings into their respective schedules.

All proceedings of Nomination and Remuneration Committee meetings are duly recorded in the minutes of each meeting and signed minutes of each Nomination and Remuneration Committee meeting are properly kept by the Company Secretary. The draft Nomination and Remuneration Committee minutes are circulated to the Nomination and Remuneration Committee members subsequent to the Nomination and Remuneration Committee meeting but prior to the Board meeting. This assists the Nomination and Remuneration Committee Chairman to effectively convey to the Board matters deliberated at the Nomination and Remuneration Committee meeting.

SUMMARY OF ACTIVITIES OF THE NOMINATION AND REMUNERATION COMMITTEE

During the year ended 31 December 2014, the Nomination and Remuneration Committee carried out the following activities in discharging its functions and duties:-

(i) Board Effectiveness Evaluation

 Assessed the performance of the Board, its sub-committees and its members during the year ended 31 December 2014.

(ii) Board Membership

- Assessed the skills mix of the Board members and identified marketing competency (extensive regional exposure in a senior marketing position, leadership qualities and roles, communication skills etc.) as critical to support the regional growth strategy. A search firm was appointed to shortlist candidates for the vacancy.
- The Nomination and Remuneration Committee members interviewed shortlisted candidates from a diverse background including gender, ethnicity and age. The Board appointed Datuk Toh Ah Wah as the Company's Independent Non-Executive Director effective 13 June 2014.
- Endorsed Board members standing for reelection at the Annual General Meeting.
- Revised the letter of appointment of Board members for endorsement by the Board.

(iii) Performance Management

- Reviewed the objectives and KPIs of President/ CEO and key Senior Management team members at the onset of the year 2014.
- Reviewed the mid-year and year-end performance scorecards of President/CEO and key Senior Management.
- Reviewed the year end overall performance distribution of workforce and deliberated on individual development plans for President/CEO and key Senior Management team members.
- Provided feedback on People Strategies and the HRM policies and procedures which includes talent management and compensation and benefits.
- Reviewed the Directors' training attendance.
- Provided feedback on talent risk and its mitigation activities for 2014 and way forward in 2015.
- Assessed Directors' Remuneration against the industry as per study conducted by Messrs. KPMG.

Ching Yew Chye

Chairman

Nomination and Remuneration Committee

SUMMARY OF NOMINATION AND REMUNERATION COMMITTEE'S TERMS OF REFERENCE

OBJECTIVE

To assist the Board of Directors (the Board) in periodically assessing the performance of the Board and its sub-committees, recommending candidates to fill vacancies on the Board, assessing the qualifications for the Board membership, identifying qualified individuals and reviewing the performance of the Directors and Senior Management.

COMPOSITION

The Nomination and Remuneration Committee shall have at least three (3) members who are appointed by the Board from amongst the Directors of the Company and shall comprise exclusively of Non-Executive Directors, majority of whom are independent. The members of the Committee should be suitably knowledgeable in matters pertaining to corporate governance and executive compensation.

RIGHTS

The Nomination and Remuneration Committee in performing the scope of its assigned duties is authorised to seek any information it requires from Company's employees, officers and external parties. The Committee may engage external consultants and other advisers or otherwise obtain such independent legal or other professional services it requires, at the expense of the Company. The Committee will be provided with sufficient resources by the Board to undertake its duties including access to the Company Secretariat.

DUTIES AND RESPONSIBILITIES

Duties of Nomination and Remuneration Committee amongst others are:-

Board Effectiveness Evaluation

- Evaluate the effectiveness of the Board as a whole, the effectiveness of the sub-committees of the Board and the contribution of each individual Director, including its structure, compositions, skills mix and size and recommend necessary adjustment to the Board.
- Provide oversight of the performance and effectiveness of the self-evaluation process for the Board and its committees.

• Board Membership

- Recommend prospective candidates, as required, to provide an appropriate balance of knowledge, experience and capability from a diverse background, including gender, age and ethnicity to complement the Board.
- Develop and monitor compliance of membership qualifications for the Board and all Board Committees, including defining specific criteria for the independence of Directors and Committees.

• Performance Management

- Oversee and report to the Board the development of a succession plan for the President/CEO and Senior Management.
- Conduct an annual review on the performance metric and evaluation of the President/CEO and Senior Management's performances as measured against the goals and objectives of the Company.



The financial statements of the Group and of the Company as set out on pages 181 to 256 of this Annual Report are properly drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and of the results of its operations and cash flows for the year ended on that date.

The Directors consider the following in preparing the financial statements of the Group and of the Company:-

- appropriate accounting policies have been used and consistently applied;
- reasonable and prudent judgements and estimates have been made;
- all Malaysian Financial Reporting Standards and the Companies Act, 1965 in Malaysia have been followed; and
- prepared on a going concern basis.

The Directors are responsible for ensuring that the accounting and other records and registers required by the Companies Act, 1965 in Malaysia to be retained by the Group have been properly kept in accordance with the provisions of the said Act.

The Directors also have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group and of the Company and to prevent and detect fraud and other irregularities.



Urea

Urea enhances the general growth and development of household plants as well as vegetables and fruits crops. It is also an essential nutrient for optimum crop yield.

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The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company in the course of the financial year remained unchanged as investment holding.

The principal activities of subsidiaries, joint ventures and associates are stated in Note 24 to Note 26 to the financial statements.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	2,726	1,966
Attributable to: Shareholders of the Company Non-controlling interests	2,465 261	1,966 –

DIVIDENDS

During the financial year, the Company:

- (i) as proposed in last year's Directors' report, paid a second interim single tier dividend of 12 sen per ordinary share amounting to RM960 million in respect of the financial year ended 31 December 2013 on 18 March 2014:
- (ii) paid a first interim single tier dividend of 8 sen per ordinary share amounting to RM640 million in respect of the financial year ended 31 December 2014 on 12 September 2014.

The Directors had declared a second interim single tier dividend of 8 sen per ordinary share amounting to RM640 million in respect of the financial year ended 31 December 2014 which are payable on 24 March 2015. The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

The Directors do not recommend any final dividend to be paid for the financial year under review.

RESERVES AND PROVISIONS

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

DIRECTORS OF THE COMPANY

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

Datuk Wan Zulkiflee bin Wan Ariffin

Vimala a/p V.R. Menon

Ching Yew Chye

Dong Soo Kim

Datuk Ir Kamarudin bin Zakaria

Rashidah binti Alias @ Ahmad

Datuk Sazali bin Hamzah (appointed on 8 May 2014)

Datuk Toh Ah Wah (appointed on 13 June 2014)

Datuk Dr Abd Hapiz bin Abdullah (resigned on 24 April 2014)

In accordance with Article 93 of the Company's Articles of Association, Vimala a/p V.R. Menon and Ching Yew Chye retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 99 of the Company's Articles of Association, Datuk Sazali bin Hamzah and Datuk Toh Ah Wah who were appointed during the year retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT

DIRECTORS' INTERESTS

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

	Number of ordinary shares of RM0.10 each Balance at Balance at			
Name	1.1.2014	Bought	Sold	31.12.2014
Direct interest in the Company				
Datuk Wan Zulkiflee bin Wan Ariffin	20,000	_	_	20,000
Vimala a/p V.R. Menon	20,000	_	_	20,000
Ching Yew Chye	20,000	_	_	20,000
Dong Soo Kim	20,000	_	_	20,000
Datuk Ir Kamarudin bin Zakaria	35,000	5,000	_	40,000
Rashidah binti Alias @ Ahmad	6,000	_	_	6,000

	Number of ordinary shares of RM0.10 each			
	Balance at			Balance at
Name	1.1.2014	Bought	Sold	31.12.2014
Indirect interest in the Company				
Ching Yew Chye	30,000 ¹	_	(30,000)	_
Datuk Ir Kamarudin bin Zakaria	8,000 ²	_	(8,000)	_

¹ Indirect interest in shares held through spouse by virtue of Section 134(12)(c) of the Companies Act, 1965.

² Indirect interest in shares held through children by virtue of Section 134(12)(c) of the Companies Act, 1965.

	Number of ordinary shares of RM0.50 each			each
	Balance at			Balance at
Name	1.1.2014	Bought	Sold	31.12.2014
Direct interest in Malaysia Marine and Heavy Engineering Holdings Berhad, a subsidiary of PETRONAS				
Datuk Wan Zulkiflee bin Wan Ariffin	10,000	_	_	10,000

None of the other Directors holding office at 31 December 2014 had any interest in the shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, except for Dong Soo Kim who has been engaged by PETRONAS, the Holding Company, to provide coaching to selected plant personnel, no other Director of the Company has received or become entitled to receive any benefit (other than the amount of emoluments or benefits included in the aggregate amount received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of the related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

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

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets which were unlikely to be realised, in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

- (i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group or in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT

OTHER STATUTORY INFORMATION (CONTINUED)

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

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2014 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

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

Datuk Wan Zulkiflee bin Wan Ariffin

Datuk Sazali bin Hamzah

Kuala Lumpur,

Date: 24 February 2015

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 181 to 256, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2014 and of their financial performance and cash flows for the financial year ended on that date.

In the opinion of the Directors, the information set out in Note 36 on page 257 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

Datuk Wan Zulkiflee bin Wan Ariffin

Datuk Sazali bin Hamzah

Kuala Lumpur,

Date: 24 February 2015

STATUTORY DECLARATION

I, Farina binti Farikhullah Khan, the officer primarily responsible for the financial management of PETRONAS Chemicals Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 181 to 257, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Farina binti Farikhullah Khan at Kuala Lumpur in Wilayah Persekutuan on 24 February 2015.



BEFORE ME:



Lot 5.30, Tingkat 5 Wisma Central Jalan Ampang 50450 Kuala Lumpur

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Group		Company		
		2014	2013	2014	2013
	Note	RM Mil	RM Mil	RM Mil	RM Mil
ASSETS					
Property, plant and equipment	3	14,255	13,245	14	60
Investments in subsidiaries	4	_	_	15,975	15,690
Investments in joint ventures and associates	5	866	744	791	619
Intangible assets	6	7	10	_	_
Long term receivables	7	9	13	1,807	82
Deferred tax assets	8	475	458	_	_
TOTAL NON-CURRENT ASSETS		15,612	14,470	18,587	16,451
Trade and other inventories	9	1,239	1,203	_	_
Trade and other receivables	10	1,674	1,610	302	387
Current tax assets		131	155	1	_
Cash and cash equivalents	11	9,807	10,155	3,169	4,537
		12,851	13,123	3,472	4,924
Assets classified as held for sale	12	-	138	-	93
TOTAL CURRENT ASSETS		12,851	13,261	3,472	5,017
TOTAL ASSETS		28,463	27,731	22,059	21,468
EQUITY					
Share capital	13	800	800	800	800
Reserves	14	21,922	20,936	20,572	20,206
Total equity attributable to shareholders					
of the Company		22,722	21,736	21,372	21,006
Non-controlling interests	15	1,755	1,653	21,372	21,000
			-		
TOTAL EQUITY		24,477	23,389	21,372	21,006
LIABILITIES					
Deferred tax liabilities	8	941	933	2	_
Other long term liabilities and provisions	16	567	543	305	244
TOTAL NON-CURRENT LIABILITIES		1,508	1,476	307	244
Trade and other payables	17	2,395	2,678	380	214
Current tax payables		83	146	-	4
		2,478	2,824	380	218
Liabilities classified as held for sale	12	_	42	_	_
TOTAL CURRENT LIABILITIES		2,478	2,866	380	218
TOTAL LIABILITIES		3,986	4,342	687	462

The notes set out on pages 188 to 257 are an integral part of these financial statements.

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

014 Mil	2013
	RM Mil
004 –	3,930 –
– 292) 178)	3,930 - (274) (485) 314
	3,485 - -
	3,485 (19)
966	3,466
_	_
_	_
-	_
966	3,466
966	3,466 –
966	3,466
_	3,466 –
966	3,466
-	_
(2)	004 - 004 - (292) (178) 467 001 (22) - 979 (13) 966 - - 966 - 966 - 966 - 966

The notes set out on pages 188 to 257 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

		Attribut	able to sharel	holders of th	e Company	′			
		N	on-Distributa	ble		Distributable			
Group	Share Capital (Note 13) RM Mil	Share Premium RM Mil	Foreign Currency Translation Reserve RM Mil	Merger Reserve (Note 14) RM Mil	Other Reserves RM Mil	Retained Profits RM Mil	Total RM Mil	Non- controlling Interests RM Mil	Total Equity RM Mil
Balance at 1 January 2013	800	8,071	1	(204)	95	11,548	20,311	1,595	21,906
Foreign currency translation differences Share of other comprehensive	-	-	3	-	-	-	3	-	3
income of equity accounted joint ventures and associates	_	-	-	-	36	-	36	-	36
Total other comprehensive income for the year Profit for the year		- -	3 –	- -	36 -	- 3,146	39 3,146	- 358	39 3,504
Total comprehensive income for the year	-	-	3	-	36	3,146	3,185	358	3,543
Dividends to shareholders of the Company (Note 23)	_	-	-	-	-	(1,760)	(1,760)	-	(1,760)
Dividends to non-controlling interests	_	-	-	-	-	-	-	(301)	(301)
Others	_	_	_			_	_	1	1
Total transactions with shareholders of the Company	_	_	_	_	_	(1.760)	(1.760)	(300)	(2,060)
Balance at 31 December 2013	800	8,071	4	(204)	131	12,934	21,736	1,653	23,389

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

		Attributa	able to sharel	holders of th	e Company	′			
		N	on-Distributa	ble		Distributable			
Group	Share Capital (Note 13) RM Mil	Share Premium RM Mil	Foreign Currency Translation Reserve RM Mil	Merger Reserve (Note 14) RM Mil	Other Reserves RM Mil	Retained Profits RM Mil	Total RM Mil	Non- controlling Interests RM Mil	Total Equity RM Mil
Balance at 1 January 2014	800	8,071	4	(204)	131	12,934	21,736	1,653	23,389
Foreign currency translation differences Share of other comprehensive	_	_	71	-	-	-	71	-	71
income of equity accounted joint ventures and associates	-	-	-	-	41	-	41	-	41
Total other comprehensive income for the year	_	_	71	_	41	_	112	_	112
Profit for the year	-	_	_	-	-	2,465	2,465	261	2,726
Total comprehensive income for the year	-	-	71	-	41	2,465	2,577	261	2,838
Dividends to shareholders of the Company (Note 23)	-	-	-	-	-	(1,600)	(1,600)	_	(1,600)
Dividends to non-controlling interests	_	_	_	_	_	_	_	(157)	(157)
Others	_	_	(1)	-	(34)	44	9	(2)	7
Total transactions with shareholders					(= -)	(4 EF 5)	/4 E6.13	(4.5.)	/4 == 2
of the Company	_	_	(1)		(34)	(1,556)	(1,591)	(159)	(1,750)
Balance at 31 December 2014	800	8,071	74	(204)	138	13,843	22,722	1,755	24,477

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	Attributal	ole to shareh	olders of the	Company	
	No	n-Distributab	le	Distributable	
Company	Share Capital (Note 13) RM Mil	Share Premium RM Mil	Merger Relief (Note 14) RM Mil	Retained Profits RM Mil	Total Equity RM Mil
Balance at 1 January 2013 Profit and total comprehensive income	800	8,071	7,176	3,253	19,300
for the year Dividends to shareholders of the	_	_	-	3,466	3,466
Company (Note 23)	_	_	_	(1,760)	(1,760)
Balance at 31 December 2013	800	8,071	7,176	4,959	21,006
Balance at 1 January 2014 Profit and total comprehensive income	800	8,071	7,176	4,959	21,006
for the year	_	_	-	1,966	1,966
Dividends to shareholders of the Company (Note 23)	_	_	_	(1,600)	(1,600)
Balance at 31 December 2014	800	8,071	7,176	5,325	21,372

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Gr	oup	Com	pany
	2014	2013	2014	2013
	RM Mil	RM Mil	RM Mil	RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	14,743	15,751	69	61
Cash paid to suppliers and employees	(10,065)	(10,528)	(194)	(292)
	4,678	5,223	(125)	(231)
Interest income received	398	343	153	132
Taxation paid	(881)	(1,116)	(16)	(16)
Net cash generated from/(used in)				
operating activities	4,195	4,450	12	(115)
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in investment in subsidiaries	_	_	(59)	(1,307)
Increase in investment in an associate	(172)	_	(172)	(1,507)
Redemption of preference shares in a subsidiary	_	_	40	_
Dividends received from:				
– joint ventures and associates	257	181	255	180
- subsidiaries	_	_	1,749	3,750
Purchase of property, plant and equipment	(2,818)	(1,725)	(3)	(9)
Proceeds from disposal of property, plant and equipment	3	9	_	_
Proceeds from finance lease receivables	3	12	_	_
Net cash (used in)/from investing activities	(2,727)	(1,523)	1,810	2,614
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to:				
- PETRONAS	(1,030)	(1,133)	(1,030)	(1,133)
- others (third parties)	(570)	(627)	(570)	(627)
non-controlling interests	(157)	(301)	_	_
Drawdown of revolving credit	30	_	_	-
Balance carried forward	(1,727)	(2,061)	(1,600)	(1,760)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

		Gr	oup	Company		
	Note	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil	
CASH FLOWS FROM FINANCING ACTIVITIES						
(CONTINUED)						
Balance brought forward		(1,727)	(2,061)	(1,600)	(1,760)	
Repayment of:		<i>1</i> 1	.			
- finance lease liabilities		(55)	(55)	_	_	
- revolving credit		(30)	- (4.7)	_	_	
Payment for onerous contract		(13)	(13)	(4.605)	_	
Loan to a subsidiary Loan repayment by subsidiaries		_	_	(1,695) 80	200	
Interest income from loans to subsidiaries		_	_	25	6	
interest income nom toans to substituties						
Net cash used in financing activities		(1,825)	(2,129)	(3,190)	(1,554)	
NET (DECREASE)/INCREASE IN						
CASH AND CASH EQUIVALENTS		(357)	798	(1,368)	945	
NET FOREIGN EXCHANGE DIFFERENCE		9	50	_	-	
CASH AND CASH EQUIVALENTS AT						
BEGINNING OF THE YEAR		10,155	9,307	4,537	3,592	
CASH AND CASH EQUIVALENTS AT						
END OF THE YEAR		9,807	10,155	3,169	4,537	
		2014	2013	2014	2013	
		RM Mil	RM Mil	RM Mil	RM Mil	
CASH AND CASH EQUIVALENTS						
Cash and bank balances and deposits	11	9,807	10,155	3,169	4,537	

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

These financial statements also comply with the applicable disclosure provisions of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad.

As of 1 January 2014, the Group and the Company have adopted amendments to MFRS and IC Interpretations (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in Note 31.

The adoption of these pronouncements does not have any material impact to the financial statements of the Group and of the Company.

MASB has also issued new and revised pronouncements which are not yet effective for the Group and the Company and therefore, have not been adopted for in these financial statements. These pronouncements including their impact on the financial statements in the period of initial applications are set out in Note 32. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 33.

These financial statements were approved and authorised for issue by the Board of Directors on 24 February 2015.

1.2 Basis of measurement

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

1.3 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's and the Company's financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information have been rounded to the nearest million, unless otherwise stated.

1.4 Use of estimates and judgements

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

1. BASIS OF PREPARATION (CONTINUED)

1.4 Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

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

(i) Note 3 : Property, plant and equipment; and (ii) Note 16 : Other long term liabilities and provisions.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Subsidiaries that were acquired from PETRONAS are consolidated using the merger method of accounting. Other subsidiaries are consolidated using the acquisition method of accounting.

Under the merger method of accounting, the results of entities or businesses under common control are accounted for as if the acquisition had occurred at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts in the consolidated statement of financial position. The difference between the cost of acquisition and the nominal value of the shares acquired together with the share premium are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within the Group.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Business combinations

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

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

For new acquisitions, the Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the venture over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

Non-controlling interests

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

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Non-controlling interests (continued)

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(ii) Joint arrangements

Joint arrangements are arrangements in which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified as either joint operation or joint venture. A joint arrangement is classified as joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation. A joint arrangement is classified as joint venture when the Group or the Company has rights only to the net assets of the arrangement. The Group accounts for its interest in the joint venture using the equity method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(iii) Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profit or loss and other comprehensive income of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

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

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets and liabilities.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

2.2 Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Projects-in-progress is stated at cost less accumulated impairment losses, if any, and is not depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the assets and restoring the site on which they are located. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation for property, plant and equipment other than projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Buildings are depreciated over its useful life or over the remaining land lease period, whichever is shorter.

Turnaround costs are depreciated over the period until the next scheduled turnaround.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Property, plant and equipment and depreciation (continued)

The estimated useful lives of property, plant and equipment for the current and comparative years are as follows:

Leasehold land	30 – 99 years
Buildings	14 – 66 years
Plant and equipment	5 – 67 years
Office equipment, furniture and fittings	5 – 7 years
Computer software and hardware	5 years
Motor vehicles	3 – 5 years

Property, plant and equipment individually costing less than RM5,000 are expensed off in the year of purchase.

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2.3 Leased assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy stated below. When the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease although the arrangement does not take the legal form of a lease.

(i) Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group or the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as borrowings.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

2.3 Leased assets (continued)

(i) Finance lease (continued)

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases, and the leased assets are not recognised on the Group and the Company's statement of financial position.

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

2.4 Investments

Long term investments in subsidiaries, joint ventures and associates are stated at cost less impairment losses, if any, in the Company's financial statements, unless the investments are classified as held for sale or distribution. The cost of investments includes transaction costs.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (Note 2.6(i)).

2.5 Intangible assets

Intangible assets are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives. The amortisation method and the useful life for intangible assets are reviewed at the end of each reporting date. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Intangible assets (continued)

The estimated useful life for the current and comparative years is 10 years.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognised in profit or loss as incurred.

2.6 Financial instruments

A financial instrument is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

(i) Financial assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Purchases or sales that require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") are recognised on the trade date i.e. the date that the Group or the Company commits to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

The Group's and the Company's financial assets include cash and cash equivalents, trade and other receivables, loans and advances, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

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

2.6 Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.7.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest rate method (Note 2.6 (v)).

(ii) Financial liabilities

Initial recognition and subsequent measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

The Group's and the Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Other than those categorised as fair value through profit or loss, all financial liabilities are subsequently measured at amortised cost using the effective interest rate method (Note 2.6(v)).

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

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(iii) Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as interest rate and foreign currency swaps, forward rate contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are directly recognised in the profit or loss during the financial year.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses taken to the profit or loss.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(v) Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

2.6 Financial instruments (continued)

(vi) Derecognition of financial instruments

Financial assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2.7 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated, assets are carried at cost less impairment losses, if any.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Fair value measurements (continued)

When measuring the fair value of an asset or a liability, the Group or the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable input).

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

2.8 Impairment

(i) Financial assets

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

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

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

(ii) Other assets

The carrying amounts of other assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. The carrying amounts are reviewed frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

2.8 Impairment (continued)

(ii) Other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in the subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw material costs and production overheads and is determined on the weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of material, stores and spares consists of the invoiced value from suppliers and import duty charges and is determined on a weighted average basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

2.11 Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or all the assets and liabilities in a disposal group) are remeasured in accordance with the Group's applicable accounting policies. Thereafter, on initial classification as held for sale, the assets or disposal group are measured at the lower of carrying amount and fair value less costs of disposal. Any difference is recognised in the profit or loss.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated and amortised.

2.12 Provisions

A provision is recognised if, as a result of a past event, the Group or the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

(i) Decommissioning

A provision for decommissioning is recognised when the Group has approved a decision for discontinuation of its plant, and the decommissioning process has commenced or has been announced. Future operating losses are not provided for.

2.12 Provisions (continued)

(ii) Onerous contract

A provision for onerous contract is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in Note 16.

2.13 Employee benefits

(i) Short term employee benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

2.14 Taxation

Tax on the profit or loss for the financial year comprises current and deferred tax. Income tax is recognised in the profit or loss.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the financial year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous financial years.

(ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Taxation (continued)

(ii) Deferred tax (continued)

Deferred tax is not recognised for the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

2.15 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated at the end of the reporting period.

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity.

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia are translated into Ringgit Malaysia at the exchange rates approximating those ruling at reporting date.

2.15 Foreign currency transactions (continued)

The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to the Group's foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are reclassified to other comprehensive income and presented under foreign currency translation reserve in equity. Upon disposal of the investment, the cumulative exchange differences previously recorded in equity are recognised in the consolidated profit or loss.

2.16 Revenue

Revenue from the sale of petrochemicals products and their related products in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risk and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Dividend income is recognised in the profit or loss on the date the right to receive payment is established

Revenue from services rendered is recognised in the profit or loss based on the actual and estimated throughput volume and port charges.

2.17 Interest income

Income arising from assets yielding interest are recognised on a time proportion basis that takes into account the effective yield on the assets.

2.18 Financing costs

Finance costs comprise interest payable on borrowings and profit share margin on Islamic financing facilities, as well as any accretion in provision due to the passage of time.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than borrowing cost directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use or sale), which are capitalised as part of the cost of those assets.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Financing costs (continued)

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the assets is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2.19 Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

2.20 Basic earnings per ordinary share

The Group presents basic earnings per share data for its ordinary shares.

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

2.21 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses that relate to transactions with any of the components of the Group, and for which discrete financial information is available) whose operating results are reviewed regularly by the chief operating decision maker, which in this case is the President/CEO, to make decisions about resources to be allocated to the segment and to assess the performance of the Group.

3. PROPERTY, PLANT AND EQUIPMENT

Group 2014	At 1.1.2014 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers/ reclass RM Mil	At 31.12.2014 RM Mil
At cost:					
Leasehold land	291	_	_	_	291
Buildings	1,378	9	_	9	1,396
Plant and equipment	21,215	60	(958)	1,128	21,445
Office equipment, furniture and fittings	135	3	(1)	(46)	91
Computer software and hardware	178	19	(3)	49	243
Motor vehicles	36	_	_	_	36
Projects-in-progress	3,119	2,398	-	(1,141)	4,376
	26,352	2,489	(962)^	(1)	27,878

[^] Included in disposals/write-offs are derecognition of previous turnaround costs and catalyst of RM685 million, and write-off of plant and equipment relating to the Group's decision to discontinue its vinyl business as disclosed in 2012 of RM249 million.

Group 2014	At 1.1.2014 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Transfers/ reclass RM Mil	Impairment losses RM Mil	At 31.12.2014 RM Mil
Accumulated depreciation and impairment losses:						
Leasehold land	68	5	_	_	_	73
Buildings	525	28	_	_	_	553
Plant and equipment Office equipment, furniture	12,235	1,154	(958)	35	262	12,728
and fittings	100	8	(1)	(38)	_	69
Computer software and						
hardware	145	20	(3)	3	_	165
Motor vehicles	34	1	-	_	-	35
	13,107	1,216	(962)^	-	262	13,623

[^] Included in disposals/write-offs is derecognition of accumulated depreciation for previous turnaround costs and catalyst of RM685 million. In addition, the Group derecognised accumulated depreciation and impairment losses on plant and equipment of RM121 million and RM128 million respectively relating to the Group's decision to discontinue its vinyl business as disclosed in 2012.

Included in the accumulated depreciation and impairment losses of plant and equipment are impairment losses carried forward as at 31.12.2014 of RM266 million (31.12.2013: RM132 million).

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2013	At 1.1.2013 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers/ reclass RM Mil	Translation exchange differences RM Mil	Reclassified as assets held for sale RM Mil	At 31.12.2013 RM Mil
At cost:							
Leasehold land	291	-	-	-	-	-	291
Buildings	1,313	1	-	64	_	-	1,378
Plant and equipment	20,943	138	(6)	140	16	(16)	21,215
Office equipment, furniture and fittings	72	2	(1)	62	-	_	135
Computer software and hardware	181	3	(2)	(4)	-	_	178
Motor vehicles	36	-	-	-	-	_	36
Projects-in-progress	907	2,424	(1)	(211)	-	-	3,119
	23,743	2,568	(10)	51^	16	(16)	26,352

[^] Relates to transfer from inventories.

Group 2013	At 1.1.2013 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Impairment losses RM Mil	Transfers/ reclass RM Mil	Translation exchange differences RM Mil	Reclassified as assets held for sale RM Mil	At 31.12.2013 RM Mil
Accumulated depreciation								
and impairment losses								
Leasehold land	64	4	_	_	_	_	_	68
Buildings	481	28	-	-	16	-	-	525
Plant and equipment	11,276	1,015	(1)	_	(46)	7	(16)	12,235
Office equipment, furniture								
and fittings	48	13	(1)	_	40	_	_	100
Computer software and								
hardware	144	13	(2)	_	(10)	_	_	145
Motor vehicles	33	1	_	-	-	-	-	34
	12,046	1,074	(4)	-	-	7	(16)	13,107

Included in the accumulated depreciation and impairment losses of plant and equipment are impairment losses carried forward as at 31.12.2013 of RM132 million (31.12.2012: RM132 million) which relates to the Group's decision to discontinue its vinyl business as disclosed in 2012.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	2014 RM Mil	2013 RM Mil
Carrying amounts:		
Leasehold land		
– with unexpired lease period of more than 50 years	79	80
– with unexpired lease period of less than 50 years	139	143
	218	223
Buildings	843	853
Plant and equipment	8,717	8,980
Office equipment, furniture and fittings	22	35
Computer software and hardware	78	33
Motor vehicles	1	2
Projects-in-progress	4,376	3,119
	14,255	13,245

Included in the property, plant and equipment of the Group are plant and equipment with carrying amount of RM197 million (2013: RM231 million) under finance lease arrangement.

Impairment losses

During the year, the Group recognised an impairment loss of RM262 million on plant and equipment at its butane-MTBE value chain within the Olefins and Derivatives segment, following lower expectation of the assets' value in use in line with weaker market conditions.

In arriving at the impairment loss recognised, the carrying amount of the butane-MTBE value chain is compared with its recoverable amount of RM188 million which was determined using cash flow projections taking into consideration best available information on prices, volumes and costs, discounted using a discount rate of 8.6%.

Others

Certain subsidiaries within the Group were involved in notional sales of a beneficial interest in specific property, plant and equipment ("sukuk assets") to a special purpose vehicle ("SPV") owned by PETRONAS, pursuant to an issuance of Islamic Trust Certificate which was entered into in 2009. The SPV leased the beneficial interest in the sukuk assets to PETRONAS and were subsequently sub-leased by PETRONAS to the subsidiaries. This structure does not represent a collaterisation and there is no transfer of registered title of the sukuk assets. This structure expired in August 2014.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2014	At 1.1.2014 RM'000	Additions RM'000	Disposals/ write-offs RM'000	Transfers/ reclass RM'000	At 31.12.2014 RM'000
At cost:					
Motor vehicles	369	_	_	_	369
Computer software and hardware	386	129	_	11,970	12,485
Office equipment, furniture and fittings	_	27	_	_	27
Projects-in-progress	59,614	7,462	_	(63,558)	3,518
	60,369	7,618	-	(51,588)^	16,399

[^] Relates to software development expenditure backcharged to subsidiaries of RM50,790,000 and expensed off of RM798,000 during the year.

Company 2014	At 1.1.2014 RM'000	Charge for the year RM'000	Disposals/ write-offs RM'000	Transfers/ reclass RM'000	At 31.12.2014 RM'000
Accumulated depreciation:					
Motor vehicles	231	92	_	_	323
Computer software and hardware	60	2,082	_	_	2,142
Office equipment, furniture and fittings	-	1	-	-	1
	291	2,175	_	-	2,466

Company 2013	At 1.1.2013 RM'000	Additions RM'000	Disposals/ write-offs RM'000	Transfers/ reclass RM'000	At 31.12.2013 RM'000
At cost:					
Motor vehicles	369	_	_	_	369
Computer software and hardware	45	341	_	_	386
Projects-in-progress	44,108	15,506	_	_	59,614
	44,522	15,847	_	_	60,369

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2013	At 1.1.2013 RM'000	Charge for the year RM'000	Disposals/ write-offs RM'000	Transfers/ reclass RM'000	At 31.12.2013 RM'000
Accumulated depreciation:					
Motor vehicles	139	92	_	_	231
Computer software and hardware	6	54	_	_	60
	145	146	_	_	291

Company	31.12.2014 RM'000	31.12.2013 RM'000
Carrying amounts:		
Motor vehicles	46	138
Computer software and hardware	10,343	326
Office equipment, furniture and fittings	26	_
Projects-in-progress	3,518	59,614
	13,933	60,078

4. INVESTMENTS IN SUBSIDIARIES

	Cor	npany
	2014 RM Mil	2013 RM Mil
Investments in unquoted shares, at cost Reclassified as assets held for sale	15,975 –	15,783 (93)
	15,975	15,690

During the year, the Group completed the divestment of its entire equity interest in Phu My Plastics and Chemical Company Limited ("PMPC"). The investment in PMPC was reclassified as assets held for sale in the previous year.

In the previous year, the Company has extended financial assistance to a subsidiary in the form of redeemable preference shares amounting to RM107 million. This amount has been subsequently impaired as it is unlikely to be redeemed.

Details of subsidiaries are stated in Note 24 to the financial statements.

5. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	Group		Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Investments in unquoted shares, at cost	660	488	791	619
Share of post-acquisition profits and reserves	206	256	_	_
	866	744	791	619

Details of joint ventures and associates are stated in Note 25 and Note 26 to the financial statements.

6. INTANGIBLE ASSETS

Group 2014	At 1.1.2013 RM Mil	Additions/ charge for the year RM Mil	At 31.12.2013/ 1.1.2014 RM Mil	Additions/ charge for the year RM Mil	At 31.12.2014 RM Mil
Licence - At cost - Accumulated amortisation	23	-	23	-	23
	11	2	13	3	16

	2014 RM Mil	2013 RM Mil
Carrying amounts	7	10

7. LONG TERM RECEIVABLES

	Group			Company		
	Note	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil	
Loans and advances due from subsidiaries	7.1	_	-	1,807	82	
Others		9	13	_	_	
		9	13	1,807	82	
7.1 Loans and advances due from subsidiaries						
Receivable within twelve months	10	_	_	_	181	
Receivable after twelve months		-	_	1,807	82	
		_	_	1,807	263	

Included in the Company's loans and advances due from subsidiaries are loan amount totalling RM1,807 million or USD517 million (2013: RM263 million or USD80 million), which bear interest rate ranging from 2.59% to 4.52% (2013: 1.40% to 1.51%) per annum.

8. DEFERRED TAX

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting are as follows:

Group	2014 RM Mil	2013 RM Mil
Deferred tax assets		
Deferred tax liabilities	789	754
Deferred tax assets	(1,264)	(1,212)
	(475)	(458)
Deferred tax liabilities		
Deferred tax liabilities	1,080	1,029
Deferred tax assets	(139)	(96)
	941	933

8. DEFERRED TAX (CONTINUED)

The components and movements of deferred tax liabilities and assets during the year prior to offsetting are as follows:

Net deferred tax liabilities	475	(9)	_	466
	(1,308)	(95)	-	(1,403)
Others	(32)	(42)	_	(74)
Unabsorbed capital allowances	(5)	(10)	_	(15)
Unused tax losses	(108)	(52)	_	(160)
Unused investment tax allowances	(1,149)	71	_	(1,078)
Unused reinvestment allowances	(8)	_	_	(8)
Deferred tax assets Property, plant and equipment	(6)	(62)	_	(68)
	1,783	86	_	1,869
Others	7	(5)	_	2
Deferred tax liabilities Property, plant and equipment	1,776	91	_	1,867
Group 2014	At 1.1.2014 RM Mil	Charged/ (credited) to profit or loss RM Mil Note 21	Reclassification RM Mil	At 31.12.2014 RM Mil

8. DEFERRED TAX (CONTINUED)

Group 2013	At 1.1.2013 RM Mil	Charged/ (credited) to profit or loss RM Mil Note 21	Reclassification RM Mil	At 31.12.2013 RM Mil
Deferred tax liabilities				
Property, plant and equipment	1,918	(142)	_	1,776
Others	1	4	2	7
	1,919	(138)	2	1,783
Deferred tax assets				
Property, plant and equipment	(7)	1	_	(6)
Unused reinvestment allowances	(9)	1	_	(8)
Unused investment tax allowances	(1,405)	256	_	(1,149)
Unused tax losses	(84)	(24)	_	(108)
Unabsorbed capital allowances	(1)	(4)	_	(5)
Others	(34)	4	(2)	(32)
	(1,540)	234	(2)	(1,308)
Net deferred tax liabilities	379	96	_	475

No deferred tax has been recognised for the following items (stated at gross):

Group	2014 RM Mil	2013 RM Mil
Unrecognised deferred tax assets Unused tax losses	456	456

8. DEFERRED TAX (CONTINUED)

The unused tax losses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of this item because it is not probable that future taxable profit will be available against which the said subsidiary can utilise the benefits.

Company 2014	At 1.1.2014 RM Mil	Charged/ (credited) to profit or loss RM Mil Note 21	At 31.12.2014 RM Mil
Deferred tax liabilities Others	_	2	2

Company 2013	At 1.1.2013 RM Mil	Charged/ (credited) to profit or loss RM Mil Note 21	At 31.12.2013 RM Mil
Deferred tax liabilities Others	1	(1)	-

9. TRADE AND OTHER INVENTORIES

	Gr	oup
	2014 RM Mil	2013 RM Mil
Petrochemical products:		
Raw materials	49	57
Finished goods	507	527
Store, spares and others	683	619
	1,239	1,203
Recognised in profit or loss:		
Write down to net realisable value ("NRV")	(54)	(12)
Provision for obsolete inventories	_	(8)
Reversal of write down to NRV	12	_
Reversal of provision for obsolete inventories	37	_

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Trade receivables*	1,231	972	_	_
Amount due from PETRONAS#				
- Non-trade	36	16	3	_
Amount due from subsidiaries#				
- Non-trade	_	_	292	356
Amount due from joint ventures and associates#				
- Trade	189	201	_	_
Amount due from related companies#				
- Trade	111	139	_	_
- Non-trade	13	7	4	8
Other receivables, deposits and prepayments	96	277	3	23
	1,676	1,612	302	387
Less: Impairment losses				
- Trade receivables	(1)	(1)	_	_
– Other receivables, deposits and prepayments	(1)	(1)	_	_
	1,674	1,610	302	387

^{*} Included in trade receivables is an amount due from corporate shareholders of subsidiaries of RM25 million (2013: RM47 million).

There were no trade receivables and trade payables that were set off for presentation purposes.

[#] Trade amount is unsecured and under normal trade terms. Non-trade amount is unsecured and repayable on demand.

11. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Cash with PETRONAS Integrated Financial Shared				
Service Centre ("IFSSC")	9,020	8,139	2,409	2,561
Cash and bank balances	27	22	_	_
Deposits with licensed financial institutions				
- Islamic	760	1,383	760	1,383
– Conventional	-	611	-	593
	9,807	10,155	3,169	4,537

The Group's and the Company's cash and bank balances are held in the In-House Account ("IHA") managed by PETRONAS IFSSC to enable more efficient cash management for the Group and the Company.

Included in cash with IFSSC and cash and bank balances for the Group and the Company are interest-bearing bank balances amounting to RM9,043 million (2013: RM8,158 million) and RM2,409 million (2013: RM2,561 million) respectively.

The status of the utilisation of listing proceeds of RM3,640 million raised by the Company from the Public Issue in 2010 as at the end of the reporting date is as follows:

	Proposed utilisation RM Mil	Actual utilisation RM Mil	Transfer RM Mil	At 31 December 2014 RM Mil	Intended time frame for utilisation from the date of listing
Expansion of business and synergistic growth acquisitions Working capital requirement and	2,344	(3,565)	1,221	-	Within 5 years
general corporate purposes	1,200	_	(1,200)	_	Within 2 years
Estimated listing expenses	96	(75)	(21)	-	Within 1 year
Total	3,640	(3,640)	_	-	-

12. ASSETS CLASSIFIED AS HELD FOR SALE

The Group completed the divestment of its entire equity interest in Phu My Plastics and Chemical Company Limited ("PMPC") during the year. The comparative balances relating to PMPC's assets classified as held for sale in the previous year were as follows:

2013	Group RM Mil	Company RM Mil
Assets classified as held for sale	'	
Property, plant and equipment	82	_
Investment in subsidiary	_	93
Intangible assets	4	_
Inventories	22	_
Receivables, deposits and prepayments	30	_
	138	93
Liabilities classified as held for sale Payables and accruals	(42)	_

13. SHARE CAPITAL

	Group and 2014 RM Mil	Company 2013 RM Mil
Authorised: 15,000,000,000 ordinary shares of RM0.10 each	1,500	1,500
Issued and fully paid: 8,000,000,000 ordinary shares of RM0.10 each	800	800

14. RESERVES

Merger reserve (Group)

Merger reserve arose from differences between the nominal value and share premium of ordinary shares issued by the Company as consideration for the acquisition of companies that are accounted using the merger method of accounting and the nominal value of ordinary shares and share premium of the companies.

Merger relief (Company)

Merger relief of the Company is premium arising from issuance of shares for the acquisition of subsidiaries that fulfilled the conditions of Section 60(4) of the Companies Act, 1965 in Malaysia.

15. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of equity and reserves in subsidiaries.

16. OTHER LONG TERM LIABILITIES AND PROVISIONS

		Group		Company	
	Note	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Finance lease liabilities	16.1	226	268	_	_
Provisions	16.2	234	262	208	244
Other payables		107	13	97	_
		567	543	305	244

16.1 Finance lease liabilities

	◄	— 2014 ——		•	— 2013 ——	
	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil
Less than 1 year (Note 17)	55	13	42	55	15	40
Between 1 to 2 years	55	11	44	55	13	42
Between 2 to 5 years	161	21	140	166	28	138
More than 5 years	45	3	42	95	7	88
	316	48	268	371	63	308

16. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

16.2 Provisions

Group

Provisions for decommissioning activities and onerous contracts have been made in relation to the discontinuation of the Group's vinyl business.

Provisions for decommissioning activities include dismantling/demolishing and removal of equipment, structures and foundation, as well as site remediation.

Provisions for onerous contracts relate to termination of contractual obligation for committed charges.

The provisions have been made based on present value of estimated decommissioning amount and present value of negotiated settlement amount payable over a period of 7 years (2013: 8 years) using a discount rate of 8.6% (2013: 8.6%).

The movement of the provisions is as follows:

	RM Mil
At 1 January 2014	351
Provisions made	14
Provisions reversed	(23)
Provisions utilised	(52)
Unwinding of discount factor	30
At 31 December 2014	320

	2014 RM Mil	2013 RM Mil
Non-current Current (Note 17)	234 86	262 89
	320	351

16. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

16.2 Provisions (continued)

Company

Provision for financial assistance has been made to meet a subsidiary's obligation in respect of decommissioning activities and other related expenses. The provision has been made based on present value of estimated funding requirements for decommissioning costs and settlement of onerous contracts over a period of 7 years (2013: 8 years) using a discount rate of 8.6% (2013: 8.6%).

	RM Mil
At 1 January 2014	378
Provisions made	25
Provisions reversed	(80)
Provisions utilised	(59)
Unwinding of discount factor	22
At 31 December 2014	286

	2014 RM Mil	2013 RM Mil
Non-current Current (Note 17)	208 78	244 134
	286	378

17. TRADE AND OTHER PAYABLES

	Group		Co	Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil	
Trade payables	122	61	_	_	
Other payables*	1,293	1,700	76	53	
Amount due to PETRONAS#					
- Trade	345	220	_	_	
- Non-trade	171	178	6	10	
Amount due to subsidiaries#					
- Non-trade	_	_	213	3	
Amount due to related companies#					
- Trade	323	372	_	-	
- Non-trade	55	58	7	14	
Provisions (Note 16)	86	89	78	134	
	2,395	2,678	380	214	

^{*} Included in other payables for the Group is the current portion of finance lease liabilities amounting to RM42 million (2013: RM40 million).

18. REVENUE

		Group		Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil	
Sales of chemical products	14,556	15,163	_	_	
Dividend income	_	_	2,004	3,930	
Others	41	39	-	_	
	14,597	15,202	2,004	3,930	

[#] Trade amount is unsecured and under normal trade terms. Non-trade amount is unsecured and repayable on demand.

19. OPERATING PROFIT

		Gr	Group		npany
	Note	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Included in operating profit are the following charges:					
Auditors' remuneration*		2	3	1	1
Amortisation of intangible assets	6	3	2	_	_
Depreciation of property, plant and equipment Loss on foreign exchange:	3	1,216	1,074	2	-
- Realised		80	48	_	_
- Unrealised		50	17	_	_
Net loss on derivative financial instruments Rental of plants, machineries, equipments		96	8	98	_
and motor vehicles		46	50	3	2
Rental of land and buildings Staff costs:		3	3	18	14
– Wages, salaries and others		793	660	159	143
 Contributions to Employees Provident Fund Impairment losses on: 		104	99	21	23
- Property, plant and equipment	3	262	_	_	_
– Investment in a subsidiary		_	_	40	107
Inventories written down to net realisable value	9	54	12	_	_
Provision for obsolete inventories Provisions for plant decommissioning and	9	-	8	-	_
onerous contracts	16	14	12	_	_
Provision for financial assistance to a subsidiary	16	_	_	25	378

19. OPERATING PROFIT (CONTINUED)

	Group			Company		
	Note	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil	
and credits:	,			'		
Gain on foreign exchange:						
- Realised		133	68	28	_	
- Unrealised		34	40	99	19	
Dividend income:						
– Subsidiaries		_	_	1,749	3,750	
 Joint ventures and associates 		_	_	255	180	
Interest income:						
- Others		390	340	136	134	
– Subsidiaries		_	_	25	5	
Management fee		_	_	124	157	
Reversal of:						
 Provision for obsolete inventories 	9	37	_	_	_	
- Inventories written down to net						
realisable value	9	12	_	_	_	
- Provisions for plant decommissioning						
and onerous contracts	16	23	_	_	_	
- Provision for financial assistance						
to a subsidiary	16	_	_	80	_	
Gain on disposal of property,						
plant and equipment		3	3	-	-	

^{*} The auditors' remuneration includes the following:

	G	Group		npany
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Statutory audit				
KPMG Malaysia	791	791	126	120
Other auditors	425	458	_	_
Non-audit fees				
KPMG Malaysia	460	966	460	568
Other auditors	472	359	-	_

20. FINANCING COSTS

Interest expense of financial liabilities that are not at fair value through profit or loss:

	Group		Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Unwinding of discount factor for other long term liabilities and provisions	45	8	22	_
Revolving credits	1	_	-	_
	46	8	22	-

21. TAX EXPENSE

	Group		Company	
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Current tax expense				
– Current year tax	864	930	15	22
– (Over)/Under provision in respect of prior years	(30)	17	(4)	(2)
	834	947	11	20
Deferred tax expense				
- Origination and reversal of temporary differences	(14)	98	2	(1)
– Under/(Over) provision in respect of prior years	5	(2)	-	_
	(9)	96	2	(1)
	825	1,043	13	19

21. TAX EXPENSE (CONTINUED)

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

Group	%	2014 RM Mil	%	2013 RM Mil
Profit before taxation		3,551		4,547
Taxation at Malaysian statutory tax rate Net non-deductible expense/(non-assessable income) Tax exempt income Losses not available for set-off/carried forward Effects of change in tax rate* Effects of lower tax rate under Global Incentive for Trading ("GIFT")	25 3 (3) 1 - (2)	888 96 (89) 38 (1) (55)	25 - (1) - -	1,137 (3) (53) 22 (19)
Tax incentives Others	- (1)	(1) (26) 850	- (1)	(1) (55) 1,028
(Over)/Under provision in prior years Tax expense		(25) 825		15 1,043

^{*} The corporate tax rate for the year of assessment is 25%. However, deferred tax assets and liabilities are measured at 24% which is the rate that has been substantively enacted by the Government in Budget 2014 announcement.

Company	%	2014 RM Mil	%	2013 RM Mil
Profit before taxation		1,979		3,485
Taxation at Malaysian statutory tax rate Net non-deductible expenses Tax exempt income Losses not available for set-off/carried forward	25 - (26) 2	495 8 (524) 38	25 3 (28) 1	871 121 (993) 22
	1	17	1	21
Over provision in prior years		(4)		(2)
Tax expense		13		19

22. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for year ended 31 December 2014 was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

	Group	
	2014	2013
In RM millions		
Profit for the year attributable to shareholders of the Company	2,465	3,146
In millions of shares		
Number of shares issued at 31 December	8,000	8,000
In sen		
Basic earnings per ordinary share	31	39

Diluted earnings per ordinary share

No diluted earnings per share are disclosed in these financial statements as there is no dilutive potential ordinary share.

23. DIVIDENDS

Group and Company	Sen per share	Total amount RM Mil	Date of payment
2014			
Second interim ordinary for financial year ended 31.12.2013 – Single tier	12	960	18 March 2014
First interim ordinary for financial year ended 31.12.2014 – Single tier	8	640	12 September 2014
		1,600	
2013			
Final ordinary for financial year ended 31.12.2012 - Single tier	14	1,120	25 June 2013
Interim ordinary for financial year ended 31.12.2013 – Single tier	8	640	25 September 2013
		1,760	

After the financial year end, the following dividends were approved by the Directors:

	Sen per share	Total amount RM Mil
Second interim dividend for financial year ended 31.12.2014 – Single tier	8	640

The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

The Directors do not recommend any final dividend to be paid for the financial year under review.

24. SUBSIDIARIES AND ACTIVITIES

The Group includes the following subsidiaries:

	Effective ownership interest (%)		
Name of Company	2014	2013	Principal activities
PETRONAS Chemicals Ammonia Sdn. Bhd.*	100	100	Production and sale of ammonia, syngas and carbon monoxide
PETRONAS Chemicals Derivatives Sdn. Bhd.*	100	100	Production and sale of ethylene oxide derivatives, propylene derivative products and related chemical products
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.*	100	100	Production and sale of urea, ammonia and methanol
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	100	100	Production and sale of ammonia and urea
PETRONAS Chemicals Glycols Sdn. Bhd.*	100	100	Production and sale of ethylene oxide, ethylene glycol and other related by-products
PETRONAS Chemicals Marketing Sdn. Bhd.	100	100	Marketing of petrochemical products
PETRONAS Chemicals Marketing (Labuan) Ltd	100	100	Marketing of petrochemical products
PCM (Thailand) Company Limited*	100	_	Marketing of petrochemical products
PCM (China) Company Limited	100	_	Marketing of petrochemical products
PETRONAS Chemicals Methanol Sdn. Bhd.	100	100	Production and sale of methanol
PETRONAS Chemicals MTBE Sdn. Bhd.	100	100	Production and sale of methyl tertiary butyl ether (MTBE), propylene and n-butane
PETRONAS Chemicals Polyethylene Sdn. Bhd.	100	100	Production and sale of polyethylene
Kertih Port Sdn. Bhd.*	100	100	Owning, operating and managing the Kertih Marine Facilities

24. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

The Group includes the following subsidiaries (continued):

Name of Company	Effective of interest 2014	ownership est (%) 2013	Principal activities
Polypropylene Malaysia Sdn. Bhd.	100	100	Production and sale of polypropylene and its derivatives. The company has ceased production
Vinyl Chloride (Malaysia) Sdn. Bhd.*	100	100	Production and sale of vinyl chloride monomer (VCM) and polyvinyl chloride (PVC). The company has ceased production
Phu My Plastics and Chemical Company Limited**	-	93.11	Production and sale of PVC, resin and other related chemical products
PETRONAS Chemicals Olefins Sdn. Bhd.*	88	88	Production and sale of ethylene, propylene and other hydrocarbon by-products
PETRONAS Chemicals Ethylene Sdn. Bhd.	87.50	87.50	Production and sale of ethylene
PETRONAS Chemicals Aromatics Sdn. Bhd.	70	70	Production and sale of paraxylene, benzene and other by-products
ASEAN Bintulu Fertilizer Sdn. Bhd.	63.47	63.47	Production and sale of ammonia and urea
PETRONAS Chemicals LDPE Sdn. Bhd.*	60	60	Production and sale of low-density polyethylene pellets (LDPE)
PCM Chemical India Private Limited * (formerly known as MITCO Labuan India Private Limited)	0.01	0.01	Marketing and business promotional services

^{*} Audited by firms of auditors other than KPMG.

All subsidiaries are incorporated in Malaysia except for Phu My Plastics and Chemical Company Limited (incorporated in Vietnam), PCM Chemical India Private Limited (incorporated in India), PCM (Thailand) Company Limited (incorporated in Thailand) and PCM (China) Company Limited (incorporated in China).

During the year, the Group completed the divestment of its entire equity interest in Phu My Plastics and Chemical Company Limited ("PMPC"). Upon completion of the divestment, PMPC ceased to be a subsidiary of the Group and its results are no longer consolidated.

^{**} Audited by a member firm of KPMG International.

25. JOINT VENTURES AND ACTIVITIES

The Group includes the following joint ventures:

		ownership est (%)	
Name of Company	2014	2013	Principal activities
Kertih Terminals Sdn. Bhd.	40	40	Provision of bulk chemical storage and handling services
BP PETRONAS Acetyls Sdn. Bhd.*	30	30	Production and sale of acetic acid

^{*} Audited by firms of auditors other than KPMG.

All joint ventures are incorporated in Malaysia. Summarised financial information has not been included as the joint ventures are not material to the Group.

26. ASSOCIATES AND ACTIVITIES

The Group includes the following associates:

		ownership est (%)	
Name of Company	2014	2013	Principal activities
BASF PETRONAS Chemicals Sdn. Bhd.	40	40	Production, marketing and sale of acrylic, oxo and butanediol products
Idemitsu SM (Malaysia) Sdn. Bhd.*	30	30	Production, marketing and sale of ethylbenzene, styrene monomer, toluene and benzene toluene (BT) mixture
Malaysian NPK Fertilizer Sdn. Bhd.*	20	20	Production and sale of NPK fertiliser products

^{*} Audited by firms of auditors other than KPMG.

All associates are incorporated in Malaysia. Summarised financial information has not been included as the associates are not material to the Group.

27. CAPITAL COMMITMENTS

Outstanding commitments in respect of capital expenditure not provided for in the consolidated financial statements at the end of the reporting year are:

		Group
	2014 RM Mil	2013 RM Mil
Property, plant and equipment		
Approved and contracted for	1,417	1,540
Approved but not contracted for	1,940	1,741
	3,357	3,281

28. RELATED PARTIES DISCLOSURES

(a) Key management personnel compensation

	Co	Company	
	2014	2013	
	RM'000	RM'000	
Directors			
- Fees	735	640	

In addition to the above, the Company also paid compensation for the services of certain key management personnel amounting to RM2,140,383 (2013: RM2,297,482).

(b) Significant transactions with related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group's and the Company's related parties include subsidiaries, joint ventures, associates as well as the Government of Malaysia and its related entities.

28. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

			ns amount ne year 2013
Group	Note	RM Mil	RM Mil
PETRONAS: Purchase of processed gas and natural gas Fees for representation in the Board of Directors* Management fees** Centralised management services Security charges Information, communication and technology charges Rental of office space Interest income from PETRONAS IFSSC	28.1	(3,427) - (2) (52) (20) (60) (18) 340	(3,400) - (4) (36) (22) (35) (14) 210
Subsidiaries of PETRONAS: Sales of petrochemical products Purchase of heavy naphtha Purchase of processed gas and natural gas Purchase of utilities and materials and supplies Training and development related costs Purchase of warehouse and transportation services Provision of operating and maintenance services Purchase of marine diesel Provision of vessel screening services and other related services Technical retainer fee	28.2	1,013 (2,040) (206) (679) (28) (59) (4) (10) –	1,177 (2,686) (268) (553) (14) (44) (3) (1)
Joint ventures and associates of the Group: Sales of petrochemical products Rendering of services Purchase of petrochemical products Purchase of warehouse and transportation services		1,976 13 (49) (146)	1,882 12 (17) (135)
Corporate shareholders of the Group¹: Sales of petrochemical products Purchase of petrochemical products Management fee Commission fee		617 (39) (1) (18)	949 - - (27)
Government related entities: Sales of petrochemical products Interest income Purchase of electricity		101 12 (88)	104 22 (87)

28. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Note 28.1

Fees for representation in the Board of Directors are RM243,000 (2013: RM399,000).

Note 28.2

Provision of vessel screening services and other related services is RM127,800 (2013: RM122,500).

¹ The terms and conditions for the above transactions are based on normal trade terms. All the amounts outstanding are unsecured and expected to be settled with cash. The balances may also be subjected to interest rate at 8.35% (2013: 7.8%) per annum.

Company		ons amount the year 2013 RM'000
PETRONAS: Fees for representation in the Board of Directors* Centralised management services Information, communication and technology charges Rental of office space Interest income from PETRONAS IFSSC	(243) (6,671) (9,277) (17,533) 93,950	(399) (3,437) (7,517) (13,951) 42,646
Subsidiaries: Interest income Dividend income Management fee income Loan and advances Financial assistance	25,010 1,749,039 124,371 (1,694,720) (59,000)	4,943 3,750,092 157,106 – (107,000)
Joint ventures and associates: Dividend income Government related entities: Interest income	254,462 12,063	180,000 12,691

^{*} Fees paid directly to ultimate holding company in respect of directors who are appointees of the ultimate holding company.

Information regarding outstanding balances arising from related party transactions as at 31 December 2014 is disclosed in Note 7, Note 10, Note 16 and Note 17.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis.

^{**} Management fees paid to ultimate holding company relates to payment for services of certain key management personnel of the Group.

29. OPERATING SEGMENTS

For management purposes, the Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Olefins and Derivatives activities include manufacturing and marketing of a wide range of olefin and polymer products, which are used as basic feedstock for other products, to intermediate products including basic and high performance chemicals.
- Fertilisers and Methanol activities include manufacturing and marketing methanol and a range of nitrogen, phosphate and compound fertilisers.
- Others other businesses that supports the petrochemicals' business operations.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Performance is measured based on segment profit after tax as included in the internal management reports that are reviewed by the President/CEO, who is the Group's chief operating decision maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Transfer prices between operating segments are established in a manner similar to transactions with third parties.

Segment assets

The total of segment assets are measured based on all assets of a segment, as included in the internal management reports that are reviewed by the President/CEO. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities

The Group segment liabilities are measured and managed on a group basis and are not allocated to operating segments.

29. OPERATING SEGMENTS (CONTINUED)

2014	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	1,813	898	15	_	2,726
Included in the measure of segment profit are:					
Revenue from external customers	10,510	4,046	41	_	14,597
Inter-segment revenue	8	197	33	(238)	_
Depreciation and amortisation	(811)	(393)	(15)	_	(1,219)
Interest income	163	90	162	(25)	390
Financing costs	(45)	(4)	_	3	(46)
Share of profit of joint ventures					
and associates	115	12	39	_	166
Tax expense	(580)	(223)	(22)	_	(825)
Segment assets	14,382	11,367	2,765	(51)	28,463
Included in the measure of segment					
assets are:					
Investments in joint ventures and					
associates	672	93	101	_	866
Additions to non-current assets					
other than financial instruments					
and deferred tax assets	615	1,868	6	_	2,489

29. OPERATING SEGMENTS (CONTINUED)

2013	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,322	1,068	114		3,504
Included in the measure of segment profit are:					
Revenue from external customers	11,222	3,941	39	_	15,202
Inter-segment revenue	10	235	33	(278)	_
Depreciation and amortisation	(693)	(371)	(12)	_	(1,076)
Interest income	128	77	140	(5)	340
Financing costs	(12)	(2)	_	6	(8)
Share of profit of joint ventures					
and associates	163	(7)	65	_	221
Tax expense	(653)	(363)	(27)	-	(1,043)
Segment assets	12,183	10,057	5,582	(91)	27,731
Included in the measure of segment assets are:					
Investments in joint ventures and					
associates	558	82	104	_	744
Additions to non-current assets					
other than financial instruments					
and deferred tax assets	541	2,011	16	_	2,568

29. OPERATING SEGMENTS (CONTINUED)

Geographical information

In presenting information on the basis of geographical segment, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including long term receivables, investments in joint ventures and associates) and deferred tax assets.

2014	Revenue RM Mil	Non- current assets RM Mil
Malaysia	5,596	14,262
Asia:		
- China	3,049	_
- Others	5,651	_
Rest of the world	301	_
	14,597	14,262
2013		
Malaysia	6,077	13,255
Asia:		
- China	3,314	_
- Others	5,559	86
Rest of the world	252	_
Reclassified as assets held for sale (Note 12)	-	(86)
	15,202	13,255

Major customers

None of the customers contribute to more than 10% of the Group's revenue.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (i) Loans and receivables ("L&R");
- (ii) Fair value through profit or loss ("FVTPL") Held for trading ("HFT"); and
- (iii) Financial liabilities measured at amortised cost ("FL").

Group	Note	L&R/(FL) RM Mil	2014 FVTPL - HFT RM Mil	Total carrying amount RM Mil	L&R/(FL) RM Mil	2013 FVTPL – HFT RM Mil	Total carrying amount RM Mil
Financial assets							
Long term receivables	7	_	_	_	3	_	3
Trade and other receivables*	10	1,650	13	1,663	1,422	3	1,425
Cash and cash equivalents	11	9,807	-	9,807	10,155	-	10,155
		11,457	13	11,470	11,580	3	11,583
Financial liabilities							
Other long term liabilities	16	(226)	(97)	(323)	(268)	_	(268)
Trade and other payables*	17	(2,223)	(21)	(2,244)	(2,532)	(11)	(2,543)
		(2,449)	(118)	(2,567)	(2,800)	(11)	(2,811)

^{*} These balances exclude non-financial instruments balances which are not within the scope of MFRS 139, Financial Instruments: Recognition and Measurement.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Company	Note	L&R/(FL) RM Mil	2014 FVTPL - HFT RM Mil	Total carrying amount RM Mil	L&R/(FL) RM Mil	2013 FVTPL – HFT RM Mil	Total carrying amount RM Mil
Financial assets							
Long term receivables	7	1,807	_	1,807	82	_	82
Trade and other receivables*	10	299	_	299	387	_	387
Cash and cash equivalents	11	3,169	-	3,169	4,537	-	4,537
		5,275	-	5,275	5,006	_	5,006
Financial liabilities							
Other long term liabilities		_	(97)	(97)	_	_	_
Trade and other payables*	17	(301)	(1)	(302)	(80)	_	(80)
		(301)	(98)	(399)	(80)	_	(80)

^{*} These balances exclude non-financial instruments balances which are not within the scope of MFRS 139, Financial Instruments: Recognition and Measurement.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management

The Group and the Company are exposed to various financial risks that are particular to its core business of petrochemical. These risks, which arise in the normal course of the Group's and the Company's business, comprise credit risk, liquidity risk and market risks relating to interest rates, foreign currency exchange rates and prices.

The Group adopts PETRONAS Group Risk Management Framework and Guideline that sets the foundation for the establishment of effective risk management across the Group.

The Group and the Company's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit/Company adopts appropriate measures to mitigate these risks in accordance with the business unit's/Company's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from its receivables from customers and intercompany loans and advances. Credit risks are controlled by individual operating units in line with PETRONAS Group Risk Management Framework and Guideline.

Intercompany loans and advances

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

As at the reporting period, there was no indication that the loans and advances to the subsidiaries are not recoverable.

Receivables

The Group minimises credit risk by entering into contracts with high credit rated counterparties. Potential counterparties are subject to credit assessment and approval prior to any transaction being concluded and existing counterparties are subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's and the Company's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Receivables (continued)

Depending on the types of transactions and counterparty creditworthiness, the Group further mitigates and limits risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit or bank guarantees. Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions.

The Group's significant concentration of credit risk for receivables at the end of the reporting date by segment is as follows:

	G	roup
	2014	2013
	RM Mil	RM Mil
Olefins and Derivatives	1,098	1,148
Fertilisers and Methanol	537	240
Others	15	34
	1,650	1,422

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The Group uses ageing analysis to monitor the credit quality of the receivables.

The ageing of receivables and amount due from PETRONAS, related companies and associates which are trade in nature at net of impairment amount as at the end of the reporting year is analysed below:

	G	iroup
	2014 RM Mil	2013 RM Mil
At net		
Current	1,529	1,302
Past due 1 to 30 days	1	7
Past due 31 to 60 days	_	1
Past due 61 to 90 days	_	_
Past due more than 90 days	-	1
	1,530	1,311

With respect to the Group's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's and the Company's business activities may not be available. In managing its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's and the Company's operations and to mitigate the effects of fluctuations in cash flows.

Maturity analysis

The table below summarises the maturity profile of the Group's and Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

Group	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1 – 2 years RM Mil	2 – 5 years RM Mil	More than 5 years RM Mil
2014							
Financial liabilities	242		746			4.64	4.5
Finance lease liabilities	268	5.00	316	55	55	161	45
Trade and other payables	2,181	-	2,181	2,181	_	_	_
Fair value through profit or loss							
– derivative liabilities	118	-	118	21	97	-	-
	2,567		2,615	2,257	152	161	45
2013							
Financial liabilities							
Finance lease liabilities	308	5.00	371	55	55	166	95
Trade and other payables	2,492	_	2,492	2,492	_	_	_
Fair value through profit or loss							
- derivative liabilities	11	-	11	11	-	_	-
	2,811		2,874	2,558	55	166	95

30. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity Risk (continued)

Maturity analysis (continued)

Company	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1 – 2 years RM Mil
2014					
Financial liabilities					
Trade and other payables	301	_	301	301	_
Fair value through profit or loss					
 derivative liabilities 	98	_	98	1	97
	399	-	399	302	97
2013					
Financial liabilities					
Trade and other payables	80	_	80	80	_

Market risks

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes arising from financial instruments that the Group and the Company are exposed to include interest rates and foreign currency exchange rates that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's and the Company's variable rate instruments are exposed to a risk of change in cash flows due to changes in interest rates whilst fixed rate instruments are exposed to a risk of change in their fair value due to changes in interest rate. Short term receivables and payables are not significantly exposed to interest rate risk.

In managing interest rate risk, the Group and the Company maintains a balanced portfolio of fixed and floating rate instruments. All interest rate exposures are monitored and managed proactively based on adopted PETRONAS Group Risk Management Framework and Guideline.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Market risks (continued)

Interest rate risk (continued)

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	Gı	Group		
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil
Fixed rate instruments				
Financial assets	9,816	10,169	4,864	4,537
Financial liabilities	(386)	(319)	(98)	_
	9,430	9,850	4,766	4,537
Floating rate instruments				
Financial assets	-	_	7	174

Since most of the Group's and the Company's financial assets and liabilities are fixed rate instruments measured at amortised cost, any reasonable possible change in interest rate is not expected to have material impact on the Group's and the Company's profit or loss.

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's and the Company's cash flows are Ringgit Malaysia and US Dollar.

The Group's and the Company's foreign exchange management policies are to minimise economic and significant transactional exposures arising from currency movements. The Group mainly relies on the natural hedge generated by the fact that some of their revenue and expenses are denominated in US Dollar. In addition, the Group, where applicable, hedge using derivative instruments in respect of current and forecasted transactions.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Foreign exchange risk (continued)

The Group's and the Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

	2014			2013			
	USD	nominated EURO	IN JPY	Denominated in USD EURO J			
Group	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	JPY RM Mil	
Financial assets							
Cash and cash equivalents	141	_	_	-	-	_	
Trade and other receivables*	3,045	1	_	1,268	7	5	
Other financial assets	12	-	-	3	_	_	
	3,198	1	_	1,271	7	5	
Financial liabilities							
Borrowings**	(1,695)	_	_	(263)	-	_	
Trade and other payables*	(1,094)	(6)	(4)	(379)	(192)	(201)	
Other financial liabilities	(112)	-	_	(11)	_	_	
	(2,901)	(6)	(4)	(653)	(192)	(201)	
Net exposure	297	(5)	(4)	618	(185)	(196)	

^{*} These amounts include foreign currency risk exposure arising from intra-group balances.

^{**} Comprising of short term and long term intra-group loans.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Foreign exchange risk (continued)

	Denominat	ed in USD
	2014	2013
Company	RM Mil	RM Mil
Financial assets		
Trade and other receivables	7	172
Long term receivables	1,695	80
	1,702	252
Financial liabilities		
Trade and other payables	(1)	(8)
Other long term liabilities	(97)	_
	(98)	(8)
Net exposure	1,604	244

Since most of the Group's and the Company's foreign denominated financial currency financial instruments are in US Dollar and the net exposure is not material, any reasonable possible change in the exchange rate in US Dollar is not expected to have a material impact on the Group's and the Company's profit or loss.

Price Risk

The Group is exposed to price risks that include feedstock and product price risk and basis risk which may affect the value of the Group's assets, liabilities or expected future cash flows. Price risk is the risk of financial loss due to fluctuation and volatility of feedstock prices on purchases and product prices on trades. Basis risk, on the other hand, is the risk of financial loss as a result of different pricing term of trades.

The Group is guided by industry practices and minimises its price risk exposure by proactively and continuously identifying, measuring, monitoring, mitigating and reporting price risk within the context of a comprehensive risk management framework.

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
2014	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil
Group										
Financial assets										
Forward exchange contracts	_	13	_	13	_	-	_	_	13	13
Finance lease receivables	-	-	-	-	-	-	-	-	-	-
	-	13	-	13	-	-	-	-	13	13
Financial liabilities										
Forward exchange contracts	_	(118)	_	(118)	_	_	_	_	(118)	(118)
Finance lease liabilities	-	-	-	-	-	-	(229)	(229)	(229)	(226)
	-	(118)	-	(118)	-	-	(229)	(229)	(347)	(344)
Company										
Financial assets										
Long term receivables	-	_	-	-	-	-	1,784	1,784	1,784	1,807
Financial liabilities										
Forward exchange contracts	-	(98)	-	(98)	-	-	-	-	(98)	(98)

30. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

	Fair va	lue of fina carried at	ncial instru fair value	uments	Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
2013	Level 1 RM Mil	Level 2 RM Mil	Level 3 RM Mil	Total RM Mil	Level 1 RM Mil	Level 2 RM Mil	Level 3 RM Mil	Total RM Mil	RM Mil	RM Mil
Group										
Financial assets										
Forward exchange contracts	-	3	_	3	_	_	_	-	3	3
Finance lease receivables	-	-	-	-	-	-	3	3	3	3
	_	3	-	3	-	-	3	3	6	6
Financial liabilities										
Forward exchange contracts	_	(11)	-	(11)	-	-		-	(11)	(11)
Finance lease liabilities	-	-	-	-	-	-	(265)	(265)	(265)	(268)
	_	(11)	_	(11)	_	-	(265)	(265)	(276)	(279)
Company										
Financial assets										
Long term receivables	-	-	-	-	-	-	82	82	82	82
Financial liabilities										
Forward exchange contracts	-	-	-	-	_	-	-	-	-	-

Forward foreign exchange contracts

The fair value of forward exchange contracts is based on the difference between the contracted forward rates and the Mark-To-Market (MTM) rates. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract.

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Finance lease receivables and liabilities

The fair values of finance lease receivables and liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Long term receivables

The fair value of long term receivables is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Income/(expense), net gains and losses arising from financial instruments

Group	Interest income RM Mil	me expense Others Total				2013 erest Interest come expense Others Tot M Mil RM Mil RM Mil RM M				
Loans and receivables Financial instruments at fair value through profit or loss – Held for trading	390	-	40 (96)	430 (96)	340	_	(1)	339		
Financial liabilities at amortised cost	_	(1)	(17)	(18)	-	_	25	25		
	390	(1)	(73)	316	340	-	16	356		

30. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments (continued)

Company	Interest income RM Mil	income expense Others Total				2013 Interest Interest income expense Others Total RM Mil RM Mil RM Mil				
Loans and receivables Financial instruments at fair value through profit or loss - Held for trading	161	-	127	288	139	-	18	157		
	161	-	29	190	139	-	18	157		

Others relate to gains and losses arising from financial instruments such as impairment loss, realised and unrealised foreign exchange gains or losses and fair value gains or losses.

31. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2014, the Group and the Company adopted the following pronouncements that are applicable and have been issued by the Malaysian Accounting Standards Board (MASB) as listed below:

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Impairment of Assets: Recoverable Amount Disclosures for Non-financial Asset
Amendments to MFRS 139	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21	Levies

The initial application of the abovementioned pronouncements do not have any material impact to the financial statements of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

32. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company in these financial statements:

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual
	Improvements 2011-2013 Cycle)
Amendments to MFRS 3	Business Combinations (Annual Improvements 2010-2012 Cycle and
	2011-2013 Cycle)
Amendments to MFRS 8	Operating Segments (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 13	Fair Value Measurement (Annual Improvements 2011-2013 Cycle)
Amendments to MFRS 116	Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 119	Employee Benefits – Defined Benefit Plans: Employee Contributions
Amendments to MFRS 124	Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 138	Intangible Assets (Annual Improvements 2010-2012 Cycle)
Amendments to MFRS 140	Investment Property (Annual Improvements 2011-2013 Cycle)

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Annual
	Improvements 2012-2014 Cycle)
Amendments to MFRS 7	Financial Instruments: Disclosures (Annual Improvements 2012-2014
	Cycle)
Amendments to MFRS 10	Sale or Contribution of Assets between an Investor and its Associate or
and MFRS 128	Joint Venture

32. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT (CONTINUED)

Effective for annual periods beginning on or after 1 January 2016 (continued)

Amendments to MFRS 11	Joint Arrangements – Accounting for Acquisitions of Interests in Joint
	Operations
Amendments to MFRS 101	Presentation of Financial Statements – Disclosure Initiative
Amendments to MFRS 116	
and 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 119	Employee Benefits (Annual Improvements 2012-2014 Cycle)
Amendments to MFRS 127	Separate Financial Statements – Equity Method in Separate Financial

Statements

Amendments to MFRS 134 Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)

Effective for annual periods beginning on or after 1 January 2017

MFRS 15 Revenue from Contracts with Customers

Effective for annual periods beginning on or after 1 January 2018

MFRS 9 Financial Instruments (2014)

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements are not expected to have any material impact to the financial statements of the Group and the Company except as mentioned below:

i. MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15 Agreements for Construction of Real Estate, IC Interpretation 18 Transfers of Assets from Customers and IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services.

Upon adoption of MFRS 15, it is expected that the timing of revenue recognition might be different as compared to current practices.

ii. MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The Group and the Company are currently assessing the impact of adopting the above pronouncements.

NOTES TO THE FINANCIAL STATEMENTS

33. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 2 Share-based Payment (Annual Improvements 2010-2012 Cycle)

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 10,

MFRS 12 and MFRS 128 Investment Entities: Applying the Consolidation Exception

MFRS 14 Regulatory Deferral Accounts

Amendments to MFRS 116 Property, Plant and Equipment – Agriculture: Bearer Plants

34. CAPITAL MANAGEMENT

The Group defines capital as the total equity and debt of the Group. The objective of the Group and the Company's capital management is to maintain an optimal capital structure and ensuring availability of funds in order to support its business and related shareholders value. As a subsidiary of PETRONAS, the Group adopts PETRONAS Group Corporate Financial Policy in managing its capital.

The Group monitors and maintains a prudent level of total debt to total assets ratio to optimise shareholders value and to ensure compliance with covenants.

There were no changes in the Group and the Company's approach to capital management during the year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Group is required to maintain consolidated shareholders' equity equal to or not less than 25% of the issued and paid-up capital and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

35. HOLDING COMPANY

The holding company is Petroliam Nasional Berhad ("PETRONAS"), a company incorporated in Malaysia.

36. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2014, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, are as follows:

	Gr	oup	Company		
	2014 RM Mil	2013 RM Mil	2014 RM Mil	2013 RM Mil	
Total retained profits of the Company and its subsidiaries:					
realisedunrealised	17,925 (642)	16,218 (431)	5,324 1	4,940 19	
	17,283	15,787	5,325	4,959	
Total retained profits from joint ventures and associate:					
realisedunrealised	290 (44)	375 (38)	- -	- -	
	246	337	-	_	
Total realised and unrealised Less: Consolidation adjustments	17,529 (3,686)	16,124 (3,190)	5,325 –	4,959 –	
Total group retained profits as per consolidated accounts	13,843	12,934	5,325	4,959	

The determination of realised and unrealised profits is based on the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PETRONAS CHEMICALS GROUP BERHAD (Company No. 459830-K) (Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of PETRONAS Chemicals Group Berhad, which comprise the statements of financial position as at 31 December 2014 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 181 to 256.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 24 to the financial statements.
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 36 on page 257 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTER(S)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMC

Firm Number: AF 0758 Chartered Accountants Loh Kam Hian
Approval Number: 2941/09/16(J)

Chartered Accountant

Petaling Jaya, Selangor Date: 24 February 2015

LIST OF PROPERTIES

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area: (sq metre unless otherwise stated)	Age of Plant & building: (Years)	NBV as at 31/12/2014: (RM'000)
1	PETRONAS Chemicals Derivatives Sdn Bhd, PETRONAS Chemicals Olefins Sdn Bhd and PETRONAS Chemicals Glycols Sdn Bhd (each a 1/3 part owner)					333,426
	H.S.(D) 3385, PT No. 10535, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	30.08.2000	Industrial land – TNB sub-station	3,886	13	
	Leasehold for 60 years, expiring on 29 August 2060					
	H.S.(D) 3316, PT No. 9015, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	30.08.2000	Industrial land – Waste water and treatment substation	260,469	13	
	Leasehold for 60 years, expiring on 29 August 2060					
	Pajakan Negeri No. Hakmilik 7594, No. Lot 8068, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	30.08.2000	Industrial land – Plant for production of ethylene derivatives	611,075	13	
	Leasehold for 60 years, expiring on 29 August 2060					
2	PETRONAS Chemicals Methanol Sdn Bhd No. 205350607, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan	31.08.2004	Industrial land – Plant for production of methanol	14 hectares	6	1,480,141
	Leasehold for 99 years, expiring on 31 December 2082					
3	PETRONAS Chemicals Methanol Sdn Bhd No. 206291590, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan	01.06.1992	Industrial land – Plant for production of methanol and administration office	34 acres	30	465,613
	Leasehold for 51 years, expiring on 30 December 2043					

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area: (sq metre unless otherwise stated)	Age of Plant & building: (Years)	NBV as at 31/12/2014: (RM'000)
4	PETRONAS Chemicals MTBE Sdn Bhd* H.S.(D) 9688 P.T. No. 4538, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang	17.11.1992	Industrial land – Plant for production of MTBE	36 hectares	21	385,951
	Leasehold for 66 years, expiring on 14 July 2058					
5	PETRONAS Chemicals MTBE Sdn Bhd* HH.S.(D) 34911, No. P.T. 15128, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang	09.01.2001	Industrial land – Propane dehydrogenation plant	34 acres	14	274,241
	Leasehold for 99 years, expiring on 8 January 2100					
6	PETRONAS Chemicals MTBE Sdn Bhd* H.S.(D) 34912, No.P.T. 15129, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang	09.01.2001	Emergency response building	15 acres	9	6,965
	Leasehold for 99 years, expiring on 8 January 2100					
7	Polypropylene Malaysia Sdn Bhd* H.S.(D) 9686, No. Lot P.T. 4536, Mukim Sungai Karang Daerah Kuantan, Negeri Pahang	15.07.1992	Industrial land – Plant for production of polypropylene	20 hectares	16	11,164
	Leasehold for 66 years, expiring on 14 July 2058					
8	PETRONAS Chemicals Fertiliser Kedah Sdn Bhd* Pajakan Negeri No. Hakmilik 1010, No. Lot 10750 Bandar Gurun, Daerah Kuala Muda, Kedah	01.11.1999	Commercial/industrial land – Plant for production of urea and ammonia	699,100	16	472,576
	Leasehold for 99 years, expiring on 22 April 2102					

LIST OF PROPERTIES

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area: (sq metre unless otherwise stated)	Age of Plant & building: (Years)	NBV as at 31/12/2014: (RM'000)
9	ASEAN Bintulu Fertilizer Sdn Bhd No.323, Lot 35, Block 20, Kemena land District, Bintulu, Sarawak	01.04.1983	Mixed zone/town land — Plant for production of urea and ammonia	38 hectares	30	215,143
	Leasehold for 99 years, expiring on 19 February 2083					
10	ASEAN Bintulu Fertilizer Sdn Bhd No.321, Lot 2233 – 2239, Block 26, Kemena land District, Bintulu, Sarawak	08.02.2005	Mixed zone/town land – Dwelling house	8,298	10	1,525
	Leasehold for 60 years, expiring on 8 May 2046					
11	ASEAN Bintulu Fertilizer Sdn Bhd No.321, Lot 2266, Block 26, Kemena land District, Bintulu, Sarawak	08.02.2005	Mixed zone/town land – vacant land	1,074	N/A	193
	Leasehold for 60 years, expiring on 8 May 2046					
12	ASEAN Bintulu Fertilizer Sdn Bhd No.321, Lot 2275 - 2276, Block 26, Kemena land District, Bintulu, Sarawak	08.02.2005	Mixed zone/town land – vacant land	2,041	N/A	374
	Leasehold for 60 years, expiring on 8 May 2046					

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area: (sq metre unless otherwise stated)	Age of Plant & building: (Years)	NBV as at 31/12/2014: (RM'000)
13	PETRONAS Chemicals Ethylene Sdn Bhd, PETRONAS Chemicals Polyethylene Sdn Bhd Pajakan Negeri No. Hakmilik 6282, No. Lot 8075, Daerah Kemaman, Mukim Kertih, Negeri Terengganu	02.04.1993	Industrial land – Plant for production of ethylene/polyethylene	567,800	20	568,430
	Leasehold for 51 years, expiring on 16 June 2052					
14	PETRONAS Chemicals Ethylene Sdn Bhd Pajakan Negeri No. Hakmilik 3939, No. Lot 5217, Daerah Kemaman, Mukim Kertih, Negeri Terengganu	31.05.1995	Industrial land – Storage facility for water	191,200	20	6,311
	Leasehold for 60 years, expiring on 23 October 2054					
15	PETRONAS Chemicals Ammonia Sdn Bhd* Pajakan Negeri No. Hakmilik 7588, No. Lot 8066, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	01.08.2000	Industrial land – Plant for production of ammonia and any other related gas	98,490	15	368,676
	Leasehold for 60 years, expiring on 19 August 2060					
16	PETRONAS Chemicals Ammonia Sdn Bhd PT 15786, Lot 5276, Mukim Kertih Daerah Kemaman, Negeri Terengganu	30.12.2011	Industrial land – KIPC Shared Facilities which includes the administrative, laboratory and	96,208	3	31,617
	Leasehold for 60 years, expiring on 8 January 2058		workshop buildings			

LIST OF PROPERTIES

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area: (sq metre unless otherwise stated)	Age of Plant & building: (Years)	NBV as at 31/12/2014: (RM'000)
17	PETRONAS Chemicals LDPE Sdn Bhd Pajakan Negeri No. Hakmilik 7593, No. Lot 8073, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	20.08.2000	Industrial land – Plant for production of LDPE	184,700	14	130,552
	Leasehold for 60 years, expiring on 19 August 2060					
18	Kertih Port Sdn Bhd Pajakan Negeri No. Hakmilik 4695, No. Lot 7120, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	02.08.2000	Industrial land – Operations of Kertih Port (Jetty and marine related facilities)	43,100	15	372,473
	Leasehold for 60 years, expiring on 5 March 2060					
19	Kertih Port Sdn Bhd Pajakan Negeri No. Hakmilik 4696, No. Lot 7121, Mukim Kertih, Daerah Kemaman, Negeri Terengganu	02.08.2000	Industrial land — Gas and oil pipelines (Reclaimation area land & Coastal Strip Land)	41,400	15	451
	Leasehold for 60 years, expiring on 5 March 2060					
20	Kertih Port Sdn Bhd Pajakan Negeri No. Hakmilik 6280, No. Lot 8077 Mukim Kertih, Daerah Kemaman, Negeri Terengganu	31.03.1993	Industrial land – administration complex and other related facilities	58,570	20	18,501
	Leasehold for 51 years, expiring on 16 June 2052					

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area: (sq metre unless otherwise stated)	Age of Plant & building: (Years)	NBV as at 31/12/2014: (RM'000)
21	Vinyl Chloride (Malaysia) Sdn Bhd Pajakan Negeri No. Hakmilik 3331, No. Lot 5276, Daerah Kemaman, Mukim Kertih, Negeri Terengganu	01.09.1998	Industrial land – Integrated PVC manufacturing plant	187,958	14	4,113
	Leasehold for 60 years, expiring on 8 January 2055					
	Pajakan Negeri No. Hakmilik 7394, No. Lot 6058, Daerah Kemaman, Mukim Kertih, Negeri Terengganu	01.09.1998	Industrial land – Integrated PVC manufacturing plant	121,400	14	
	Leasehold for 60 years, expiring on 18 December 2056					

^{*} A sukuk issue by PETRONAS Global Sukuk Ltd. in August 2009 involved a notional sale of a beneficial interest in specific fixed assets (the "fixed assets") by PETRONAS Chemicals MTBE Sdn Bhd, Polypropylene Malaysia Sdn Bhd, PETRONAS Chemicals Ammonia Sdn Bhd and PETRONAS Chemicals Fertiliser Kedah Sdn Bhd (the "Relevant Subsidiaries") to PETRONAS Global Sukuk Ltd. pursuant to 4 purchase agreements between each Relevant Subsidiary and PETRONAS Global Sukuk Ltd. PETRONAS Global Sukuk Ltd. leased the beneficial interest in the fixed assets to PETRONAS pursuant to a lease agreement, and such beneficial interest in the fixed assets was subsequently sub-leased by PETRONAS to the Relevant Subsidiaries pursuant to 4 sub-lease agreements between each Relevant Subsidiary and PETRONAS. This structure did not represent a collaterialisation and there is no transfer of registered title of the fixed assets. The sukuk investors have no recourse to the fixed assets except to exercise the purchase undertaking and oblige PETRONAS to purchase the beneficial interest in the fixed assets at a specified price at the redemption date or upon a dissolution event. The Relevant Subsidiaries may then exercise their rights under the sale undertaking granted by PETRONAS to oblige PETRONAS to sell the beneficial interest in the fixed assets to the Relevant Subsidiaries at the price of RM1.00. The sukuk expired in August 2014.

ANALYSIS OF SHAREHOLDINGS

AS AT 10 FEBRUARY 2015

Size of Holdings	No. of Shareholders	% of Total Shareholders	No. of Shares	% of Total Shareholdings
Less than 100	101	0.44	1,048	0.00
100 - 1,000	7,548	33.04	6,774,013	0.08
1,001 - 10,000	12,513	54.78	51,727,371	0.65
10,001 - 100,000	2,105	9.22	58,521,554	0.73
100,001 to less than 5% of issued shares	573	2.51	1,897,611,914	23.72
5% and above of issued shares	2	0.01	5,985,364, 100	74.82
Total	22,842	100.00	8,000,000,000	100.00

LIST OF DIRECTORS' SHAREHOLDINGS IN THE COMPANY (PETRONAS CHEMICALS GROUP BERHAD)

No	Name	No. of Shares	% of Total Shareholdings
1	Datuk Wan Zulkiflee Bin Wan Ariffin (shares held under own name)	20,000	0.00
2	Datuk Dr Abd Hapiz Bin Abdullah (shares held under Maybank		
	Nominees (Tempatan) Sdn Bhd	20,000	0.00
3	Datuk Ir. Kamarudin Bin Zakaria (shares held under own name)	40,000	0.00
4	Vimala A/P V.R. Menon (shares held under own name)	20,000	0.00
5	Ching Yew Chye (shares held under own name)	20.000	0.00
6	Dong Soo Kim (shares held under own name)	20,000	0.00
7	Rashidah Bt Alias @ Ahmad (shares held under own name)	6,000	0.00

	No. Shareho		% o Shareho			o. of nares	% of Total Sharel	
Category of Shareholders	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
Individual	18,343	175	80.30	0.77	86,116,082	1,986,941	1.08	0.02
Body Corporate								
Banks/Finance Companies	77	0	0.34	0.00	1,050,053,610	0	13.13	0.00
Investments Trusts/ Foundation/Charities	3	0	0.01	0.00	470,000	112,000	0.01	0.00
Other types of companies	326	9	1.42	0.04	14,204,600	0	0.17	0.00
Government Agencies/Institutions	6	0	0.03	0.00	11,358,600	0	0.14	0.00
Nominees	3,319	584	14.53	2.56	6,243,142,823	592,555,344	78.04	7.41
Others	0	0	0.00	0.00	0	0	0.00	0.00
Total	22,074	768	96.63	3.37	7,405,345,715	594,654,285	92.57	7.43

LIST OF TOP 30 HOLDERS

No	Name	No. of Shares	%
1	CIMB GROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR PETROLIAM NASIONAL BERHAD	5,148,000,000	64.35
2	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	837,364,100	10.47
3	AMANAHRAYA TRUSTEES BERHAD SKIM AMANAH SAHAM BUMIPUTERA	355,594,000	4.44
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	239,449,800	2.99
5	LEMBAGA TABUNG HAJI	106,419,400	1.33
6	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	72,636,300	0.91
7	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	72,009,800	0.90
8	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	63,554,600	0.79
9	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	54,149,522	0.68
10	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	50,067,300	0.63
11	CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	41,081,600	0.51
12	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	31,844,200	0.40
13	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND	26,000,000	0.33
14	CARTABAN NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	25,226,800	0.32
15	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	22,706,627	0.28
16	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	21,951,100	0.27
17	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	18,513,800	0.23
18	HSBC NOMINEES (ASING) SDN BHD HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (AGUS)	16,714,919	0.21

ANALYSIS OF SHAREHOLDINGS

No	Name	No. of Shares	%
19	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	14,593,700	0.18
20	PERMODALAN NASIONAL BERHAD	14,510,600	0.18
21	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 1)	14,388,200	0.18
22	CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED	14,022,900	0.18
23	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD.	14,022,200	0.18
24	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND	13,129,400	0.16
25	HSBC NOMINEES (ASING) SDN BHD HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (TRANG)	12,876,400	0.16
26	AMSEC NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	12,697,800	0.16
27	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR J.P. MORGAN BANK (IRELAND) PUBLIC LIMITED COMPANY	12,355,644	0.15
28	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND	12,032,800	0.15
29	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	11,921,000	0.15
30	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SECTOR SELECT FUND	10,769,600	0.13

LIST OF SUBSTANTIAL SHAREHOLDERS

No	Name	No. of Shares	% of Total Shareholdings
1	Petroliam Nasional Berhad		
	Share held under CIMB Group Nominees (Tempatan) Sdn Bhd	5,148,000,000	64.35
2	Employees Provident Fund Board		
	Share held under Citigroup Nominees (Tempatan) Sdn Bhd	867,650,700	10.85

CORPORATE DIRECTORY

WHOLLY OWNED SUBSIDIARIES

PETRONAS Chemicals MTBE Sdn Bhd

Lot 111/112, Kawasan Perindustrian Gebeng 26080, Kuantan, Pahang Darul Makmur

Tel : 609 585 6700 Fax : 609 583 4090/4743

Polypropylene Malaysia Sdn Bhd

Lot 111/112, Kawasan Perindustrian Gebeng 26080, Kuantan, Pahang Darul Makmur

Tel : 609 585 6700 Fax : 609 583 4090/4743

Vinyl Chloride (Malaysia) Sdn Bhd

Kompleks Pentadbiran Petrokimia PETRONAS KM 105, Jalan Kuantan-Kuala Terengganu 24300, Kertih, Kemaman

Terengganu Darul Iman Tel : 609 830 5000 Fax : 609 830 5150

PETRONAS Chemicals Derivatives Sdn Bhd

Administration Building

PETRONAS Petroleum Industry Complex KM 106, Jalan Kuala Terengganu-Kuantan 24300, Kerteh, Terengganu Darul Iman

Tel : 609 830 7700 Fax : 609 830 7797

PETRONAS Chemicals Glycols Sdn Bhd

Administration Building

PETRONAS Petroleum Industry Complex KM 106, Jalan Kuala Terengganu-Kuantan 24300, Kerteh, Terengganu Darul Iman

Tel : 609 830 7700 Fax : 609 830 7797

PETRONAS Chemicals Polyethylene Sdn Bhd

Lot 3834, Kawasan Bukit Tengah, KM 105 Jalan Kuantan-Kuala Terengganu

24300, Kertih, Kemaman, Terengganu Darul Iman

Tel : 609 830 2000 Fax : 609 827 3940

PETRONAS Chemicals Methanol Sdn Bhd

Kawasan Perindustrian Rancha-Rancha P.O.Box 80079, 87010, Federal Territory Labuan

Tel : 6087 594000 Fax : 6087 413 921

PETRONAS Chemicals Ammonia Sdn Bhd

Kompleks Pentadbiran Petrokimia PETRONAS KM 105, Jalan Kuantan-Kuala Terengganu 24300, Kertih, Kemaman

Terengganu Darul Iman Tel : 609 830 5000 Fax : 609 830 5222

PETRONAS Chemicals Fertiliser Kedah Sdn Bhd

KM 3, Jalan Jeniang, P.O.Box 22 08300, Gurun, Kedah Darul Aman

Tel: 604 466 6666 Fax: 604 468 5200

PETRONAS Chemicals Fertiliser Sabah Sdn Bhd

Tower 1, PETRONAS Twin Towers Kuala Lumpur City Centre 50088 Kuala Lumpur

Tel : 03 2051 5000 Fax : 03 2051 1501

PETRONAS Chemicals Marketing Sdn Bhd

Level 15, Tower 1 PETRONAS Twin Towers Kuala Lumpur City Centre 50088, Kuala Lumpur

Tel : 603 2331 5000 Fax : 603 2331 3074

Kertih Port Sdn Bhd

Lot 3633, Kawasan Bukit Tengah KM 105 Jln Kuantan-Kuala Terengganu 24300 Kertih, Kemaman, Terengganu

Terengganu Darul Iman
Tel : 609 830 5648/5796
Fax : 609 830 5618/5623/5639

CORPORATE DIRECTORY

PETRONAS Chemicals Marketing (Labuan) Ltd

Level 15, Tower 1, PETRONAS Twin Towers Kuala Lumpur City Centre, 50088 Kuala Lumpur

Tel : 603 2331 5000 Fax : 603 2331 3074

PARTLY-OWNED SUBSIDIARIES.

PETRONAS Chemicals LDPE Sdn Bhd

Lot 9719, PETRONAS Petroleum Industry Complex KM 105, Jalan Kuantan-Kuala Terengganu 24300, Kertih, Kemaman

Terengganu Darul Iman
Tel : 609 830 5068
Fax : 609 830 5858/5990

PETRONAS Chemicals Ethylene Sdn Bhd

Lot 3834, Kawasan Bukit Tengah KM 105, Jalan Kuantan-Kuala Terengganu 24300, Kertih, Kemaman

Terengganu Darul Iman Tel : 609 830 2000 Fax : 609 827 3940

PETRONAS Chemicals Aromatics Sdn Bhd

Level 1, Administration Building, PETRONAS Penapisan Trengganu Sdn Bhd 24300 Kertih, Kemaman Terengganu Darul Iman

Tel : 609 830 3000 Fax : 609 830 3188

PETRONAS Chemicals Olefins Sdn Bhd

Administration Building, PETRONAS Petroleum Industry Complex KM 106, Jalan Kuala Terengganu-Kuantan 24300, Kerteh, Terengganu Darul Iman

Tel: 609 830 7700 Fax: 609 830 7797

ASEAN Bintulu Fertilizer Sdn Bhd

KM 18, Jalan Tanjung Kidurong P.O.Box 482, 97008 Bintulu, Sarawak

Tel : 6086 231 000/232 000

Fax : 6086 251 043

ASSOCIATES

Malaysian NPK Fertilizer Sdn Bhd

P.O. Box 24, 08300, Gurun

Kedah Darul Aman Tel : 604 468 4075 Fax : 604 468 4619

BASF PETRONAS Chemicals Sdn Bhd

Jalan Gebeng 2/1

Kawasan Perindustrian Gebeng

26080, Kuantan, Pahang Darul Makmur

Tel : 609 585 5000 Fax : 609 583 4623

Idemitsu SM (Malaysia) Sdn Bhd

PLO 408, Off Jalan Pekeliling Pasir Gudang Industrial Estate

81700, Pasir Gudang, Johor Darul Takzim

Tel : 607 252 5350 Fax : 607 252 8281

JOINT VENTURES

BP PETRONAS Acetyls Sdn Bhd

Kompleks Pentadbiran Petrokimia PETRONAS 24300 Kertih, Kemaman Terengganu Darul Iman

Tel : 609 830 5300 Fax : 609 830 5321

Kertih Terminals Sdn Bhd

Tingkat 1, Kompleks Pentadbiran KPSB Lot 3633 Kawasan Bukit Tengah KM 105, Jalan Kuantan-Kuala Terengganu 24300, Kertih, kemaman

Terengganu Darul Iman Tel : 609 830 5788 Fax : 609 830 5665

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Seventeenth Annual General Meeting of the Company will be held at Conference Hall 1 and 2, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia on Monday, 13th April 2015 at 10.30 a.m. to transact the following businesses:-

AGENDA

As Ordinary Business

To receive the Audited Financial Statements for the financial year ended
 December 2014 together with the Reports of the Directors and Auditors thereon. (Resolution 1)

2. To re-elect the following Directors who retire by rotation pursuant to Article 93 of the Company's Articles of Association:

(a) Ching Yew Chye (Resolution 2)

(b) Vimala A/P V.R Menon (Resolution 3)

3. To re-elect the following Directors who retire in accordance with Article 99 of the Company's Articles of Association and being eligible, offers himself for election:

(a) Datuk Sazali bin Hamzah (Resolution 4)

(b) Datuk Toh Ah Wah (Resolution 5)

4. To approve re-appointment of Messrs. KPMG as auditor of the Company for the ensuing year and to authorise the Directors to fix their remuneration. (Resolution 6)

5. To transact any other business of which due notice has been given.

By Order of the Board

Syed Marzidy bin Syed Marzuki Kang Shew Meng Company Secretaries

Kuala Lumpur 19 March 2015

NOTICE OF ANNUAL GENERAL MEETING

Notes:-

- 1. Only depositors whose names appear in the Record of Depositors as at Monday, 6 April 2015 shall be regarded as members and entitled to attend, speak and vote at the Meeting.
- 2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company, an advocate, an approved company auditor, or a person approved by the Registrar.
 - Where a member of the Company appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.
- 3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy but not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- 4. The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its common seal, or under the hand of its officer or its duly authorised attorney.
- 5. If the instrument appointing a proxy is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the instrument appointing a proxy is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the instrument appointing a proxy.
- 6. The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia at least 48 hours before the meeting, or if the meeting is adjourned at least 48 hours before the time fixed for the adjourned meeting.

ADMINISTRATIVE DETAILS OF PETRONAS CHEMICALS GROUP BERHAD 17TH ANNUAL GENERAL MEETING

REGISTRATION

- (1) Registration will start at 8.15 a.m. on 13 April 2015 in front of the Conference Hall 1 and 2, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur.
- (2) Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
- (3) Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
- (4) You will also be given an identification tag. No person will be allowed to enter the meeting room without the identification tag. There will be no replacement in the event that you lose or misplace the identification tag.
- (5) No person will be allowed to register on behalf of another person even with the original IC of that person.
- (6) The registration counter will handle only verification of identity and registration.

HELP DESK

- (7) Please proceed to the Help Desk for any clarification or enquiry.
- (8) The Help Desk will also handle revocation of proxy's appointment.

PARKING

(9) Please take note that there is no dedicated parking space for Shareholders attending the AGM. However, you may park your vehicle at parking area located at Kuala Lumpur Convention Centre, Suria KLCC or Mandarin Oriental Hotel, Kuala Lumpur.

ANNUAL REPORT

(10) PCG's Annual Report for Financial Year 2014 is available on:

http://www.bursamalaysia.com

http://www.petronaschemicals.com







		No. of shares held			
		CDS Account No.			
I/We	(Full Nan	ne in Capital Letters)			
of					
O1		Full Address)			
being a	a *Member/Members of PETRONAS CHEMICALS G	ROUP BERHAD, do he	reby appoint		
	(Full Nan	ne in Capital Letters)			
of					
	(Full Address)			
or failir	ng him(Full Nan	ne in Capital Letters)			
of					
O1		Full Address)			-
Sevente	ng him, the CHAIRMAN OF MEETING, as *my/our peenth Annual General Meeting of the Company to Jalan Ampang, 50088 Kuala Lumpur, Malaysia on	o be held at Conferen	ce Hall 1 and 2, k	luala Lumpu	ur Convention
Sevente Centre		be held at Conferen Monday, 13th April 20:	ce Hall 1 and 2, k	luala Lumpu	ur Convention
Sevente Centre at any No.	eenth Annual General Meeting of the Company to , Jalan Ampang, 50088 Kuala Lumpur, Malaysia on adjournment thereof and to vote as indicated belo	be held at Conferen Monday, 13th April 20:	ce Hall 1 and 2, k	(uala Lumpu Iala Lumpur	ur Convention , Malaysia and
Sevente Centre at any No.	eenth Annual General Meeting of the Company to , Jalan Ampang, 50088 Kuala Lumpur, Malaysia on adjournment thereof and to vote as indicated belo Resolutions	o be held at Conferen Monday, 13th April 20. ow:-	ce Hall 1 and 2, k	(uala Lumpu Iala Lumpur	ur Convention , Malaysia and
Sevente Centre at any No.	eenth Annual General Meeting of the Company to Jalan Ampang, 50088 Kuala Lumpur, Malaysia on adjournment thereof and to vote as indicated below Resolutions NARY BUSINESS Receipt of Audited Financial Statements for the f	o be held at Conferen Monday, 13th April 20. ow:-	ce Hall 1 and 2, k	(uala Lumpu Iala Lumpur	ur Convention , Malaysia and
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^{*} Strike out whichever not applicable.

Notes:

- 1. Only depositors whose names appear in the Record of Depositors as at Monday, 6 April 2015 shall be regarded as members and entitles to attend, speak and vote at the Meeting.
- 2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company, an advocate, an approved company auditor, or a person approved by the Registrar.
 - Where a member of the Company appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.
- 3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy but not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- 4. The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its common seal, or under the hand of its officer or its duly authorised attorney.
- 5. If the instrument appointing a proxy is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the instrument appointing a proxy is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the instrument appointing a proxy.
- 6. The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia at least 48 hours before the meeting, or if the meeting is adjourned at least 48 hours before the time fixed for the adjourned meeting.

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Affix Stamp

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House Pusat Dagangan Dana 1 Jalan PJU 1A/46 47301 Petaling Jaya Selangor Darul Ehsan Malaysia

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