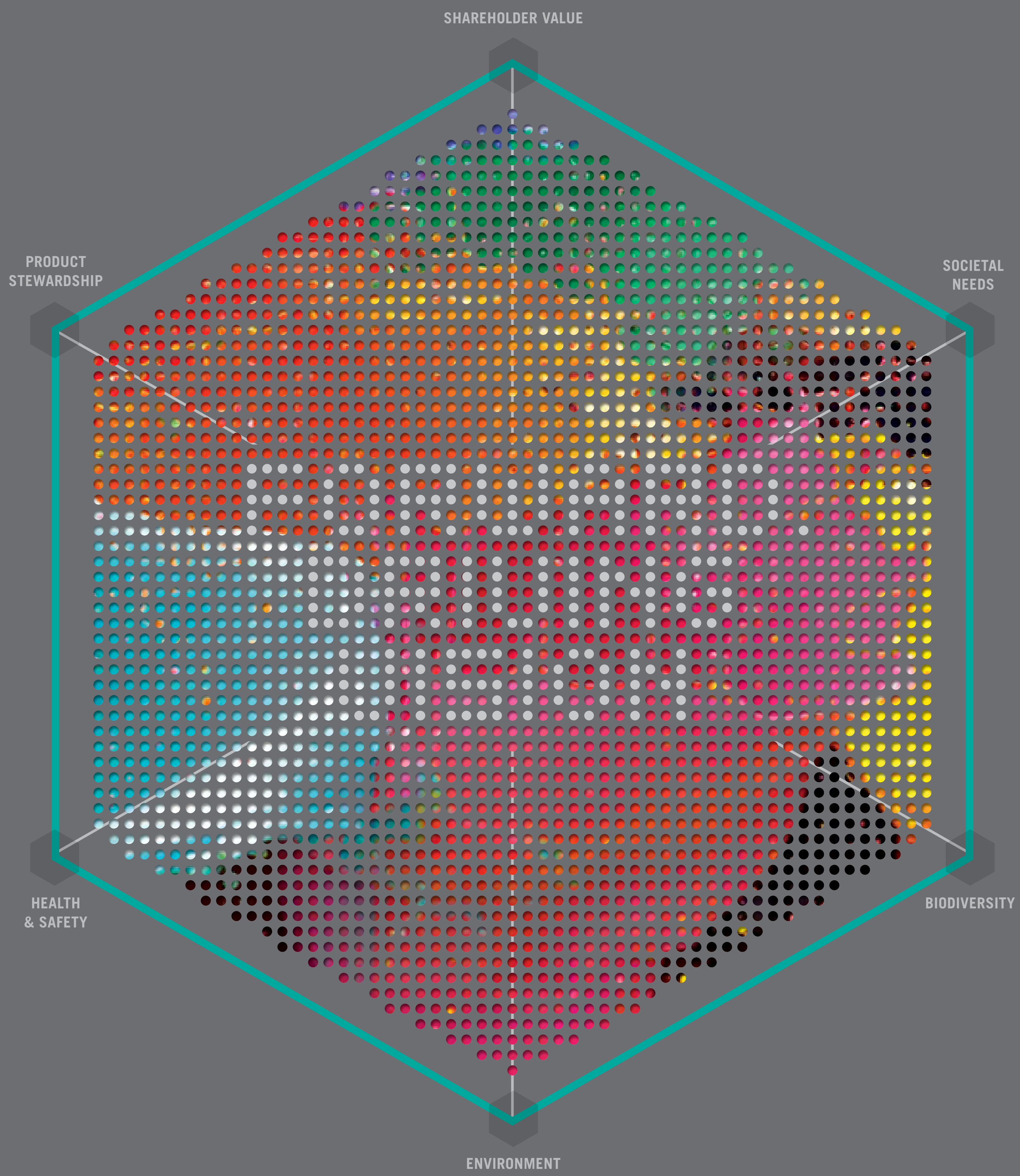
PETRONAS Chemicals Group Berhad

Annual Report 2017

www.petronaschemicals.com

PETRONAS



Check out our product portfolio inside

Our products are applied in almost every sphere of life – from personal care, perfumes and cosmetics, to drugs, fertilisers, food packaging, detergents, paints, clothing and many other items

To access more information on our products, log on to www.petronaschemicals.com or scan the QR code

PRODUCT STEWARDSHIP

Ensuring that our products conform to quality and Health, Safety & Environment (HSE) standards, and meet the needs of society.

SHAREHOLDER VALUE

Sustaining the company's profitability while maximising value creation for shareholders.

SOCIETAL NEEDS

Safeguarding the interest of people around our operations by contributing to community needs, investing in training and education and conducting our business in a transparent manner.

FORWARD. DRIVING VISION

Our vision of being the 'preferred chemical company providing innovative customer solutions' comes to life through the many products that we produce. Through this, our two-pronged strategy of strengthening basic petrochemicals while selectively diversifying into derivatives, specialty chemicals and solutions drives excellence in all that we do to ensure the sustainability of our performance. Listening to the market needs and offering innovative solutions help us to diversify our product range while always emphasising on Health & Safety in all aspects of our activities. In addition, at the heart of our business lies the pledge to uphold our corporate social responsibility through interactive programmes that enrich communities and the environment. The cornerstone of our operations is in creating value for all our stakeholders, enabling us to spur our beneficiaries towards greater achievements and success, thus pushing us Forward, Driving our Vision and placing us in the next phase of performance and growth.

HEALTH & SAFETY

Preventing and eliminating injuries, health hazards and damage to property.

ENVIRONMENT

Manufacturing our products while conserving the environment, promoting efficient use of energy, reducing emissions and effective waste management.

BIODIVERSITY

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

FACTS AT A GLANCE

First plant in

1985

ASEAN Bintulu Fertilizer Sdn Bhd

Made up of

30 SUBSIDIARIES,

joint ventures & associated companies

Nameplate capacity

12.7 MILLION

million tonne per annum (mtpa)

Over

4,400

employees

Listed since **November**

2010

RM64.7 BILLION

(~USD13 billion)

market capitalisation*

Member of

- MSCI Asia Ex-Japan/ MSCI Asia Ex-Japan Chemicals
- Chemical Industries Council of Malaysia
- Malaysian Petrochemical Association
- Malaysian Plastic Manufacturer Association
- Methanol Institute - Board Member
- International Fertilizer Association

TOP 10

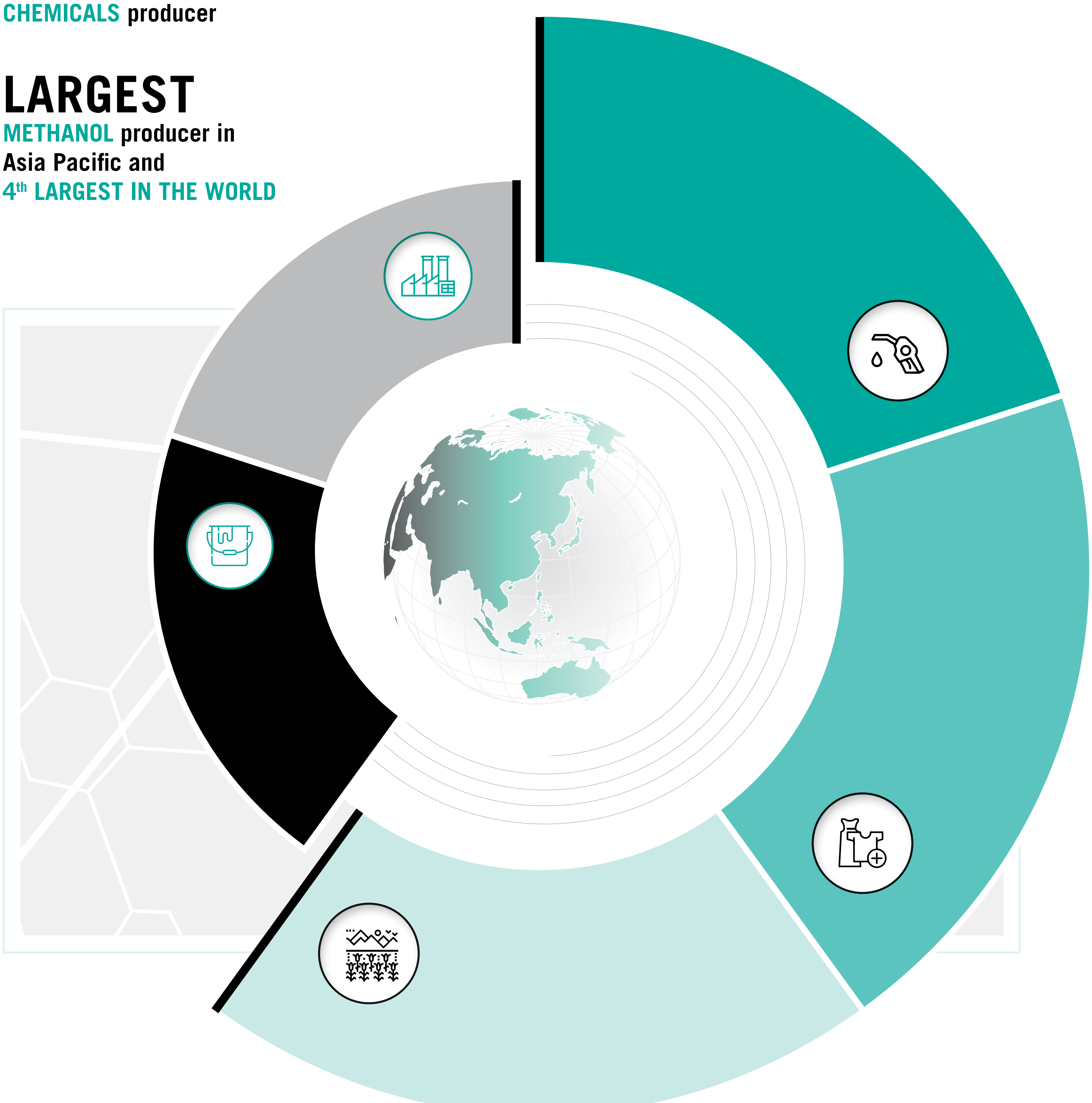
in **FBM KLCI, FBM Emas Shariah and Bursa based on market capitalisation Malaysia FTSE4GOOD** Index^

* as at 28 February 2018

^ based on market capitalisation

- SOUTHEAST ASIA'S
  LARGEST
  INTEGRATED GAS-BASED CHEMICALS producer

- **LARGEST**
  METHANOL producer in Asia Pacific and
  4th LARGEST IN THE WORLD



- **LARGEST**
  MTBE, BUTANOL, BGE & ETHANOLAMINES producer in Southeast Asia**

- **2nd LARGEST**
  AMMONIA, UREA & BUTYL ACETATE producer in Southeast Asia**

- **3rd LARGEST**
  ETHOXYLATES, MEG & LDPE producer in Southeast Asia**

** by capacity

CONTENTS

20th ANNUAL GENERAL MEETING OF PETRONAS CHEMICALS GROUP BERHAD

Exhibition Hall 1 and 2,
Kuala Lumpur Convention Centre,
Jalan Ampang,
50088 Kuala Lumpur, Malaysia

Wednesday, 2 May 2018

10.30 a.m.

IR

INTEGRATED REPORTING CROSS-REFERENCING REFER READERS TO INFORMATION ELSEWHERE IN THIS REPORT

CHAPTER ONE
OVERVIEW

CHAPTER TWO
ABOUT PETRONAS CHEMICALS GROUP BERHAD

CHAPTER THREE
OUR STRATEGIC PERFORMANCE

CHAPTER FOUR
PROMOTING SUSTAINABILITY

CHAPTER FIVE
HOW WE ARE GOVERNED

CHAPTER SIX
OUR NUMBERS

OVERVIEW

CHAPTER

1

Find out what we intend to achieve with this report, and about the other announcements, releases and presentations that we produce throughout the year which provide information on our performance. This section also provides a summary of our strengths as well as key milestones that have shaped the Group.

OUR ANNUAL REPORTS ARE PRODUCED WITH ONE PRIMARY OBJECTIVE – TO PROVIDE OUR STAKEHOLDERS A BALANCED AND ACCESSIBLE ASSESSMENT OF OUR STRATEGY, PERFORMANCE, GOVERNANCE AND PROSPECTS. LAST YEAR, WE EMBARKED ON A NEW REPORTING FORMAT ENABLING US TO PRESENT OUR DATA WITH GREATER CLARITY. THIS YEAR, WE HAVE FURTHER ENHANCED OUR DISCLOSURE AS PART OF OUR INTEGRATED REPORTING EFFORTS AIMED AT MAKING OUR ANNUAL REPORT EFFECTIVE AND ENGAGING AND ENSURING THAT KEY MESSAGES ARE FOCUSED, CONCISE AND EASY TO LOCATE. THIS INCLUDE NEW SECTIONS SUCH AS 'WHAT DIFFERENTIATES US' – WHICH IDENTIFIES OUR UNIQUE VALUE PROPOSITIONS AS A CORPORATE ENTITY; AND 'MATERIAL MATTERS IMPACTING OUR STRATEGY' – WHICH OUTLINE BOTH OUR CHALLENGES AND OPPORTUNITIES TO ACHIEVE OUR GOALS.

Our eventual goal is not just to create transparency in increasingly larger areas of our operations but also to link our actions and strategies to form a coherent picture of how we create value. As the leading integrated chemicals producer in Malaysia and one of the largest in Southeast Asia, PCG has a vast number of stakeholders representing varied groups, each of which is impacted by our business. We believe that via our enhanced reporting, we will be able to help all our stakeholders gain a better understanding of the way we manage issues that are important to them.

Our financial statements, audited by KPMG PLT, have been prepared according to the requirements of the Malaysian Companies Act 2016 and Malaysian Financial Reporting Standards (MFRS). Our corporate statements have been guided by the International Integrated Reporting Framework (IIRF), Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) and the Malaysian Code on Corporate Governance 2017 (MCCG 2017). Meanwhile, we have referred to IPIECA's Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, and FTSE4Good recommendations in crafting our Sustainability Statement.

OUR REPORTING SUITE

Throughout the year, PCG releases a number of documents that outline significant changes to the organisation, provide updates on our financial performance, and keep the public informed of key events that have either economic or social relevance. However, our Annual Report remains the most comprehensive. It is supplemented by disclosures on our quarterly financial results, analyst briefings, announcements to Bursa Malaysia and media releases.

REPORT	REPORTING FRAMEWORKS	ASSURANCE/APPROVAL
ANNUAL REPORT		
Our primary report for communicating to our shareholders and other stakeholders	• Malaysian Companies Act 2016 • Malaysian Financial Reporting Standards (MFRS) • International Financial Reporting Standards (IFRS) • MMLR of Bursa Malaysia • MCCG 2017 • IIRF • FTSE4Good recommendations • IPIECA's Oil and Gas Industry Guidance on Voluntary Sustainability Reporting	• Internal controls and management assurance • Compliance and internal audit reviews • External audit by KPMG PLT on financial statements • Board's approval on Corporate Governance Overview Statement and financial statements
QUARTERLY FINANCIAL STATEMENTS		
Financial statements on our performance every quarter	• Malaysian Companies Act 2016 • Malaysian Financial Reporting Standards (MFRS) • International Financial Reporting Standards (IFRS) • MMLR of Bursa Malaysia	• Internal controls and management assurance • Compliance and internal audit reviews • Limited review by KPMG PLT on financial information* • Board's approval upon endorsement by the Board Audit Committee
ANALYSTS AND STAKEHOLDERS BRIEFINGS		
Presentations on the Group's performance every quarter		• Internal controls and management assurance
BURSA ANNOUNCEMENTS		
Announcements made to Bursa Malaysia on material information	• MMLR of Bursa Malaysia	• Internal controls and management assurance • Board's approval
MEDIA RELEASES		
Announcements made to the media on key corporate, social, environmental and financial events and activities		• Internal controls and management assurance

* *Conducted for quarter 2 & 4 and reported to the Board.*

To access more information on our announcements, log on to www.petronaschemicals.com or scan the QR code

▲ *PC Fertiliser Sabah*

PETRONAS

PETRONAS CHEMICALS GROUP BERHAD

PCG CURRENTLY OPERATES WITHIN 7 SITES IN MALAYSIA, 2 OF WHICH ARE FULLY VERTICALLY INTEGRATED FROM FEEDSTOCK TO DOWNSTREAM END PRODUCTS

OUR PROFILE

PCG is established as part of the PETRONAS Group to maximise value from Malaysia's natural gas resources. PCG has three decades of experience in the chemicals industry. The Group was listed on Bursa Malaysia in 2010. Today, the Group has a total combined production capacity of 12.7 million metric tonnes per annum (mtpa). Our business is primarily in the manufacturing, marketing and selling of a diversified range of chemical products, including olefins, glycols, polymers, fertilisers, methanol and other basic chemicals and derivative products.

FTSE4GOOD INDEX

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

IR *For more information, kindly refer to pages 70-94 on Promoting Sustainability.*

THE LEADING INTEGRATED CHEMICALS PRODUCER IN MALAYSIA

30

OVER THREE DECADES OF EXPERIENCE IN THE CHEMICAL INDUSTRY

A TOTAL COMBINED PRODUCTION CAPACITY OF 12.7 MILLION METRIC TONNES PER ANNUM

OPERATES A TOTAL OF 17 WORLD-CLASS PRODUCTION PLANTS

DIVERSIFIED RANGE OF CHEMICAL PRODUCTS

PCG IS AN INDUSTRY LEADER FOR HIGHLY ATTRACTIVE VALUE CREATION OPPORTUNITIES FOR INVESTORS

We are the largest producer of selected chemical products. Our business model as a fully integrated producer, coupled with our gas feedstock advantage, enable us to compete globally against the world's best. Our close proximity to key growth markets provides opportunities for us to forge strong partnerships with our existing and potential customers.

PCG is led by an experienced leadership team, which has over the years, resulted in a record financial performance for the Group.

SECURE AND COMPETITIVE GAS BASED FEEDSTOCK SUPPLY

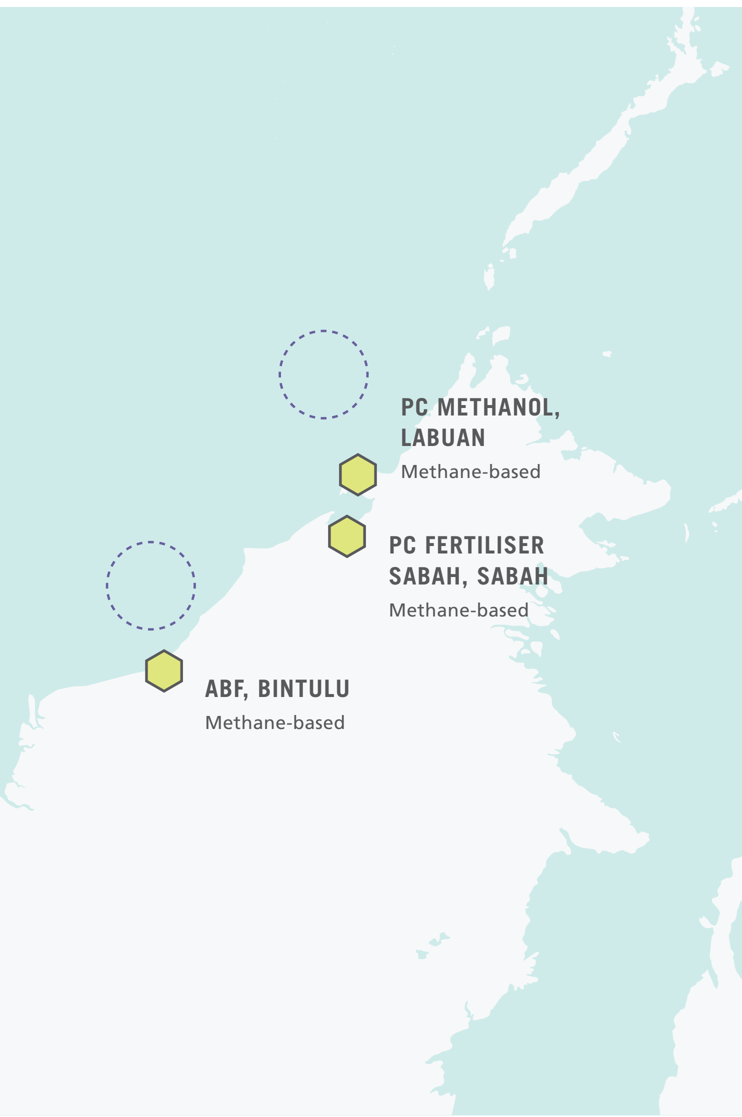
Market leadership within growth markets provides attractive returns

LARGEST METHANOL PRODUCER IN ASIA PACIFIC AND 4TH LARGEST IN THE WORLD

1ST MTBE, BUTANOL, BGE & ETHANOLAMINES PRODUCER IN SEA*

2ND AMMONIA, UREA & BUTYL ACETATE PRODUCER IN SEA*

** by capacity*

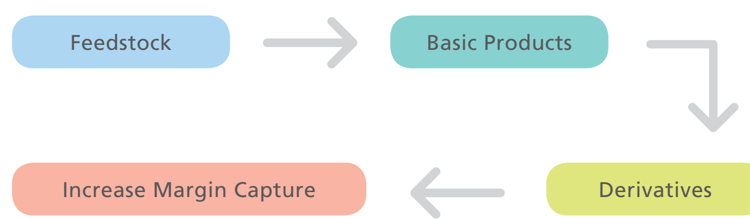


3RD ETHOXYLATES, MEG & LDPE PRODUCER IN SEA*

FULLY INTEGRATED FACILITIES AND INFRASTRUCTURE RESULTING IN LOWER COST, OPTIMUM YIELDS AND GREATER FLEXIBILITY

- Minimise molecule loss
- Maximise production efficiency & margins
- Opportunities to expand product portfolio

PCG VALUE CHAIN



MORE THAN 25% CAPACITY GROWTH IN THE NEXT TWO YEARS

1

LARGE-SCALE AND DIVERSIFIED PRODUCT PORTFOLIO LEADING TO ECONOMIES OF SCALE

2

PORTFOLIO EXPANSION WITH LEADING EDGE TECHNOLOGY

3

PROXIMITY TO KEY GROWTH MARKETS WHICH ENABLES US TO OPTIMISE INVENTORY MANAGEMENT

4

OUR PERFORMANCE HIGHLIGHTS

HIGHEST EBITDA AND PAT SINCE LISTING

REVENUE

RM 17.4 BILLION

PROFIT AFTER TAX (PAT)

RM 4.4 BILLION

TOTAL DIVIDENDS

27 SEN PER ORDINARY SHARE

EBITDA MARGIN

38 %

EBITDA

RM 6.6 BILLION

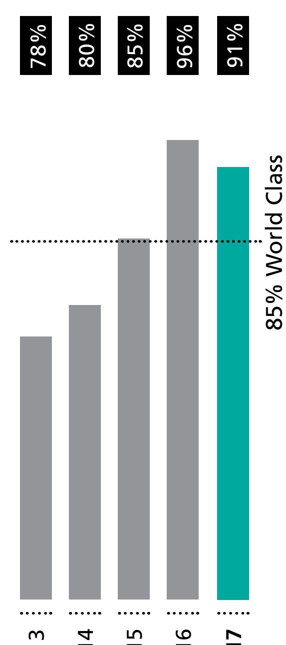
EARNINGS PER SHARE-BASIC (SEN)

52.2 SEN

Plant Utilisation Rate

2017

91%



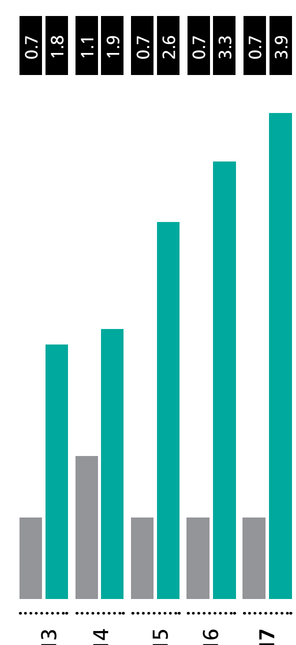
- Highest production volume since listing
- Sustained utilisation above world class benchmark of 85% despite heavy statutory turnaround during the year
- Effective turnaround planning and execution
- Project SAMUR achieved stable plant utilisation above 90% in its first year of operation

Capital Expenditure Allocated for Existing Assets and Future Growth

2017

0.7 BILLION
Operations CAPEX

3.9 BILLION
Growth CAPEX



OPERATIONS CAPEX

consists of reliability and integrity projects, turnaround activities, value improvement projects and other operational requirements

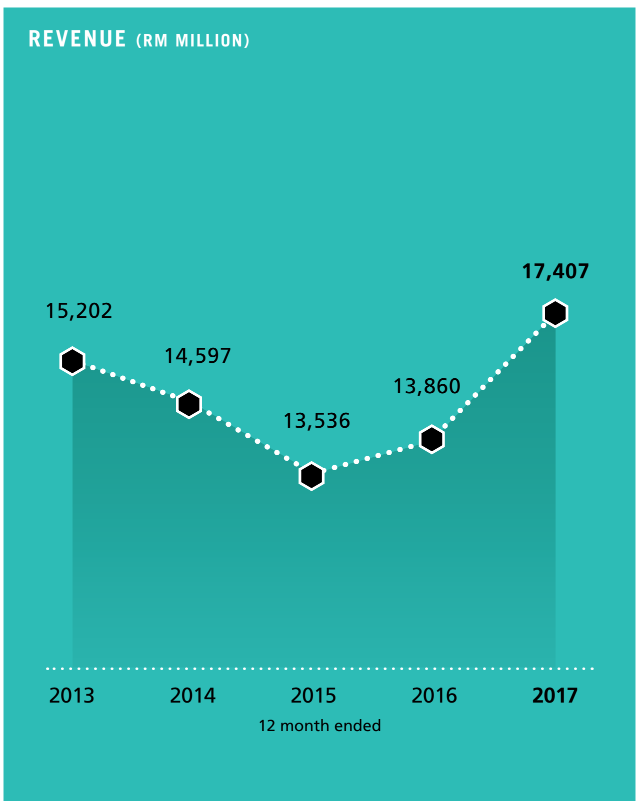
GROWTH CAPEX

mainly for Pengerang Integrated Complex (PIC) petrochemical projects, SAMUR, Integrated Aroma Ingredients Complex, 2-Ethylhexanoic Acid (2-EHAcid) and Highly Reactive Polyisobutene (HR-PIB)

OUR PERFORMANCE HIGHLIGHTS

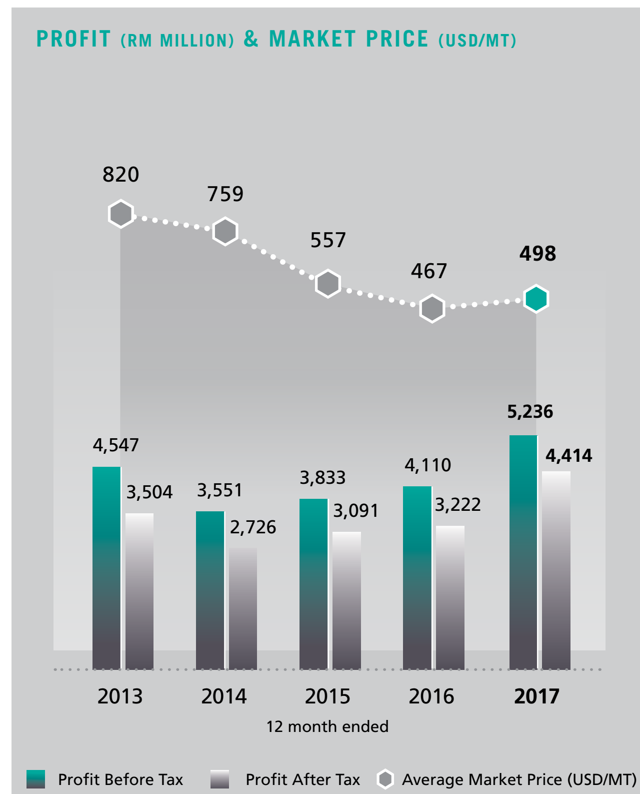
REVENUE

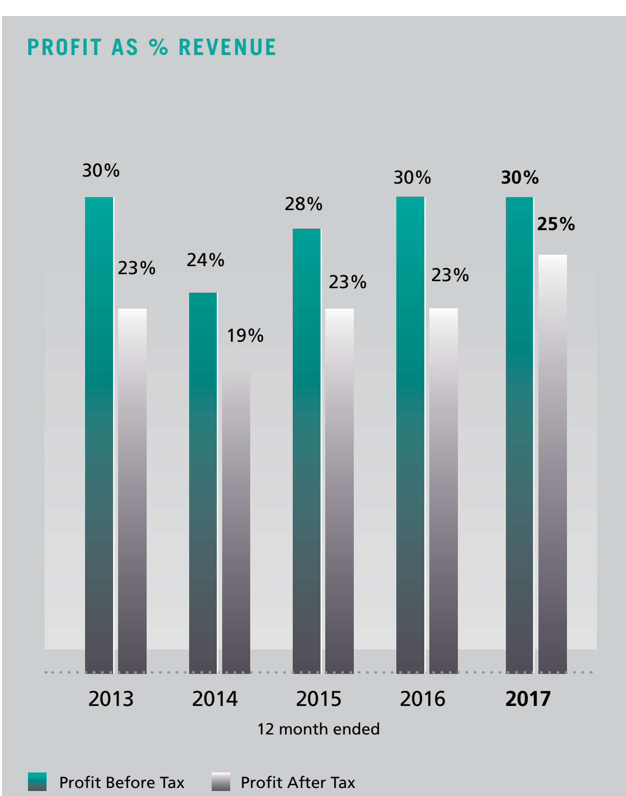
▲ 26%
compared to 2016

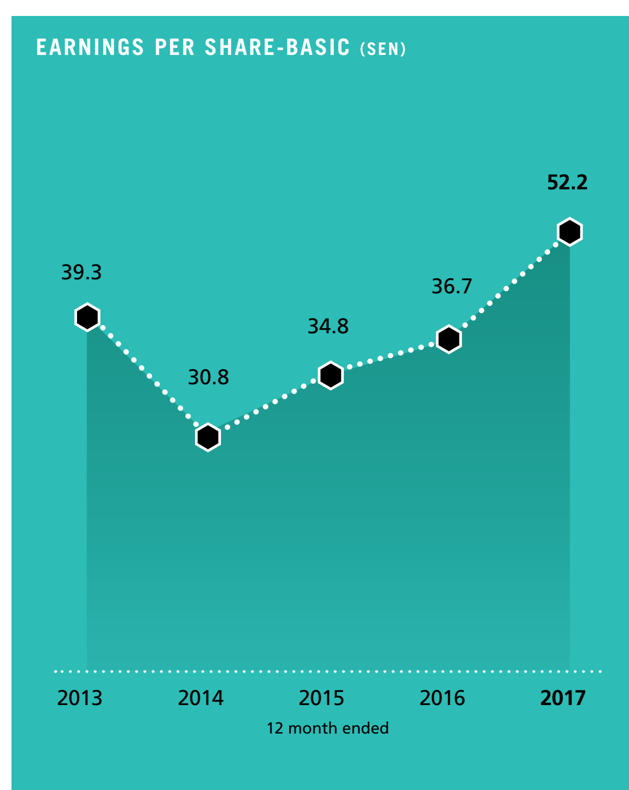


PROFIT AFTER TAX

▲ 37%
compared to 2016







TOTAL ASSETS

▲ 4%

compared to 2016

TOTAL EQUITY

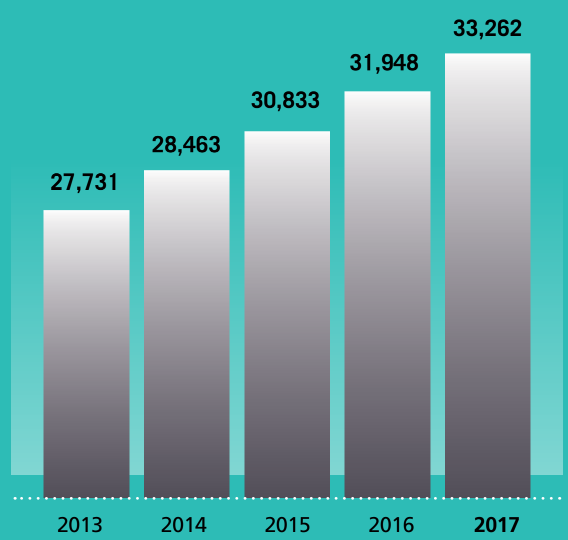
▲ 2%

compared to 2016

TOTAL ASSETS (RM MILLION)

33,262

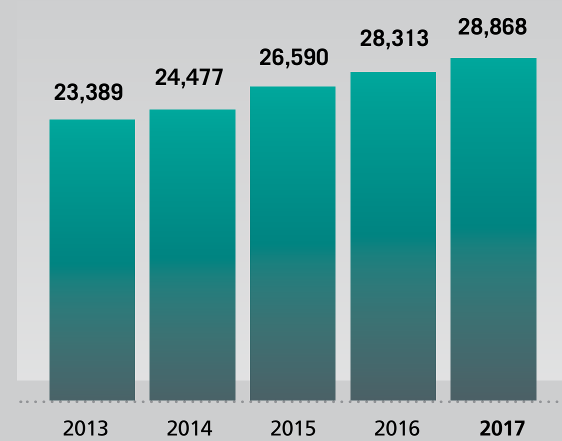
2017



TOTAL EQUITY (RM MILLION)

28,868

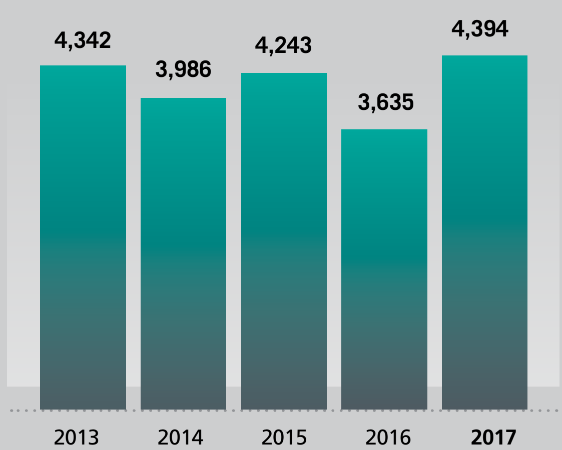
2017



TOTAL LIABILITIES (RM MILLION)

4,394

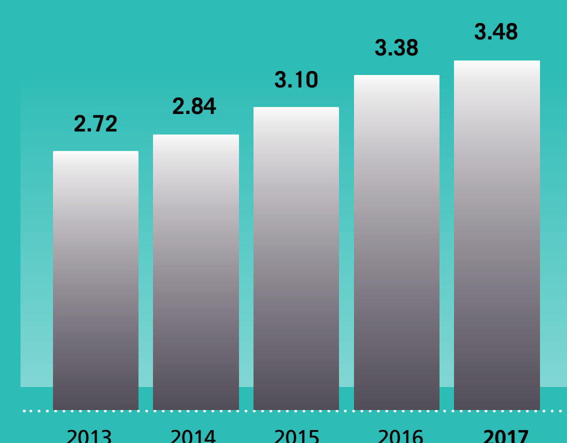
2017



NET TANGIBLE ASSETS PER SHARE (RM)

3.48

2017



OUR PERFORMANCE HIGHLIGHTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS:

RM Million (unless otherwise stated) 12 months ended	2013	2014	2015	2016	2017
Revenue	15,202	14,597	13,536	13,860	17,407
Profit Before Tax	4,547	3,551	3,833	4,110	5,236
Profit Before Tax as % Revenue	30%	24%	28%	30%	30%
Profit After Tax	3,504	2,726	3,091	3,222	4,414
Profit After Tax as % Revenue	23%	19%	23%	23%	25%
Earnings per Share (sen) - Basic	39.3	30.8	34.8	36.7	52.2
EBITDA	5,076	4,644	4,660	5,291	6,618
EBITDA Margin	33%	32%	34%	38%	38%

STATEMENT OF FINANCIAL POSITION ITEMS:

RM Million (unless otherwise stated) As at 31 December	2013	2014	2015	2016	2017
Total Assets	27,731	28,463	30,833	31,948	33,262
Total Equity	23,389	24,477	26,590	28,313	28,868
Total Liabilities	4,342	3,986	4,243	3,635	4,394
Net Tangible Asset per Share (RM)	2.72	2.84	3.10	3.38	3.48

OUR MILESTONES

PC Fertiliser Sabah

1985

Commenced production of urea and ammonia in Bintulu.

1992

- Commenced production of propylene, polypropylene and MTBE at Gebeng Complex.
- Acquisition of methanol plant in Labuan.

1995

Commenced production of ethylene and polyethylene at Kertih Integrated Petrochemical Complex (KIPC).

1997

Commenced production of styrene monomer in Pasir Gudang.

1999

Commenced production of urea, ammonia and methanol in Gurun.

2000

- Commenced production of acrylic acid at BASF PETRONAS Chemicals Sdn Bhd, Gebeng.
- Commenced production of benzene, paraxylene, ammonia, vinyl chloride monomer, polyvinyl chloride and acetic acid at KIPC.

2002

- Commenced production of olefins, glycols and derivatives at KIPC.
- Commenced production of polyvinyl chloride in Baria-Vung Tau, Vietnam.

2004

Expanded production capacities of urea and ammonia in Bintulu.

2006

Expanded production capacities of urea and ammonia in Gurun.

2009

- Commissioning of mega methanol plant in Labuan.
- Acquired interest in PETRONAS Chemicals Olefins Sdn Bhd, PETRONAS Chemicals Glycols Sdn Bhd and PETRONAS Chemicals Derivatives Sdn Bhd from Dow Chemicals.

OUR MILESTONES

2010

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

2011

Sanctioned development and construction of a new world-scale fertiliser plant in Sipitang, Sabah (SAMUR).

2012

- Took over marketing of chemicals and performance chemicals in Indonesia and Singapore from Dow Chemicals.
- Decision to discontinue vinyl business.

2013

Sanctioned development and construction of Asia Pacific's largest Integrated Aroma Ingredients Complex at BASF PETRONAS Chemicals Sdn Bhd in Gebeng.

2014

- Completed divestment of Phu My Plastics & Chemicals Co Ltd pursuant to decision to discontinue vinyl business.
- Secured license for PETRONAS Chemicals Marketing (Labuan) Ltd as Labuan International Commodity Trading Company.
- Incorporated overseas marketing subsidiaries in Thailand - PCM (Thailand) Co Ltd and China - PCM (China) Co Ltd.

2015

- Sanctioned development and construction of 2-EHAcid and HR-PIB projects at BASF PETRONAS Chemicals Sdn Bhd in Gebeng.
- Acquired 100% equity in PRPC Polymers Sdn Bhd, PRPC Glycols Sdn Bhd and PRPC Elastomers Sdn Bhd which will undertake petrochemical projects as part of Pengerang Integrated Complex (PIC) in Pengerang.

2016

- Produced on-specification urea for SAMUR.
- Produced on-specification 2-EHAcid at BASF PETRONAS Chemicals Sdn Bhd.
- Sanctioned development and construction of Flexi PE project at PRPC Polymers Sdn Bhd in Pengerang.
- Incorporated overseas marketing subsidiary in Indonesia - PT PCM Kimia Indonesia.

2017

- Sanctioned development and construction of Isononanol project at PIC.
- PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (previously known as SAMUR project) commenced commercial operation.
- HR-PIB plant came on-stream.
- Entered into an agreement with Aramco Overseas Holding Coöperatief U.A., a wholly-owned subsidiary of Saudi Arabian Oil Company (Saudi Aramco) to divest 50% of the equity interest held by PCG in PRPC Polymers Sdn Bhd*.

** subject to certain post-closing adjustments set out in the agreement.*

OUR PRODUCTION FACILITIES

1

KEDAH

Gurun
- Ammonia
- Methanol
- Urea
- NPK Fertilisers*

2

TERENGGANU

Kertih Integrated Petrochemical Complex
- Ammonia
- Benzene
- Butanol
- Butyl Acetate
- Carbon Monoxide
- Ethanolamines
- Ethoxylates
- Ethylene
- Ethylene Glycols
- Glycol Ethers
- Oxogas
- Paraxylene
- Polyethylene
- Propylene
- Acetic Acid*

3

JOHOR

Pasir Gudang
- Styrene Monomer*

4

PAHANG

Gebeng Integrated Petrochemical Complex
- Methyl Tertiary Butyl Ether (MTBE)
- n-Butane
- Propylene
- Acrylics*
- Butanediol*
- Oxo-alcohols*
- 2-EHAcid*
- HR-PIB*

5

FEDERAL TERRITORY OF LABUAN

Federal Territory of Labuan
- Methanol

6

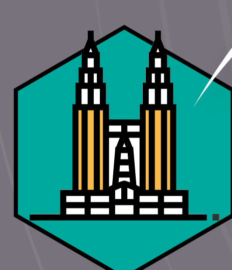
SARAWAK

Bintulu
- Ammonia
- Urea

7

SABAH

Sipitang
- Ammonia
- Urea



PETRONAS CHEMICALS GROUP IS HEADQUARTERED IN THE PETRONAS TWIN TOWERS KUALA LUMPUR CITY CENTRE

* Products produced by joint venture and associate companies

The Group comprises 30 subsidiaries, joint ventures and associate companies, producing and marketing a wide range of chemical products.

CURRENT TOTAL PRODUCTION CAPACITY OF 12.7 MILLION METRIC TONNES PER ANNUM (mtpa)

4.9 MILLION mtpa PRODUCTION OF OLEFINS & DERIVATIVES FROM 11 PLANTS

- PC MTBE
- PC Derivatives
- PC Glycols
- PC Polyethylene
- PC Olefins
- PC Ethylene
- PC Aromatics
- PC LDPE
- BASF PETRONAS Chemicals Sdn Bhd
- Idemitsu SM (Malaysia) Sdn Bhd
- BP PETRONAS Acetyls Sdn Bhd

7.8 MILLION mtpa PRODUCTION OF FERTILISER & METHANOL FROM 6 PLANTS

- PC Methanol
- ABF
- PC Fertiliser Kedah
- PC Ammonia
- PC Fertiliser Sabah
- Malaysian NPK Fertilizer Sdn Bhd

OUR PRODUCTS CAN BE FOUND THROUGHOUT THE ASIA-PACIFIC REGION AS WELL AS IN THE US. WE EXPORT TO A TOTAL OF 28 COUNTRIES. OUR PRINCIPAL MARKETS INCLUDE THAILAND, CHINA, INDONESIA, INDIA, VIETNAM AND THE PHILIPPINES, WHERE WE HAVE SUBSIDIARIES AND REPRESENTATIVE OFFICES.

About 29% of our products are consumed within Malaysia, and 41% marketed in Southeast Asia. The rest of our volume is channelled to other markets such as China, Japan, South Korea, Taiwan, New Zealand and Australia where demand is strong.

29%	15%	9%	9%	5%	3%	1%	16%
MALAYSIA	THAILAND	SINGAPORE	INDONESIA	PHILIPPINES	VIETNAM	INDIA	CHINA

29% Consumed by the Malaysian market

23% of our volume is sold in Northeast Asia market

41% of our volume is sold in Southeast Asia market (excluding Malaysia)

PCG subsidiaries/representative offices

JAPAN	SOUTH KOREA	TAIWAN	NEW ZEALAND	AUSTRALIA	USA	OTHERS
4%	2%	1%	3%	1%	1%	1%

2017

20/2
Announcement of unaudited quarterly report of consolidated results for the 4th Quarter and Year Ended 31 December 2016

7/3
Date of entitlement of the 2nd interim dividend for the Financial Year Ended 31 December 2016

21/3
Date of payment of the 2nd interim dividend for the Financial Year Ended 31 December 2016

28/3
Date of Notice of Annual General Meeting and date of issuance of Annual Report 2016

26/4
Date of 19th Annual General Meeting

15/5
Announcement of the unaudited quarterly report of consolidated results for the 1st Quarter Ended 31 March 2017

10/8
Announcement of the unaudited quarterly report of consolidated results for the 2nd Quarter Ended 30 June 2017

25/8
Date of entitlement of the 1st interim dividend for the Financial Year Ended 31 December 2017

8/9
Date of payment of the 1st interim dividend for the Financial Year Ended 31 December 2017

9/11
Announcement of unaudited quarterly report of consolidated results for the 3rd Quarter Ended 30 September 2017

2018

20/2
Announcement of unaudited quarterly report of consolidated results for the 4th Quarter and Year Ended 31 December 2017

7/3
Date of entitlement of the 2nd interim dividend for the Financial Year Ended 31 December 2017

21/3
Date of payment of the 2nd interim dividend for Financial Year Ended 31 December 2017

2/4
Date of Notice of Annual General Meeting and date of issuance of Annual Report 2017

2/5
Date of 20th Annual General Meeting

CHAPTER 2

Read about our corporate and organisational structure, and what makes us different from other chemical players. In these pages, we also explain the issues that are important to us which guide our strategies, as well as how we structure ourselves to create value for you.

ABOUT PCG
OUR STRATEGIC PERFORMANCE
PROMOTING SUSTAINABILITY
HOW WE ARE GOVERNED
OUR NUMBERS

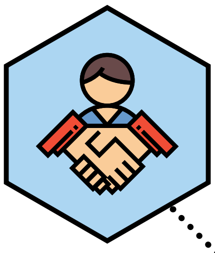
OUR VISION

The preferred chemical company providing innovative customer solutions

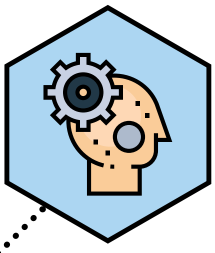
OUR APPROACH & WHAT DIFFERENTIATES US

OUR VISION & SHARED VALUES

Loyalty



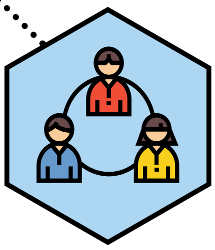
Professionalism



OUR SHARED VALUES

At PCG, we define ourselves, our behaviour and our decisions by a set of shared values. They determine the way in which we deliver results, interpret and respond to business opportunities, risk and challenges and how we strive to continuously deliver breakthrough performance

Integrity



Cohesiveness

OUR APPROACH

To safeguard our ability to respond appropriately to the changing business and risk landscape, we efficiently and effectively integrate our strategy, value chain, operating model, technology, material matters and high-performance culture.

This enables us to deliver shareholder value sustainably.

CHANGING BUSINESS AND RISK LANDSCAPE

OUR APPROACH & WHAT DIFFERENTIATES US

WHAT DIFFERENTIATES US

1

WE ARE A HIGHLY INTEGRATED, EFFICIENT ORGANISATION

- Fully integrated facilities with secured and competitive feedstock supply
- Sustainable production and efficient asset utilisation through Operational Excellence
- Lower cost of operations with greater flexibility to optimise production yields
- Added strength from PETRONAS Group support

2

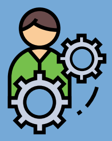
WE UNDERSTAND AND VALUE OUR CUSTOMERS

- We offer large scale and diversified product portfolio with customised solutions
- Proximity to key growth markets with competitive storage and distribution
- Just-In-Time Delivery to reduce carrying costs to our customers
- Long-standing relationship with customers, 80% of whom have been with us for more than 10 years

3

WE ARE COMMITTED TO BUSINESS SUSTAINABILITY

- Continued business growth via economies of scale
- Portfolio expansion utilising leading edge technology
- Sustainability practices in conserving the environment and delivering value to our stakeholders while enriching surrounding communities

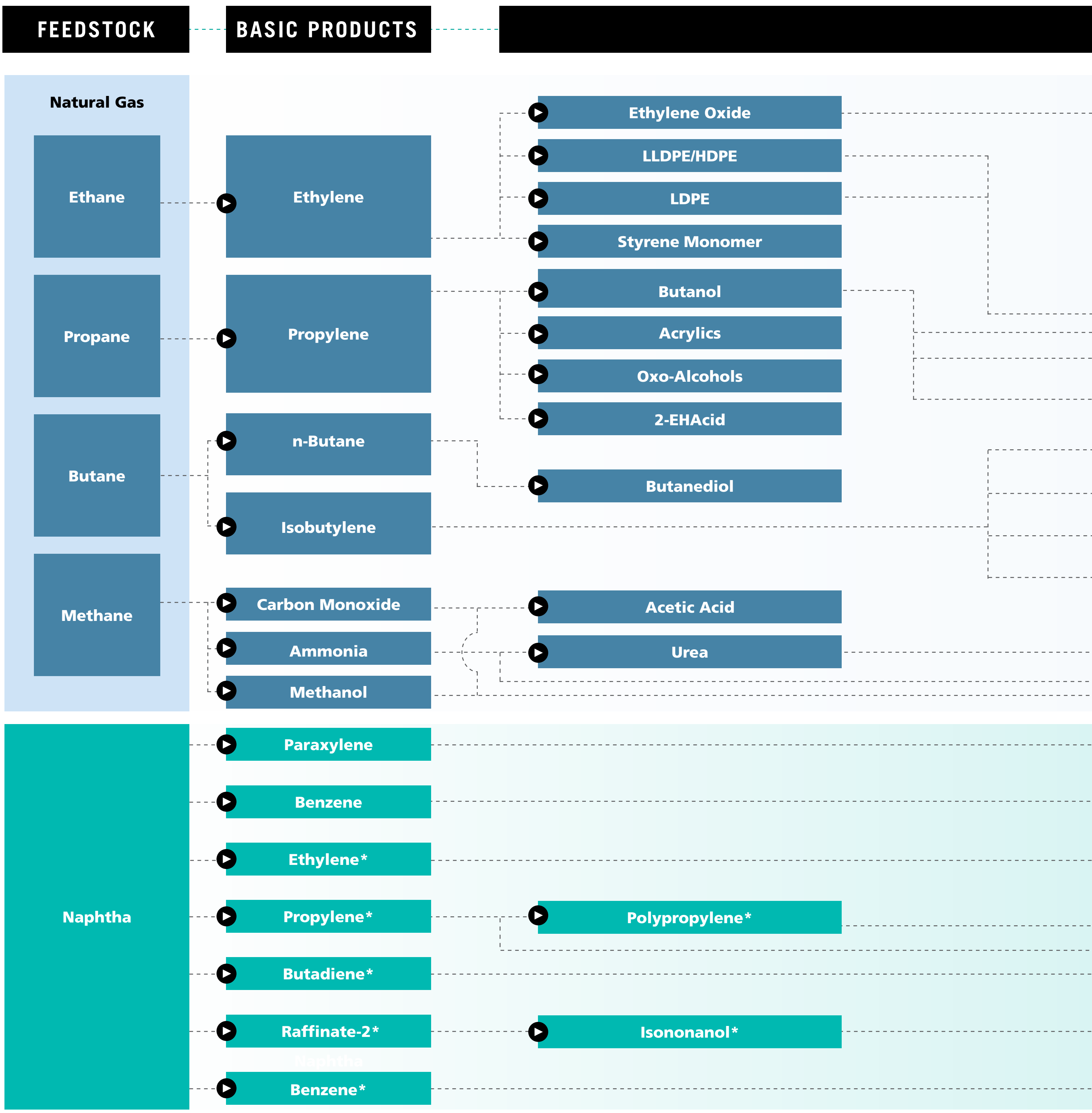


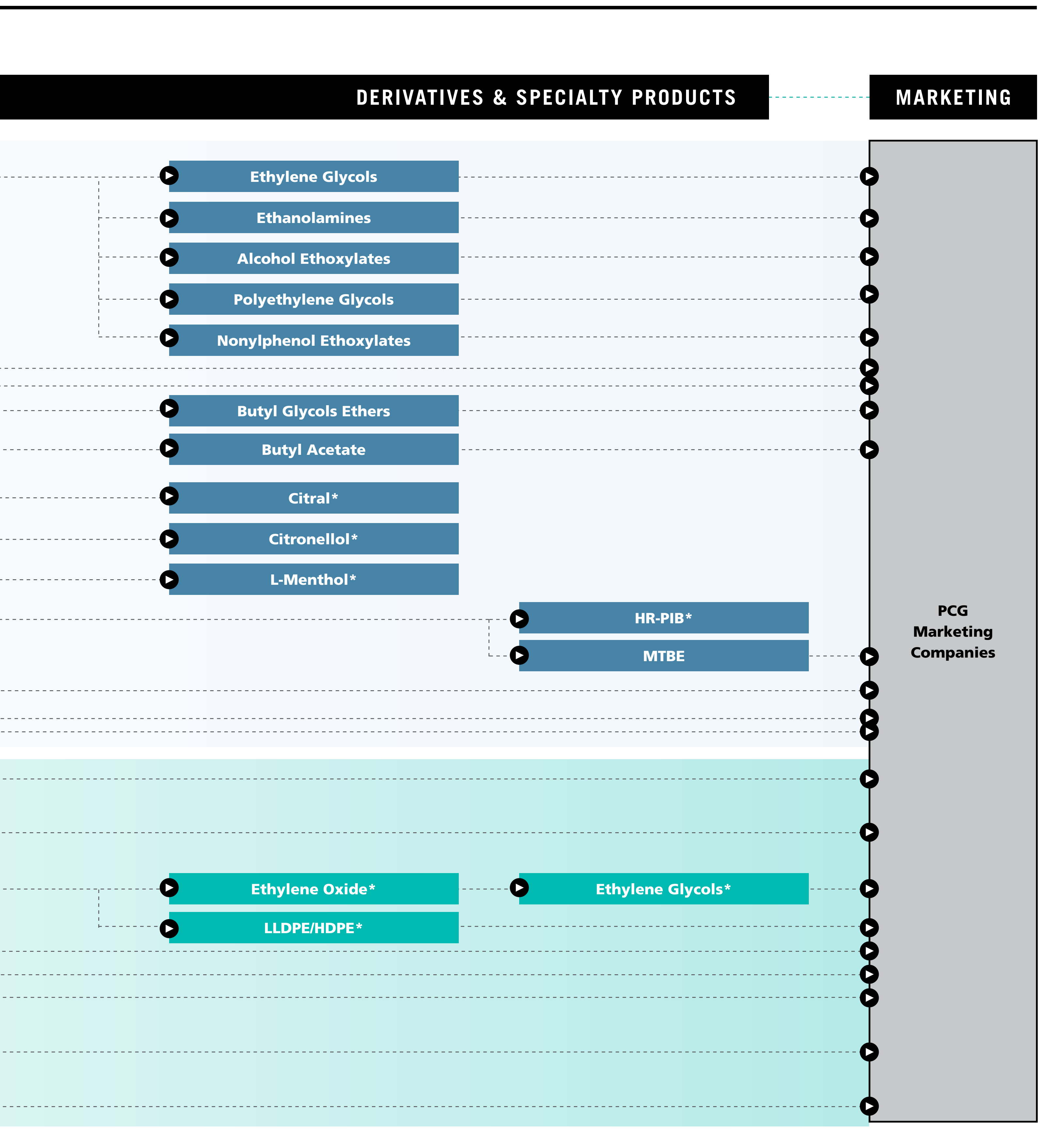
4

WE INVEST IN OUR PEOPLE

- Developing a steady pipeline of talents with high-performance mindset
- Encourage innovative culture to deliver breakthrough performance
- Instill a sense of responsibility and inculcate accountability culture among our people

OUR INTEGRATED VALUE CHAIN





* ongoing project execution

GROUP STRUCTURE

PETRONAS — 64.35% — **PETRONAS CHEMICALS GROUP BERHAD**

MANUFACTURING

- **100%** PETRONAS Chemicals Ammonia Sdn Bhd *(PC Ammonia)*
- **100%** PETRONAS Chemicals Derivatives Sdn Bhd *(PC Derivatives)*
- **100%** PETRONAS Chemicals Fertiliser Kedah Sdn Bhd *(PC Fertiliser Kedah)*
  - **20%** Malaysian NPK Fertilizer Sdn Bhd
- **100%** PETRONAS Chemicals Fertiliser Sabah Sdn Bhd *(PC Fertiliser Sabah)*
- **100%** PETRONAS Chemicals Glycols Sdn Bhd *(PC Glycols)*
- **100%** PETRONAS Chemicals Methanol Sdn Bhd *(PC Methanol)*
- **100%** PETRONAS Chemicals MTBE Sdn Bhd *(PC MTBE)*
- **100%** PETRONAS Chemicals Polyethylene Sdn Bhd *(PC Polyethylene)*
- **100%** Polypropylene Malaysia Sdn Bhd *(PPMSB)*
- **100%** Vinyl Chloride (Malaysia) Sdn Bhd *(VCMSB)*
- **100%** PRPC Polymers Sdn Bhd *(PRPC Polymers)*
- **100%** PETRONAS Chemicals Isononanol Sdn Bhd *(formerly known as PRPC Glycols Sdn Bhd) (PC INA)*
- **100%** PRPC Elastomers Sdn Bhd *(PRPC Elastomers)*
- **88%** PETRONAS Chemicals Olefins Sdn Bhd *(PC Olefins)*
- **87.5%** PETRONAS Chemicals Ethylene Sdn Bhd *(PC Ethylene)*
- **70%** PETRONAS Chemicals Aromatics Sdn Bhd *(PC Aromatics)*
- **63.5%** ASEAN Bintulu Fertilizer Sdn Bhd *(ABF)*
- **60%** PETRONAS Chemicals LDPE Sdn Bhd *(PC LDPE)*
- **40%** BASF PETRONAS Chemicals Sdn Bhd
- **30%** Idemitsu SM (Malaysia) Sdn Bhd
- **30%** BP PETRONAS Acetyls Sdn Bhd

MARKETING & SALES

- **100%** PETRONAS Chemicals Marketing Sdn Bhd *(PC Marketing)*
  - **100%** PETRONAS Chemicals Marketing (Labuan) Ltd *(PC Marketing Labuan)*
  - **100%** PCM (China) Company Limited *(PC Marketing China)*
  - **99.99%*** PCM (Thailand) Company Limited *(PC Marketing Thailand)*
  - **99.67%*** PT PCM Kimia (Indonesia) *(PC Marketing Indonesia)*
- **0.01%** PCM Chemical India Private Limited**

SERVICES

- **100%** Kertih Port Sdn Bhd *(KPSB)*
  - **40%** Kertih Terminals Sdn Bhd

Wholly-owned subsidiaries

Joint ventures and associates

Majority-owned subsidiaries

* Wholly-owned subsidiary as remaining shareholding is held through other subsidiaries within PCG

** Subsidiary pursuant to Malaysian Financial Reporting Standard 10

CORPORATE INFORMATION

DIRECTORS

Datuk Md Arif Mahmood
(Chairman)
Non-Independent Non-Executive Director

Datuk Sazali Hamzah
(Managing Director / Chief Executive Officer)
Non-Independent Executive Director

Vimala V.R. Menon
Senior Independent Director

Datuk William Toh Ah Wah
Independent Non-Executive Director

Ching Yew Chye
Independent Non-Executive Director

Dong Soo Kim
Independent Non-Executive Director

Zakaria Kasah
Non-Independent Non-Executive Director

Freida Amat
Non-Independent Non-Executive Director

SENIOR INDEPENDENT DIRECTOR

Vimala V.R. Menon

Email : vimala.menon@petronas.com

BOARD AUDIT COMMITTEE

Vimala V.R. Menon
(Chairman)

Datuk William Toh Ah Wah

Ching Yew Chye

Dong Soo Kim

Freida Amat

NOMINATION & REMUNERATION COMMITTEE

Datuk William Toh Ah Wah
(Chairman)

Vimala V.R. Menon

Dong Soo Kim

Ching Yew Chye

COMPANY SECRETARIES

Noor Lily Zuriati Abdullah (LS0010101)
Kang Shew Meng (MAICSA 0778565)

REGISTERED OFFICE

Tower 1
PETRONAS Twin Towers, Kuala Lumpur City Centre
50088 Kuala Lumpur Malaysia
Tel : +603 2051 5000 Fax : +603 2051 3888
Website : www.petronaschemicals.com

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

STOCK EXCHANGE LISTING

Listed on Main Market of Bursa Malaysia Securities Berhad
since 26 November 2010
Stock Name : PCHEM Stock Code : 5183
Sector : Industrial Products

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
Website : www.symphony.com.my

AUDITORS

KPMG PLT (LLP0010081-LCA & AF 0758)
Chartered Accountants
10th Floor, KPMG Tower 8, First Avenue, Bandar Utama
47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel : +603 7721 3388 Fax : +603 7721 3399
Website :http://home.kpmg.com/my/en/home.html

INVESTOR RELATIONS

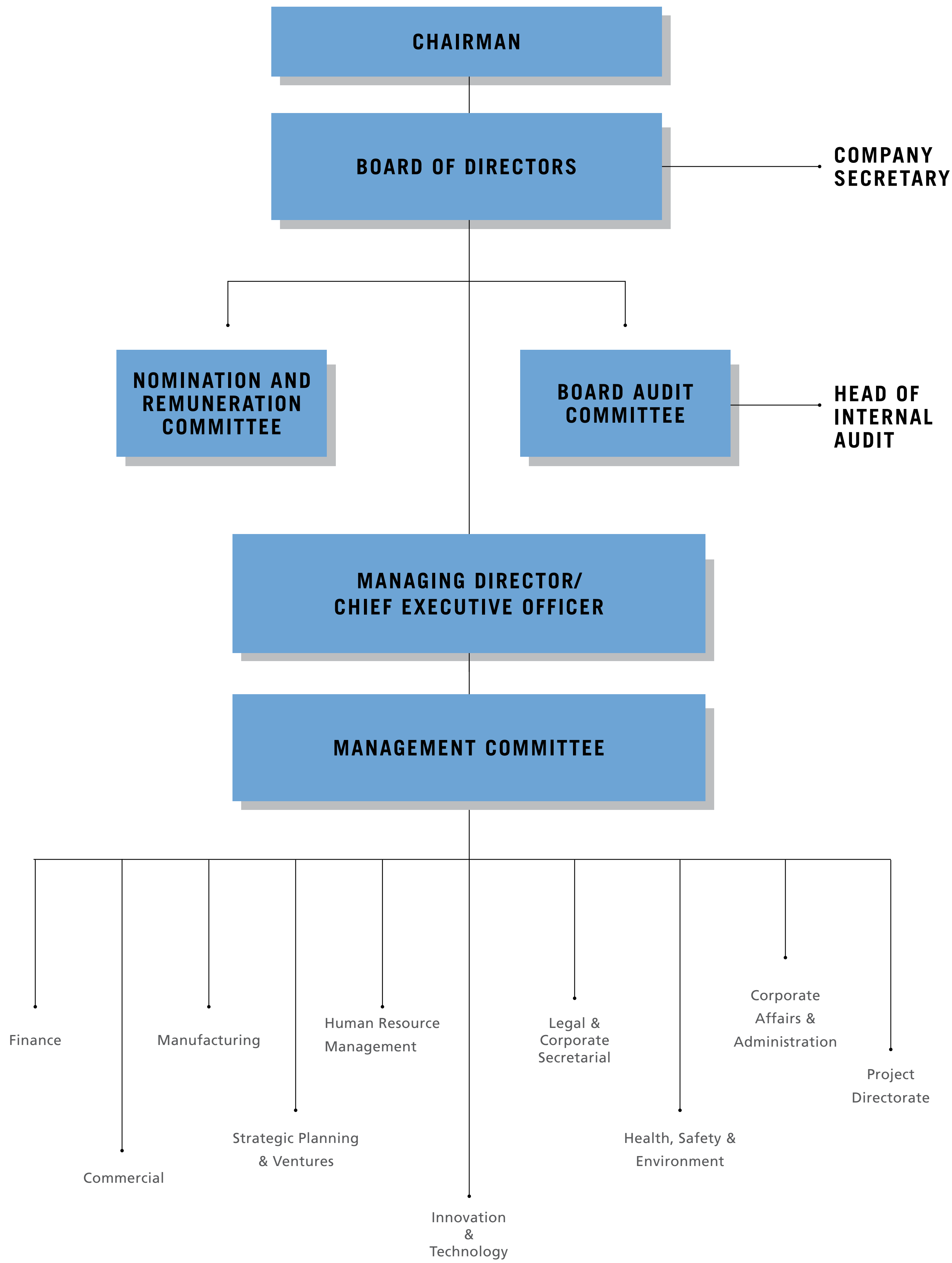
Zaida Alia Shaari
(Head of Investor Relations)
PETRONAS Chemicals Group Berhad
Level 14, Tower 1, PETRONAS Twin Towers, Kuala Lumpur
City Centre, 50088 Kuala Lumpur, Malaysia
Tel : +603 2392 3699 Email : petronaschemicals_ir@petronas.com

BANKING SERVICES PROVIDER

PETRONAS Integrated Financial Shared Service Centre (IFSSC)*

* Banking requirements are managed centrally by PETRONAS IFSSC to enable more efficient banking management for the Group and the Company.

ORGANISATIONAL STRUCTURE



OUR STRATEGIC PERFORMANCE

CHAPTER

3

This section forms the heart of our operational review. In it, our management share the challenges that face the industry and the strategies we have adopted to achieve our business goals of operational, commercial and innovation excellence.

WE CONTINUE TO FOCUS ON OUR OPERATIONAL, COMMERCIAL AND INNOVATION EXCELLENCE, FORGING AHEAD WITH OUR GROWTH PLANS

DATUK SAZALI HAMZAH

Managing Director/ Chief Executive Officer

MESSAGE FROM MD/CEO

Dear Shareholders,

We have pushed forward once again with our strategy to deliver greater shareholder value. Given the current global climate, the year presented its share of challenges. Yet, by all measures, it has been an exciting time for PCG, during which we achieved much that we can be proud of. This was the result of a winning combination of enhanced operational excellence and cost efficiencies with effective commercial strategies that allowed us to capitalise on market opportunities.

Pressing on with our growth strategy, we saw two major new projects come on-stream. PC Fertiliser Sabah, our ammonia and urea plant in Sipitang, Sabah, began full and steady commercial operations in May 2017. The Highly Reactive Polyisobutene (HR-PIB) plant has also successfully concluded the start up in January 2018. Meanwhile, at the Integrated Aroma Ingredients Complex being developed with our joint venture partner through BASF PETRONAS Chemicals Sdn Bhd in Gebeng, Pahang, the start-up has been initiated and is currently progressing in a step-wise approach.

PC Fertiliser Sabah strengthens our basic chemicals portfolio, adding 1.9 million metric tonnes per annum (mtpa) of ammonia and urea to our nameplate capacity, making PCG the second largest producer of granular urea in Southeast Asia.

Aroma ingredients from our complex in Gebeng have various applications in the fragrance and flavours sectors. We are particularly proud of this complex as it is the first of its kind outside Germany. And, once our HR-PIB plant is operational, we will be supplying 50,000 mtpa of the chemical to manufacturers of high-performance fuels and lubricants.

Adding to the excitement of the year, we are entering into a possible partnership with Saudi Aramco which is proposing to acquire 50% of our stake in PRPC Polymers. This partnership holds many benefits, key amongst which is the long-term security of feedstock supply to the PRPC Refinery which in turn guarantees feedstock supply to the petrochemicals complex. The partnership would also allow for the sharing of investment risks and reduce our capital commitment whilst enabling us to leverage on Saudi Aramco's experience in project management and operation of similar large scale and integrated chemicals complex. Consequently, this will pave the way for further collaboration with the world's largest oil company.

PRPC Polymers and PC INA are the two operating companies we have set up in PIC to expand our basic and specialty chemicals portfolios. This year, we completed the Final Investment Decision (FID) for a 250,000 tonne per year Isononanol plant. Isononanol is an oxo-alcohol, used mainly in the production of plasticiser that increases the flexibility of PVC, as well as making the PVC products safe for use.

Financially, we were able to capitalise on the strengthening oil market which, coupled with pockets of tight chemicals supply, led to an increase in price of certain bellwether products such as ethylene and methanol. Along with enhanced production volumes, this led to substantial growth in PCG's revenue. Focused efforts to further improve our operational and cost efficiencies, meanwhile, resulted in a significant improvement in profit. It gives me great pleasure to share that, for the year under review, our revenue increased 26% to RM17.4 billion while profit after tax grew 37% to RM4.4 billion.

I am particularly pleased that we maintained a high level of plant utilisation across the Group during the year under review despite four major statutory turnarounds. This was achieved via ongoing reliability enhancements, effective planning and better collaboration with key partners along the value chain. PC Fertiliser Sabah also recorded an impressive plant utilisation rate, above 90% for its first year of commercial operations, which is well above the norm for a plant of its kind.

WE CONTINUOUSLY IMPROVE THE ENVIRONMENTAL, HEALTH, SECURITY AND SAFETY PERFORMANCE OF OUR FACILITIES, PROCESSES AND PRODUCTS


Pengerang Integrated Complex (PIC)

Finally, it is with great satisfaction to note that we achieved all our turnarounds on schedule and target cost without any incident, and have notched 154 million safe man-hours at our site in PIC. Safety is our top priority and, as we grow, we are placing increased emphasis to enhance the integrity of our assets as well as the safety culture of our organisation to ensure nobody gets hurt at our premises.

Our deep-rooted commitment to safety is reflective of a focused sense of responsibility towards people and the environment. We are a member of the global chemicals industry Responsible Care® initiative, that requires us to keep improving the environmental, health, security and safety performance of our facilities, processes and products. Further entrenching our environmental stewardship, our fatty alcohol ethoxylates (FAE) is now certified with the Roundtable on Sustainable Palm Oil (RSPO) for household and personal care applications. Our social citizenry, meanwhile, is underlined by the care extended to the many lives we touch, especially our employees and the communities that live around our facilities.

For more information on how we work to protect the environment and care for our internal and external stakeholders, please refer to pages 70 to 94 on Promoting Sustainability.

AKBAR MD THAYOOB

Head of Strategic Planning & Ventures

WE ARE EXCITED WITH THE CURRENT AND UPCOMING GROWTH PROJECTS THAT SHALL FURTHER STRENGTHEN OUR POSITION AS A REGIONAL MARKET LEADER. OUR PRODUCTION CAPACITY WILL SIGNIFICANTLY GROW BY 49%, FROM 10.8 MILLION MTPA WHEN WE WERE LISTED IN 2010, TO 16.1 MILLION MTPA BY 2020. MOVING FORWARD, WE ARE 'STEPPING OUT' BY VENTURING INTO SPECIALTY CHEMICALS SEGMENT TO DIVERSIFY OUR PORTFOLIO AND FUTURE PROOF OUR BUSINESS.

PC Fertiliser Sabah

GROWTH

Our business strategy has two focus areas: growing our basic petrochemicals portfolio hence increasing our competitive advantage through volume play; and selectively diversifying into derivatives as well as specialty chemicals and solutions to leverage higher margin products. This strategy is being realised through various growth projects, as mentioned earlier. With PC Fertiliser Sabah, we have increased our capacity to 12.7 million mtpa. The Aroma Ingredients Complex and PIC projects will bring our total production capacity to 16.1 million mtpa by 2020.

As we grow our capacity and diversify our product portfolio, we will not lose sight of sustaining outstanding operational, commercial and innovation excellence. Our focus on these three areas underpins our commitment to create value for all stakeholders. Our pursuit of excellence strengthens PCG at a fundamental level and provides the foundation to achieve the kind of sustainable growth we aspire to achieve.

BASF PETRONAS Chemicals' L-Menthol Plant

MAHADZIR RANI

Head of Manufacturing

WITH STRONG FOCUS ON OPERATIONAL EXCELLENCE PRACTICES ACROSS OUR VALUE CHAIN, SUPPORTED BY STABLE FEEDSTOCK SUPPLY AND PRUDENT CAPABILITY TO OPERATIONALISE PC FERTILISER SABAH TIMELY, WE WERE ABLE TO DELIVER THE GROUP OPERATIONAL PERFORMANCE IN A SAFE, RELIABLE AND EFFICIENT MANNER.

OPERATIONAL EXCELLENCE

In manufacturing, operational excellence is synonymous with safe operations at a high level of productivity. At PCG, we strive to achieve this through disciplined practices in HSE and manufacturing efficiency programmes, supported by stable feedstock supply. While focusing on operational excellence at existing plants, we have also seen product realisation from our growth projects, underlining our experience in project delivery and commercialisation.

During the year, we delivered our planned maintenance activities, including the statutory turnarounds in a timely, safe and efficient manner. The turnarounds in Gebeng, Kertih and Labuan facilities were completed with better safety performance as compared to the past, as a result of reinforcing our safety culture and behaviours through programmes such as "Jom Patuh dan Tegur" (Let's Comply and Intervene). Adopting best practices in turnaround, we managed to lower our turnaround costs by 30%. Despite the heavy turnaround and maintenance schedule, we sustained a plant utilisation rate of above 90%.

Reliable feedstock is critical to achieving exemplary plant utilisation rates, and is safeguarded at PCG through the priority given to supplier relationship management. We have established a higher level of collaboration with suppliers in planning and the provision of technical support to our operational activities throughout our value chain. Thus resulting in end-to-end value visibility and operational excellence.

In 2017, we maintained the high levels of production volume achieved in 2016 through improved facilities and effective coordination with upstream operations.

In May 2017, we began commercial operations at PC Fertiliser Sabah. Although new, it achieved a commendable first-year utilisation rate exceeding 90%. Leveraging on PCG's operational excellence, we believe PC Fertiliser Sabah will be another key player among our assets.

In supporting our joint venture company, BASF PETRONAS Chemicals Sdn Bhd, commision HR-PIB and Aroma Ingredient Complex, our operations team has flawlessly commissioned the required facilities to deliver feedstock from PC MTBE. Meanwhile, our petrochemical projects being developed at PIC are progressing well. We have already completed our manpower recruitment and grounding programme. The deployment of trained and experienced operations personnel to the project has been undertaken in phases and will be completed by the third quarter of 2018 as scheduled. Additionally, we are on track with the implementation of the requisite management systems, focusing on smooth start-up, operations, physical assets and state-of-art digital applications.

To sustain a safe, reliable and efficient operation, we embark on a work process-based initiative named Operational Excellence Result 2 (OER2). This entails upgrading our management system and work processes to effectively replicate best practices across the Group while empowering our people to deliver superior results.

SHAMSAIRI MOHD IBRAHIM

Head of Commercial

WE UPHOLD THE VALUE OF LOOKING THROUGH CUSTOMERS' LENS IN DELIVERING SUPERIOR QUALITY PRODUCTS AND SERVICES. OUR COMMERCIAL EXCELLENCE EFFORTS INCLUDE ENSURING EXCELLENT SUPPLY RELIABILITY, ENHANCING WORKFORCE CAPABILITY AND PROMOTING INNOVATION AND COLLABORATION OPPORTUNITIES.

COMMERCIAL AND INNOVATION EXCELLENCE

Commercial Excellence hinges on delivering superior value to our customers. It is about understanding our customers' needs, and providing quality products that enhance their business. It is also about meeting our delivery obligations while optimising our cost-to-serve.

Adopting the approach of looking through the customers' lens, our team continued to pursue sales aggressively and achieved commendable results despite a challenging market, enabling PCG to record our best sales performance and attained a commendable feedback from customer satisfaction survey.

Key to our performance was being able to leverage our own high level of plant utilisation and ensure timely reliable supply to our customers. Over and above, we were able to meet additional demands from our customers affected by the outages of their other suppliers due to plants disruptions, as well as force majeures in the US Gulf Coast resulting from Hurricane Harvey. This was complemented by a general increase in demand for petrochemicals along with improving economies.

No less than two-thirds of our production volume is channeled into Southeast Asia where our competitive value proposition is the strongest and therefore, relatively more cost effective to supply.

Within the region, we optimised sales into higher value application of our products. For example, we increased our production of higher-value polymer grades which have applications in the manufacturing of plastic products, including flexible packaging, blow moulding, extrusion coating and roto moulding.

One of our strategies is to continue collaborating with customers to deliver products more cost effectively and creating value for customers.

Recently we have also partnered with our domestic long-term customers to replace their imported prilled urea supply. We are well-positioned to significantly substitute imported prilled urea in the domestic market.

To better serve our customers, we have been increasing our local presence in key international markets by setting up marketing and sales entities. During the year, we began operations in our third overseas subsidiary in Indonesia, adding to our existing bases in Thailand and China. Additionally, we have representative offices in Vietnam and the Philippines.

We continuously seek to establish presence in selected growing markets. Among others, we see much potential for fulfilling the growing demand for chemicals in the Indian subcontinent, hence, we are looking to strengthen our presence in this area.

None of our marketing efforts would be effective if not for quality products, which has been the prerequisite of Commercial Excellence. We seek to further enhance our products' premium through global sustainability endorsements such as the RSPO. During the year, we began the process of gaining RSPO certification and accreditation for our FAE.

In terms of cost reduction, we continued efforts to optimise our logistics through effective sourcing and utilisation of vessels, matching cargoes with the most cost efficient vessel size and reducing the number of trips made through better route planning, co-loading and co-mingling opportunities as well as delivery schedule optimisation. Utilising time charter has enabled us to optimise space and plan our routes better. This contributed to a reduction in our cost-to-serve; and sustaining our world class Order Fulfillment Reliability (OFR).

The year also saw us establish our first Methanol storage tank outside the plant. This 12,000 MT storage tank capacity in Kertih will further enhance the security of supply to customers within the region. In Thailand, we are leasing a 700 MT storage tank for Butanol and 3,000 MT storage tank for Methanol. This has enabled us to enter into the domestic distribution of these chemicals in Thailand.

While creating greater logistics efficiencies and maximising value from our products for both our customers and PCG, we have also been working to establish our route-to-market in preparation for the large volume of chemicals that will come on-stream once our PIC projects reach commercial operations.

As we drive greater Commercial Excellence, we further enhanced our people's capability and competency to translate our strategies into action and results. Accordingly, we are empowering our personnel with the technical knowledge and business tools to enhance their sales effectiveness.

Parallel to the Commercial Excellence, we are leveraging digitalisation to create more opportunities to unlock value. This year, we implemented a commercial performance dashboard, Data2act, which will enhance decision-making as real-time data become accessible anywhere and at any time.

As a chemicals company, innovation is critical in maintaining our competitive edge. It also underpins our research and development of new and niche applications. This is integral to our customer relationship management. We see ourselves as our customers' partners, and work closely with them in the co-creation of products or applications that will enhance their business.

We have developed a low water content monoethanolamine (MEA) for a customer in Taiwan for use in electronics applications. We also now supply a customised solution for mud cleaning in offshore drilling. In total, during the year, we commercialised four new solutions and co-created 13 solutions with our customers, including customised emulsifiers, formulated surfactant for textile and rubber processing, shrink and stretch hood films and higher efficiency fertilisers.

OUTLOOK 2018

2018 promises to be another exciting year. Along with a gradually strengthening price of oil and steady improvements in global economies, we are optimistic of petrochemical prices holding their ground.

Although we see improvements, we remain cautious and we will continue to build on our Operational, Commercial and Innovation Excellence initiatives to capture higher value from our focus markets. We are preparing for an even heavier turnaround schedule than we had in the year under review, with six planned programmes. Given our increasing experience, and excellent outcomes in 2017, we are confident of executing them efficiently thus maintaining an overall plant utilisation rate above 90%. We also look forward to the successful commercial operations of our Aroma Ingredients Complex and HR-PIB plants. Our investment in PIC is also progressing on schedule at about 70% project completion and trained operations personnel are being mobilised to the site in stages.

To drive the commercial side of our business, we will continue advancing our PIC route-to-market strategies for polymers and glycols while developing new strategies for Isononanol. We will intensify our Innovation Excellence to develop more application solutions to meet customers' needs. In addition, we will continue to utilise the digital platform to better serve our customers.

We have also been working assiduously to complete all our current growth projects on time, within budget and safely; and will continue to look for more opportunities to further strengthen our specialty and derivatives product portfolio to drive greater value for our shareholders, our customers and end-users globally.

The future is certainly looking bright for PCG, and with the continued support of our stakeholders I have every confidence that we will achieve our forward driving vision. I would like to take this opportunity to thank our Board of Directors for their dedicated efforts to ensure our sustainable growth. To members of the management, I would like to express my gratitude for their exemplary leadership. As for our employees, thank you for all the hard work and for enabling us to achieve our business goals. We are also immensely grateful to our shareholders, customers and business partners who contributed in their own way to PCG. To each of our stakeholders, let me say a collective 'terima kasih'. We truly value your contributions and seek to create equal value to you in return.

RASHIDAH ALIAS

Chief Financial Officer

PCG REGISTERED A RECORD FINANCIAL PERFORMANCE PRIMARILY DRIVEN BY HIGHER PRODUCTION AND SALES VOLUME AS WELL AS HIGHER AVERAGE PRODUCT PRICES.

REVENUE
RM17.4 BILLION ▲26%

Revenue increased by 26 per cent mainly driven by higher sales volume, improved product prices and strengthening of US Dollar.

PROFIT AFTER TAX (PAT)
RM4.4 BILLION ▲37%

Profit after tax rose by 37 per cent on the back of higher sales volume, favourable exchange rate as well as higher spread, whilst expenses remained low through rigorous cost optimisation efforts.

EARNINGS PER SHARE
52.2 SEN ▲42%

Earnings per share higher by 42 per cent was underpinned by higher PAT.

TOTAL ASSETS
RM33.3 BILLION ▲4%

Total assets remained solid.

MESSAGE FROM CFO

The improving global economy in 2017 was positive for the petrochemicals industry on the whole, hence also for PCG. The increase in crude oil price, which averaged more than USD50 per barrel, coupled with escalating demand for petrochemicals and limited supply in certain markets led to a general growth in the price of petrochemicals. The most significant price increase was seen for methanol, which strengthened by 37%, while urea prices grew on average 11% year-on-year, and that for ethylene improved by 5%. Demand was particularly visible in Asia, our key market, partly due to reduced supply from the Middle East where producers saw most of their volumes taken up by increasing local demand.

HIGHLIGHTS OF FINANCIAL PERFORMANCE

Against this backdrop coupled with higher sales volume, PCG Group achieved record financial performance since its listing in 2010.

	Year Ended 31 December					Increase/ (Decrease)
RM Million	2013	2014	2015	2016	2017	2016 vs. 2017
Revenue	15,202	14,597	13,536	13,860	17,407	25.6%
Profit Before Tax	4,547	3,551	3,833	4,110	5,236	27.4%
Profit After Tax	3,504	2,726	3,091	3,222	4,414	37.0%
EBITDA	5,076	4,644	4,660	5,291	6,618	25.1%

REVENUE
(RM million)

17,407
2017

PROFIT AFTER TAX
(RM million)

4,414
2017

The Group's revenue increased by 25.6% from RM13.86 billion in 2016 to RM17.41 billion as a result of various factors. Despite heavy statutory turnaround activities undertaken, and a concomitantly lower plant utilisation rate of 91.4% as compared to 95.7% in 2016, both our production and sales volumes grew following the commencement of commercial operations at PC Fertiliser Sabah in May 2017. Added to this, we were beneficiaries of an overall increase in the price of petrochemicals, along with the strengthening price of crude as well as strengthening of US Dollar.

The increase in price of crude, however, also led to a 35.9% increase in feedstock costs correspondingly. This contributed to a 29.1% increase in cost of revenue to RM11.02 billion against RM8.54 billion in 2016. Feedstock continued to constitute the largest component of the Group's cost of revenue, making up 53.7% of our total costs for the year.

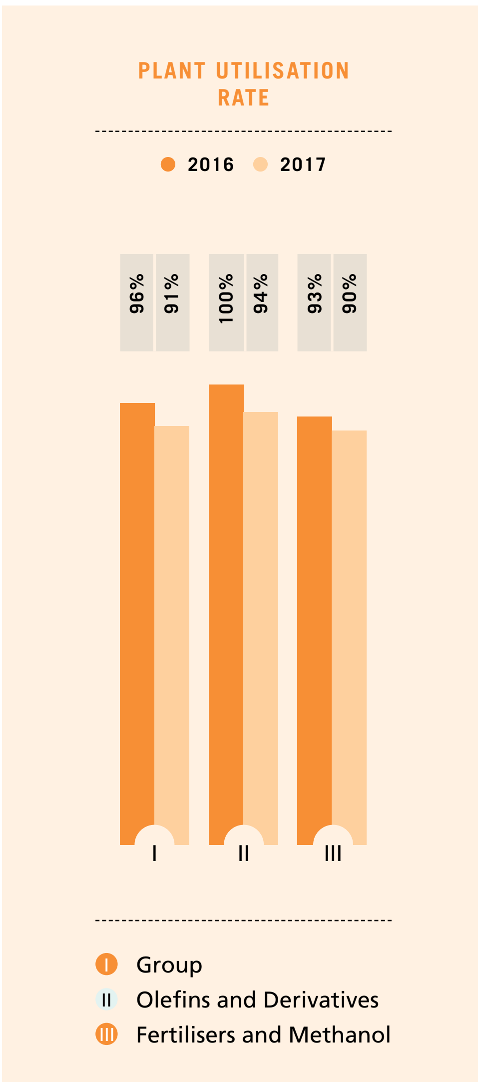
Balancing the increase in cost of revenue, our operating expenditure – namely our selling and distribution expenses, administration expenses and net other expenses – decreased by 10.3% to RM1.15 billion. This was primarily due to the recognition of a write-off of assets amounting to RM0.24 billion (or USD59 million) in 2016 following cancellation of the elastomers project. Excluding the write-off, our operating expenditure would have been 10.8% or RM0.11 billion higher in 2017 in order to support increase in sales volume, whilst certain expenses remained low through rigorous cost optimisation efforts.

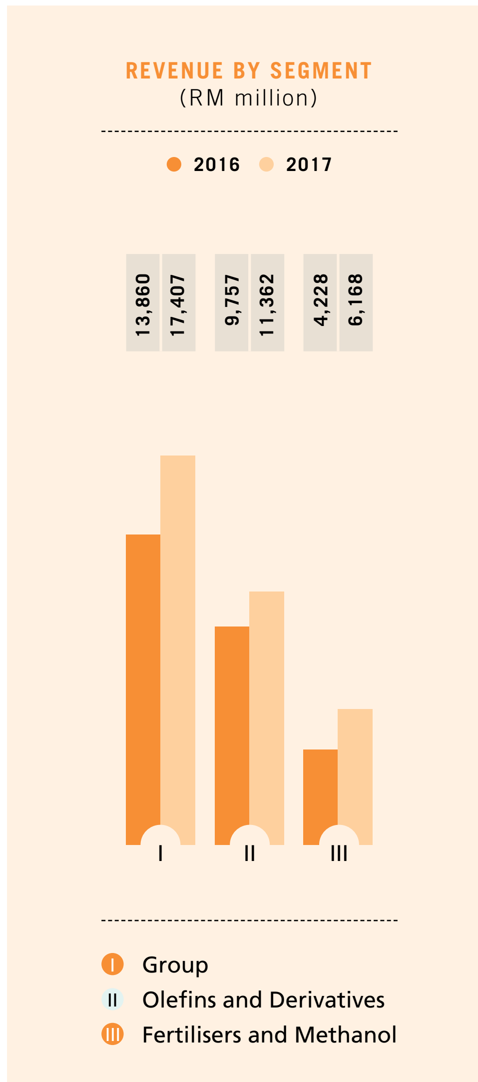
Increased sales volume, a favourable foreign exchange rate as well as higher spreads together contributed to a 27.4% increase in Group profit before tax to RM5.24 billion.

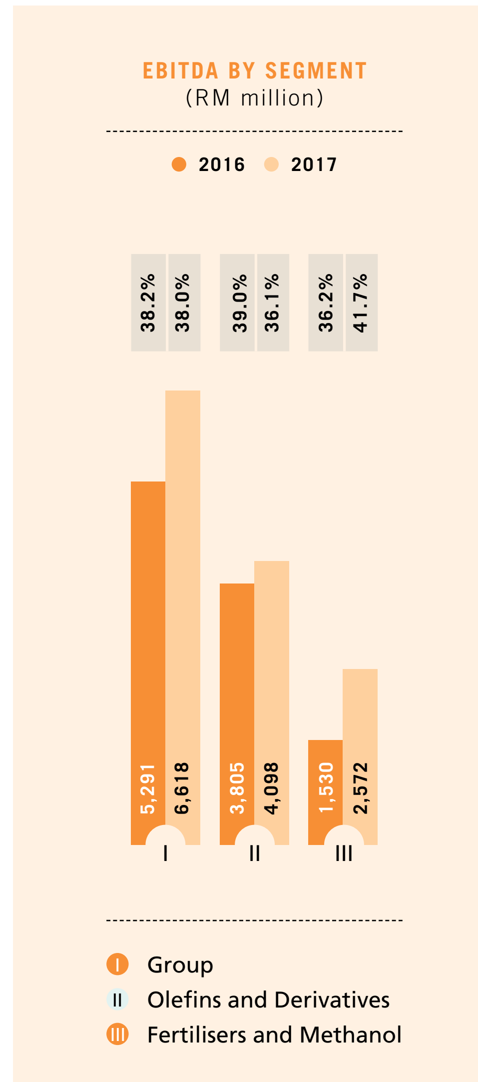
In addition, a lower effective tax rate has contributed to the significant increase to our net profit by 37.0% to RM4.41 billion. The Group's effective tax rate for the year was 15.7%. This meant that, even excluding the elastomers write-off in 2016, our 2017 profit would have been 27.4% or RM0.95 billion higher. Along with the growth in profit, EBITDA increased by 25.1% to RM6.62 billion. The Group's EBITDA margin remained strong at 38.0%.

	2013	2014	2015	2016	2017
PAT margin (%)	23.0	18.7	22.8	23.2	25.4
EBITDA margin (%)	33.4	31.8	34.4	38.2	38.0
Dividend payout ratio (%)	50.9	51.9	51.8	51.8	51.7
Return on Equity (%)	13.5	10.1	10.3	10.4	14.5

SEGMENTAL ANALYSIS







Olefins and Derivatives

During the year, Olefins & Derivatives (O&D)'s plant utilisation was lower at 93.6% from 100% in 2016 due to an increase in the number of statutory turnaround and planned maintenance activities.

Despite the lower utilisation rate, and decrease in production and sales volumes, the segment saw a 16.4% increase in revenue to RM11.36 billion. This was due primarily to a strengthening of product prices in tandem with the increase in crude oil prices. O&D's profit after tax for the year increased by 28.3% to RM2.77 billion. Excluding the elastomers project write-off in 2016, however, our profit would have been 15.3% higher. EBITDA grew by RM0.29 billion or 7.7% to RM4.10 billion, mainly driven by higher spreads and a stronger US Dollar.

Fertilisers and Methanol

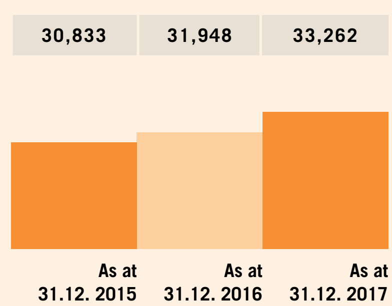
As with O&D, heavy statutory turnaround activities led to a decrease in plant utilisation rate in our Fertilisers and Methanol (F&M) segment from 92.5% in 2016 to 90.1%. This was, however, more than compensated for by increased production and sales volumes following the commencement of commercial operations at PC Fertiliser Sabah.

With PC Fertiliser Sabah's contributions, revenue increased by 45.9% to RM6.17 billion. Meanwhile, profit after tax for the year grew by 61.1% to RM0.61 billion due to improved prices, higher volumes and a stronger US Dollar against the Ringgit. These factors, along with better spreads, lent to a significant 68.1% increase in EBITDA to RM2.57 billion.

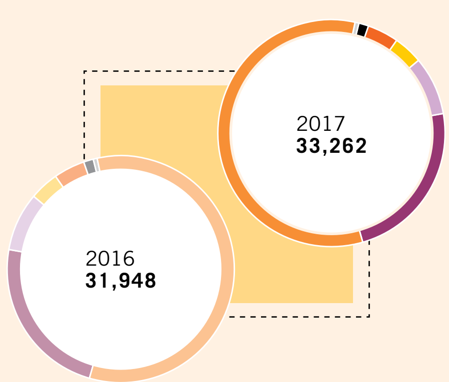
FINANCIAL POSITION

PCG Group's financial position remained solid. The Group's total assets grew by 4.1% from RM31.95 billion to RM33.26 billion along with an increase in Property, Plant and Equipment (PPE). PPE grew by 12.1% to RM20.79 billion with RM5.01 billion additions made during the year under review, comprising RM4.42 billion for petrochemicals projects in PIC and RM0.59 billion for other plant operational Capital Expenditure (CAPEX). Depreciation charges for the year stood at RM1.59 billion.

TOTAL ASSETS
(RM million)

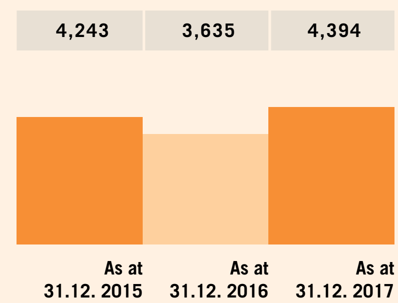


TOTAL ASSETS as at 31.12.2017 & 31.12.2016
(RM million)

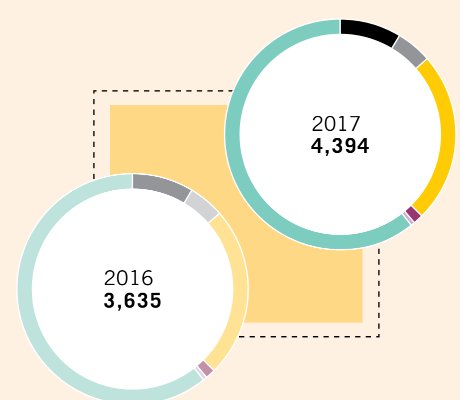


2016	2017	
18,543	20,792	Property, plant and equipment
155	211	Other assets
462	300	Deferred tax assets
1,363	1,192	Investments in associates & joint ventures
1,383	1,723	Trade and other inventories
2,639	2,370	Trade and other receivables
7,403	6,674	Cash and cash equivalents

TOTAL LIABILITIES
(RM million)



TOTAL LIABILITIES as at 31.12.2017 & 31.12.2016
(RM million)



2016	2017	
2,208	3,217	Trade and other payables
308	212	Other long-term liabilities and provisions
180	127	Current tax payables
874	838	Deferred tax liabilities
23	-	Borrowings
42	-	Dividend payable

Total liabilities increased by 20.9% from RM3.64 billion to RM4.39 billion as a result of higher trade and other payables. The Group has fully settled our borrowings of RM0.02 billion relating to a facility taken for working capital purposes by one of our subsidiaries.

Cash Flow

Although the Group's cash and cash equivalents was 9.8% or RM0.73 billion less than in 2016, it remained at a healthy level of RM6.67 billion.

We saw a higher cash outflow for investing activities mainly due to our investment in petrochemicals projects in PIC. At the same time, there was a decrease in financing activities as a result of net settlement of forward exchange contract on shareholders' loan by PCG Holding Company in 2016 and lower dividends paid to non-controlling interests of subsidiaries. This was partially offset by higher dividends paid to shareholders.

Meanwhile, we saw an increase in net cash inflows from operating activities mainly contributed by higher net cash generated from operations in tandem with the increase in EBITDA.

CAPEX

The Group's CAPEX for the year which was fully funded internally, stood at RM4.62 billion mainly attributed to the developments in petrochemicals projects in PIC as well as operational requirements.

OUR FOCUS IN 2017

Cost Optimisation

In an environment that remained challenging with low crude oil prices and subdued demand, PCG's focus on operational and commercial excellence; as well as rigourous cost optmisation effort helped us maintain costs at low levels.

Optimisation of Internal Funds

We revised our minimum cash balance by optimising the working capital requirements for all PCG subsidiaries. Daily cash flow movements were analysed to ascertain the optimum level of working capital, while we standardised the working capital management as well as capital expenditure requirements in all subsidiaries.

7th Annual Southeast Asia's Institutional Investor Awards for Corporates

Foreign Exchange Management

We ensure the Group has sufficient ringgit to fund our growth projects by adhering to the Foreign Exchange Management Guidelines in PETRONAS' Corporate Financial Policy. Further strengthening these guidelines, we have established immediate and medium-term measures to manage our forex exposure. In the immediate term, PCG will continue to hedge our USD exposure based on actual cash calls from our projects. In the medium-term, we will either build up and retain USD proceeds in the Group for future obligations, or hedge to predetermine the conversion rate based on long-term cash commitments, depending on the market and the viability of the two options.

Strengthened Governance

We continue to ensure that our key internal control systems are adequate and effective at all times via self-attestation guided by our Financial Control Framework. At the same time, we have standardised and aligned the finance work process in all subsidiaries to ensure consistency in practices and operating discipline, while continuously enhancing the retention and sharing of knowledge. Our policies are geared to ensure accurate accounting and to produce reliable financial statements.

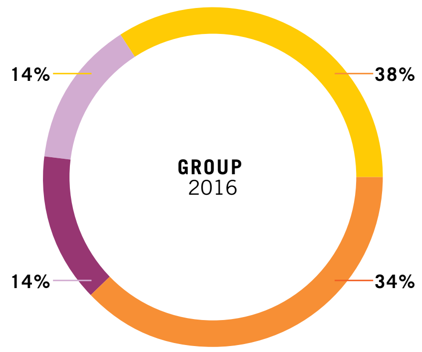
LOOKING FORWARD

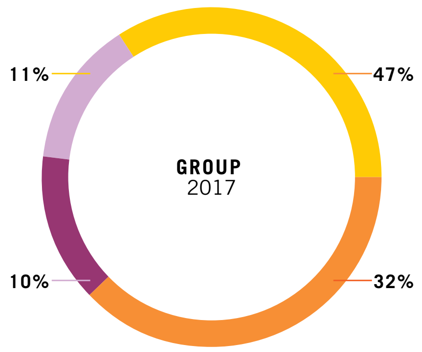
Moving into 2018, our key priority is to maintain a solid balance sheet and manage our cash prudently to be able to fund current and future projects to increase our capacity.

STATEMENT OF VALUE ADDED

	Group		Company	
	2016	2017	2016	2017
	RM mil	RM mil	RM mil	RM mil
Revenue	13,860	17,407	4,401	6,972
Purchase of goods and services	(7,708)	(9,990)	(70)	(80)
Value added by the companies	6,152	7,417	4,331	6,892
Other Expenses	(196)	(9)	(267)	(791)
Other Income	289	242	860	262
Financing costs	47	(20)	60	(5)
Share of profit after tax of equity accounted associate and jointly controlled entity	17	16	-	-
Value added available for distribution	6,309	7,646	4,984	6,358
DISTRIBUTION				
To employees				
Employment costs	862	821	100	99
To government				
Taxation	888	822	50	33
To shareholders				
Dividends	1,360	1,920	1,360	1,920
Non-Controlling Interests	815	512		
Retained for reinvestment and future growth				
Depreciation, amortisation and impairment	1,337	1,589	3	3
Retained profit	1,047	1,982	3,471	4,303
	6,309	7,646	4,984	6,358

VALUE ADDED AVAILABLE FOR DISTRIBUTION





To employees | To government | To shareholders | Retained for reinvestment and future growth

5-YEAR GROUP FINANCIAL INFORMATION

Year	2013	2014	2015	2016	2017
Key Result	**RM mil**	**RM mil**	**RM mil**	**RM mil**	**RM mil**
Revenue	15,202	14,597	13,536	13,860	17,407
By segment:					
Olefins and Derivatives	11,222	10,510	9,495	9,744	11,350
Fertilisers and Methanol	3,941	4,046	3,995	4,063	6,013
Others	39	41	46	53	44
Cost of revenue	(10,160)	(10,150)	(8,989)	(8,536)	(11,021)
Financing cost	(8)	(46)	(11)	47	(20)
Selling and distribution expenses	(604)	(603)	(615)	(704)	(764)
Administration expenses	(477)	(551)	(582)	(667)	(615)
Other expenses	(92)	(471)	(391)	(196)	(9)
Other income	465	609	798	289	242
Operating profit	4,326	3,385	3,746	4,093	5,220
Share of profit of equity accounted joint ventures and associates net of tax	221	166	87	17	16
Profit before taxation	4,547	3,551	3,833	4,110	5,236
Tax expense	(1,043)	(825)	(742)	(888)	(822)
Profit for the year	3,504	2,726	3,091	3,222	4,414
Profit attributables to the shareholders of the company	3,146	2,465	2,782	2,932	4,177
Key statement of financial position					
Property, plant and equipment	13,245	14,255	16,597	18,543	20,792
Cash & cash equivalents	10,155	9,807	8,707	7,403	6,674
Total assets	27,731	28,463	30,833	31,948	33,262
Borrowings	-	-	30	23	-
Total liabilities	4,342	3,986	4,243	3,635	4,394
Share capital	800	800	800	800	8,871
Reserves	20,936	21,922	23,983	26,242	18,994
Total equity attributable to the shareholder of the compny	21,736	22,722	24,783	27,042	27,865
Non-controlling interests	1,653	1,755	1,807	1,271	1,003
Total equity	23,389	24,477	26,590	28,313	28,868
Share information					
Earnings per share (sen)	39.3	30.8	34.8	36.7	52.2
Dividend per share (sen)	20.0	16.0	18.0	19.0	27.0
Net tangible asset per share (RM)	2.72	2.84	3.10	3.38	3.48
Closing share price (RM)	6.92	5.45	7.27	6.98	7.70
Number of ordinary shares ('000)	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Market capitalisation (RM million)	55,360	43,600	58,160	55,840	61,600

GROUP QUARTERLY PERFORMANCE FOR FY2017 AND FY2016

In RM Million	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2017
Revenue	4,695	3,959	4,013	4,740	**17,407**
Operating profit	1,639	1,166	1,065	1,370	**5,240**
Profit before taxation	1,636	1,162	1,116	1,322	**5,236**
Profit for the period/year	1,381	1,023	961	1,049	**4,414**
Profit attributable to shareholders of the Company	1,295	964	913	1,005	**4,177**
Earnings per share (sen)	16.2	12.1	11.3	12.6	**52.2**
Dividends per share (sen)	-	12	-	15	**27**

In RM Million	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2016
Revenue	3,147	3,202	3,564	3,947	13,860
Operating profit	891	743	1,209	1,203	4,046
Profit before taxation	896	783	1,258	1,173	4,110
Profit for the period/year	671	533	985	1,033	3,222
Profit attributable to shareholders of the Company	592	462	891	987	2,932
Earnings per share (sen)	7.5	5.8	11.1	12.3	36.7
Dividends per share (sen)	-	7	-	12	19

KEY MEGATRENDS

Increase in world population from
7.6 BILLION in 2017 to
8.6 BILLION in 2030

LESS arable land per capita from
0.218 ha in 2015 to
0.197 ha in 2030

LESS freshwater per capita from
7,000 M³ in 2000 to
4,500 M³ in 2015

Higher middle income class population
(millions of people)

1,845 *in 2009* **3,249** *in 2020* **4,884** *in 2030*

PCG STRATEGIC POSITIONING

UREA

In the face of increasing shortage of arable land, our urea contributes to increased crop yields which supports more efficient food production for the growing population.

MTBE

Our MTBE caters well to the rapid rise in the automotive industry fueled by the increased affluence of consumers in this region.

POLYMERS

Our polymers can be customised to meet the robust growth of automotive industry and the growing higher mobility requirement for light and smart packaging.

GLYCOLS AND PARAXYLENE

Our glycols and paraxylene are used in the production of polyester in textiles industry to cater for increasing urban consumers preference for quality clothes.

METHANOL, ETHANOLAMINES AND ETHOXYLATES

Our methanol, ethanolamines and ethoxylates will capture the huge demand growth from the expanding middle class for cosmetics and other personal care products.

Sources:
Wolfensohn Center for Development at Brookings, Food and Agriculture Organization of the United Nations (FAO), World Resources Institute, United Nations Department of Economic and Social Affairs

2018 MARKET OUTLOOK

ETHYLENE

- Less supply in Northeast Asia and Southeast Asia due to turnaround activities
- Stable downstream demand

MEG

- Robust demand from polyesters sector
- Stable feedstock prices

POLYMERS

- Competition intensifies with higher supplies from Middle East and North America
- Stable feedstock prices

ETHOXYLATES

- Market is largely stable on the back of mixed feedstock cost and varied demand
- Recent technology using shale gas may increase competition in the global surfactants market

AROMATICS

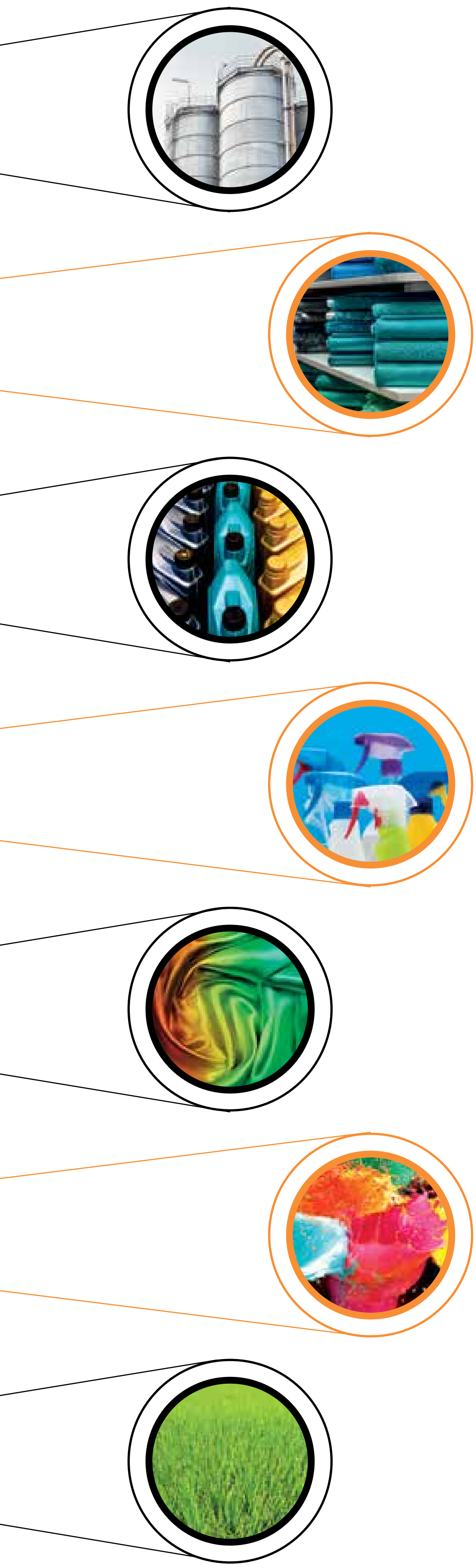
- More volume availability from new capacity additions
- Steady demand from derivatives

METHANOL

- Higher supply from new plants
- Stable demand from both traditional and energy applications

UREA

- New capacity additions will continue to pressure urea prices
- China's export volume is expected to continue declining



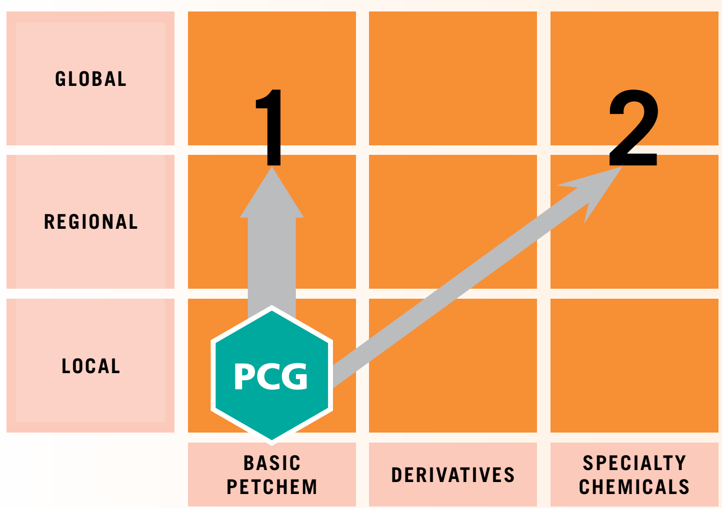
OUR STRATEGY

TWO-PRONGED STRATEGY

We continue to be driven by our two-pronged strategy to achieve our vision to be The Preferred Chemical Company Providing Innovative Customer Solutions. This comprises:

- Continuing to build our existing basic petrochemicals portfolio, which has cemented our position as a regional petrochemicals market leader; and
- Diversifying our production into derivatives, specialty chemicals and solutions through the careful and critical selection of new growth opportunities based on global megatrends and market attractiveness. This will future-proof our business against market cyclicality and volatility.

To support this two-pronged strategy, we will continue to reinforce our Operational Excellence, Commercial Excellence and Innovation Excellence.



1 **Strengthen basic petrochemicals**
- Achieve sustainable world class plant performance
- Competitive marketing capability with regional presence

2 **Selectively diversify into derivatives, specialty chemicals and solutions**
- Deliver innovative customer solutions to strengthen market position and protect value
- Diversification of petrochemicals into higher value adding products

In 'Stepping Out', we plan to venture into new business areas to future-proof our organisation amidst a rapidly changing external environment. We must seize the opportunity to leverage on our strong petrochemicals formation to enter into niche specialty chemicals market.

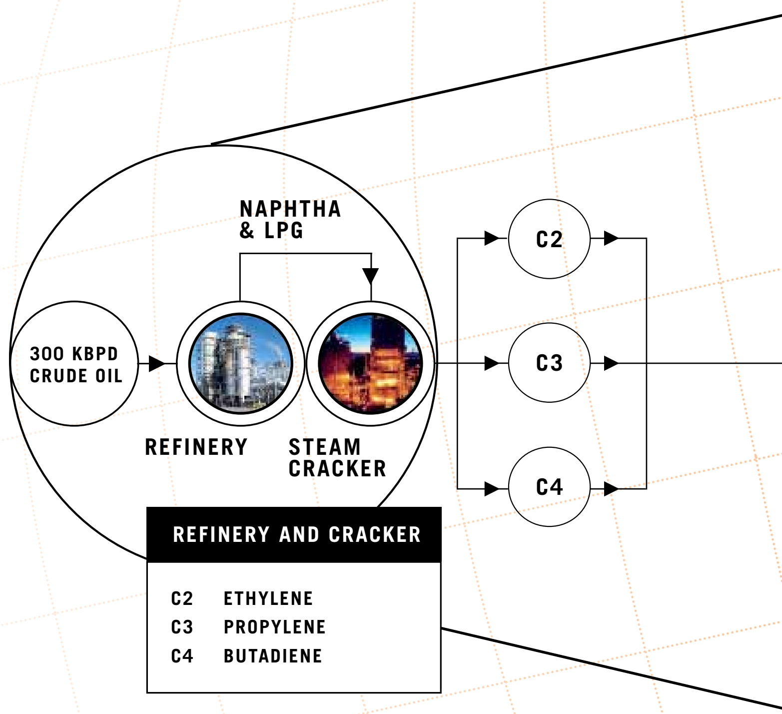
OUR STRATEGIC PERFORMANCE
PROMOTING SUSTAINABILITY
HOW WE ARE GOVERNED
OUR NUMBERS

GROWTH

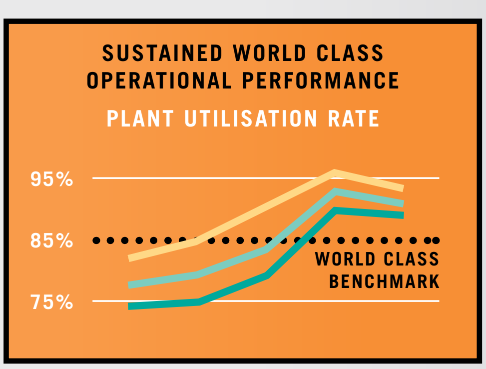
Collaboration With BASF Will Diversify Our Portfolio Into Niche Specialty Chemicals		PIC Petrochemicals Project Will Further Expand Our Capacity And Product Slate
• Integrated Aroma Ingredients Complex • 2-EHAcid • HR-PIB	**PLANT**	• Glycols • Polymers • Isononanol
• Gebeng, Pahang	**LOCATION**	• Pengerang, Johor
• Integrated Aroma Ingredients Complex: Ingredient for flavour and fragrances industry • 2-EHAcid: Intermediate for the production of synthetic lubricants and oil additives • HR-PIB: Intermediate for the production of high performance fuel and lubricant additives	**PRODUCT**	• Glycols: Feedstock for manufacturing polyester fiber • Polymers: Feedstock for manufacturing plastic products • Isononanol: Feedstock for plasticizer
• The 1st plant in Asia Pacific to produce ingredient for flavour and fragrance industries • The 1st 2-EHAcid and HR-PIB plants in Southeast Asia	**POSITION**	• Largest MEG and polypropylene producer in Southeast Asia • 2nd largest HDPE producer in Southeast Asia

PIC IS FULLY INTEGRATED WITH FACILITIES AND INFRASTRUCTURE ENSURING SECURED FEEDSTOCK SUPPLY

We are expanding our basic and specialty chemicals portfolio in PIC under two companies - PRPC Polymers and PC Isononanol.



OPERATIONAL EXCELLENCE



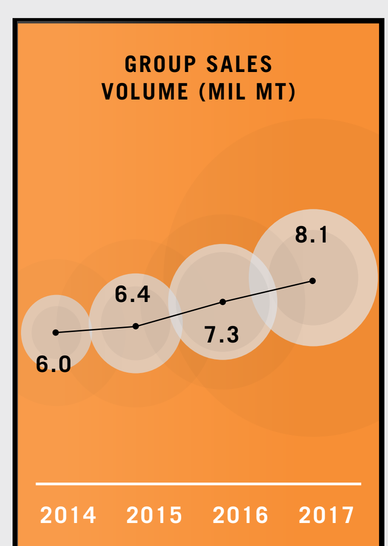
	2014	2015	2016	2017
O&D	86%	93%	100%	94%
F&M	75%	80%	93%	90%
Group	80%	85%	96%	91%

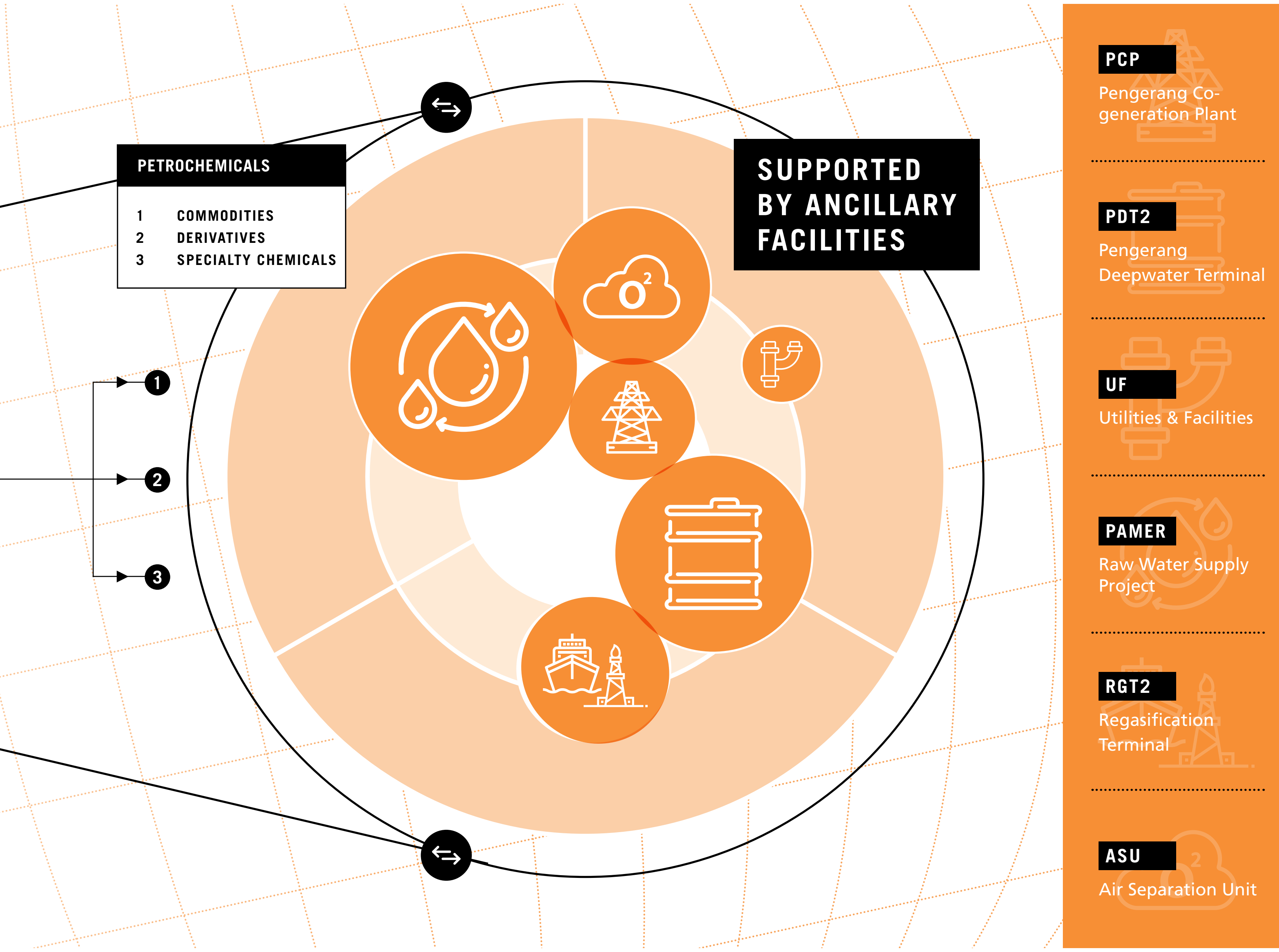
Operational Excellence is key to achieving sustainable production and asset utilisation within world-class standards while continuously strengthening our HSE culture

3 focus areas under Operational Excellence:

- Plant reliability
- Turnaround management
- Supplier relationship management

COMMERCIAL EXCELLENCE



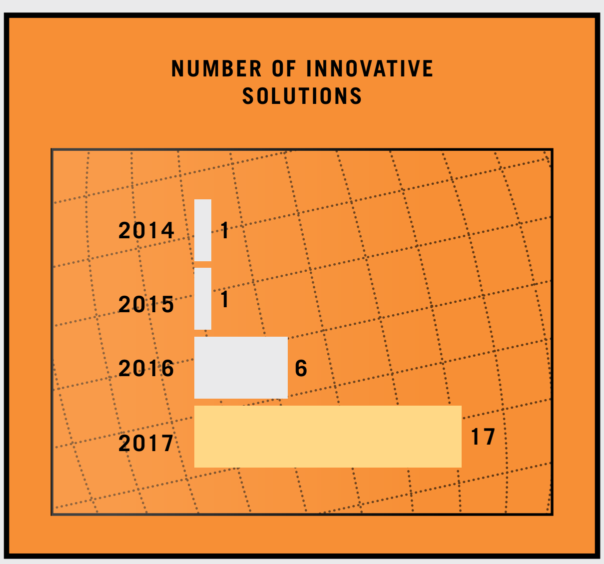


Commercial Excellence is key to obtaining additional value through competitive marketing and by creating a customer centric business.

3 focus areas under Commercial Excellence:

- Customer focus
- Sustain and enhance market position
- Commercial Excellence capabilities

INNOVATION EXCELLENCE



Innovation Excellence is key in strengthening our capabilities to provide customised applications and solutions to our customers in meeting their business needs which distinguishes us apart from our competitors.

2 focus areas under Innovation Excellence:

- Innovative solutions
- Innovative culture

KPI	TARGET	RESULTS
Lost Time Injury Frequency (LTIF)	**0.27** Based on the oil and gas industry LTIF benchmark.	**0.09** Our LTIF is better than the industry benchmark.
Plant Utilisation (PU)	**≥85%** Based on Nexant world-class utilisation benchmark.	**91.4%** We exceeded both our target and the world-class benchmark.
Dividend payout ratio to shareholders	**~50%** Based on our dividend policy with a payout ratio of around 50% of Group Profit After Tax and Non-Controlling Interests ("PATANCI"), ensuring such distribution would not be detrimental to PCG Group's cash requirements.	**52%** This dividend is within our policy.
Order Fulfillment Reliability	**>90%** Based on peer benchmarking.	**94%** We exceeded the benchmark by 4 percentage points.
Growth	**SAMUR** Fully commercialised in May 2017 and achieved overall utilisation above 90% as compared to target of 70%. **Petrochemicals Project at Pengerang Integrated Complex (PIC)** Achieved Final Investment Decision (FID) for PC INA and the project is progressing as planned. Overall PIC construction and progress is on schedule ~70% completion as at January 2018. All operational and commercial readiness programmes were implemented on schedule and followed through in preparation for startup in 2019.	
Operational Excellence Result 2	Design and implementation of work processes, standardised management system and empowerment for operating assets to run safely, reliably and efficiently, towards a High Performing organisation.	
People	**Staff Capability Development** All staff are developed through in-house and external training to fulfil PCG's capability requirements. **7 days of training per staff per year** Invested 5% of manpower cost in 2017 for human capital development.	

WE IDENTIFY MATERIAL MATTERS THAT COULD INFLUENCE OUR ABILITY TO EXECUTE OUR STRATEGIES IN THE SHORT, MEDIUM AND LONG-TERM.

FACTORS THAT IMPACT OUR ABILITY TO EXECUTE OUR STRATEGIES

OPERATIONAL EXCELLENCE

- Safety of operations at our plants and facilities to protect our staff, assets and environment
- Reliability of feedstock supply and operating facilities to sustain world-class plant utilisation
- Efficient production and maintenance practices

COMMERCIAL EXCELLENCE

- Stiff competition and product substitution causing loss of market share
- Adverse market and downward price affecting margins
- Non-compliance to international and host country regulations affecting our licence to operate

BUSINESS GROWTH

- Ability to identify new growth areas to support sustainable business expansion
- Delivery of growth projects within schedule and budget

HIGH PERFORMANCE TEAM

- Having the right talents, skills and experience fuels our performance
- Having a highly engaged workforce inspires a high-performance work culture

HOW WE RESPOND

OPERATIONAL EXCELLENCE

- Implementation of ZeTo Rules, 'Jom Patuh & Tegur' and Felt leadership initiative
- Continuous enhancement of our HSE systems to comply with PETRONAS Mandatory Control Framework
- Strengthened collaboration with feedstock suppliers to ensure sustainable supply
- Effective asset management through Equipment Reliability Strategy (ERS), Bad Actor Management (BAM) and Plant Reliability Threat (PRT)
- Integrated turnaround schedule across value chain minimising production loss
- Efficient turnaround planning and execution resulting in cost reduction

COMMERCIAL EXCELLENCE

- Execute molecule optimisation by producing products that contribute to higher margins
- Leverage on co-loading or co-mingling opportunities to lower our cost-to-serve
- Develop innovative product applications and solutions via co-creation with customers
- Keep abreast with regulatory requirements in Malaysia and host countries
- Periodic reviews to ensure compliance with regulations in each country of operation

BUSINESS GROWTH

- Build specialty chemicals portfolio by venturing into attractive segments based on megatrends
- Management Review Committee to ensure alignment with the Group's vision
- Effective project management via compliance to PETRONAS Project Management System (PPMS)

HIGH PERFORMANCE TEAM

- Capability development through various programs such as Accelerated Capability Development (ACD) for executives, Technical Trade Specialist (TTS), Technical Professional (TP), Technical Managers Capability Assessment (TMCE) and PETRONAS Competency-based Assessment System (PECAS) for non-executives
- Leadership development through various leadership programs such as the Leadership Development series for foundational, middle and senior management
- Instill PETRONAS Culture Belief in creating a sustainable high-performing organisation

We create value through our Operations, Commercial and Innovation Excellence by adding value to hydrocarbon resources into high value chemicals while effectively managing our people, assets and stakeholders.

CAPITALS | KEY INPUT | HOW WE CREATE VALUE

NATURAL CAPITAL

While we convert hydrocarbon resources into high-value chemicals, we aim to minimise our impact to the environment by reducing our hydrocarbon footprint.

Gas feedstock consumption *(million tonnes)*

2014	2015	2016	2017
2.91	3.11	3.72	3.90

Energy intensity *(GJ of energy consumed per tonnes of product)*

2014	2015	2016	2017
17.6	17.1	15.9	16.4

Water withdrawal intensity *(cubic meters of water per tonnes of product)*

2014	2015	2016	2017
4.73	4.58	4.27	4.38

- Continuously minimise our impact to the environment by adopting best practices for energy consumption, water conservation and gas emission minimisation. At the same time, we are leveraging on leading edge technology
- Promote the protection of health, safety & environment through our product stewardship programme
- Rehabilitation of mangroves through the ecoCare programme where to date more than 12,000 mangrove seedlings have been planted along the Kertih River

FINANCIAL CAPITAL

Effective financial management is key to ensuring sustainable returns to our business and shareholders through optimisation of cost and growth initiatives.

Market capitalisation *(RM million)*

2014	2015	2016	2017
43,600	58,150	55,840	61,600

Equity funding *(%)*

2014	2015	2016	2017
100	100	100	100

Interest earned from investment *(RM million)*

2014	2015	2016	2017
390	360	261	211

- Robust financial management through rigorous and diligent monitoring of cash flows throughout the Group ensuring our ability to maintain an optimal level of working capital and able to maximise interest for fund investment
- Continuous assessment on various funding alternatives for our growth initiatives

MANUFACTURING CAPITAL

We operate, maintain and manage our assets efficiently to ensure that our products and services are delivered in a safe, reliable and sustainable manner.

Property, plant and equipment *(RM million)*

2014	2015	2016	2017
14,255	16,597	18,543	20,792

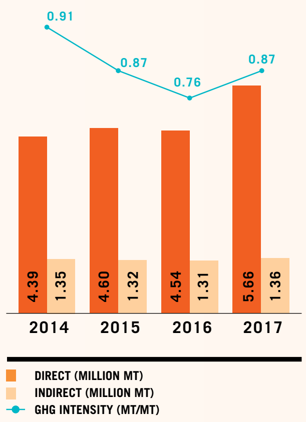
Project in progress *(RM million)*

2014	2015	2016	2017
4,376	7,193	9,785	6,709

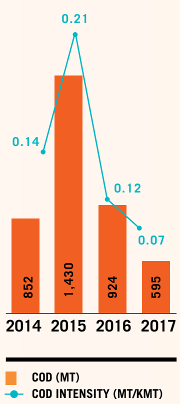
- Implementation of Operational Excellence to achieve sustainable production and asset utilisation at world class benchmark
- Implementation of Commercial Excellence to gain additional value primarily by optimising product mix, logistics and inventory
- Continuous assessment on various opportunities for capital growth and deliver CAPEX projects timely within the allocated budget

KEY OUTPUT

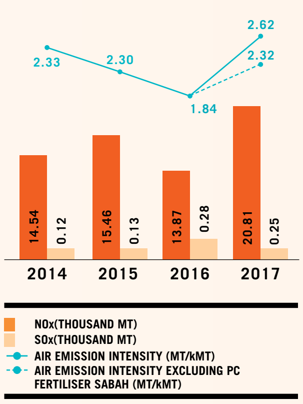
GHG EMISSIONS



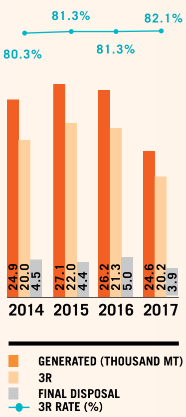
WASTEWATER DISCHARGES



EMISSIONS TO AIR



HAZARDOUS WASTE



Group revenue (RM million)			
2014	2015	2016	2017
14,597	13,536	13,860	17,407

Cash generated from operation (RM million)			
2014	2015	2016	2017
4,195	4,334	3,958	5,311

Operating profit (RM million)			
2014	2015	2016	2017
3,431	3,757	4,046	5,240

Earnings per share (sen)			
2014	2015	2016	2017
30.8	34.8	36.7	52.2

Dividend paid to shareholders (RM million)			
2014	2015	2016	2017
1,600	1,280	1,360	1,920

Capital expenditure (RM million)			
2014	2015	2016	2017
3,022	3,295	3,992	4,619

Plant utilisation (%)			
2014	2015	2016	2017
80	85	96	91

Depreciation, amortisation and impairment (RM million)			
2014	2015	2016	2017
1,481	1,279	1,342	1,589

REFERENCES

IR

For more information, kindly refer to pages 70 to 94 on Promoting Sustainability.

IR

For more information, kindly refer to pages 40 to 47 on Management Discussion & Analysis.

IR

For more information, kindly refer to pages 50 to 51 on Our Business Strategy.

CAPITALS	KEY INPUT	HOW WE CREATE VALUE

INTELLECTUAL CAPITAL

We adopt an innovative culture encouraging innovative thought processes and approach in meeting our customers' needs while ensuring that our work processes and management systems reflect those of a high performance organisation

Key Input

- Industry thought leaders and experts
- Experienced, skilled and technically qualified staff
- Business processes and management systems

How We Create Value

- Implementation of Innovation Excellence to provide customised applications and solutions to our customers
- Implementation of improvement to work processes and management system towards a sustainable high-performing organisation

HUMAN CAPITAL

We invest in the development of our people towards building a high performance workforce while being committed to the safety and wellbeing of our staff, contractors and communities where we operate.

Key Input

No. of employees			
2014	2015	2016	2017
4,669	4,671	4,500	4,436

- Workforce of safe, healthy, engaging and productive talents equipped with the relevant skills, knowledge and experience
- Leadership team that strongly drives a high performance work culture

How We Create Value

- Through ACD, TTS, TP, TMCA and PECAS, all technical staff are developed in specialised disciplines in ensuring targeted competency levels are achieved
- Commercial Capability Development Framework ensures our commercial staff have a structured development programme and progression plan to fit critical business, leadership and specialised roles
- Continuously enhancing our Occupational Safety and Health (OSH) systems and Felt leadership programme to sustain world class OSH performance

SOCIAL AND RELATIONSHIP CAPITAL

We believe confidence and trust are key in managing our stakeholders. Aligning our business practices with societal needs and expectations helps to drive long term sustainability and shareholders value in an increasingly complex and ever changing business environment.

Key Input

- Management and employees
- Customers and suppliers
- Business partners and contractors
- Shareholders and investors
- Communities where we operate
- Government representatives and regulators

How We Create Value

- Sustainable Corporate Social Investment programmes for communities where we operate
- Continuous meaningful engagement with various stakeholders
- Impactful corporate contributions and sponsorships
- Interactive communication and transparent disclosure to shareholders resulting in increase of confidence in the company, management as well as our growth potential

KEY OUTPUT

- Development of co-creation solutions with key customers
- Commercialisation of new product solutions
- Standardised work process and management systems

Training investment (RM per employee)			
2014	2015	2016	2017
8,655	6,085	7,368	5,343

No. of fatal incidences			
2014	2015	2016	2017
0	0	2	1

Training man-days per employee (days)			
2014	2015	2016	2017
10.5	12.0	8.4	7.4

Tax paid to Government (RM million)			
2014	2015	2016	2017
881	724	799	617

Number of Corporate Social Investment (CSI) Programmes	
2016	2017
37	35

- Long-term preservation of shareholders' investments and returns

REFERENCES

For more information, kindly refer to page 51 on Our Business Strategy.

For more information, kindly refer to pages 82 to 93 on Sustainability Statement.

For more information, kindly refer to pages 89 to 90 on Sustainability Statement.

UNDERSTANDING OUR RISKS

We operate in a volatile, uncertain, complex and ambiguous (VUCA) world with several issues and risks arising from product oversupply, slower than anticipated demand growth, lower product prices reflecting crude oil as well as heightened geopolitical conflict, nationalism and protectionism.

Because the external environment is unpredictable, we recognise the need to continuously identify emerging risks. We undertake risk profiling in accordance with PCG Risk Management Framework and Guideline where we identify, evaluate and monitor risks that could potentially impact PCG's bottom line as early as possible. These are determined based on the complexities, hazards and integrated nature of our manufacturing and business processes.

Identified critical risks are closely monitored and managed via specific mitigation plans to minimise adverse impacts to our business and growth strategies. Key Risk Indicators are identified to facilitate the monitoring of risks and provide early warning signals on potential risk escalation. The mitigation plans and key risk indicators are reported to our management and Board.

1. Major HSE incident affecting People, Environment, Asset & Reputation

How does it affect us?

HSE incidents are an inherent risk in manufacturing facilities, with the highest impact coming from process safety incidents. Risk exposures include fire, explosion, loss of primary containment (LOPC) and oil or chemical spills. Probable root causes include non-compliance with plant operating procedures and standards or regulatory requirements, poor implementation of process safety as well as human error. We also ensure compliance with regulatory requirements, including license to operate manufacturing facilities that impact our assets and reputation.

Our Mitigations

- Strengthen HSE governance via Mandatory Control Framework (MCF) compliance
- Focus on execution of HSE Management System (HSEMS) and Process Safety Management (PSM)
- Develop competencies and communicate HSE policies as well as processes to all PCG staff and contractors, with tracked action plans
- Implement and monitor HSE Zero Tolerance (ZeTo) rules
- Strengthen Felt Leadership

IR *(For more details on HSE practices, please refer to our Sustainability Statement from pages 82 to 86)*

Link to Material Matters Impacting Our Strategy

Operational Excellence

2. Non-sustainable feedstock or utilities for reliable and flawless plant operations

How does it affect us?

This risk is inherent to PCG due to the complexity and integrated nature of our manufacturing process and high dependence on feedstock and utilities from external parties.

While our integrated operations have synergistic advantages, we are at risk of operational interruptions if one or more plants in the integrated chain fails to operate reliably.

In addition, PCG relies on shared infrastructures. Any disruption to these shared infrastructures may adversely affect our production and ultimately impact delivery of end-products to customers.

Our Mitigations

- Collaborate with feedstock and utilities suppliers for sustainable supply to our plants
- Monitor feedstock and end-products inventories on a monthly basis
- Implement Business Recovery Plans (BRPs) and Business Continuity Plans (BCPs) to restore normal operations and business continuity, should there be prolonged interruption

Link to Material Matters Impacting Our Strategy

Operational Excellence

3. Cyclicality of petrochemical industry leading to adverse market conditions

How does it affect us?

Starting with the downward pressure on Brent price since end 2014, the price gap between naphtha and ethylene for naphtha-based producers is decreasing and heightening the competition on olefins, glycols, derivatives and polymer products. The decreasing crude oil price also affects demand for MTBE and methanol, potentially impacting our ability to sustain revenue.

With numerous growth projects in the pipeline, PCG needs to be cautious in its spending. In addition, any delay in project completion would further impact PCG's financial performance.

Our Mitigations

- Implement asset management and reliability initiatives to ensure production volume targets are met
- Implement initiatives under Commercial Excellence
- Strengthen network and customer relationship management
- Monitor PCG financial position against forecast and pursue available options in case of shortfall

Link to Material Matters Impacting Our Strategy

Operational Excellence, Commercial Excellence & Growth Porfolio

4. Inability to realise major growth projects as planned including their operational readiness

How does it affect us?

With several capital projects committed, PCG is exposed to project delay, cost overruns and inability to meet contractual volume.

We need to ensure our projects are completed according to scope and within schedule and budget with zero HSE issues, to capture maximum value.

Critical factors that can ensure project targets are met include good performance by contractors and sub-contractors, effective project management, effective operation readiness programme and good control of the joint-venture project management.

Our Mitigations

- Implement initiatives to strengthen project and contractor management
- Comply with PPMS framework and guidelines
- Monitor projects at various levels, up to the Board
- Leverage PETRONAS' expertise in project management and delivery
- Implement effective capability development programme to support operational and commercial readiness

Link to Material Matters Impacting Our Strategy

Operational Excellence, Commercial Excellence & Growth Porfolio

"SYNCHRONISED ECONOMIC RECOVERY"

BEST DESCRIBES THE GROWTH EXPERIENCED BY BOTH DEVELOPED AND EMERGING MARKETS IN 2017. ENTHUSIASM OVER THE US' PRO-BUSINESS AGENDA, EUROZONE'S RISE TO EXPANSION AND CHINA'S TIGHTENING POLICY TO ACHIEVE SUSTAINABLE GROWTH WERE INDICATORS OF IMPROVED MARKET SENTIMENT.

Crude oil prices improved 17.7% during the year largely due to production controls. The market took a turn after the benchmark Brent crude price hit its lowest of USD45 per barrel in June on news of increasing US stockpiles and rising production in key parts of the world. Exporting countries' agreement to extend production cuts into 2018, compounded by unexpected production outages, led to crude oil prices rallying in the second half of the year to close at USD67 per barrel at the end of 2017.

In Malaysia, gross domestic product (GDP) increased significantly due to robust exports, supported by demand growth in the electrical and electronics sector and a relatively weak Ringgit. The Malaysian currency, nevertheless, gained strength from RM4.49[1] against the US Dollar at the start of the year to RM4.06[1] by the end of 2017.

The FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) trended up during the year alongside steady economic growth. Opening at 1,642 points, the index climbed steadily throughout the year. Its upward movement was supported by strong inflow from foreign investors, positive economic indicators and the relatively weak Ringgit, making local equities a favourite among foreign investors. The FBM KLCI closed the year at 1,797 points, improving 9.4% from its opening.

PCG's share price gained 10.3% from RM6.98 per share, its opening price on 2 January 2017 to RM7.70 per share by year-end close. Average Daily Traded Volume (ADTV[2]) for the year was 7.81 million units, 1.65 million units higher than the 6.16 million recorded in 2016. Foreign shareholding increased 2.8% to 11.0% during the year.

2018 kicked off in expansion mode with higher growth registered across the US, Eurozone and emerging markets. The price of crude oil has remained above USD65 per barrel, boosted by robust global demand and supported by promising economic growth.

The local bourse breached the 1,800 level early in the new year on positive sentiments and optimism on the country's growth and trade data.

Through this, PCG's share price has continued its upward momentum, hitting a high of RM8.19, then tapering to close at RM8.09 on 28 February. The counter remains among the top 10 on the FBM KLCI, with a market capitalisation of RM64.7 billion.

INVESTOR RELATIONS

PCG recognises the importance of effective communications with our shareholders as well as the general public. As such, we have tailored our Investor Relations programme to promote consistent and transparent sharing of material and accurate information in a timely manner, in accordance with Bursa Malaysia's MMLR and Disclosure Guidelines.

We are committed in providing relevant and accurate information to our shareholders and stakeholders, mindful of the legal and regulatory framework governing the release of material and price-sensitive information. The Investor Relations team strives continuously to improve PCG's visibility in both the domestic and international capital markets, and to address investor interests and concerns in a timely and appropriate manner.

In 2017, PCG engaged with more than 100 key shareholders, analysts and fund managers through face-to-face meetings, conference calls, analysts' briefings, plant visits, participation in roadshows as well as capital market conferences.

19th Annual General Meeting 2017

QUARTERLY ANALYSTS' BRIEFINGS

The quarterly financial results provide the capital markets with up-to-date information and analysis of PCG's performance and operations. In conjunction with the release of the quarterly financial announcements to Bursa Malaysia, we host analysts' briefings via webcast and conference calls. These briefings are accessible to both local and foreign participants, facilitating management discussion and analysis of the results, as well as questions and answers for the briefing participants.

Presentation materials for the briefings are made available on the PCG website on the day of the analyst briefing, while the transcripts are verified by a third party and subsequently made available on the PCG website.

ANALYSTS' BRIEFINGS

Date >> Event
20 February 2017
Quarterly Financial Results: 4th Quarter 2016
15 May 2017
Quarterly Financial Results: 1st Quarter 2017
10 August 2017
Quarterly Financial Results: 2nd Quarter 2017
3 October 2017
Special Briefing: Proposed disposal of 50% equity in PRPC Polymers
9 November 2017
Quarterly Financial Results: 3rd Quarter 2017

[1] *Source: Bank Negara Malaysia, online rate, session 1200 Middle rate on 3 January 2017 and 29 December 2017 respectively.*
[2] *Source: Bloomberg*

INVESTOR ENGAGEMENT AND CORPORATE EVENTS

As one of the largest public listed companies in Malaysia, PCG fully supports events and initiatives organised by Bursa Malaysia to showcase Malaysia as an attractive marketplace. As such, participation in the Invest Malaysia conferences has always been a major part of our programme. In 2017, we participated in Invest Malaysia Tokyo, with a series of one-to-one and group meetings hosted by the management. Aside from Bursa Malaysia events, PCG also participated in non-deal roadshows and investment conferences in Kuala Lumpur, Singapore, Hong Kong and the United Kingdom.

INVESTMENT CONFERENCES AND ROADSHOWS

Date	Event
22 – 23 February	Singapore Non-Deal Roadshow 2017
29 – 30 August	Bursa Malaysia - Nomura Invest Malaysia Tokyo 2017
11 – 13 September	CLSA Investor Forum 2017, Hong Kong
21 – 23 November	London Non-Deal Roadshow 2017

PLANT VISITS


Shareholders' visit to PC Fertiliser Sabah

We recognise the need for analysts and investors to understand the nature and progress of our business, therefore, we regularly organise visits to our plants. This year, we hosted retail shareholders at PC Fertliser Kedah, situated in Gurun, Kedah; and analysts and investors at PC Fertiliser Sabah, in Sipitang, Sabah. On both occasions, we provided our visitors with a series of corporate presentations on PCG's business, plant management and safety aspects.

The visits were well received, providing our investors first-hand experience of a plant environment while heightening their awareness of our commitment to Environmental, Social and Governance practices, thus increasing their appreciation of our business.

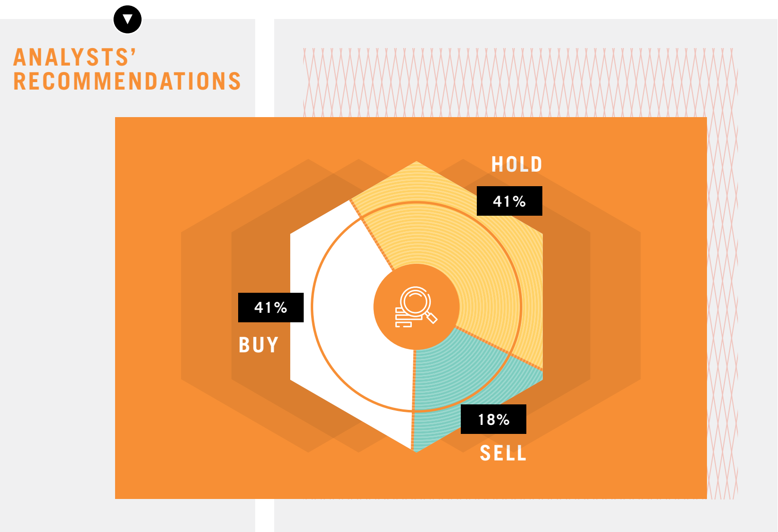

Shareholders' visit to PC Fertiliser Kedah

SHAREHOLDERS' VISITS TO OUR PLANTS

Date	Venue
27 September	Retail Shareholders Visit to PC Fertiliser Kedah, Gurun, Kedah
28 November	Institutional Shareholders Visit to PC Fertiliser Sabah, Sipitang, Sabah

CAPITAL MARKET FEEDBACK

PCG is covered by 24 research houses. As at 28 February 2018, 41% of analysts' recommendations on PCG shares are Buy, 41% Hold and 18% Sell.



ANALYSTS COVERAGE			
1.	Affin Hwang	13.	HSBC
2.	Am Research	14.	J.P. Morgan
3.	BIMB Securities	15.	KAF-Seagrott & Campbell
4.	BoA Merrill Lynch	16.	Kenanga Securities
5.	BNP Paribas	17.	Macquarie Securities
6.	CIMB	18.	Maybank Kim-Eng
7.	Citibank	19.	MIDF
8.	CLSA	20.	Morgan Stanley
9.	Credit Suisse	21.	Nomura Securities
10.	Alliance DBS	22.	RHB
11.	Deutsche Bank	23.	TA Securities
12.	Goldman Sachs	24.	UBS Securities

Source: Analyst consensus, Bloomberg

AWARDS RECEIVED

In 2017, PCG was awarded the Best Company for Investor Relations (Large Cap) by the Malaysian Investor Relations Association (MIRA). Additionally, we were the first runner-up for Most Organised Investor Relations (Malaysia) by Alpha Southeast Asia Magazine's Corporate-Institutional Investor Awards 2017.

WEBSITE

Our website continues to serve as an important link with our investors. Interested stakeholders can access our annual reports, quarterly reports, Bursa Malaysia announcements, corporate presentations, analyst briefing transcripts and other relevant corporate news and information on the website. We are continuously improving our website to enhance the user experience while promoting transparency of information in line with Bursa Malaysia's requirements and guidelines.

Shareholders are welcome to raise queries by contacting the Company at any time throughout the year.

Our investor relations' team can be contacted via the following:

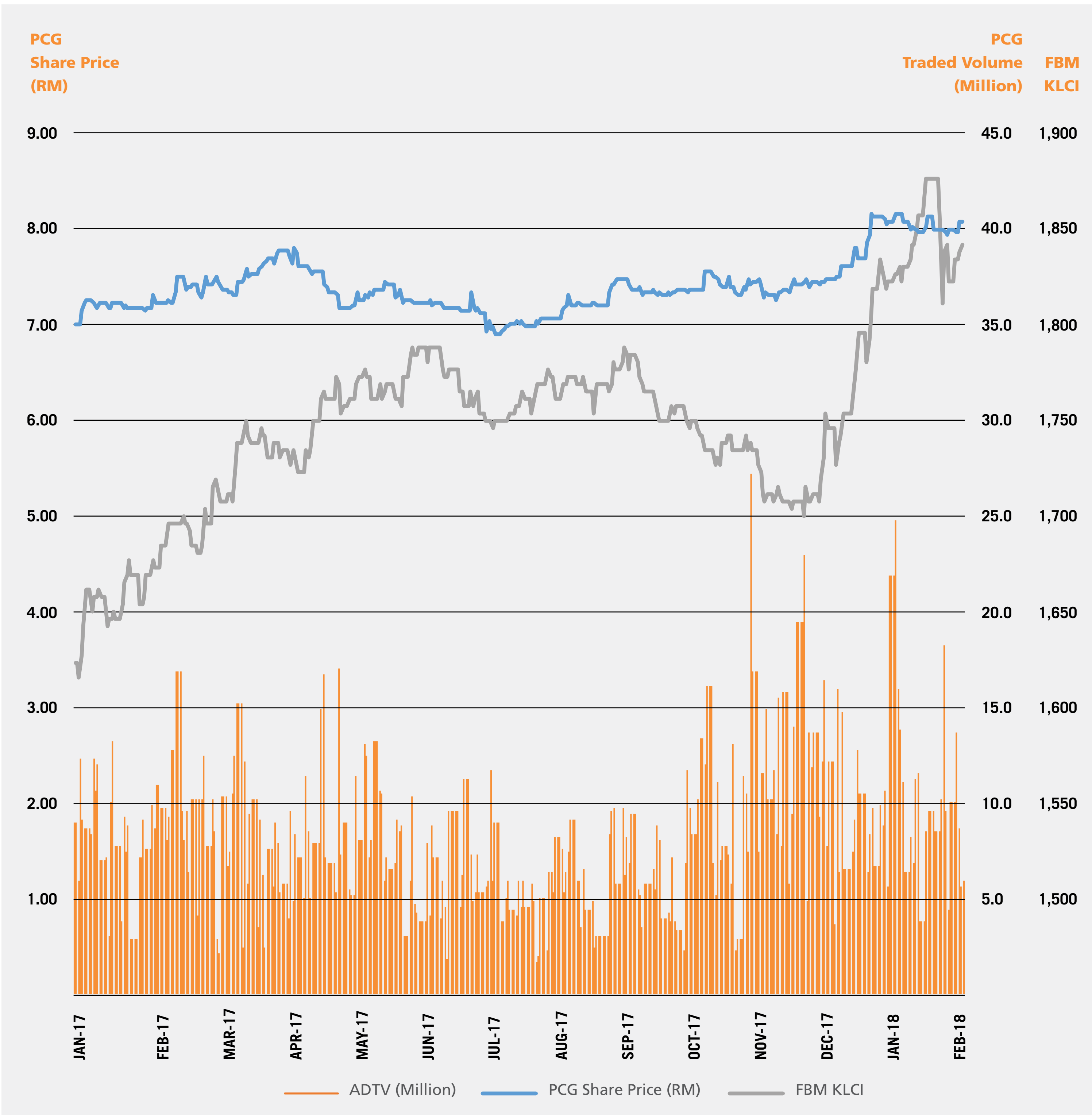
- **Zaida Alia Shaari**
  Head, Investor Relations

  Tel : 03-2392 3699
  Email: zaidaalia.shaari@petronas.com and/or petronaschemicals_ir@petronas.com
- **Website:**
  www.petronaschemicals.com

From left: MIRA's Best Company for Investor Relations (Large Cap), Alpha Southeast Asia Magazine's Corporate-Institutional Investor Awards

Malaysian Investor Relations Award Ceremony 2017

OUR STRATEGIC PERFORMANCE
PROMOTING SUSTAINABILITY
HOW WE ARE GOVERNED
OUR NUMBERS



Closing price	RM	On:
High	7.80	27 December 2017
Low	6.85	14 July 2017

Average Daily Traded Volume (ADTV)
7,810,241

AS A LEADING CHEMICALS PRODUCER

PCG CONSTANTLY STRIVES TO OPERATE IN A SAFE MANNER. IN FACT, WE STRONGLY BELIEVE THAT SOMETHING IS WORTH DOING ONLY WHEN IT IS DONE IN ACCORDANCE TO OUR HSE CULTURE BUILT ON PRINCIPLES THAT SAFEGUARD THE WELLBEING OF OUR PEOPLE AS WELL AS THE COMMUNITIES AND ENVIRONMENT WHERE WE OPERATE.

PETRONAS CHEMICALS GROUP

- **Best Company for Investor Relations (Large Cap)** – 7th Investor Relations Award 2017 by Malaysian Investor Relations Association (MIRA)
- **Winner of the Best Strategic Corporate Social Responsibility (CSR)** – 7th Annual Southeast Asia's Institutional Investor Awards for Corporates
- **First runner-up of the Most Organised Investor Relations** – 7th Annual Southeast Asia's Institutional Investor Awards for Corporates
- **First runner-up of The Strongest Adherence to Corporate Governance** – 7th Annual Southeast Asia's Institutional Investor Awards for Corporates

PC ETHYLENE

- **Gold Award** – Occupational Health and Safety, RoSPA
- **OSH Gold Class 1** – Petroleum, Gas, Petrochemical and Allied Sector (MSOSH)
- **Anugerah Prestasi Guided Self Regulation (GSR) Terbaik** – Peraturan Kendiri Kategori Petrokimia, Department of Environment (DOE) Terengganu
- **6 Silver Awards – Community Awareness & Emergency Response, Distribution, Employee Safety & Health, Pollution Prevention, Process Safety and Product Stewardship** – (CICM Responsible Care Award)
- **Notable in Environment Achievement** – PMHA

PC LDPE

- **Platinum Awards** – Community Awareness & Emergency Response (CAER) Code
- **3 Gold Awards** – International Convention on Quality Control Circles *(ICQCC)*
- **Gold Award** – MSOSH
- **Gold Award** – Distribution (CICM Responsible Care Award)
- **Gold Award** – Community Awareness & Emergency Response (CICM Responsible Care Award)
- **Gold Award** – Employee Health & Safety (CICM Responsible Care)
- **Gold Award** – Product Stewardship (CICM Responsible Care Award)

PC AMMONIA

- **Exceptional Award** – Environmental Performance, Prime Minister Hibiscus Award (PMHA)
- **Highly Commended** – Chemical Industry, Royal Society for the Prevention of Accidents (RoSPA)
- **Gold Class 1 Award** – Malaysian Society for Occupational Safety and Health (MSOSH)
- **Gold Award** – Pollution Prevention Code (CICM Responsible Care Award)
- **Silver Award** – Employee Health and Safety Code (CICM Responsible Care Award)
- **Gold Award** – Process Safety Code (CICM Responsible Care Award)
- **Gold Class 1 Award** – MSOSH
- **Excellence in OSH Performance** – RoSPA
- **Highly Commended Award** – Training and Development Award, IChemE Malaysia Awards 2017
- **Bronze Award** – Innovative & Creative Circles Competition, Downstrem Continuous Improvement Convention 2017
- **Excellence Award** – Water and Wastewater, Institute Kimia Malaysia (IKM) Laboratory Excellence Award 2017
- **Excellence Award** – Petroleum and Petroleum Products, IKM Laboratory Excellence Award 2017
- **AELB Compliance 2017** – waived audit for 2 years

PC FERTILISER KEDAH

- **Anugerah Sumbangsih** – Jabatan Pendidikan Negeri Kedah
- **Anugerah Sumbangsih** – Jabatan Pendidikan Daerah Kuala Muda/Yan
- **Gold Award** – Employee Health and Safety Code (CICM Responsible Care Award)
- **Silver Award** – Community Awareness and Emergency Response Code (CICM Responsible Care Award)
- **Silver Award** – Process Safety Code (CICM Responsible Care Award)
- **Silver Award** – Pollution Prevention Code (CICM Responsible Care Award)

PC METHANOL

- **Anugerah Team Excellence** - Sektor Perkilangan, Annual Productivity & Innovation Conference and Exposition (APIC) 2017
- **Gold Award** – Konvensyen Mini ICC Team Excellence 2017 Wilayah Sabah
- **Gold Award** – Konvensyen Mini ICC Team Excellence 2017 Wilayah Sabah & Sarawak

PC MTBE

- **Gold Class 1 Award** - MSOSH
- **Gold Award** – ICQCC
- **Anugerah Khas Alam Sekitar -** Kategori Industri, Komitmen Tertinggi Rakan Alam Sekitar, Negeri Pahang 2017
- **Silver Award** – Process Safety Code (CICM Responsible Care Award)
- **Silver Award** – Pollution Prevention Code (CICM Responsible Care Award)
- **Merit** - Employee Health & Safety Code (CICM Responsible Care Award)
- **Gold Award** – Mini Team Excellence 2017 Wilayah Pantai Timur
- **Gold Award** – Konvensyen Team Excellence Wilayah Pantai Timur 2017

ASEAN BINTULU FERTILIZER

- **Gold Award** – Innovative and Creative Circles (ICC)
- **IKM Excellence Award**
- **Gold Award Axis** – ICC
- **Winner** - Sarawak Chief Minister's Environmental Award (CMEA) for year 2016
- **Gold Award** - Occupational, Health & Safety - RoSPA, U.K

PC OLEFINS, GLYCOLS AND DERIVATIVES

- **Gold Award** - ICQCC 2017
- **Gold Award** and **TOP 10 Innovative and Creative Circles (ICC) team** at Annual Productivity and Innovation Conference (APIC) 2017
- **Young Industrial Award** – IChemE Malaysia Award 2017
- **Anugerah Prestasi 2017** – Premis Yang Ditetapkan (PYDT) Buangan Terjadual Pematuhan Syarat Lesen Terbaik sempena Hari Alam Sekitar Negara
- **Excellence Award** – IKM Laboratory Excellence Award 2017
- **Silver Award** – CICM Distribution Code

PAST AWARDS

ASEAN BINTULU FERTILIZER

- **Gold Merit** – Excellence in OSH Performance (MSOSH)
- **Silver Award** – Pollution Prevention Code (CICM Responsible Care Award)
- **Merit Award** – Community Awareness & Emergency Response Code; Process Safety Code; Employee Health and Safety Code (CICM Responsible Care Award)
- **Gold Award** – Team Excellence Convention, Regional (Malaysian Productivity Corporation)
- **Gold Award** – International Convention on Quality Control Circle (ICQCC)
- **Laboratory Excellence Award** – Institut Kimia Malaysia

PC AMMONIA

- **Gold Award** – Health and Safety (RoSPA)
- **Gold Class 1 Award** – Occupational, Safety and Health (MSOSH)
- **Silver Award** – Pollution Prevention Code (CICM Responsible Care Award)
- **Silver Award** – Process Safety Code (CICM Responsible Care Award)
- **Merit** – Community Awareness & Emergency Response Code (CICM Responsible Care Award)
- **Highly Commended Award** – Process Safety Focused Learning
- **Laboratory Excellence Award** – Water and Hydrocarbon Analysis (Institut Kimia Malaysia)

PC LDPE

- **Gold Award** – Distribution Code (CICM Responsible Care Award)
- **Gold Award** – Community Awareness & Emergency Response Code (CICM Responsible Care Award)
- **Gold Award** – Employee Health & Safety Code (CICM Responsible Care Award)
- **Gold Award** – Product Stewardship Code (CICM Responsible Care Award)
- **Gold Merit** – Occupational, Safety and Health Award (MSOSH)

PC FERTILISER KEDAH

- **Anugerah Sumbangsih 2015** – Jabatan Pendidikan Negeri Kedah
- **Anugerah Sumbangsih 2015** – Pejabat Pendidikan Daerah Kuala Muda/Yan
- **Silver Award** – Community Awareness and Emergency Response Code (CICM Responsible Care Award)
- **Silver Award** – Process Safety Code (CICM Responsible Care Award)
- **Silver Award** – Employee Health and Safety Code (CICM Responsible Care Award)

PC ETHYLENE

- **Gold Award** – Health and Safety (RoSPA)
- **Occupational Safety & Health Grand Award** (MSOSH)
- **Silver Award** – Employee Health & Safety Code (CICM Responsible Care Award)
- **Silver Award** – Pollution Prevention Code (CICM Responsible Care Award)
- **Silver Award** – Process Safety Code (CICM Responsible Care Award)
- **Silver Award** – Community Awareness & Emergency Response Code (CICM Responsible Care Award)
- **Silver Award** – Distribution Code (CICM Responsible Care Award)
- **Silver Award** – Product Stewardship (CICM Responsible Care Award)

PC GLYCOLS

- **Silver Award** – Employee Health & Safety (CICM Responsible Care Award)
- **Merit Award** – Process Safety (CICM Responsible Care Award)
- **Excellence Award** – Petroleum and Petroleum Product, Monoethylene Glycols and Polyethylene (Institut Kimia Malaysia)
- **4 Gold Medal Awards** – Mini Convention of Utilities, MNTC, Derivatives & Glycol (MPC)
- **Innovative Circle & Creative (ICC) Muda Terbaik** – Mini Convention of Derivatives (MPC)
- **6 Gold Medal Awards** – Regional Convention of Utilities, MNTC Derivatives, Glycol, Laboratories & Olefins (MPC)
- **3 Star Gold Medal Awards** – Annual Productivity & Innovation Conference and Exposition (APIC)

PC METHANOL

- **Laboratory Excellence Award** – Institut Kimia Malaysia

PC MTBE

- **Gold Class 1 Award** – Occupational, Safety and Health (MSOSH)

AWARDS 2016

PAST AWARDS

2015 AWARDS

- Chemical 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
- Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards
- Top 10 companies as ranked by market capitalisation listed in the FTSE4Good Bursa Malaysia Index
- Excellence 2015 (Oil & Gas Sector) by National Annual Corporate Report Awards

2014 AWARDS

- 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
- Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards
- FTSE4Good Bursa Malaysia index recognition by demonstrating good environmental, social and governance practices

PROMOTING SUSTAINABILITY

CHAPTER

4

We are committed to operating in a manner that meets the expectations of our stakeholders. This forms the core of our sustainability agenda. In these pages, we provide a clear account of actions taken to balance our economic with social and environmental obligations.

SUSTAINABILITY HAS ALWAYS BEEN PART OF OUR DNA.

At PCG, we understand the importance of establishing strong relationships based on trust and respect with our various stakeholders as we recognise that their support is critical to our long-term success. This is reflected in a robust governance framework which ensures we uphold a high level of integrity and transparency in all our dealings and interactions. In presenting a Sustainability Statement in our annual report, we aim to create clarity in communicating our actions and activities to our stakeholders on matters that count.

For more information, kindly refer to page 114 on Corporate Governance Overview Statement.

Through this report, we underline the values that guide us as we fulfill the expectations of our increasing number of stakeholders. With regards to our customers, we strive to provide quality products that fulfill their requirements. In our dealings with suppliers and business partners, we adhere to best practices that ensure fairness and that also help them grow their businesses in a sustainable manner. Internally, we provide an engaging and dynamic environment in which employees are encouraged to develop professionally and are rewarded for performance.

For more information, kindly refer to page 27 on What Differentiates Us.

We also believe in supporting the local communities that live in areas surrounding our plants. Integrating ourselves in these local communities and providing environment, education and social support reinforced our social license to operate, while building our brand equity.

PC MTBE

Because of the nature of our business, our sustainability platform extends to protecting the environment. We acknowledge the urgency of global efforts to mitigate and manage climate change as well as environmental protection. We are playing our part by undertaking numerous initiatives to reduce our greenhouse gas emissions, minimise waste and conserve natural resources.

In producing this Sustainability Statement, we are guided by both Bursa Malaysia's Sustainability Framework, IPIECA's 'Oil and Gas Industry Guidance on Voluntary Sustainability Reporting' as well as FTSE Environmental, Social & Governance (ESG) assessment indicators. Contents of the report are based on a materiality assessment, which determined those issues that are most important to us and our stakeholders. Where possible, we have provided quantitative data to support our narrative. Where such data cannot be presented, we are implementing systems and processes that will enable us to measure and monitor our sustainability performance. Our sustainability disclosure had gone through external peer review and independent internal verification to ensure the effectiveness of our internal controls and standard operating procedures.

THE BOUNDARIES OF OUR REPORTING

Data for this report has been compiled from all the manufacturing subsidiaries in which PCG has more than 50% ownership. As we have operational control over these companies, they have adopted our approach in managing sustainable development focus areas. This report covers the period from 1 January 2017 to 31 December 2017. There were no significant changes to our reporting boundaries during this year.

HOW SUSTAINABILITY IS GOVERNED

Sustainability at PCG is led by the Management Committee (MC). The MC provides direction to the Sustainable Development Working Committee (SDWC) and endorses all decisions made by the working level comprising representatives from relevant departments within PCG. The SDWC is responsible for overseeing various systems implemented to monitor and report our sustainability performance. In addition, SDWC members work closely with their counterparts in each subsidiary to ensure stakeholder value creation across the Group.

In 2017, we made the SDWC more comprehensive by bringing on board additional representatives from more departments to further drive sustainability within PCG.

GOVERNANCE STRUCTURE OF OUR SUSTAINABLE DEVELOPMENT

BOARD OF DIRECTORS

▲

MANAGEMENT COMMITTEE

▲

SUSTAINABLE DEVELOPMENT WORKING COMMITTEE	
CHAIRPERSON	HEAD OF HSE
SECRETARY	STAFF ENGINEER (ENVIRONMENTAL MANAGEMENT)
MEMBERS:	
MANUFACTURING *Head (Operations Management)*	**COMMERCIAL** *Head (Performance & Planning)*
INNOVATION & TECHNOLOGY *Head (Product Stewardship & Regulatory Affairs)*	**CORPORATE AFFAIRS AND ADMINISTRATION** *Head (Corporate Social Responsibility)*
SUPPLY CHAIN MANAGEMENT *Head (Supply Chain Management)*	**INVESTOR RELATIONS** *Head (Investor Relations Performance Management)*
HUMAN RESOURCE MANAGEMENT *Head (People Planning)*	**STRATEGIC PLANNING & VENTURES** *Head (Strategy & Portfolio)**
RISK MANAGEMENT *Head (Risk Planning and Performance)**	**PROJECT DIRECTORATE** *Head (Project Services)**

▲

SUBSIDIARIES

* *New SDWC Members*

STAKEHOLDER ENGAGEMENT

We engage regularly with key stakeholders via different platforms to build relationships based on openness and trust. Through these formal and informal sessions, we are able to obtain relevant input on our stakeholders' concerns, as well as communicate to them our strategies and actions to address those concerns. We value our communication with stakeholders as it helps us to better understand our operating environment, in making informed decisions and directions.

Stakeholder	Main Stakeholder Interest	Actions to Address Stakeholder Interest	Engagement Channels
Employees	• Occupational safety and health • Capability development • Employee welfare	• Enhance management systems that ensure a safe working environment • Provide structured training programmes for employee development • Provide regular feedback to employees on their performance • Enhance Human Resource (HR) policies that promote work-life balance	• HSE campaigns • Townhalls • Employee performance management • Intranet • Staff engagement and appreciation sessions
Customers	• Product quality • Timely product delivery • Competitive product pricing and attractive credit terms • After-sales technical support • Potential growth opportunities	• Maintain strict quality control/quality assurance processes at our manufacturing facilities • Monitor timely delivery by benchmarking actual delivery against agreed delivery for all orders • Offer distinct value propositions based on customer segment, such as extending full access to technical support, attractive credit terms or priority delivery to customers • Address customer feedback in a timely manner and ensure mutual agreement before closure	• Periodic visits to customers by Management, sales and technical team • Customer feedback management system • Customer appreciation programmes • Product stewardship programmes
Shareholders and investment community	• Shareholders' returns • Growth potential • Company/Business sustainability *For more information, kindly refer to pages 10 to 11 on Why Invest in Us.*	• Implementation of investor relations communication strategy through various capital market forums and road shows • Development of clear, consistent and transparent 2-way communications focused on: - Understanding and addressing external stakeholders' interest - Ensuring understanding of PCG's operational, commercial and long term growth strategy • Timely and consistent sharing of relevant information and financial results	• Investors & analysts briefings • Site visits • Annual reports • Annual General Meetings • Announcements via Bursa Malaysia • One-to-one and group meetings • Investment conferences • Featured interviews in media
Regulators	• Compliance with regulations	• Regular internal evaluation of our compliance with legal requirements • Conducting internal and external assurance	• Regular reporting to relevant government agencies • Plant visits by government agencies • Regular engagement with government agencies
Media	• Company reputation • Business sustainability • Performance • Transparent sharing of information on company initiatives, including environmental, social and governance aspects	• Enchanced media engagement strategies, media relations tools and guidelines • Share company information on financial, business and growth agenda via appropriate channels • Ensure coherent messaging across PCG	• Networking sessions between PCG management and media • Press conference • Issuance of media release
Communities	• Environment, education and social support	• Implement initiatives with communities that focus on education and environment • Inform local communities on the nature of our operations, business and products, and how to respond to emergencies	• Corporate Social Responsibility programmes • Periodic briefings and engagement with local communities • Festivity celebrations

IDENTIFYING OUR SUSTAINABILITY FOCUS AREAS

Key to the development of a sustainability report is to determine areas of operations and activities that have the greatest impact on both PCG as well as our stakeholders. To do this, SDWC conducted materiality assessment once in every two years with the last exercise being carried out in 2016 using the following four steps methodology.

STEP 1:

IDENTIFICATION OF SUSTAINABILITY ISSUES

The SDWC identified sustainability issues that are relevant to the petrochemicals and oil & gas industry. This list of issues were obtained from IPIECA's 'Oil and Gas Industry Guidance on Voluntary Sustainability Reporting'. Comprehensive materiality assessment had been done internally. At the same time, we also engaged with external stakeholders to seek feedback on issues that matter to them through face-to-face engagements and surveys.

STEP 2:

ASSESSING THE SIGNIFICANCE OF EACH ISSUE TO STAKEHOLDERS

In analysing the sustainability issues surfaced during Step 1, we were able to categorised them within our sustainability focus areas. The analysis takes into account the level of stakeholder interest and its significance to our business and industry.

STEP 3:

ASSESSING THE SIGNIFICANCE OF EACH ISSUE TO PCG

Subsequently, the issues were assessed to determine their significance to PCG. The criteria used for this assessment include:

a) significance of the risk posed by the issue;
b) importance of the issue to our company's growth;
c) our ability to contribute to the issue;
d) alignment with our company's values, goals and policies.

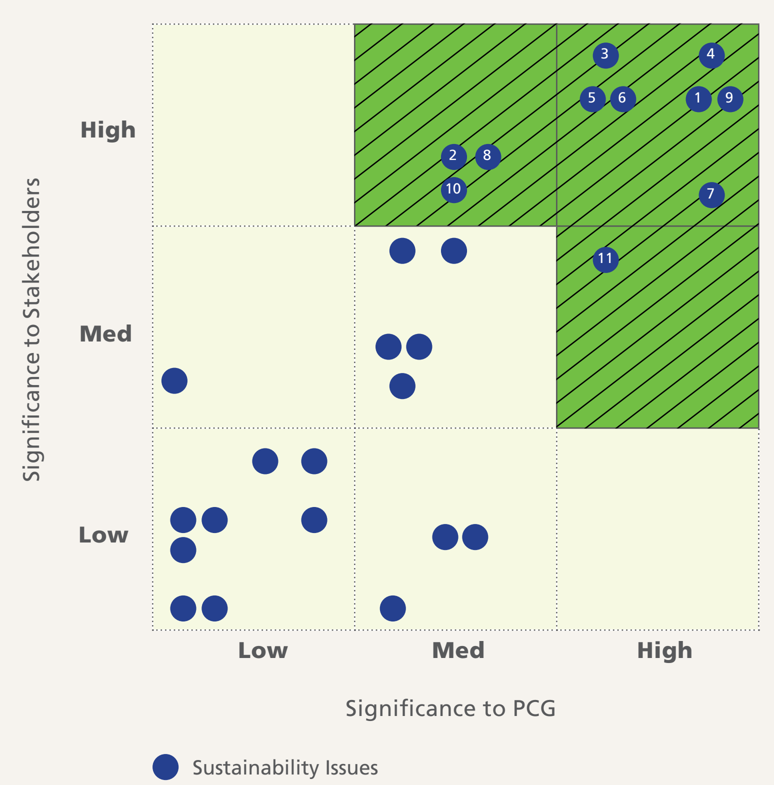
STEP 4:

PRIORITISATION OF SUSTAINABILITY FOCUS AREAS

Each sustainability issue was then plotted on a sustainability materiality assessment matrix. The issues that fall within the shaded areas of the matrix were prioritised for initial reporting as they are significant to both PCG and our stakeholders.

These issues represent PCG's Sustainability Focus Areas, and are described in detail in subsequent sections of this Report.

Our Sustainability Materiality Assessment Matrix



ITEM	SUSTAINABILITY FOCUS AREAS	FOCUS AREAS CATEGORIES
1	Energy use and greenhouse gas emissions	Environment
2	Freshwater consumption	
3	Emissions to air and water	
4	Waste generation	
5	Occupational safety and health	Health & Safety
6	Process safety and spills	
7	Product stewardship	
8	Corporate social investment	Society
9	Anti-corruption	
10	Workforce diversity and inclusion	
11	Workforce training and development	

RESPONSIBILITY TO THE ENVIRONMENT

AS A CHEMICALS MANUFACTURER, WE UNDERSTAND THAT WE HAVE A RESPONSIBILITY TO ENSURE OUR OPERATIONS LEAVE MINIMAL IMPACT TO THE ENVIRONMENT.

Our environmental responsibility extends to ensuring we use natural resources such as hydrocarbons and water as efficiently as possible, and that we manage all waste in a manner that is mindful of the natural environment and the local communities.

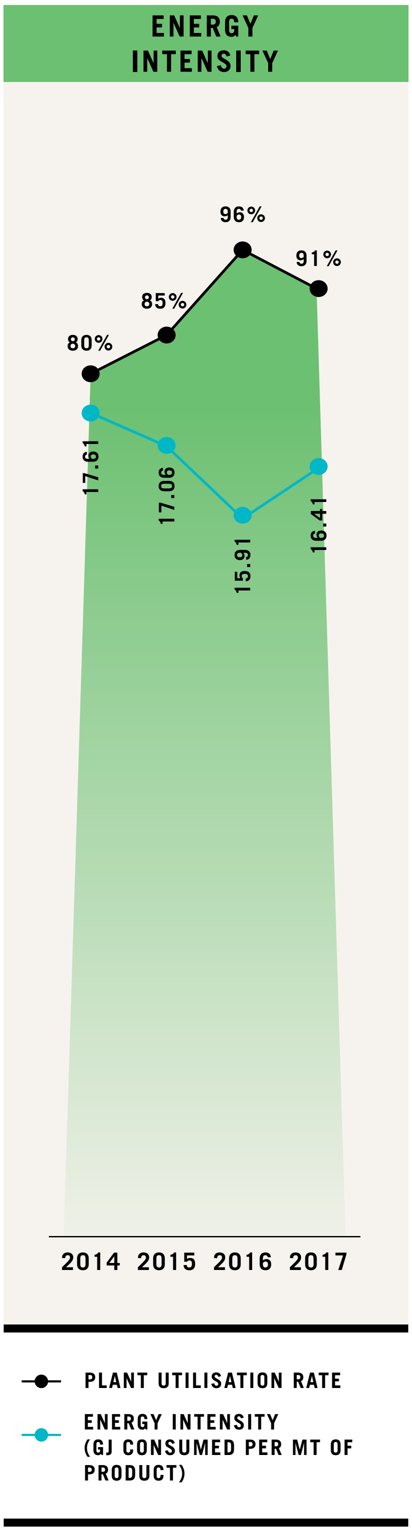
OUR ENVIRONMENTAL INITIATIVES EXTEND TO THE REFORESTATION AND REHABILITATION OF MANGROVE HABITATS, INVOLVING THE PARTICIPATION OF LOCAL COMMUNITIES.

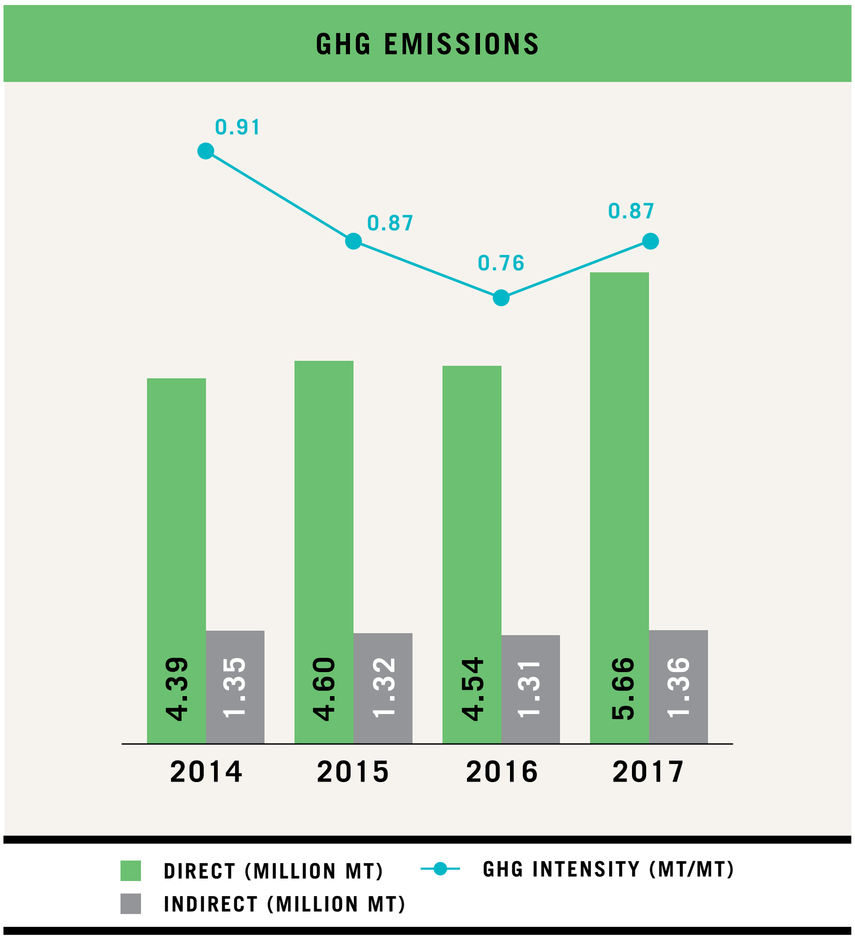
ENERGY USE AND GREENHOUSE GAS EMISSIONS

Greenhouse gases (GHG) have been identified as the most significant contributor to climate change over the past decades. Of these gases, carbon dioxide (CO_2) is by far the most prevalent, and is released as a result of various chemical reactions among which the burning of fuel for energy (including electricity) is key.

More than 75% of our total GHG emissions is due to energy consumed to run our plants. We strive to manage and minimise our consumption via an Energy & Loss Management System (ELMS) which emphasises continuous improvements through a systematic process. By using energy efficiently, we also stand to benefit from lower operating costs.

Despite the continued implementation of various energy efficiency initiatives in our manufacturing sites, our energy and GHG emission intensity in 2017 were higher compared to 2016 by 5% and 14% respectively, due to heavy statutory shutdown year and PC Fertiliser Sabah commissioning activity during early of 2017.





WHAT IT ALL MEANS?

i. **Direct GHG Emissions:**
GHG emitted from assets that are owned or controlled by PCG

ii. **Indirect GHG Emissions:**
GHG emitted to generate electricity and/or steam purchased by PCG

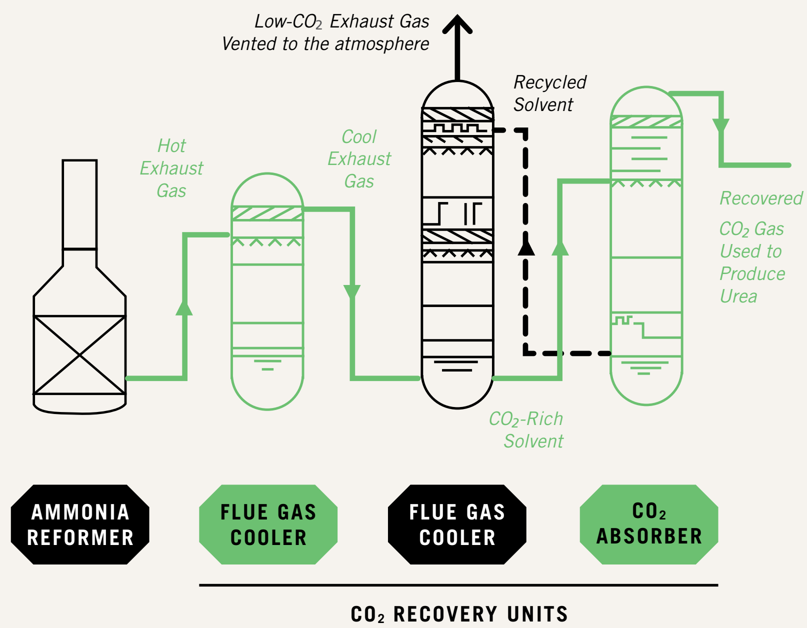
iii **GHG Emission Intensity:**
Total GHG emissions per unit of production

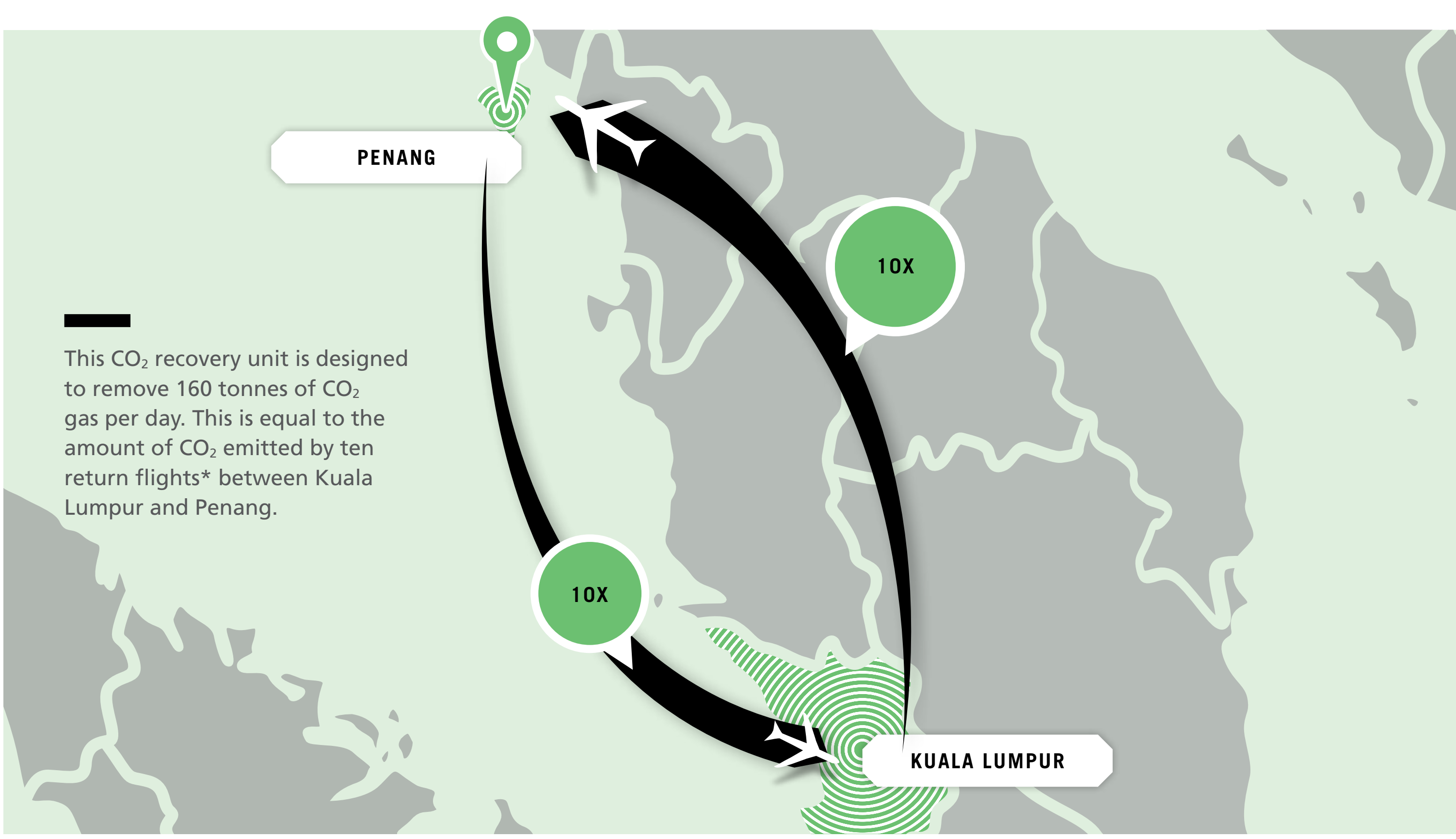
iv **CO_2e:**
Carbon dioxide equivalent

RECYCLING OF CO_2 IN OUR UREA PLANT

At PC Fertiliser Kedah, one of our urea manufacturing facilities, CO_2 released as a by-product of fuel combustion, is recycled for use in the production of urea. The plant's primary reformer is used to convert natural gas into syngas. Combustion of fuel gas to generate the heat required by the reformer generates exhaust gases rich in CO_2.

Its CO_2 Recovery Unit captures about 30% of the gas from the primary reformer and recycled as feedstock in the production of urea.





This CO_2 recovery unit is designed to remove 160 tonnes of CO_2 gas per day. This is equal to the amount of CO_2 emitted by ten return flights* between Kuala Lumpur and Penang.

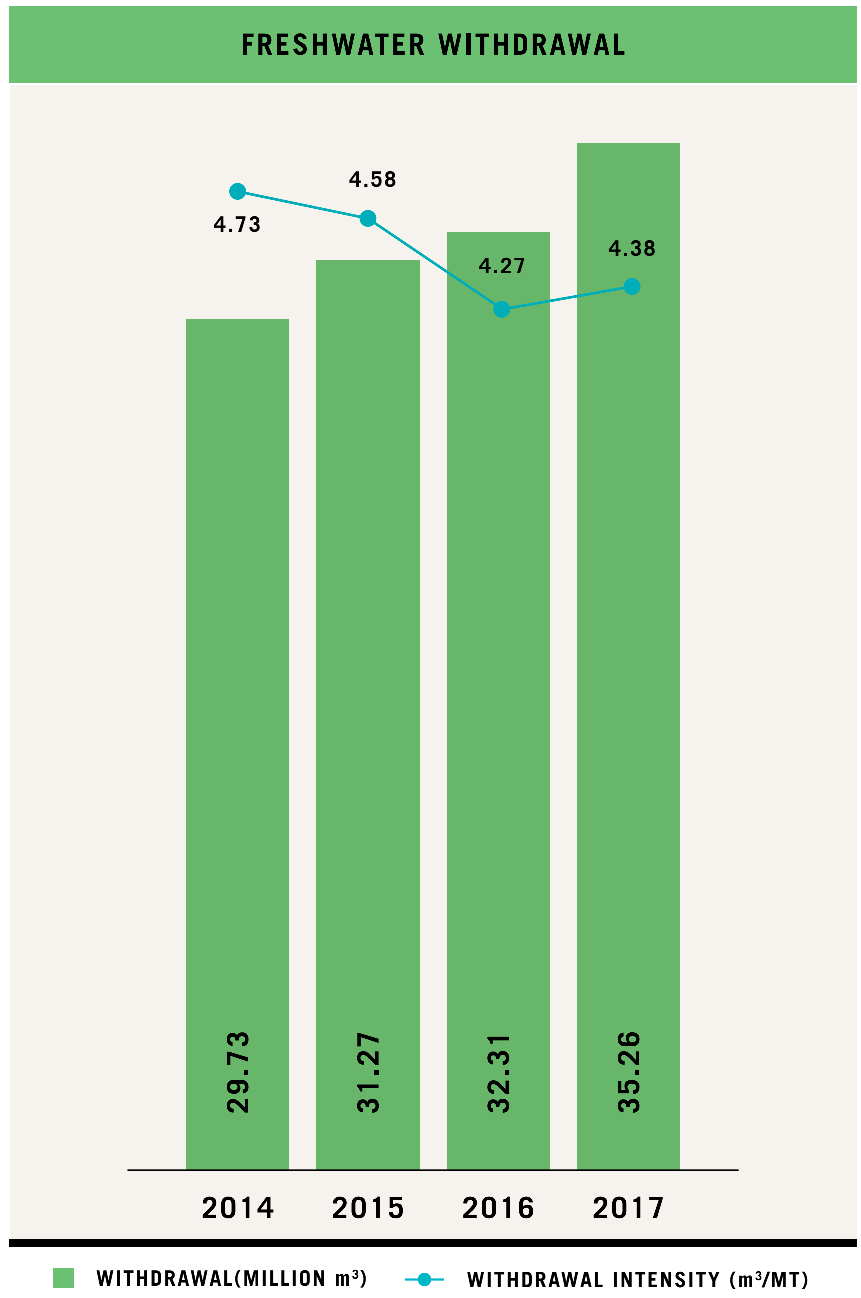
* Based on the International Civil Aviation Organisation's Carbon Emissions Calculator Methodology

FRESHWATER CONSUMPTION

Our operations are heavily dependent on water, which is used to generate steam as well as for cooling and cleaning purposes. Because it is a vital and limited natural resource, we strive to use water efficiently, hence minimise waste. All activities involving water are closely monitored, in line with PETRONAS' Guidelines on Water Practices (WAPS) which defines the operating conditions and maintenance practices for efficient water use. The list of WAPS guidance documents that are available is shown below:

- COOLING WATER SYSTEM
- ION EXCHANGE SYSTEM
- REVERSE OSMOSIS AND ELECTRODEIONISATION SYSTEM
- STEAM GENERATOR SYSTEM
- CONDENSATE SYSTEM
- CONTROL AT SOURCE FOR WASTEWATER DISCHARGES
- WASTEWATER COLLECTION AND TREATMENT SYSTEM
- SLUDGE HANDLING SYSTEM

We measure our water consumption efficiency in terms of water intensity, which reflects the volume of water used per tonne of product. This year, our water withdrawal intensity was 3% higher than in 2016 as a result of the commissioning of PC Fertiliser Sabah in 2017 and statutory shutdowns of several plants during the year.



WHAT IT ALL MEANS?

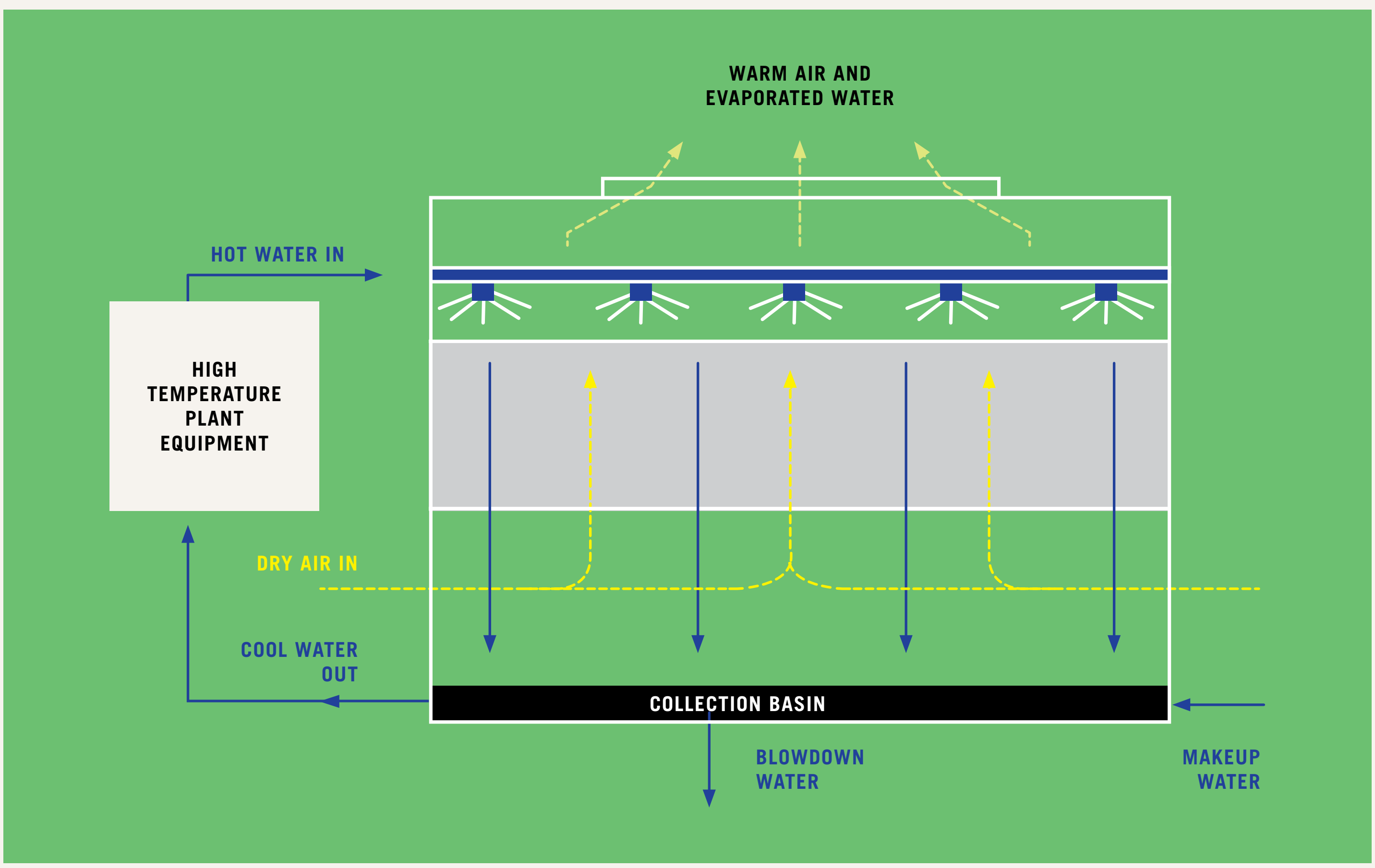
i. **Freshwater:**
Non-brackish water, including potable water and river water.

ii. **Freshwater Withdrawal:**
The volume of freshwater removed from municipal water supplies and other sources by PCG.

iii **Freshwater Withdrawal Intensity:**
Total freshwater withdrawn per unit of production.

COOLING WATER CONSERVATION AT PC AROMATICS

PC Aromatics, similar to other manufacturing facilities, requires large quantities of water to cool high-temperature equipment. Cooling towers are used to reduce the temperature of heated water so that it can be reused to cool critical plant equipment.



PC Aromatics has managed to reduce the volume of makeup water it consumes, and blowdown water discharged, by increasing the concentration of minerals in the recirculated water by 60%-100% without scaling. This was achieved by tightly controlling other parameters such as the acidity and conductivity of the water and ensuring zero chlorine content.

By reducing the quantity of makeup water consumed by the cooling water system, the water withdrawal intensity for this facility improved by 26%, saving approximately 400,000 m^3 of water in 2017. This is equivalent to the volume of water in more than 160 Olympic-sized swimming pools.

SAVED WATER EQUIVALENT TO

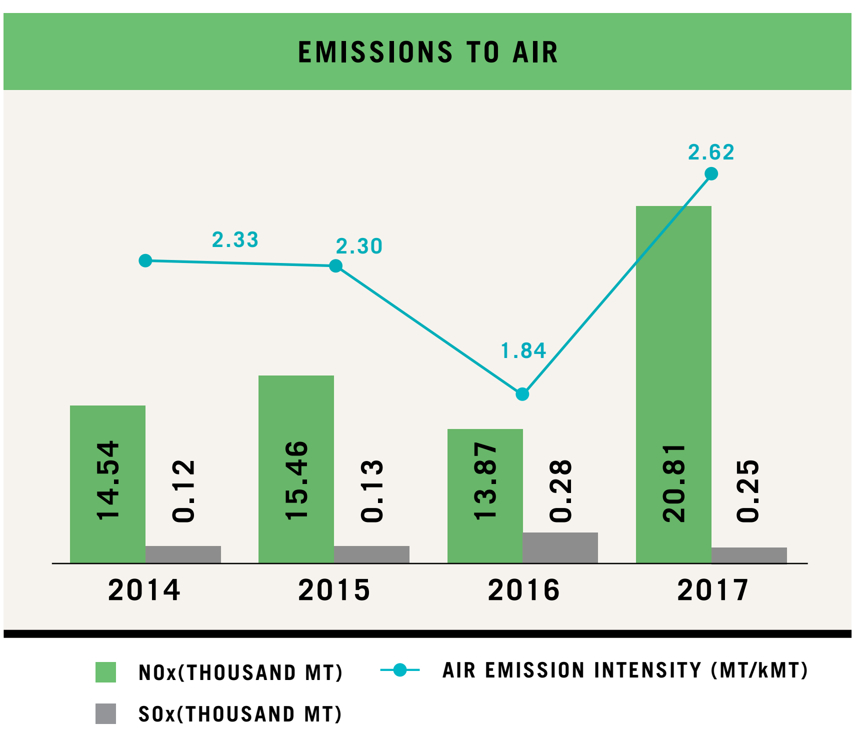
160

OLYMPIC SIZED SWIMMING POOLS

EMISSIONS TO AIR AND WATER

We manage our air and water emissions to minimise our impact on the environment. Guided by our HSE Policy, we reduce our emissions at source, and utilise pollution control equipment. As an added safety measure, we monitor the quality of air and water surrounding our plants.

During the year, we saw an increase in NOx emissions compared to 2016 due to the commissioning of PC Fertiliser Sabah in May 2017. Meanwhile, our air emissions intensity also increased due to statutory shutdowns.



WHAT IT ALL MEANS?

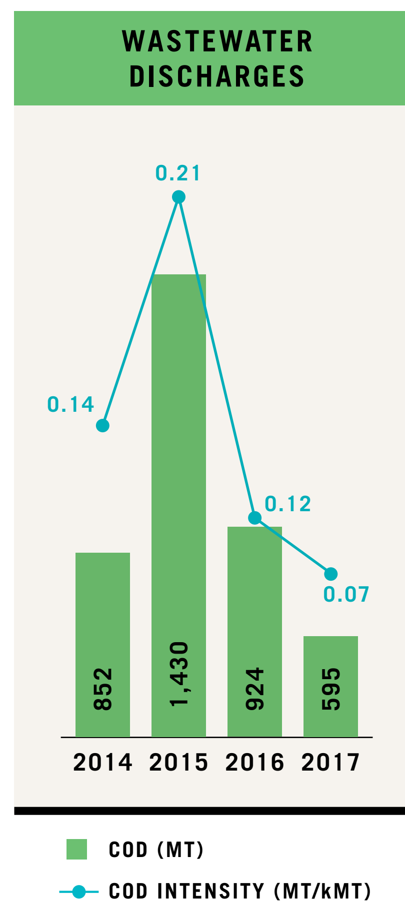
i. NOx:
Nitrogen oxides, a common air pollutant.

ii. SOx:
Sulphur oxides, a common air pollutant.

iii Air Emission Intensity:
Total emission of air pollutants (in tonnnes of NOx and SOx) per unit of production.

To monitor our water effluent, we analyse 31 different parameters to ensure they meet legal and internal standards. One of the key parameters analysed is its chemical oxygen demand (COD), which tells us how much organic matter is released into surrounding waters. All water discharged by PCG is channelled into rivers and the sea, and not to enclosed water bodies.

During the year, we saw a reduction in COD loading compared to 2016. This was contributed by the higher number of statutory shutdowns and through plant optimisation efforts in 2017.



REAL-TIME AIR EMISSIONS MONITORING SYSTEM AT PC MTBE

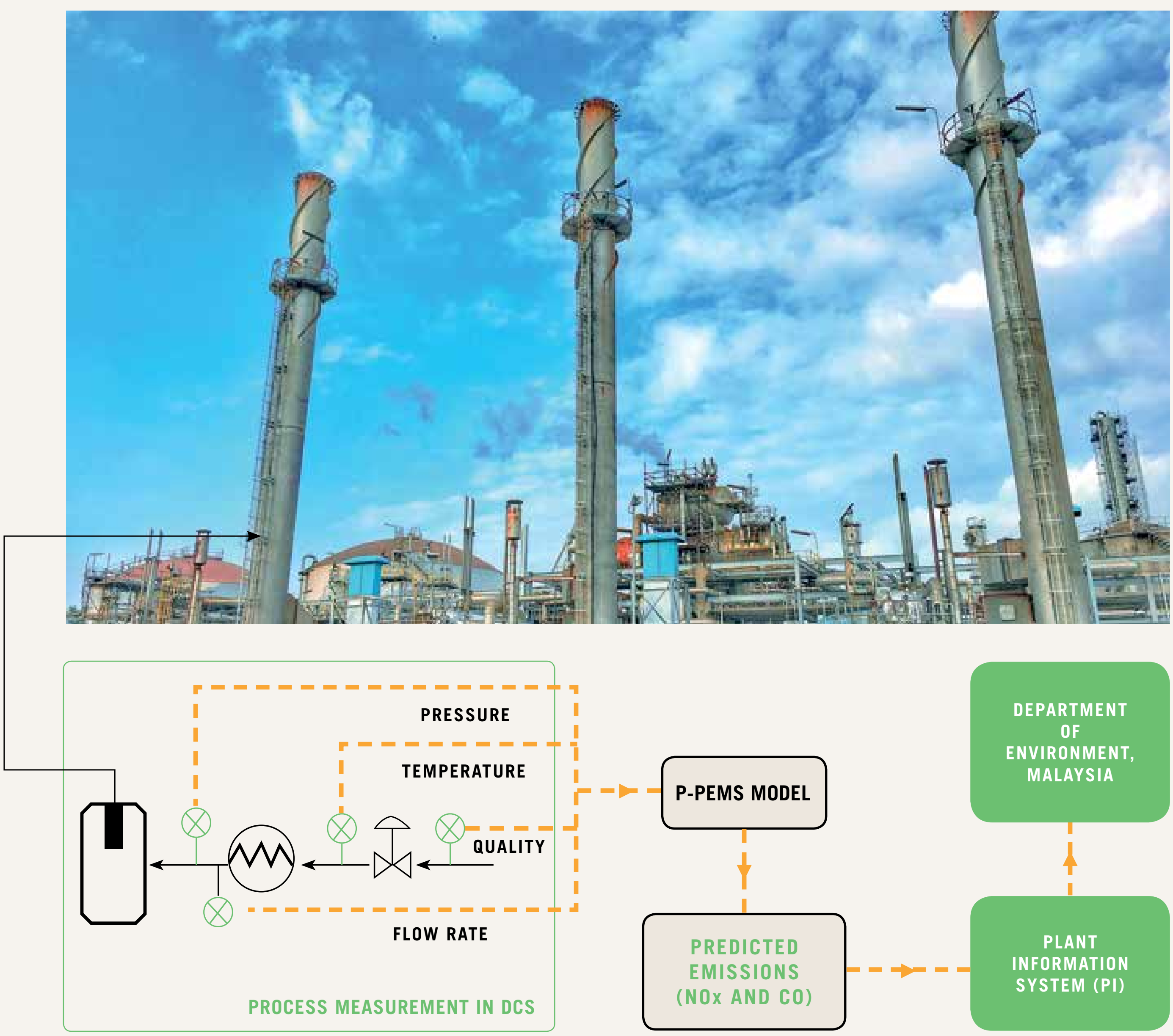
We operate large-capacity fuel burning equipment (FBE) such as boilers and turbines to generate the steam and electricity required by our facilities. Although these equipment run on clean fuel (gas), they remain a key source of air emissions. We monitor these emissions to be able to identify and resolve potential problems quickly before they escalate.

Stepping up our efforts, we collaborated with PETRONAS to be the first to install PETRONAS-Predictive Emissions Monitoring System (P-PEMS). P-PEMS collects real-time operations data from the FBE, then uses a mathematical model to accurately predict the concentration of air pollutants emitted. P-PEMS averts the need to install expensive air emission analysers and sampling probes, which would also require additional maintenance to ensure their reliability.

We first ran a pilot project using P-PEMS in a boiler at PC MTBE in 2015 to monitor its NOx and carbon monoxide emissions. In 2016, the system was installed in PC MTBE's remaining two boilers. As of 2017, all three P-PEMS systems have been audited and found to produce consistent accurate air emissions data, which are transmitted in real-time to the Department of Environment (DOE).

We are now identifying other FBE where P-PEMS could be installed, with plans to complete all installations by the year 2019.

PETRONAS-PREDICTIVE EMISSIONS MONITORING SYSTEM (P-PEMS)



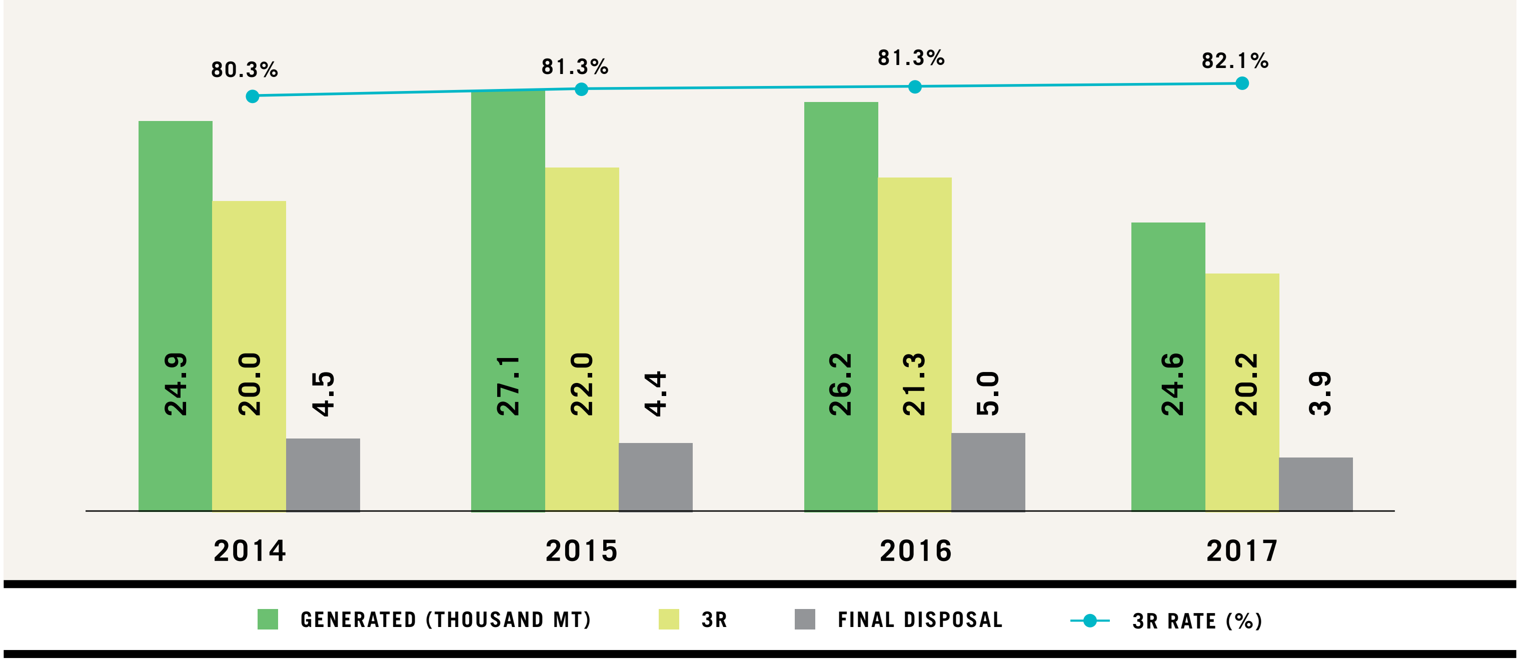
WASTE GENERATION

Proper waste management is integral to minimising the environmental impact of our operations. We strive to be efficient in the consumption of natural resources and to minimise waste, especially hazardous waste; by reducing, reusing, recycling and/or recovering waste. A large portion of PCG's hazardous waste is recycled as fuel, solvents, lubricants or other beneficial products. Where possible, spent catalysts used in our processes are sent to specialised facilities where precious metals are extracted from this waste.

As part of our waste management process, we quantify and inventorise all hazardous waste, which is stored safely in dedicated areas within each manufacturing site before being transported to government licensed waste facilities for appropriate treatment.

In 2017, we maintained our average waste recycling rate at above 80%. Moving forward, we will continue to strive to reduce, reuse, recycle and recover our hazardous waste.

WASTE



WHAT IT ALL MEANS?

i. **Generated:**
Quantity of hazardous waste produced

ii. **3R:**
Quantity of hazardous waste sent for recycling, reuse or recovery

iii **Final Disposal:**
Quantity of hazardous waste that is landfilled, incinerated or disposed with no further beneficial use

iv **3R Rate:**
Percentage of generated hazardous waste that is sent for 3R

REDUCTION OF MATERIALS SENT TO INCINERATOR

Waste and by-products generated by PC Glycols, PC Olefins and PC Derivatives are sent to an onsite incinerator. This previously included butoxypolyglycol (BPG), a by-product from the manufacturing of butyl glycol ether.

In an effort to create more value from this by-product, PC Derivatives sells BPG as an additive in oilfield chemicals, rather than incinerate it. This initiative generates the following benefits:

- Reduces the quantity of waste incinerated
- Reduces the amount of greenhouse gas emitted due to the incineration of BPG
- Creates value through the sales of additional products

Sales of BPG generated from PC Derivatives in 2017 totalled 330 tonnes. This is equivalent to the amount of liquid waste that could be carried by 16 tanker trucks.

COMMITMENT TO HEALTH & SAFETY

AT PCG, WE RECOGNISE THE RISKS INVOLVED IN EVERY ASPECT OF OUR BUSINESS AND ARE COMMITTED IN MANAGING THEM THROUGH EFFECTIVE POLICIES AS WELL AS BY INCULCATING A CULTURE OF SAFETY AMONG OUR PEOPLE.

We take responsibility for the safety of our products, ensuring not only the highest quality but also that customers are fully aware of their physical and chemical characteristics to enable safe usage.

Turnaround Village, Kertih

BY ENSURING SAFE OPERATIONS, WE PROTECT OUR PEOPLE, LOCAL COMMUNITIES AND ASSETS WHILE PREVENTING UNPLANNED DISRUPTIONS.

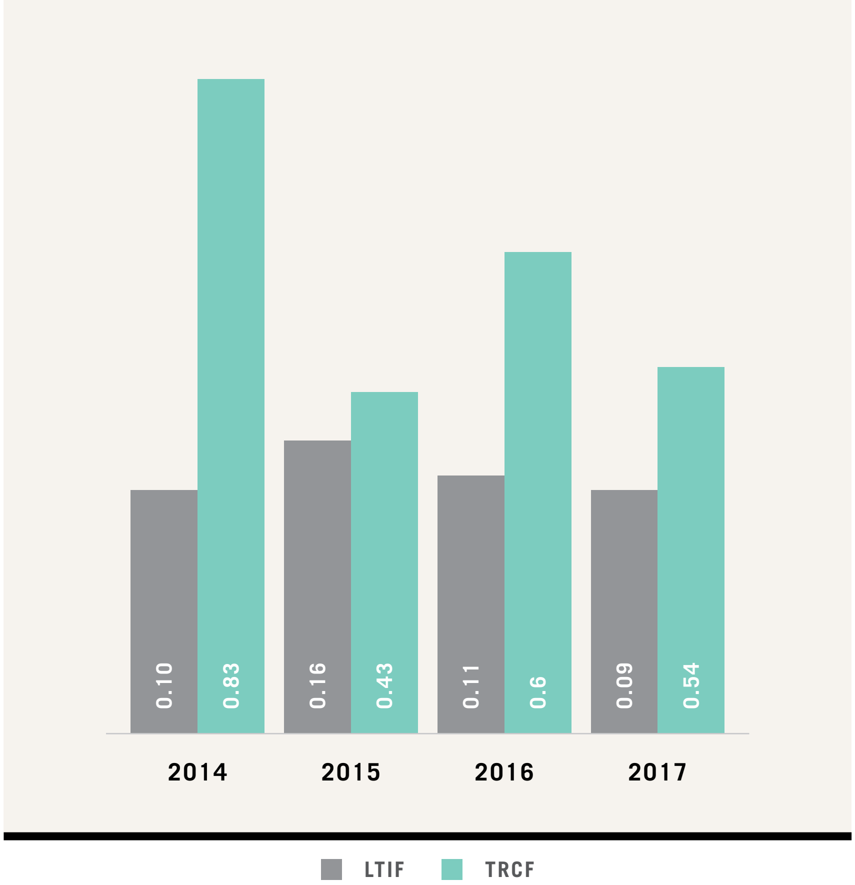
OCCUPATIONAL SAFETY AND HEALTH (OSH)

We place the highest priority on the safety of our employees. Guided by our HSE Policy, we take every reasonable precaution to eliminate the risk of injury at work while protecting the well-being of our workforce. At PCG, we instil a strong safety mindset that reinforces the idea that everyone has an individual responsibility to adhere to proper procedures and that, collectively, we are all responsible for each other and for ensuring we go home safely every day.

Management engages regularly with employees to inculcate safe work culture. Toolbox talks are held before any specific job begins at a worksite, during which the focus is on potential hazards and safe work practices that help to avert risk. Each manufacturing site has its own HSE Committee comprising employees and management representatives. These committees are responsible for developing, promoting and evaluating measures to ensure the safety and health of our employees.

We recognise that the safety scorecard we aspire to, requires dedicated vigilance and compliance to structured processes. We are kept on track in continuously enhancing our system of Occupational Safety and Health checks and controls within PETRONAS' Mandatory Control Framework.

OCCUPATIONAL SAFETY INCIDENTS



WHAT IT ALL MEANS?

i. **TRC:**
Total Recordable Case - refers to the number of workplace injuries that require medical treatment beyond first aid.

ii. **TRCF:**
Total Recordable Case Frequency - the number of TRCs per million man-hours.

iii **LTI:**
Lost Time Injury - the number of workplace injuries resulting in loss of productive work time.

iv **LTIF:**
Lost Time Injury Frequency - the number of LTIs per million man-hours.

No. of fatal incidences			
2014	2015	2016	2017
0	0	2	1

2017 saw improvement in our overall safety performance, with a lower incidence of serious workplace injuries. Unfortunately, we had one fatality in 2017 from a road accident involving a public member and a third party contractor's vehicle transporting our product. From the findings of the incident investigation, we have further strengthened our management of logistics contractors. This was done through more effective monitoring and controls to ensure compliance to our safety requirements.

FELT LEADERSHIP THROUGH EFFECTIVE WALKABOUT

Felt Leadership refers to actions by our workforce that clearly demonstrates the person's belief in the importance of workplace safety. These actions are purposeful and genuine demonstrations by our leadership team to embrace the importance of safety in our diverse work place. When these actions are consistently displayed throughout the organisation, a strong safety culture is created and sustained.

A key action where felt leadership can be demonstrated is through the conduct of effective walkabouts. This involves conducting a walkabout to identify any unsafe act and conditions and ensure that they are addressed in timely manner as well as recognising positive observations.

TRANSPORTATION SAFETY

Accident and release-free chemical logistics and distribution are critical to the chemicals industry. PCG is dedicated to safe transportation and storage of chemicals along the entire value chain of our operations, from the time chemicals are supplied to us to the transport of end products to customers. Key to this safety commitment is to utilise only those transporters who share our safety and environmental commitment, as evidenced by:

- Having effective safety procedures, including adequate staffing to do the job properly
- Adopting in effective management control and record-keeping systems
- Continuous improvement on safety performance

The following programmes have been established to intensify our monitoring of land transport service providers and achieve the standards we have set:

Jetty at PC Fertiliser Sabah

1 **Drug and Alcohol Test Inspection** - Assurance that drivers are not influenced by drugs or alcohol while driving. Performed randomly at the loading point, on the road or at the service provider's depot.

2 **Vehicle Inspection** - Assurance that only road-fit vehicles are used. Inspection is performed prior to loading. Unqualified vehicles are rejected or sent for repairs.

3 **On-the-Road Surveillance** - Assurance that drivers follow all traffic rules & regulations. Monitoring is conducted by deploying a surveillance team on the road, or through in-cab cameras.

4 **In-cab Surveillance** - Assurance that drivers apply appropriate driving techniques. An assessor sits inside the vehicle as it is being driven for observation and to test the driver's knowledge of defensive driving.

5 **Driver's Logbook** - Assurance that drivers have required hours of rest time. Inspection of drivers' rest time is performed at the loading point prior to loading. Drivers not meeting the required hours of rest will be asked to be replaced.

6 **In-Vehicle Monitoring System (IVMS) Surveillance** - Assurance that drivers follow the approved routing, road regulations, speed limit and other safety parameters.

7 **Hauliers' Leading KPIs submission** – Assurance that management monitors and analyses leading HSE indicators of the transport companies engaged, closing any non-compliance gaps for continuous improvement. It is conducted on a monthly basis.

EMERGENCY AND CRISIS MANAGEMENT EXERCISES

PCG conducts emergency exercises to evaluate our manufacturing facilities' internal emergency response and preparedness. Such exercises also test our coordination with external emergency supporters including the Fire and Rescue Department, Police Department, Civil Defence Force, local medical facilities and neighbouring plants. We were encouraged by the efficiency with which our plants' Emergency Management Team (EMT) and Emergency Response Team (ERT) members responded and handled the three major emergency exercises carried out over the year, with support from relevant sections within PCG and PETRONAS.

IR *For more information, kindly refer to page 138 on Crisis Management in Statement on Risk Management and Internal Control.*

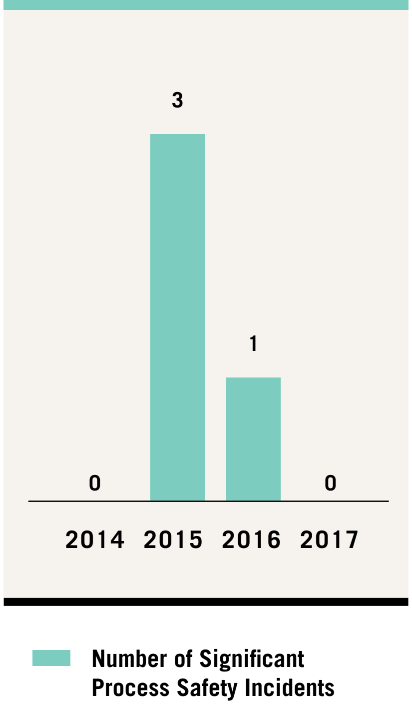
Date	Participating Facilities	Emergency Exercise Scenario
22 February	• PCG • PC Ammonia • PC LDPE • PC Olefins • PC Derivatives • PC Glycols	PC BOLA Integrated Crisis Management Tier 3 Table Top Exercise The exercise was an integrated table top exercise involving PCG Crisis Management Team (CMT) jointly organised by PCG HSE and Risk Management Department.
16 & 17 August	• Kertih Port Sdn Bhd	Tiram VI Tier 3 Oil Spill Exercise The exercise simulated a spill of low sulphur waxy residue (a by-product of crude oil refining) in the sea near Kertih Port, testing Kertih Port's oil spill clean-up contingency plan at sea and along the shoreline.
26 October	• PC Polyethylene • PC Ethylene • Kertih Port Sdn Bhd • Kertih Terminal Sdn Bhd	Ketam Bara VII Tier 3 Exercise The exercise tested the facilities' ability to respond to a tank explosion resulting in multiple casualties. Uniquely, it involved mass evacuation of personnel through the sea from Kertih Port's jetty.
26 October	• PC MTBE	GEMPEX VIII, Gebeng Emergency PC MTBE Exercise This was PC MTBE's first night-time emergency exercise, which simulated a road vehicle accident and an explosion due to propylene pipeline failure.

PROCESS SAFETY

Our HSE Policy extends to ensuring the safety of our plant processes. By guarding against process safety risks, we safeguard our people, local communities and assets while preventing unplanned disruptions to plant operations.

During the year, there is no significant process safety incidents. There were also no spills that caused a significant environmental impact.

SIGNIFICANT PROCESS SAFETY INCIDENTS



None of the process safety incidents resulted in spills that cause significant environment impact.

'ZERO FIRE ZERO LEAK' PROGRAMME AT PC MTBE

PC MTBE has implemented a 'Zero Fire Zero Leak' (ZFZL) programme to reduce the number of minor process safety incidences, thus preventing the potential occurrence of major process safety incidences. Besides incorporating PETRONAS' existing systems to ensure asset integrity, ZFZL focuses on the following three critical equipment that typically have higher process safety risks: piping joints, valves and insulated piping risks.

Piping joints and valves that have higher risk of leaks have been identified and are inspected weekly. The tightness of bolts on joints is now customised according to the material used. During plant turnarounds, systematic quality assurance and control were implemented during installation and repair works for joints and valves. This entire process was documented for future reference. For insulated piping, periodic inspections are made and systematic maintenance carried out. New piping materials are also being tested that reduce the likelihood of corrosion.

PC MTBE's ZFZL team members act as agents to promote ZFZL among all PC MTBE employees. Continuous efforts to strengthen the ZFZL programme led to a 62% year-on-year reduction in the number of minor process safety incidences at the plant.

Product Stewardship session for Methanol customers in Indonesia

PRODUCT STEWARDSHIP

Product Stewardship addresses the management of risks and improvement of the performance of a product in the fields of safety, health and the environment during its entire life cycle. It entails systematically assessing, controlling and communicating the HSE and social impacts of our products and packaging while maximising their economic benefits. We embrace Product Stewardship and have made a conscious and voluntary decision to implement programmes to ensure safety of stakeholders involved in our development, production, transportation, use and disposal.

Our commitment to Product Stewardship is codified through endorsement of the chemical industry's Responsible Care® programme. We also engage with professionals within the industry and trade associations to keep abreast of trends, and feel privileged to be able to share our knowledge with government agencies to help shape new laws and regulations.

Our Product Stewardship focuses on the following priority areas, which are based on business and industry requirements:

REGULATORY COMPLIANCE

- We adhere to all product regulatory requirements in Malaysia and our export markets, and provide comprehensive responses to customer enquiries.
- We proactively track and monitor country-specific regulatory requirements to ensure compliance.
- Regulatory compliance includes global chemical management, dangerous goods transportation, banned/restricted chemical management and Halal Assurance Systems (HAS).

PRODUCT RISK CHARACTERISATION AND MANAGEMENT

- We ensure new as well as existing products are safe for use, while providing recommendation for their proper handling throughout the entire supply chain.
- We manage product risks at the business planning, Research and Development, product realisation, distribution, application, disposal and recycling, if any.

PRODUCT HAZARD COMMUNICATION

- We produce safety data sheets (SDS), labels, safe handling instructions, product safety summaries, product dossiers and declarations to protect all stakeholders involved in the life cycle of our products.
- We have an efficient SAP system supported by PETRONAS' dedicated toxicology team and product testing to manage SDS, labels and hazard classification.
- We also educate our customers, suppliers and distributors on product hazards at seminars and training sessions as well as during site visits.
- Our SDS are accessible to the public at https://sds.petronas.com.my

PRODUCT SUSTAINABILITY

- Product sustainability programmes manage a product's HSE impacts throughout its life cycle. We always look to substitute hazardous chemicals with safer alternatives and are considering the inclusion of carbon footprint analysis in our programme.

We develop Global Product Safety Summaries (GPSS) for prioritised products to provide information on their possible applications, physical and chemical properties, and effects on health and the environment. These GPSS are written for easy comprehension to customers and public, and enable them to use the products in a safe and environmentally responsible manner.

We are committed to complete the GPSS for products that we have carried out risk assessments. As of 2017, we have published GPSS for 79% of our high-hazard products, and aim to complete the list by 2018. These GPSS are available on the International Council of Chemical Association's GPS Chemicals portal at http://icca.cefic.org

OUR ACHIEVEMENTS TO DATE

FOOD CONTACT CERTIFICATION

Food contact certification is meant for packaging materials such as plastic, rubber, paper, coatings and metal that are in contact with food. The certification authenticates the safety of such packaging. The United States Food and Drug Administration and the European Union Commision Regulation for food contact material regulations are the most widely recognised standards. Compliance with these regulations ensures the safe use of our products.

To date, the following polymer product grades have received food contact certifications as follows:

Food Contact Certification	**United States Food and Drug Administration** (Federal Regulations USFDA 21 CFR 177.1520 CFR 178.2010)	**European Union Commision Regulation for Food Contact** (EU Commission Regulation 10/2011)
Polymer Product Grades that are certified	• LDPE (5 grades) • LLDPE (5 grades) • HDPE (3 grades)	• LDPE (6 grades) • LLDPE (3 grades) • HDPE (3 grades)

HALAL CERTIFICATION

Many of our products are sold to manufacturers of halal-certified consumer goods. To better serve these customers, PCG is committed to ensure our own products and production processes are halal certified according to Malaysian Standards. We have achieved halal certification for our plants producing materials for food packaging, personal care and cosmetics by ensuring the ingredients used, the processes and end products are halal-compliant, thus enhancing our brand value as a preferred chemical company.

Of our 13 plants, seven have achieved halal certification. Together, they manufacture more than 80 grades that are certified Halal.

PCG plants that are halal certified:

1. PC Ammonia
2. PC Derivatives
3. PC Glycols
4. PC Methanol
5. PC Polyethylene
6. PC Olefins
7. PC LDPE

CHEMICAL REGULATIONS

We comply with various national regulations that serve to protect human health and the environment from potential risks posed by chemicals. This is achieved by continuously identifying and managing all risks linked to substances manufactured and marketed by PCG while demonstrating their safe usage/application.

- We ensure compliance with Korea REACH & EU REACH regulations by maintaining registration of our products and submitting annual reports of exports where applicable.
- We proactively monitor the status of PCG product listing in newly-established national chemical inventories. The latest inventories published are for Thailand and Vietnam.
- Our products also comply with the latest labelling regulations in Indonesia under the Globally Harmonised System of Classification and Labelling of Chemicals.

PRODUCT STEWARDSHIP PROGRAMMES

We conduct regular product stewardship programmes with the distributors and end users of our products. Four sessions were held in 2017, one each in Vietnam and Taiwan and two in Malaysia.

CARING FOR SOCIETY

WE ENHANCE THE QUALITY OF LIFE OF LOCAL COMMUNITIES VIA DIFFERENT OUTREACH PROGRAMMES

AMONG OUR KEY STAKEHOLDERS ARE OUR EMPLOYEES AND MEMBERS OF SOCIETY. WE ENHANCE THE NATION'S SOCIAL FABRIC BY PROVIDING A DYNAMIC WORK ENVIRONMENT FOR THOUSANDS OF MALAYSIANS AS WELL AS BY INVESTING IN THE WELL-BEING OF OUR LOCAL COMMUNITIES.

Many of our manufacturing sites are located in semi-urban areas where we are able to make a significant impact in enhancing the quality of life of local residents through CSI programmes.

CORPORATE SOCIAL INVESTMENT

PCG grows together with the community through our CSI programmes. The Group's core programmes for 2017 which comprise of Back-To-School, ecoCare and Be Green, amplify our commitment for capability development and enhancement through education focusing on local communities and the environment.

EDUCATION

Back-to-School

PCG undertakes various initiatives to elevate the standard of education among our communities as well as to encourage innovative approaches in education to help children reach their full potential. We focus on improving Science, Technology, Engineering and Mathematics (STEM) capability among students and upskilling creative teaching skills among their teachers. Through Back-to-School, one of our flagship CSI initiatives, we organised Science and Mathematics workshops for 600 primary students in Kertih, Labuan and Sipitang; as well as English and Mathematics workshops for about 200 students in Gurun sitting for SPM.

Back-to-School programme in Sipitang, Sabah

PROMOTING SUSTAINABILITY

HOW WE ARE GOVERNED

OUR NUMBERS

In addition to the workshop, PCG provided school supplies to about 2,400 students in all four locations for the upcoming school year to alleviate the financial burden of parents. We see this as an opportunity to improve their lives and create meaningful change in our local communities.

Safe Handling of Chemicals for School (SHOC4School)

As a chemicals producer, PCG has reached out to more than 100 education practitioners, including Science and Chemistry teachers as well as laboratory technicians/assistants in Terengganu towards educating them on safe management of chemicals in schools. The Safe Handling of Chemicals for School (SHOC4School) initiative led by PC LPDE saw the collaboration between Institut Teknologi Petroleum PETRONAS (INSTEP) and the Terengganu State Education Department. The programme proved to be both successful and sustainable when it won gold awards for Community Awareness and Emergency Response Code by the Chemical Industries Council of Malaysia (CICM) at its Responsible Care Awards in 2015 and 2016.

SHOC4School programme at PC LDPE

COMMUNITY

Program Iltizam Kerjaya

In contributing to the development of the community, PCG through our subsidiary PC Methanol, collaborates with Yayasan Peneraju and Jabatan Tenaga Kerja Labuan on Program Iltizam Kerjaya. This programme is aimed at upskilling youth and developing their capability in various technical skills relevant to the oil and gas industry, enhancing their ability to gain employment with PETRONAS' vendors and service providers.

First Aider for Every Home (FAiEH)

First Aider For Every Home (FAiEH) is an initiative by PC Ammonia in collaboration with PETRONAS East Coast Regional Office and Angkatan Pertahanan Awam Malaysia. It focuses on safeguarding people's health, especially during emergencies, by providing basic first aid training. The programme also includes education on safe chemicals usage at home. In 2017, more than 160 people took part in the programme in Paka, Terengganu.

ENVIRONMENT

ecoCare

The ecoCare mangrove rehabilitation programme was established 12 years ago in collaboration with the Malaysian Nature Society. In 2013, we set up the ecoCare Environmental Education Centre (EEC) to promote awareness and understanding of the conservation of coastal ecosystems to public. In 2017, we have expanded further to include more sustainable initiatives including nursery for coastal forest trees at EEC while enhancing awareness of the importance of coastal forests in supporting mangrove ecosystems.

To date, 330 organisations and schools as well as more than 16,000 local and international visitors have visited the centre. In total, more than 12,000 mangrove seedlings have been planted, rehabilitating more than 14,000 square metres along Kertih River. The centre has now flourished into a popular environmental attraction for schoolchildren, teachers, researchers, universities and the community at large.

PCG Be Green

PCG Be Green amplifies PCG's commitment towards environmental conservation, highlighting our contributions in promoting good waste management practices such as waste separation and the 3Rs, while creating an ethic against littering. As a producer of polymers, we collaborate with the Malaysian Plastics Manufacturers Association in developing programmes targeting school children on the versatility of plastic while increasing their awareness of its sustainable use. In 2017, the programme benefited more than 700 school children from 23 schools around Bintulu and 70 students in Kuantan.

WORKFORCE TRAINING AND DEVELOPMENT

We are committed to the continuous professional development of our employees, both to enable them to realise their potential and progress their careers, as well as to keep enhancing our organisational competency and capabilities. Our capability development programmes are guided by PETRONAS' competency framework and led by management.

Among the competency development progammes run are:

- Downstream Grounding Programme (DGP) which provides new technical personnel structured on the job training for an overall perspective of the PETRONAS Downstream business. Through the programme which runs for one year for technical executives and six months for non-executives they gain knowledge and skills in operations, engineering and technology.
- ACD develops technical executives in specialised disciplines to ensure targeted competency levels are achieved. Participants are assigned coaches and provided on-the-job as well as classroom training.

  This year, we introduced the ACD Booster programme, which is standardised across PCG as a common intervention for all technical executives in PCG to close the gaps in ACD. All 58 planned sessions were implemented and the response has been encouraging.
- Downstream Technical Managers Capability Assessment assesses the functional capabilities of technical managers in carrying out their roles.
- PETRONAS Competency-based Assessment System ascertains the competency of non-executive technical employees who undergo the programme within 2.5 years of their employment.
- Capability Development Framework initiative provides PCG's commercial team with exposure on critical roles in business, leadership and specialised areas.

Our talent development programme is supported by annual talent reviews and succession planning.

LEADERSHIP DEVELOPMENT PROGRAMME

We have a structured and progressive leadership programme that starts with helping individuals develop leadership skills and continues until individuals become competent in setting their own goals, managing challenges and risks, and recognising their own strengths as well as areas for further development.

To assist the transition of new managers into leadership roles, conditioning programmes are introduced to enhance self-awareness, equip them with essential knowledge as well as key skills to lead themselves and others in bringing about positive change in the business. Ultimately, our leaders are trained to become strategic implementers.

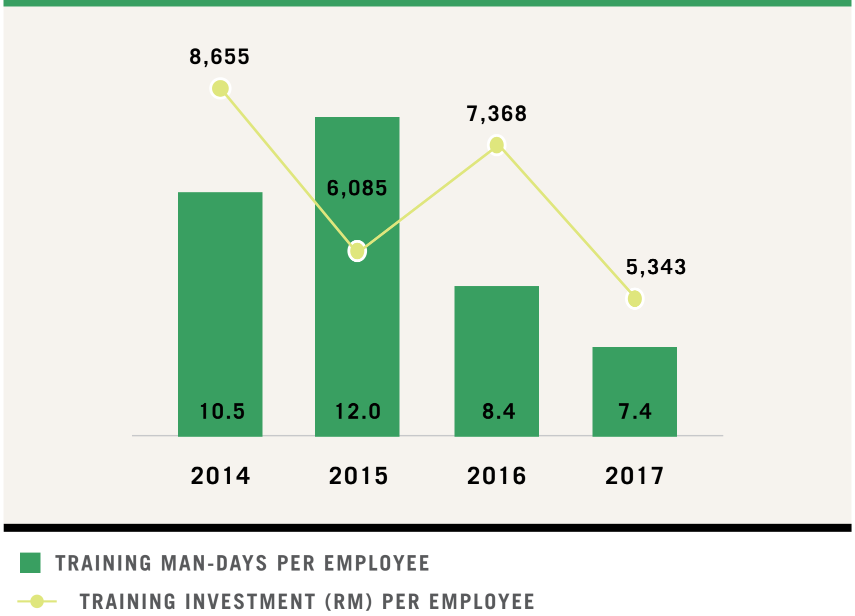
SUCCESSION MANAGEMENT

Succession planning is critical for the continuity of our business, ensuring we have a ready pipeline of talent to fill in leadership gaps in a timely manner. While preference is given to internal talent, we also have access to suitable talent from the wider PETRONAS Group.

INDUSTRIAL TRAINING

PCG provides technical and non-technical industrial training to undergraduates in areas related to their academic backgrounds. In 2017, 314 students participated in industrial training with PCG.

TRAINING INVESTMENT

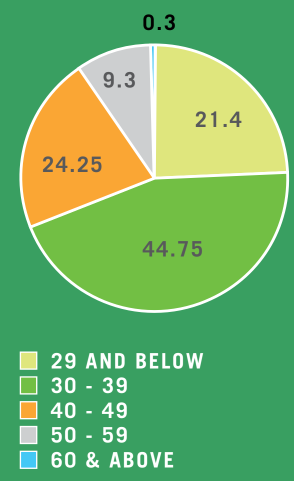


The reduction in training investment per employee was due to a more holistic training approach through the in-house and digital based trainings initiated in 2017. However, we are improving our measurement in digital based training mandays so it could be accurately monitored in the future.

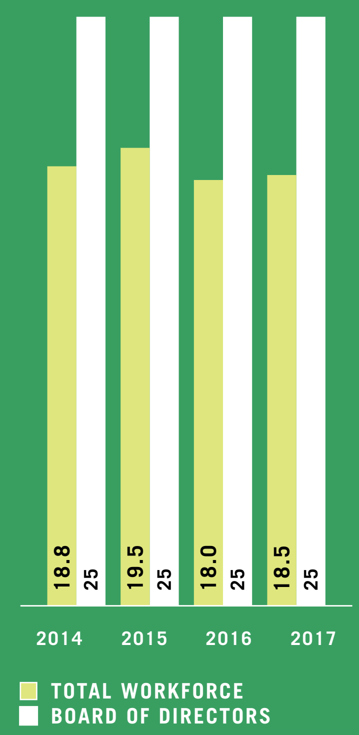
WORKFORCE DIVERSITY

DISTRIBUTION OF WORKFORCE BY AGE

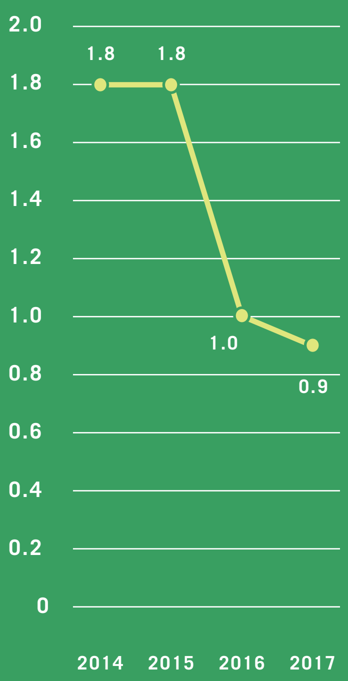
Total **4,436** employees



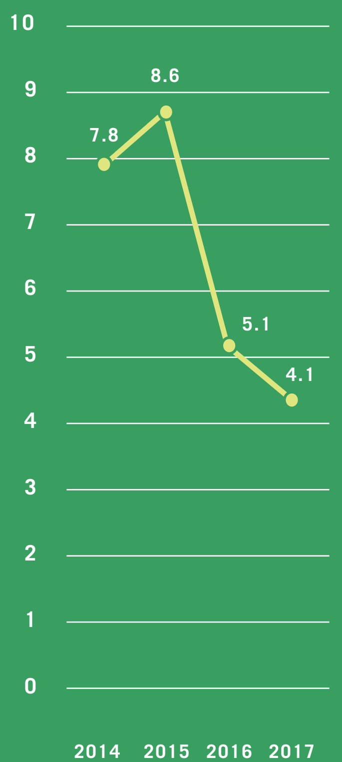
PERCENTAGE OF WOMEN IN WORKFORCE



TURNOVER RATE (%)



PERCENTAGE OF CONTRACT STAFF (%)



WORKFORCE DIVERSITY AND INCLUSION

We seek to bring on board a diverse workforce for the value that different opinions and perspectives bring in broadening our viewpoints and enhancing our decision making. Company-wide, female employees make up 18.5% of our total workforce. This is influenced by the largely male dominated representation in our plants. At the Board level, gender balance is amplified with women making up 25% of our Board of Directors.

To create a more balanced gender representation, we have various policies that support women and promote their career progression. Other than the opportunity to make use of the Flexible Work Option to suit their schedules, working mothers have access to nursing facilities within our headquarters and plants. We also encourage women executives to participate in the PETRONAS Leading Women Network to learn from other successful professional women as well as to benefit from networking.

FLEXIBLE WORK HOURS

In July, PCG implemented the Flexible Work Option introduced by the Group, providing flexibility as to when they start and end work on a daily basis. They also enjoy a Compressed Work Week, which allows them to finish work at noon on the fifth day of the week upon completing the required 39 hours for the week, subject to approval from their immediate superior. These flexi options provide our employees with greater autonomy over their time, enabling them to better balance their work-life obligations.

EMPLOYEE RETENTION & CONTRACT STAFF

During the year, our staff turnover rate dropped further to 0.9% from 1.0% in 2016. We also saw a reduction in percentage of contract staff, from 5.1% to 4.1%. This is a result of increased focus on empowering our full-time employees and reducing our dependency on contract staff.

ANTI-CORRUPTION

Underlining all our social engagements is a deeply entrenched business ethic that has zero tolerance for bribery or corruption. To uphold a high level of professionalism and integrity organisation-wide, all employees receive training on PETRONAS' Code of Conduct and Business Ethics. In the last quarter of 2017, we further strengthened our corporate values by requiring all senior management to declare their assets. In addition to ensuring high ethical standards among our senior management, it demonstrates leadership by example, reinforcing transparent governance in PCG.

OUR WAY FORWARD

PCG views sustainability as an ongoing journey, which requires our continuous improvement to meet future challenges and opportunities. In 2016, we reported that we will continue to strengthen our sustainability strategy by focusing on the following areas. Our progress in these areas, and our plans for the future are shown below:

FOCUS AREAS	PROGRESS IN 2017	BEYOND 2017
INCORPORATING SUSTAINABILITY ELEMENTS INTO MORE SECTIONS OF PCG'S BUSINESS	PCG is developing a holistic approach to further integrate sustainability elements into our daily operations.	Establish PCG's sustainability strategy.
FURTHER STRENGTHENING OUR GOVERNANCE AND PROCESSES RELATED TO SUSTAINABILITY	• Enhanced the SDWC by bringing on board additional representatives from relevant departments to further drive sustainability within PCG. • Developed the necessary sustainability procedures in our management systems.	Streamlining SDWC and management systems to support PCG's sustainability agenda.
ENHANCING OUR STAKEHOLDER ENGAGEMENT PROCESS	Reported our stakeholder engagement process in this annual report on page 72.	Reach out to key stakeholders for feedback on key sustainability focus areas.
PERIODICALLY REVIEWING OUR SUSTAINABILITY MATERIALITY ASSESSMENT	The outcome from the materiality assessment conducted last year is still valid.	Conduct comprehensive reassessments of material issues.
EXPANDING OUR SUSTAINABILITY REPORTING TO INCLUDE ADDITIONAL SUSTAINABILITY ISSUES	Focused on reporting on sustainability issues that are most material to PCG.	Update sustainability information to be reported based on future reviews of materiality assessments, or changes to PCG's sustainability strategy.

HOW WE ARE GOVERNED

CHAPTER

5

In these pages, we introduce you to our Board of Directors, explain the value they bring to the organisation, and how they ensure PCG upholds the highest level of integrity in all our dealings and business interactions. We also disclose changes made to strengthen our governance framework.

OUR BOARD COMPRISES EIGHT HIGHLY DEDICATED INDIVIDUALS WITH OUTSTANDING CAREERS IN THE CORPORATE WORLD, BOTH IN OIL AND GAS AND OTHER DEMANDING INDUSTRIES.

They bring with them years of experience in managing sustainable business growth driven by principles of governance, integrity and transparency. From wide-ranging backgrounds, they collectively represent a formidable leadership with the diversity of perspectives that support effective decision-making and the development of strategies to drive our onward journey.

EXPERIENCE

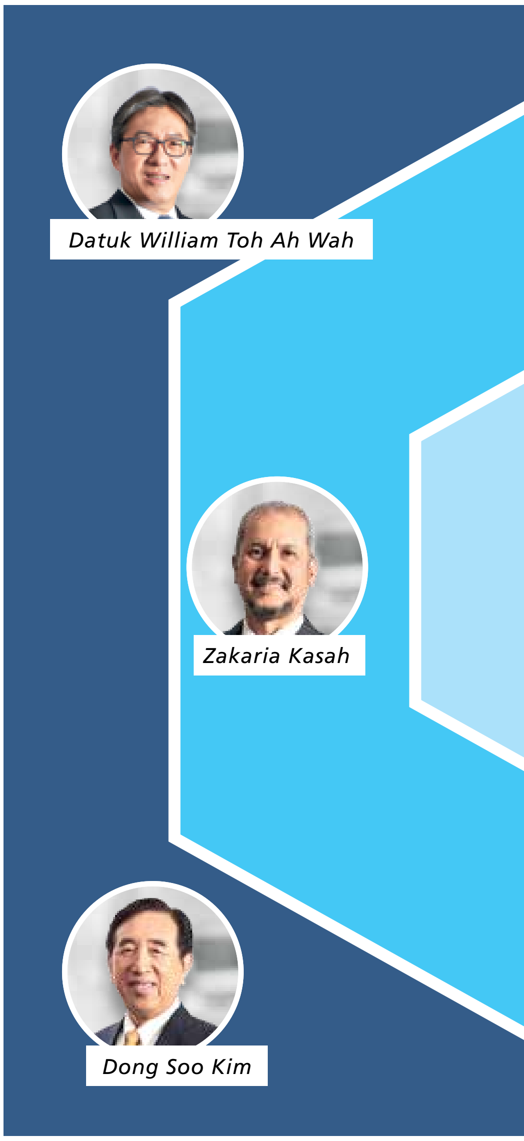
MORE THAN

30*

YEARS OF EXPERIENCE

*on average

BOARD COMPOSITION



KEY FEATURES OF OUR BOARD

THE VALUE BOARD BRINGS

8 DIRECTORS

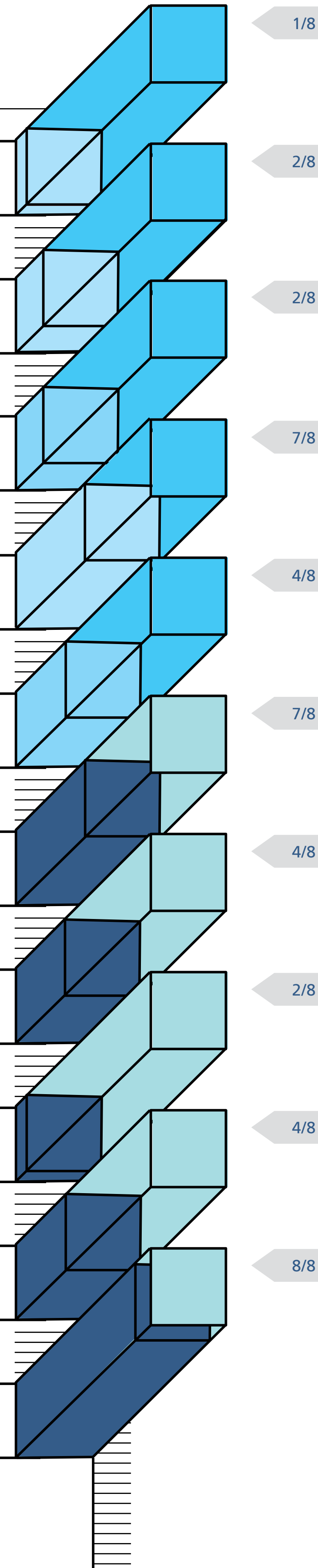
- EXECUTIVE DIRECTOR
- NON-INDEPENDENT NON-EXECUTIVE DIRECTORS
- INDEPENDENT NON-EXECUTIVE DIRECTORS

- The Board comprises a **balance of Independent Directors**
- The Chairman is a **Non-Independent Non-Executive Director**
- The roles of the Chairman and MD/CEO are **distinct**

BOARD SKILLS MATRIX

1. Global Petrochemical Consultancy
2. Information Technology
3. Human Resource
4. Corporate Planning and Development
5. Operations
6. Commercial/ Marketing
7. Engineering
8. Economics
9. Finance/Audit
10. Industry Experience

- I Oil and Gas
- II Shipping/Logistics
- III Regional/International
- IV Banking and Finance



DATUK MD ARIF MAHMOOD

Chairman,
Non-Independent Non-Executive Director

Datuk Md Arif Mahmood has more than 30 years' experience in PETRONAS Group, mainly in the Downstream business. He is currently the Chairman of various companies within the Group, giving him a broad perspective of the industry, and deep understanding of its dynamics.

Board Skills Matrix

4 5 6 7 10 I II III

age **55**

Malaysian

Male

Malay

Date appointed to Board
1 May 2015

Number of Board Meetings Attended
6/8

Length of Service (as at 28 February 2018)
2 year and 10 months

PRESENT DIRECTORSHIPS

Listed Entities:
- PETRONAS Chemicals Group Berhad
- PETRONAS Dagangan Berhad

Other Public Company:
- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Science in Electrical Engineering *(summa cum laude)*, Boston University, United States of America.
- Masters of Business Administration, Massachusetts Institute of Technology, United States of America.

WORKING EXPERIENCE

Present Appointments:
- Chairman of PETRONAS Chemicals Group Berhad (PCG)
- Chairman of PETRONAS Dagangan Berhad (PDB)
- Executive Vice President and Chief Executive Officer of Downstream Business, PETRONAS
- Member of Executive Leadership Team, PETRONAS
- Member of People Development Committee, PETRONAS
- Member of Talent Council, PETRONAS
- Member of Industry Advisory Panel, Universiti Teknologi PETRONAS
- Chairman/Director of various companies within PETRONAS

Past Experiences:
- Director, PETRONAS
- Senior Vice President of Corporate Strategy, PETRONAS
- Vice President of Oil Business, PETRONAS
- Managing Director/Chief Executive Officer, ASEAN Bintulu Fertilizer Sdn Bhd
- Senior General Manager of Retail Business Division, PDB
- General Manager (Gas Processing Plant B), PETRONAS Gas Berhad (PGB)

DATUK SAZALI HAMZAH

Managing Director/Chief Executive Officer (MD/CEO)
Non-Independent Executive Director

Datuk Sazali Hamzah is key to the effective management of PCG. As the MD/CEO, he is instrumental in developing our corporate goals and ensuring management as well as the Board are aligned in agreeing on the most appropriate strategies towards achieving our vision.

Board Skills Matrix

5 6 7
10 I II III

age **51**

Malaysian

Male

Malay

Date appointed to Board
8 May 2014

Number of Board Meetings Attended
8/8

Length of Service (as at 28 February 2018)
3 years and 2 months

PRESENT DIRECTORSHIPS

Listed Entities:
- PETRONAS Chemicals Group Berhad

Other Public Company:
- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Chemicals Engineering, Lamar University, United States of America
- Chartered Fellow, the Institution of Chemical Engineers (IChemE)
- Advanced Management Programme, The Wharton School, University of Pennsylvania, United States of America

WORKING EXPERIENCE

Present Appointments:
- MD/CEO, PCG
- Vice President, PETRONAS
- Board of Institution of Chemical Engineers United Kingdom, Malaysian Branch
- Chairman/Director of various companies within PETRONAS

Past Experiences:
- MD/CEO, PETRONAS Penapisan (Melaka) Sdn Bhd
- Senior General Manager of Group Technology Solutions, PETRONAS
- Head of Project Management and Delivery, PETRONAS
- Various senior management positions through roles in the refinery and petrochemical business within PETRONAS

VIMALA V.R. MENON

Senior Independent Director

Vimala V.R. Menon has extensive experience in corporate finance and planning as well as governance; both in Malaysia and the region. Her independent views and deep insights in organisational integrity are much-valued on the Board.

Board Skills Matrix

2 4 6 9 10 III IV

age **63**

Malaysian

Female

Indian

Date appointed to Board

13 August 2010

Number of Board Meetings Attended

8/8

Length of Service (as at 28 February 2018)

7 years and 6 months

PRESENT DIRECTORSHIPS

Listed Entities:
- PETRONAS Chemicals Group Berhad
- PETRONAS Dagangan Berhad
- DiGi.Com Berhad

Other Public Company:
- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Fellow of the Institute of Chartered Accountants in England and Wales
- Member of the Malaysian Institute of Accountants

WORKING EXPERIENCE

Present Appointments:
- Chairman of Board Audit Committee, PCG
- Chairman of Board Audit Committee, PDB
- Member of Nomination and Remuneration Committee, PCG
- Member of Nomination and Remuneration Committee, PDB
- Member of Audit and Risk Committee, DiGi.Com Berhad
- Director, Jardine Cycle & Carriage, Singapore

Past Experiences:
- Director, Cycle & Carriage Bintang Berhad
- Director of Finance and Corporate Affairs, PROTON Holdings Berhad
- Executive Director of Finance and Corporate Services, Edaran Otomobil Nasional Berhad
- Director, EON Bank Berhad
- Director, Jardine Cycle & Carriage Limited
- Director, PT Astra International Tbk, Indonesia

DATUK WILLIAM TOH AH WAH

Independent Non-Executive Director

Datuk William Toh Ah Wah has enjoyed a long and successful career in the tobacco industry, which has seen him assume regional and country leadership positions in China, Pakistan, New Zealand and Taiwan. With a strong sales and marketing background, he makes significant contributions towards building PCG's commercial excellence.

Board Skills Matrix

4 6 8
9 10 III

age **60**

Malaysian

Male

Chinese

Date appointed to Board

13 June 2014

Number of Board Meetings Attended

8/8

Length of Service (as at 28 February 2018)

3 years and 8 months

PRESENT DIRECTORSHIPS

Listed Entities:

- PETRONAS Chemicals Group Berhad
- Carlsberg Brewery Malaysia Berhad

Other Public Company:

- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Commerce, Concordia University, Canada

WORKING EXPERIENCE

Present Appointments:

- Chairman of Nomination and Remuneration Committee, PCG
- Member of Board Audit Committee, PCG
- Member of Board Audit & Risk Management Committee, Carlsberg Brewery Malaysia Berhad ("Carlsberg Malaysia")
- Member of Board Nomination Committee, Carlsberg Malaysia
- Member of Board Remuneration Committee, Carlsberg Malaysia

Past Experiences:

- Independent Non-Executive Director, Tien Wah Press Holdings Berhad
- Managing Director (MD), British American Tobacco (Malaysia) Berhad
- Area Director of the Indonesian Cluster and the Regional Project Manager of British American Tobacco Asia Pacific Region Limited, Hong Kong
- MD/Chief Executive Officer, Pakistan Tobacco and Area Director, South Asia Area (covering Pakistan Bangladesh and Sri Lanka)
- MD, British American Tobacco New Zealand
- Business Development Director China for British American Tobacco Asia Pacific North
- Various senior management positions with Rothmans & Pall Malls (Malaysia) Berhad (Now known as British American Tobacco (Malaysia) Berhad)

CHING YEW CHYE

Independent Non-Executive Director

Ching Yew Chye has almost 40 years' experience as a management consultant, lending him strong exposure to the retail and commercial banking sectors as well as capital markets. His independent views are enriched by a broad understanding of the corporate and financial sectors.

Board Skills Matrix

2 3 4 6 9 10 III IV

age **64**

Malaysian

Male

Chinese

Date appointed to Board

13 August 2010

Number of Board Meetings Attended

7/8

Length of Service (as at 28 February 2018)

7 years and 6 months

PRESENT DIRECTORSHIPS

Listed Entities:

- PETRONAS Chemicals Group Berhad
- Genting Plantations Berhad

Other Public Company:

- AIA Berhad (Malaysia)

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Science (Honours), University of London, United Kingdom

WORKING EXPERIENCE

Present Appointments:

- Member of Nomination and Remuneration Committee, PCG
- Member of Board Audit Committee, PCG
- Director, YTL Starhill Global REIT Management Limited

Past Experiences:

- Managing Partner for the South Asia Region, Accenture PLC
- Geographic Council Chairman-Asia, Accenture PLC
- Managing Partner of the Financial Services Industry Group-Asia, Accenture PLC
- Scicon Consultancy, United Kingdom

DONG SOO KIM

Independent Non-Executive Director

With more than 40 years' experience in the world's leading chemicals organisations, Dong Soo Kim has an unparalleled understanding of the industry. His current interest in sustainability brings a much valued dimension to board proceedings.

Board Skills Matrix

1 3 4 5 7 10 I III

age **71**

Korean

Male

Korean

Date appointed to Board

13 August 2010

Number of Board Meetings Attended

8/8

Length of Service (as at 28 February 2018)

7 years and 6 months

PRESENT DIRECTORSHIPS

Listed Entities:

- PETRONAS Chemicals Group Berhad

Other Public Company:

- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Science in Chemical Engineering, University of California, United States of America
- Master of Science in Chemical Engineering, University of Idaho, United States of America

WORKING EXPERIENCE

Present Appointments:

- Member of Board Audit Committee, PCG
- Member of Nomination and Remuneration Committee, PCG
- Advisor, Samsung SDI Co Ltd
- Partner-Coach, Korean Coaching Management Institute

Past Experiences:

- Advisor/Coach to PETRONAS Downstream Business
- Advisor, DuPont Asia Pacific
- President, DuPont Asia Pacific
- Vice President and General Manager, Global Non-Wovens Business, E.I DuPont
- Corporate Officer of E.I DuPont
- Global Fluoroproduct Operation Director, DuPont Korea
- Various senior management positions within DuPont Korea

ZAKARIA KASAH

Non-Independent Non-Executive Director

Zakaria Kasah has broad experience in the Upstream and Downstream sectors in PETRONAS. His expertise in project management and plant turnaround are invaluable in guiding PCG towards the successful execution and completion of our growth projects.

Board Skills Matrix

4 5 6 7 10 I III

age **53**

Malaysian

Male

Malay

Date appointed to Board

31 July 2015

Number of Board Meetings Attended

6/8

Length of Service (as at 28 February 2018)

2 years and 7 months

PRESENT DIRECTORSHIPS

Listed Entities:

- PETRONAS Chemicals Group Berhad

Other Public Company:

- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Mechanical Engineering, George Washington University, United States of America
- Leadership Management, Henley Business School, United Kingdom

WORKING EXPERIENCE

Present Appointments:

- Vice President of PETRONAS Group Delivery, Project Delivery & Technology
- Member of Student Development Advisory Council for Universiti Teknologi PETRONAS
- Director of various companies within PETRONAS

Past Experiences:

- Vice President of PETRONAS Technology & Engineering, Downstream Business
- Vice President of PETRONAS Upstream Business
- Chief Executive Officer of Malaysia LNG Group of Companies
- Various senior management positions in PGB, Egyptian LNG and Malaysia LNG Group of Companies

FREIDA AMAT

Non-Independent Non-Executive Director

Freida Amat has a strong background in corporate finance, bonds issuance, initial public offerings, financial reporting, financial services and taxation within PETRONAS Group. With her astute financial acumen, coupled with exposure to the oil and gas industry, we are assured of balancing our corporate goals with financial stability.

Board Skills Matrix

4 6 8 9 10 I III

age **49**

Malaysian

Female

Malay

Date appointed to Board

31 July 2015

Number of Board Meetings Attended

8/8

Length of Service (as at 28 February 2018)

2 years and 7 months

PRESENT DIRECTORSHIPS

Listed Entities:
- PETRONAS Chemicals Group Berhad

Other Public Company:
- Nil

ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Science in Economics majoring in Accounting and Finance from The London School of Economics and Political Science, University of London, United Kingdom
- Fellow of the Association of Chartered Certified Accountants (FCCA)
- Member of the Malaysian Institute of Accountants

WORKING EXPERIENCE

Present Appointments:
- Member of Board Audit Committee, PCG
- Senior General Manager of Finance & Accounts Services Department, PETRONAS
- Director, various companies within PETRONAS

Past Experiences:
- General Manager, Corporate Finance Department, PETRONAS
- General Manager, Finance & Accounts Services, Malaysian International Trading Corporation Sdn Bhd
- Various senior management positions within PETRONAS

ADDITIONAL INFORMATION OF THE BOARD OF DIRECTORS

Family Relationship	:	*Save as disclosed, none of the Directors has any family relationship with any Director and/or major shareholder of PCG.*
Conflict of Interests	:	*Save as disclosed, none of the Directors has any conflict of interests with PCG.*
Conviction for Offences	:	*None of the Directors has any conviction for offences, other than traffic offences,if any, for the past 5 years.*
Public Sanction or Penalty	:	*None of the Directors has any sanction or penalty imposed on them by any regulatory bodies during the financial year ended 31 December 2017.*

PROFILE OF MANAGEMENT COMMITTEE

DATUK SAZALI HAMZAH

Malaysian, age 51, Male, Malay
Managing Director/Chief Executive Officer

2 4 5 7 8 9 10

RASHIDAH ALIAS

Malaysian, age 45, Female, Malay
Chief Financial Officer

1 2 3 5 7 9

Technical Skills and Experience

1 Accounting 2 Corporate governance 3 Finance 4 Human Resource

DATUK SAZALI HAMZAH

Current role

- Responsible for the overall operational, financial and sustainable management of PCG and its subsidiaries
- Sits on the Board of PCG and several PETRONAS Companies

Employment history

1990 Joined PETRONAS as process technologist and progressed through various roles in the refinery and petrochemical business. Held several senior management positions at PETRONAS Penapisan (Terengganu) Sdn Bhd, PETRONAS Penapisan (Melaka) Sdn Bhd, PETRONAS Group Technology Solutions, and Project Management of Technology & Engineering Division of PETRONAS. Involved in the implementation and commercial operation of several major PETRONAS projects such as Kertih Aromatics Project, Melaka Base Oil Plant, Melaka Refinery Revamp, and Co-Generation Power Plant.

2003 Selected as member of PETRONAS Corporate Strategic Study and Implementation, and led a change programme that enhanced plant performance and operational excellence.

2010 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.

2012 Appointed as PETRONAS Penapisan (Melaka) Sdn Bhd - Managing Director/CEO

2014 Appointed as President/CEO of PETRONAS Chemicals Group Berhad

2015 Appointed as Result Manager for the Technology Workstream of PETRONAS' special initiative, Project CACTUS

2016 Appointed as PETRONAS VP and PCG MD/CEO

Academic/Professional Qualifications

- Bachelor of Chemicals Engineering, Lamar University, Texas, USA
- Board Member of IChemE (Malaysian Branch)
- Advanced Management Program, The Wharton School, University of Pennsylvania
- Chartered Fellow of the Institution of Chemical Engineers (IChemE), UK
- Senior Management Program, London Business School, London, UK

RASHIDAH ALIAS

Current role

- Responsible for the management of all financial and fiscal aspects of PCG and its subsidiaries as well as risk management, supply chain management, investor relations and information systems
- Sits on the Board of several PETRONAS companies

Employment history

1994 Arthur Andersen - Involved in audit and various advisory assignments including initial public offerings, internal control reviews and feasibility studies.

1998 PETRONAS - Various posts in areas of corporate planning, accounting and shared services; and managing specialised assignments involving initial public offerings, corporate bond issuance, corporate strategy implementation and groupwide process transformation. Regularly facilitates learning sessions, contributing towards talent development within the PETRONAS Group.

2010 PETRONAS - Senior General Manager, Finance & Accounts Services

2013 PETRONAS - Senior General Manager, Group Treasury

2016 Appointed as PCG Chief Financial Officer

Academic/Professional Qualifications

- Bachelor of Commerce in Accounting, University of New South Wales, Australia
- Advanced Management Program, Harvard Business School
- Fellow of the Chartered Accountants Australia and New Zealand
- Member of the Malaysian Institute of Accountants

5 Industry Experience 6 Law 7 Risk management 8 Strategic marketing 9 Strategy development and implementation 10 Technology

PROFILE OF MANAGEMENT COMMITTEE

SHAMSAIRI MOHD IBRAHIM

Malaysian, age 51, Male, Malay
Head of Commercial

2 5 7 8 9 10

MAHADZIR RANI

Malaysian, age 50, Male, Malay
Head of Manufacturing

4 5 7 8 9 10

AKBAR MD THAYOOB

Malaysian, age 54, Male, Malay
Head of Strategic Planning & Ventures

4 5 7 8 9 10

Technical Skills and Experience

1 Accounting
2 Corporate governance
3 Finance
4 Human Resource

SHAMSAIRI MOHD IBRAHIM

Current role

- Responsible for PCG's overall commercial excellence
- CEO of PETRONAS Chemicals Marketing Sdn Bhd
- CEO of PETRONAS Chemicals Marketing (Labuan) Ltd
- Sits on the Board of several PETRONAS Companies

Employment history

1991	Malaysia LNG Sdn Bhd – Marketing Executive
1999	Malaysian International Trading Corporation (Japan) Sdn Bhd – Held various positions including Executive Marketing, Executive Materials and Supply and Manager for Japan Operations Centre
2004	Malaysia LNG Sdn Bhd – Held various managerial role including Manager (Japan Operations – Sales & Marketing Department), and Senior Manager of Marketing & Trading Sector 2
2008	Optimal Group of Companies – Held various commercial positions including Business - Olefins/ Derivatives Department
2011	PETRONAS – Head (Commercial - Olefins & Derivatives) and later Head (Marketing & Sales – Olefins & Derivatives)
2017	PCG Berhad – Head of Commercial

Academic/Professional Qualifications

- Associate Degree in Mechanical Engineering, Tokyo National College of Technology, Japan
- Master of Business Administration (Exec) Royal Melbourne Institute of Technology

MAHADZIR RANI

Current role

- Responsible for PCG's overall operational excellence
- Sits on the Board of several PETRONAS Companies

Employment history

1991	PETRONAS Penapisan (Terengganu) Sdn Bhd – Executive (Instrument)
1995	PETRONAS Penapisan (Terengganu) Sdn Bhd – Executive (System & Control)
1997	Aromatics Malaysia Sdn Bhd - Senior Project Engineer
2000	PETRONAS Penapisan (Terengganu) Sdn Bhd – Manager (Instrument Engineering)
2004	PETRONAS Penapisan (Terengganu) Sdn Bhd – Manager (Aromatics Maintenance)
2005	PETRONAS Penapisan (Terengganu) Sdn Bhd – Senior Manager (Maintenance)
2007	PETRONAS Penapisan (Terengganu) Sdn Bhd – Senior Manager (HSE)
2009	MTBE Asset Department - Senior Manager (MTBE Asset)
2011	PETRONAS Chemicals Fertiliser Kedah Sdn Bhd – Head of Plant
2014	PETRONAS Chemicals Methanol Sdn Bhd – Head of Plant
2017	PCG Berhad – Head of Manufacturing

Academic/Professional Qualifications

- Bachelor of Science in Electrical Engineering Polytechnic University, New York

AKBAR MD THAYOOB

Current role

- Responsible for PCG's overall strategic planning, business development and ventures management
- Sits on the Board of several PETRONAS Companies

Employment history

1987	PETRONAS – Various project engineering and corporate planning roles
1999	Phu My Plastic & Chemicals Co Ltd, Vietnam – Deputy - General Director/ CEO
2004	PMPC – General Director/Chief Executive Officer
2008	PETRONAS Chemicals LDPE Sdn Bhd – CEO
2010	PETRONAS Downstream Business – Head of Office of the Executive Vice President
2012	PETRONAS Dagangan Berhad – Head of Retail Business
2014	PCG Berhad – Head of Commercial – responsible for Marketing and Sales Excellence
2017	PCG Berhad – Head of Strategic Planning and Ventures

Academic/Professional Qualifications

- Bachelor of Science in Civil Engineering, University of West Virginia, USA
- Premier Business Management Program, Harvard Business School

5 Industry Experience 6 Law 7 Risk management 8 Strategic marketing 9 Strategy development and implementation 10 Technology

DATIN ZARINA ZAKARIA @ MOHAMAD

Malaysian, age 50, Female, Malay
Head of Human Resource Management

2 4 9

CH'NG GUAN HOW

Malaysian, age 48, Male, Chinese
Chief Innovation & Technology Officer

4 5 7 8 9 10

NOOR LILY ZURIATI ABDULLAH

Malaysian, age 59, Female, Malay
Head of Legal and Corporate Secretariat

2 4 5 6 7 9

Technical Skills and Experience

1 Accounting 2 Corporate governance 3 Finance 4 Human Resource

PROFILE OF MANAGEMENT COMMITTEE

DATIN ZARINA ZAKARIA @ MOHAMAD

Current role

- Responsible for PCG's people strategies, talent development and management, as well as human resource services

Employment history

1992 PETRONAS Dagangan Berhad - System Analyst
2000 PETRONAS Dagangan Berhad – Executive People Development (HRM)
2005 PETRONAS Dagangan Berhad – Manager People Development (HRM)
2007 PETRONAS – Manager of People Strategy Design and Pilot
2008 PETRONAS - Senior Manager of People Strategy Design and Pilot
2009 PETRONAS Carigali Sdn Bhd - Head of People Strategy and Planning
2012 PETRONAS Carigali Sdn Bhd - Head of Human Resource Management (Malaysia Operation)
2014 PCG Berhad - Head of Human Resource Management

Academic/Professional Qualifications

- Bachelor of Science in Business Administration, University of Southern California, USA

CH'NG GUAN HOW

Current role

- Responsible for PCG's product development, customer application co-development, technical support, product stewardship functions to deliver innovative customer solutions
- Sits on the Board of several PETRONAS Companies

Employment history

1994 Polyethylene Malaysia Sdn Bhd (PEMSB) – Held various position including Polymer Technologist, Technical Service Engineer, Compound Application Technologist and Export Sales Manager
2002 Petlin (Malaysia) Sdn Bhd – Product Manager and Senior Commercial Manager
2008 PETRONAS - Head Strategy & Portfolio, Oil & Petchem Business, Group Strategy Planning
2010 Downstream Business, PETRONAS – Head Strategic Planning & Brand, Office of VP Downstream Marketing
2013 PETRONAS Lubricant International Group – MD/CEO PLI China and Head, Greater China Region (PLI Group Global Leadership Team)
2017 PCG Berhad – Chief Innovation & Technology Officer

Academic/Professional Qualifications

- Bachelor of Industrial Technology (Hons), Major in Polymer Technology, Universiti Sains Malaysia
- Senior Management Development Program INSEAD

NOOR LILY ZURIATI ABDULLAH

Current role

- Responsible for PCG's legal affairs and company secretarial services
- Sits on the Board of several PETRONAS companies

Employment history

1991 PETRONAS - Legal services covering joint ventures, plant constructions, project financing, plant operations, time-charter party and LNG sales
2002 PETRONAS Dagangan Berhad - Senior Legal Counsel, Legal and Corporate Secretariat Services
2009 PETRONAS International Corporation Limited (Egypt) - Head, Legal & Corporate Affairs
2011 PETRONAS Gas Business Unit - Head Legal (Project)
2014 PETRONAS Technology & Engineering Division - General Counsel/Head of Legal for Technology, Engineering Services and Intellectual Property
2016 PCG Berhad - General Counsel/Head Legal & Corporate Secretariat

Academic/Professional Qualifications

- Bachelor of Laws, University of London, UK
- Sijil Amalan Guaman Lembaga Kelayakan Profession Undang-Undang, Malaysia,
- Licensed Company Secretary

5 Industry Experience | 6 Law | 7 Risk management | 8 Strategic marketing | 9 Strategy development and implementation | 10 Technology

PROFILE OF MANAGEMENT COMMITTEE

AHMAD ZAKI DAUD

Malaysian, age 45, Male, Malay
Head of Health, Safety & Environment

5 7 9 10

SITI AZLINA ABD LATIF

Malaysian, age 46, Female, Malay
Head of Corporate Affairs & Administration

1 2 7 8 9

MOHAMAD ISKANDAR BAKERI

Malaysian, age 51, Male, Malay
Head of Project Directorate

4 5 7 9 10

Technical Skills and Experience

1 Accounting   2 Corporate governance   3 Finance   4 Human Resource

PROFILE OF MANAGEMENT COMMITTEE

AHMAD ZAKI DAUD	SITI AZLINA ABD LATIF	MOHAMAD ISKANDAR BAKERI

Current role

Ahmad Zaki Daud
- Responsible for PCG's overall HSE performance, process safety and sustainable development

Siti Azlina Abd Latif
- Responsible for planning, development and implementation of all PCG's corporate branding, stakeholder and media management, communication and reputation management

Mohamad Iskandar Bakeri
- Responsible for the delivery and execution of PCG's key projects

Employment history

Ahmad Zaki Daud

1997	PETRONAS Second Ethylene Cracker Project - Electrical Maintenance Engineer
2001	PETRONAS Chemicals Derivatives Sdn Bhd - Electrical Production Engineer
2009	PETRONAS Chemicals Derivatives Sdn Bhd - Utilities Manager
2012	PETRONAS Chemicals Glycols Sdn Bhd - Head of Ethylene Oxide Glycols
2014	PCG Berhad - Head of Operation Work Process
2015	PCG Berhad - Head of HSE

Siti Azlina Abd Latif

1997	PETRONAS Dagangan Berhad - Finance and accounts, complementary business, retail sales and brand communications
2007	PETRONAS Dagangan Berhad - Head of Brand Communications
2011	PCG Berhad - Head of Stakeholder Management and Communications
2013	PCG Berhad - Head of Corporate Communications & Administration
2015	PCG Berhad - Head of Strategic Communications
2016	PCG Berhad - Head of Corporate Affairs & Administration

Mohamad Iskandar Bakeri

1989	ASEAN Bintulu Fertilizer Sdn Bhd - Held various positions from Area Engineer, Senior Engineer and Section Head in various disciplines of Machinery, Maintenance, Inspection, Reliability & Integrity and Plant Turnaround.
2006	PETRONAS Chemicals Fertiliser (Kedah) Sdn Bhd - Senior Manager Engineering
2008	ASEAN Bintulu Fertilizer Sdn Bhd - General Manager
2010	ASEAN Bintulu Fertilizer Sdn Bhd - MD/CEO
2012	PETRONAS Chemicals Fertiliser (Sabah) Sdn Bhd - Head Pre-Operations/CEO
2016	PCG Berhad - Head of Project Directorate

Academic/Professional Qualifications

Ahmad Zaki Daud
- Bachelor of Science (Hons) in Electrical Engineering, University of Brighton, UK

Siti Azlina Abd Latif
- Bachelor of Arts in Accounting, University of Portsmouth, UK
- Masters of Business Administration, Cardiff University, UK

Mohamad Iskandar Bakeri
- Bachelor of Science in Mechanical Engineering, University of Arizona, USA
- Management Programme, INSEAD
- Registered Professional Engineer, Board of Engineers Malaysia

5 Industry Experience 6 Law 7 Risk management 8 Strategic marketing 9 Strategy development and implementation 10 Technology

"GOOD GOVERNANCE IS NOT JUST ABOUT COMPLIANCE WITH RULES AND REGULATIONS; IT IS ABOUT CULTURE, BEHAVIOURS AND HOW WE DO OUR BUSINESS, AND THE BOARD HAS PLAYED A VITAL ROLE TO SET THE TONE FOR THE REST OF THE ORGANISATION

DATUK MD ARIF MAHMOOD
Chairman

Dear Shareholders,

Effective Corporate Governance is integral to the successful delivery of our business goals for our diverse stakeholders. How we work is as important as what we do. PCG operates within established governance framework designed to foster transparency, integrity and an informed approach to risk management across our business worldwide. We have set good standards of behavior we expect from everyone in PCG. The Board is pleased to inform that the Group is committed to complying with the provisions of the Malaysian Code on Corporate Governance 2017 (MCCG 2017).

Good governance is not just about compliance with the rules and regulations; it is about our culture, behaviours and how we do our business. The Board has a vital role to play by ensuring that it sets the tone for the rest of the organisation. This overview report includes practical insights into how our governance framework underpins and supports our business and the decisions we make every day. For the period under review, PCG has essentially complied with the recommended practices of MCCG 2017. The status of the Company's application to MCCG 2017 is reported in our Corporate Governance Report, which is accessible to the public at PCG's website www.petronaschemicals.com.

This Corporate Governance Overview Statement should be read together with the Corporate Governance Report.

Leadership

The Board's role is to review and guide the strategy for the Group, as well as ensuring the appointment of the right leaders and effective implementation of the strategy. At the same time, the Board also monitors business performance and ensures the timely and effective assessment and management of business risks. Our goal is to build an enduring and profitable business admired by customers and stakeholders whilst achieving strong returns for our shareholders. As the Group's strategy continues to evolve, the Board is focused on ensuring that the Group remains on course in achieving its target and long-term value creation.

Effectiveness

Every year, under the purview of the Nomination and Remuneration Committee, a Board Effectiveness evaluation is conducted through a process which consists of a Board, Board Committee, Peer and Self Evaluation. The evaluation was once again positive and I was particularly pleased with the quality of support and challenge provided by the Non-Executive Directors to the Management team and the atmosphere of constructive debate around the boardroom table. The evaluation enabled the Board to reflect on areas for focus and improvement.

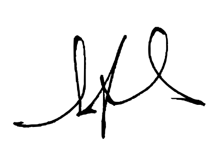
Within our business, we continue to focus on creating connections among employees of diverse backgrounds through various engagement programmes and townhalls. We believe that creating these connections lead to employees feeling included and valued and will safeguard our diverse workforce. Creating these connections between our employees goes to the heart of our culture. PCG is not unique in having a strong culture, but we believe our culture is unique. We value openness and fairness. Our employees are committed and loyal and take pride in their work and are proud to work for PCG. There is a trust and a real sense of family and community between PCG employees and, importantly, a belief that coming to work is fulfilling. The diverse make up of our workforce combined with the empowerment accorded to them, provides us with agility and leads to the creativity and innovation for which PCG is renowned.

Accountability

The Board spent time discussing the areas of risk assessment and risk management, and internal control systems as well as assessing the long term prospects of the Group. In addition, we continue to improve the quality of our Financial Reporting and in turn, to ensure the independence, quality and effectiveness of the external audit process.

Relations with shareholders

As Chairman, I am responsible for effective communication with shareholders and for ensuring that the Board understands the views of our shareholders. During the year, I have met and spoken with many shareholders at our Annual General Meeting (AGM). Immediately after the conclusion of the AGM, the Company holds a press conference with the media and any materials distributed during the press conferences are published on the Company's website. The general view is that, our shareholders support our strategy and are very comfortable with our approach to corporate governance.



DATUK MD ARIF MAHMOOD
Chairman

LEADERSHIP & EFFECTIVENESS

A STRONG FRAMEWORK

ROLE AND OPERATION OF THE BOARD

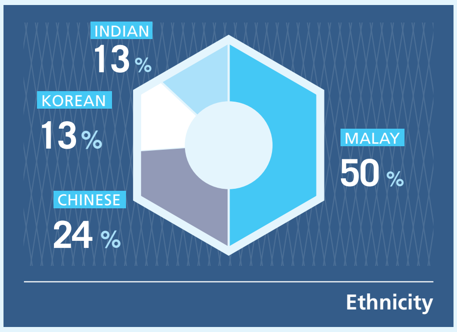
The Board has ultimate responsibility for the oversight of the Group. In this role it steers the development of a clear Group's strategy, monitors operational and financial performance against agreed goals and objectives, and ensures that appropriate controls and systems exist to manage risk.

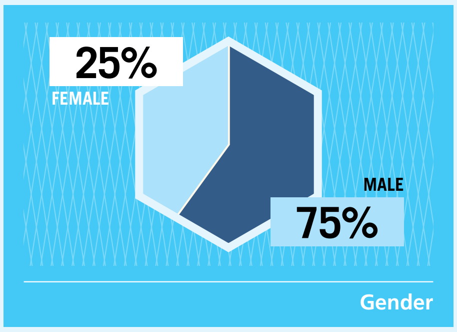
The Board, at present, comprises eight Directors: the Non-Executive Chairman; MD/CEO; two Non-Executive Directors; and four Independent Non-Executive Directors. The Board allows sufficient time for full discussion and constructive debate in all its sittings. The Non-Executive Directors have a broad range of industry, business, operations, financial and international experience, which provides appropriate balance and diversity within the Board. Profile of Board Members appear on pages 98 to 105.

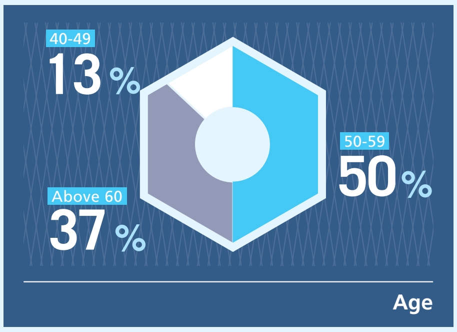
Board Skills Matrix

Required Skills and/or Experience	Datuk Md Arif Mahmood	Datuk Sazali Hamzah	Vimala V.R. Menon	Datuk William Toh Ah Wah	Ching Yew Chye	Dong Soo Kim	Zakaria Kasah	Freida Amat
FUNCTIONS*								
Global Petrochemical Consultancy						X		
Information Technology			X		X			
Human Resource					X	X		
Corporate Planning and Development	X		X	X	X	X	X	X
Operations	X	X				X	X	
Commercial/Marketing	X	X	X	X	X		X	X
Engineering	X	X				X	X	
Economics				X				X
Finance / Audit			X	X	X			X
INDUSTRY								
Oil and Gas	X	X				X	X	X
Shipping/Logistics	X	X						
Regional/International	X	X	X	X	X	X	X	X
Banking and Finance			X		X			

** Includes tertiary and professional experience.*







GOVERNANCE STRUCTURE

THE BOARD

The Board has two main Committees: the Audit Committee and the Nomination and Remuneration Committee. The terms of reference for each Board Committee can be found at www.petronaschemicals.com.

The day-to-day operational management of the business is delegated by the Board to the MD/CEO, who is assisted by the Management Committee in managing the business.

AUDIT COMMITTEE

Chaired by Vimala V.R. Menon

Monitors the integrity of the Group's financial statements/announcements, the effectiveness of internal controls and risk management as well as ensuring the quality and independence of the external auditors. For more information, see pages 127 to 131.

NOMINATION AND REMUNERATION COMMITTEE

Chaired by Datuk William Toh Ah Wah

Reviews the structure, size and composition of the Board and its Committees, endorses suitable candidates for appointment to the Board, and reviews the succession planning. Additionally, endorses the Company's directors' remuneration policy and framework. For more information, see pages 122 and 126.

BOARD ROLES

The roles of the Chairman and MD/CEO are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board. The positions of Chairman and MD/CEO are held by two different individuals.

CHAIRMAN

The Chairman leads the Board and is responsible for promoting open and effective communication between the Executive and Non-Executive Directors, and for creating an environment at Board meetings in which all Directors contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge.

He is responsible for effective communication with shareholders and for ensuring the Board understands the views of all shareholders. The Chairman also ensures that the Group complies with good practice in corporate governance, ethical, environmental and human resources matters, and upholds high standards of integrity and probity.

MD/CEO

The MD/CEO has day-to-day responsibility for the effective management of the Group's business and for ensuring that Board decisions are implemented. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. The MD/CEO is tasked with providing regular reports to the Board on all matters of significance relating to the Group's business, or reputation, to ensure that the Board has accurate, timely and clear information on all matters on which a Board decision is required. He also promotes the culture and standard of the company. The Chairman and MD/CEO liaise closely and have frequent meetings, face-to face or by telephone, in which the Chairman is kept apprised of significant developments between Board meetings.

SENIOR INDEPENDENT DIRECTOR

Vimala V.R. Menon, an Independent Non-Executive Director also serves as the Senior Independent Director. She acts as a liason between the shareholders and the company to convey their concerns and raise issues so that these can be channeled to the relevant parties. Her profile can be found at page 100 of this Annual Report.

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Independent Non-Executive Directors' role is central to an effective and accountable Board structure. They constructively challenge the Executive Director and scrutinise the performance of Management in meeting agreed goals and objectives. They help develop and monitor the delivery of the strategy within the risk and control framework set by the Board.

BOARD DIVERSITY

PCG has a diversity policy to ensure that the mix and profiles of our Board members, in terms of age, ethnicity and gender, provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management. We believe that a truly diverse and inclusive Board will leverage differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and geographical background, age, ethnicity and gender which will ensure that the Company retains its competitive advantage.

In this regard, the Nomination and Remuneration Committee (NRC) is empowered to review and evaluate the composition and performance of the Board annually, as well as assessing qualified candidates to occupy Board positions. As for the composition of the Board, the NRC will determine the benefits of diversity in order to maintain an optimum mix of skills, knowledge and experience of the Board.

The NRC will continue to focus on diversity when assessing new candidates for Board memberships, as well as evaluating the performance of the Board and its individual members. In connection with its effort to create and maintain a diverse Board, the NRC will:

a) Adhere to the recruitment and sourcing process that seeks to include diverse candidates, including women in any director search.
b) Assess the appropriate mix of diversity including gender, ethnicity, age, skills, experience and expertise required on the Board and address gaps, if any.
c) Make recommendations to the Board in relation to the appointments and maintain an appropriate mix of diversity, skills, experience and expertise on the Board.
d) Periodically review and report to the Board on requirements in relation to diversity on the Board, if any.

The Board supports the country's aspirational target of 30% representation of women directors. The NRC will review annually the composition of the Board in respect to gender, experience, skills, age and knowledge. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

A copy of the Company's diversity policy is available at www.petronaschemicals.com.

BOARD MEETINGS AND ATTENDANCE

The Board meetings together with Board Committee meetings for the financial year 2017, were pre-scheduled in November 2016 to facilitate the Directors in planning ahead and incorporating the meetings into their respective schedules. This also serves to provide the members with ample notice of the meetings.

A total of eight meetings were held during the year; to discuss and decide among others, quarterly financial results, performance reports and various other matters. In addition to the above meetings, the Company also conducted Board Strategic Conversation with the Management Committee of PCG on 20 November 2017. The purpose of the conversation is to provide the Board with updates on market outlook, external environment analysis and the Group's strategic and growth plans. Besides the Board meetings, urgent decisions were approved via written circular resolutions.

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 & procedures and limits of authority. The reports of the Board Audit and Nomination and Remuneration Committees are also presented and deliberated at board meetings. The minutes of each board meeting are circulated in a timely manner. 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. Minutes of the board meeting are tabled for confirmation at the next board meeting.

All Directors complied with the minimum attendance requirement of at least 50% of Board meetings held during the financial year pursuant to the MMLR.

The breakdown of the meetings of the Board, Board Committees and Annual General Meeting held and the attendance of the Directors who had served PCG during the financial year under review, are as follows:

Name of Directors	Meetings Attended/Held			
	Board	BAC	NRC	AGM
Non-Independent Non-Executive Chairman				
Datuk Md Arif Mahmood	6/8	-	-	1/1
Executive Director				
Datuk Sazali Hamzah	8/8	-	-	1/1
Independent Non-Executive Directors				
Vimala V.R. Menon	8/8	7/7	2/2	1/1
Datuk William Toh Ah Wah	8/8	7/7	1/1*	1/1
Ching Yew Chye	7/8	7/7	2/2	1/1
Dong Soo Kim	8/8	7/7	2/2	1/1
Non-Independent Non-Executive Directors				
Zakaria Kasah	6/8	-	-	1/1
Freida Amat	8/8	7/7	-	1/1

* Datuk William Toh Ah Wah was appointed as NRC member on 15 February 2017

SUPPLY AND ACCESS TO 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 five days prior to the meeting dates. This enables the Directors to have sufficient time to peruse the Board papers and seek clarification 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 a meeting under the item "Any Other Business", upon endorsement by the MD/CEO and approval by the Chairman. The content of the board papers prepared are comprehensive and include objectives, background, critical issues, implications, risks, strategic fit, recommendations and other pertinent information to enable informed decision making by the Board.

Presentations and briefings by the Management and relevant external advisors, where applicable, were also held at board meetings to advise the Board. In this regard, relevant information is furnished and clarification given to assist the Board in making a decision.

Access by the Board to board papers is carried out online through a secured collaborative software, which allows the Directors to 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 Board members at any time.

The Directors have direct access to the 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.

THE BOARD'S RESPONSIBILITIES AND DUTIES

The Board is charged with promoting the success of the Group by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interest of the Company. The Directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

The diagram illustrated in the next page shows the key areas of focus for the Board which appear as items on the Board's agenda at relevant times throughout the year. Concentrated discussion of these items assists the Board in making the right decisions taking into account the long-term implications to the business and its stakeholders.

KEY AREAS OF FOCUS FOR THE BOARD

01

Review, approve and monitor the implementation of overall corporate strategy and annual corporate plans encompassing operational, marketing, human resource, financial, risk management and information technology

02

Oversee and review the performance of the business, and to evaluate whether business is being properly managed

03

Identify principal risks and ensure the implementation of appropriate systems to monitor and manage these risks

04

Ensure that there is an appropriate succession plan for members of the Board and Key Management Personnel

05

Review the adequacy and integrity of internal control systems including systems for compliance with applicable laws, regulations, rules, directives and guidelines

06

Review and approve financial statements

OVERVIEW OF VARIOUS AGENDA ITEMS ON THE BOARD AND BOARD COMMITTEES MEETINGS 2017

- Q4 2016 Business Performance and Audited Financial Statements
- Q4 2016 Corporate Risk-Profile Monitoring Update
- FY2016 Annual Report Statements
- Group 5-year Liquidity and Funding Strategy
- Update/Approval on various PCG Projects
- Revisions of Board Charter
- Directors' Dealing in Shares
- Litigation/Arbitration Report

- Board Effectiveness Evaluation FY2016
- Re-appointment of Independent Non-Executive Director
- Updates on PCG various Projects

- Q1 2017 Business Performance and Quarterly Report
- Q1 2017 Corporate Risk Profile Monitoring Update
- Updates on various PCG Projects/ Agreements

	JAN	FEB	MAR	APR	MAY	JUNE
Board		●	●		●	
Board Audit Committee*		●			●	
Nomination and Remuneration Committee^		●				

- Q2 2017 Business Performance and Quarterly Results
- Q2 2017 Corporate Risk Profile Monitoring Update
- Update/Approval on various PCG Projects/Agreements
- Update on new Companies Act 2016
- Litigation/Arbitration report

- Update/Approval on various PCG Projects/ Agreements

- Q3 2017 Business Performance and Quarterly Results
- Q3 2017 Corporate Risk Profile Monitoring Update
- Update/Approval on various PCG Projects/Agreements
- Business Plans and Budget FY2018 - 2022
- Corporate Risk Profile Review for FY2018
- Update on MCCG 2017

- Update/Approval on various PCG Projects/Agreements

	JUL	AUG	SEP	OCT	NOV	DEC
Board	●	●			●	●
Board Audit Committee*	●	●		●	●	●
Nomination and Remuneration Committee^						●

Board Board Audit Committee* Nomination and Remuneration Committee^

*Board Audit Committee activities can be found on page 128

^Nomination and Remuneration Committee activities can be found on page 126

DIRECTOR'S DEVELOPMENT PROGRAMME

On joining PCG, Directors receive a tailored briefing session by the MD/CEO and the relevant heads of department of the Company. This session helps new Directors to understand PCG's business, market and financial performance of the Group. It also serves as a platform for new Directors to engage with the Senior Management of the Company and welcoming the new Directors to PCG.

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.

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 industry 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 familiarisation visits to the Group's plants.

During the year, the Directors participated in seminars and training programmes in various capacities such as delegates and/or speakers as detailed below:

No.	Director	Training attended in 2017	Date
1.	Datuk Md Arif Mahmood	• SPE Asia Pacific Health, Safety, Security, Environment & Social Responsibility Conference	5 April 2017
		• 19th Asia Oil & Gas Conference	7 – 9 May 2017
		• Abu Dhabi International Petroleum Exhibition and Conference	13 – 14 November 2017
		• Appreciating the PETRONAS Culture Beliefs	13 December 2017
2	Datuk Sazali Hamzah	• Singapore Chemicals & Energy Transactions Round Table	23 March 2017
		• 19th Asia Oil & Gas Conference	7 – 9 May 2017
		• 3rd ASEAN Refining & Petrochemical Forum	25 May 2017
		• PETRONAS Cultural Beliefs Workshop	7 July 2017
		• Digital Learning	30 July – 4 August2017
		• Minister – Industry Dialogue	12 October 2017
		• PETRONAS Risk Forum – Navigating the Future Maze: Innovative Ways in Managing Risk	14 November 2017
		• Appreciating the PETRONAS Culture Beliefs	13 December 2017
3.	Vimala V.R. Menon	• 19th Asia Oil & Gas Conference	7 – 9 May 2017
		• Executive Briefing: Malaysian Code on Corporate Governance Update	24 May 2017
		• Malaysia Institute of Accountants – MFRS9 Financial Instruments: Gearing Up for First-Time Adoption	19 September 2017
		• Fraud Risk Management with PWC – Bursa Malaysia	26 September 2017
		• Appreciating the PETRONAS Culture Beliefs	13 December 2017
4	Ching Yew Chye	• AIA – Management Briefing on Cybersecurity	12 January 2017
		• Listed Company Directors Module 1 : Understanding Regulatory Environment in Singapore	18 January 2017
		• FIDE Asian Corporate Governance Association: CG Watch 2016 – Ecosystems Matter	7 March 2017
		• Listed Company Directors Module 3 : Risk Essentials	21 March 2017
		• 1st Board Leadership Series 2017 – Efficient Inefficiency: Making Boards Effective in a Changing World	4 May 2017

No.	Director	Training attended in 2017	Date
5.	Dong Soo Kim	• The Role of Enterprise for Safety and Environmental Improvement	31 January 2017
		• Leadership: It is all about People and Organisational Development	7 July 2017
		• As a Speaker for a Programme at Seoul National University on "What is holding you back?"	9 August 2017
		• The Role of a Global Leader	3 September 2017
6	Datuk William Toh Ah Wah	• 19th Asia Oil & Gas Conference	7 – 9 May 2017
		• What Directors Need to Know on Reporting Disclosure Obligations to Prevent Public Reprimand & Fines by the Regulators	24 November 2017
		• Appreciating the PETRONAS Culture Beliefs	13 December 2017
7.	Zakaria Kasah	• 19th Asia Oil & Gas Conference	7 – 9 May 2017
		• Into Perspective Session	30 October 2017
		• Project Management Forum	10 November 2017
		• Leadership Excellence at PETRONAS Tactical Excellence	30 November 2017
8.	Freida Amat	• PETRONAS Board Excellence: Essentials for Directorship Program	2 May 2017
		• Asian World Summit - Cyber Fraud for Board	17 May 2017
		• Appreciating the PETRONAS Culture Beliefs	13 December 2017

Aside from the attendance of training and conferences during the year under review, the PCG Board had a session with the commercial team, to further understand commercial excellence initiatives and industry outlooks.

QUALIFIED AND COMPETENT COMPANY SECRETARY

Both Company Secretaries are qualified to act as Company Secretary pursuant to the Companies Act 2016. Both of them have legal qualifications. Each acts as an advisor to the Board, particularly with regard to the Constitution of the Company, board policies and procedures and its compliance with regulatory requirements, codes, guidance and legislations. The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented and subsequently communicated to the relevant Management for appropriate actions.

The Company Secretaries constantly keep abreast with the evolving regulatory changes and developments in corporate governance through continuous training. During the year under review, Noor Lily Zuriati Abdullah attended the following trainings:

- Annual General Meeting, Accounts, Annual Return Under The Companies Act 2016
- No Par Value & Issuance of Shares and Other Securities
- Seminar on "Companies Act 2016"
- Preference Share Under The New Companies Act 2016
- Share Registration Practical Issues
- Seminar on Closing of Companies and Limited Liability and Partnerships
- *Program Jalinan Strategik SSM Bersama Setiausaha Syarikat*
- Related Party Transactions Workshop

Whilst Eric Kang Shew Meng is a Company Secretarial practitioner and he is often invited as a speaker at company secretarial conferences.

In this regard, both the Company Secretaries are qualified and competent in their roles.

NOMINATION AND REMUNERATION COMMITTEE REPORT

Datuk William Toh Ah Wah
Chairman

THE COMMITTEE CONTINUES ITS WORK OF ENSURING THE BOARD COMPOSITION IS RIGHT, THAT OUR GOVERNANCE IS EFFECTIVE AND DECISIONS IN RESPECT OF REMUNERATION REFLECT OUR PRINCIPLES, THE GROUP'S PERFORMANCE AND EXTERNAL CONSIDERATIONS.

MEMBERS AND THEIR ATTENDANCE

No.	Name of Members	No. of Meetings Attended
1.	**Datuk William Toh Ah Wah** *Chairman* *Independent Non-Executive Director* *(Appointed as member on 15 February 2017 and as Chairman on 2 January 2018)*	1/1
2.	**Vimala V.R. Menon** *Senior Independent Director*	2/2
3.	**Ching Yew Chye** *Independent Non-Executive Director*	2/2
4.	**Dong Soo Kim** *Independent Non-Executive Director*	2/2

TERMS OF REFERENCE

The NRC is governed by its Terms of Reference (TOR), which are consistent with the requirements of the MMLR and MCCG 2017. The TOR of the NRC is accessible to the public for reference on PCG's official website at www.petronaschemicals.com.

COMPOSITION

The NRC comprises exclusively Independent Non-Executive Director, in compliance with the requirement of the MMLR, which provides that the NRC must comprise exclusively non-executive directors, the majority of whom are independent directors. The composition also observed MCCG 2017 where the NRC is chaired by a Senior Independent Director or an Independent Director. In the case of PCG, the NRC is chaired by an Independent Director.

During the year, membership of NRC underwent a few changes, and announcements on the same were made to Bursa Malaysia accordingly. Datuk William Toh Ah Wah was appointed as an additional NRC member on 15 February 2017 and was later appointed as the NRC Chairman on 2 January 2018, in place of Ching Yew Chye, who remains as a member of the NRC.

The NRC was established to enhance the efficiency and transparency of the Company's governance process and to assist the Board in matters regarding among others the nomination and appointment of Directors and Key Management Personnel. In view of the same composition of members, PCG opts to combine its Nomination and Remuneration Committee for practical purposes.

In carrying out its duties and responsibilities, the NRC has the following authority:

- To seek any information it requires from employees, Company officers and external parties;
- To engage external consultants and other advisers or otherwise obtain independent legal or other professional services it requires, at the expense of the Company; and
- To request sufficient resources to undertake its duties including access to the Company Secretary.

MEETINGS

NRC convened two meetings during the financial year 2017. The attendance of the member is enumerated on page 118 in this Annual Report. MD/CEO, Company Secretary, Head of Human Resource Management Division and any other persons deemed necessary by the NRC are invited to attend and are present for deliberations which require their input or advice. The Company Secretary acts as Secretary to the NRC.

The NRC meetings for the financial year 2017 were pre-scheduled in November 2016, to facilitate the members in planning ahead and incorporating the NRC meetings into their respective schedules. This also serves to provide the members with ample notice of the meetings.

The agenda and a set of meeting papers encompassing information relevant to the business of the meeting are distributed to the NRC Members, not less than five days from the meeting date via a secured collaborative software for deliberation at the respective NRC meetings. The online accessibility facilitates the NRC members to read and review documents or communicate with other NRC members at any time.

All proceedings of the NRC meetings are duly recorded in the minutes of each meeting and signed minutes of each NRC meeting are properly kept by the Company Secretary. Minutes of the NRC meeting are tabled for confirmation at the next NRC meeting, after which they are circulated to the Board for notation.

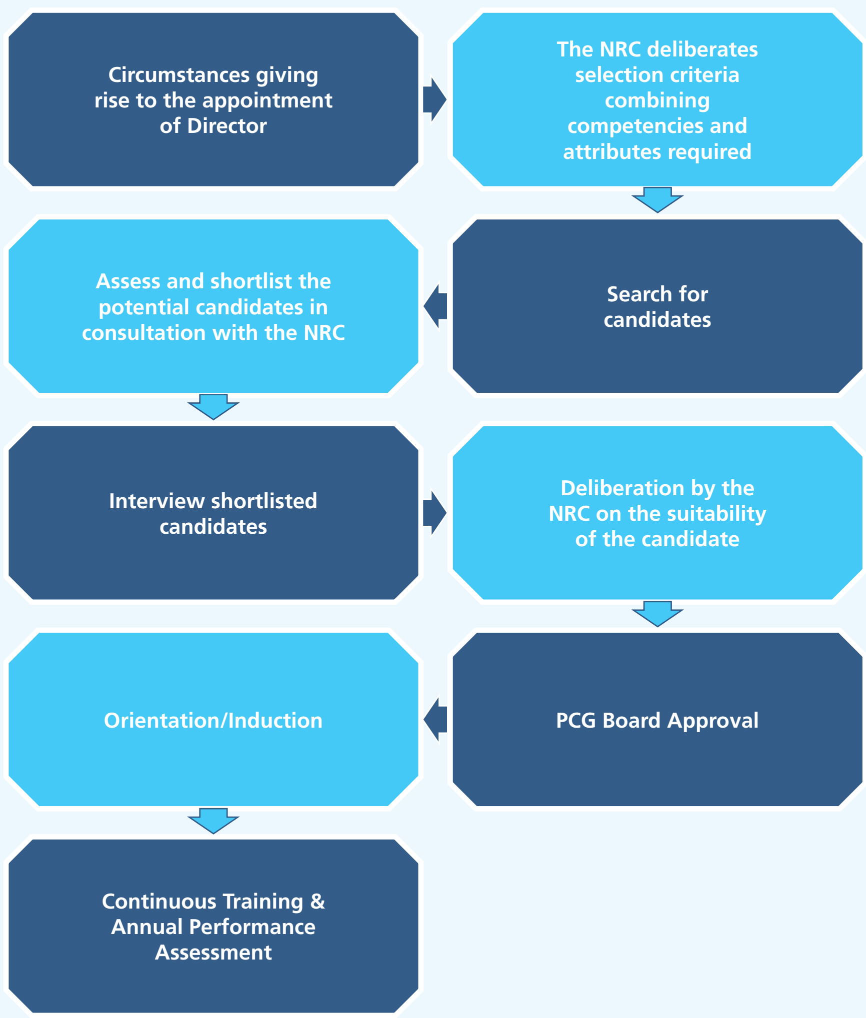
BOARD APPOINTMENT PROCESS

The Company maintains a formal and transparent procedure for the appointment of new directors. Nomination of directors to the Board is made either by Petroliam Nasional Berhad, being the majority shareholder, or through engagement of a professional recruitment firm to find suitable candidates to fill in the position of Independent Non-Executive Director.

In its selection of suitable candidates, the NRC adheres to the guidelines stipulated in the Board Selection Criteria. The guidelines will assist the NRC in evaluating potential candidates for the purpose of appointment and re-appointment of Directors with proper selection criteria.

All potential candidates are first considered by the NRC, taking into account mix of skills, competencies, experience, integrity, personal attributes and time commitment required to effectively discharge his or her role as a director. Diversity in terms of age, gender and ethnicity are also considered during the selection process.

PROCESS FLOW FOR APPOINTMENT OF A DIRECTOR



DIRECTORS' RE-ELECTION AND RE-APPOINTMENT

The NRC is responsible for recommending to the Board, directors who are standing for re-election at the AGM pursuant to Article 93 of PCG's Constitution.

Directors' rotation list was presented to NRC for endorsement prior to recommendation to the Board and thereafter to the shareholders for approval. In assessing the candidates, the NRC takes into consideration on their attributes, competencies, commitment, personality and qualities as well as their contribution and performance based on the Board Effectiveness Evaluation (BEE).

Article 93 of the Company's Constitution provides that one-third of the Directors of the Company for the time being shall retire by rotation at an AGM at least once in three years but shall be eligible for re-election at the AGM.

The NRC at its meeting held on 7 December 2017 endorsed for the following directors who are due for re-election at the forthcoming 20th AGM, be considered for re-election:

i) Datuk Md Arif Mahmood
ii) Vimala V.R. Menon
iii) Zakaria Kasah

The Board had at its meeting held on 20 February 2018, approved the revision to the tenure policy where Independent Non-Executive Director tenure is capped at nine years without further extension. The Company opts to adopt exemplary practice as recommended by MCCG 2017.

There was no new appointment of Directors during the year under review. Hence, the retirement of newly appointed director and re-election thereon pursuant to Article 99 of the Company's Constitution is not applicable.

BOARD EFFECTIVENESS EVALUATION

Every year, under the purview of the NRC, a formal evaluation is undertaken to assess the effectiveness of the following:

a) The Board as a whole and the Board Committees.
b) Contribution of each individual Director.
c) Independence of Independent Directors.

The Company had engaged a third party consultant for the 2016 BEE, where the result was presented to the NRC in March 2017. For 2017 BEE, it was internally conducted and the process covers Board, Board Committee, Peer and Self Evaluations. The BEE focuses on maximising the effectiveness and performance of the Board and its Committees in the best interests of the Company.

The questionnaires on the BEE incorporated applicable best practices. The indicators for the performance of the Board include among others, the Board composition, planning process, conduct, communication with the management and stakeholders as well as strategy and planning for the Group were used for the Board to provide their ratings.

AREAS FOR BOARD EVALUATION ASSESSMENT

GROUP DYNAMICS AND EFFECTIVENESS

- Overall Impressions of the Board
- Board Effectiveness
- Board Involvement and Engagement

STRUCTURE AND COMPOSITION

- Organisation/Composition of the Board
- Overall Committee Organisation
- Board Audit Committee Deep Dive
- Nomination and Remuneration Committee Deep Dive
- Roles and Duties of Board members
- Forward looking, including strategy, succession planning and development

COMMUNICATION

- Communication with Shareholders

SELF-PEER ASSESSMENT

KNOWLEDGE AND UNDERSTANDING

- PCG's vision, strategic needs and development, market, performance, international business, financial discussions, legal and compliance duties, risk managements and effectiveness

SKILLS AND EXPERIENCE

- Analytical skills

BOARD PREPAREDNESS

- Commitment of time
- Constructive contributions
- Open communications
- Cordial relations with Directors
- Attentiveness

BOARD EFFECTIVENESS EVALUATION 2017

The NRC has on 12 February 2018, reviewed the outcome of the 2017 BEE and noted that the Board is committed to the highest standards of good governance and continues to be seen as an excellent Board with outstanding support from the Management. At the same time, the NRC took note on the need to focus more on growth strategies plan implementation of the Group.

Pursuant to the MMLR of Bursa Malaysia, the NRC also reviewed the performance of the BAC and is satisfied that the Board Audit Committee (BAC) and its members discharged their functions, duties and responsibilities in accordance with its TOR. The Chairman of the NRC is actively involved throughout the BEE process and has the liberty to hold discussions with the Chairman of the Board.

For the year under review, the results were satisfactory and conform to industry benchmarks.

NOMINATION AND REMUNERATION COMMITTEE EFFECTIVENESS REVIEW AND PERFORMANCE

Based on the 2017 BEE findings, the Board believes that the current NRC's composition provides the appropriate balance in terms of skills, knowledge and experience to promote the interests of all stakeholders and to meet the needs of the Group. The Board is satisfied with the performance and effectiveness of the NRC in providing sound advice and recommendations to the Board.

SUCCESSION PLANNING

The Board Succession Plan will assist the Company in ensuring the orderly identification and selection of new Non-Executive Directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, an unanticipated departure, the expansion of the size of the Board, or otherwise.

During the year under review, the NRC deliberated the succession planning for Directors who are about to reach their nine year tenure.

REMUNERATION

Our approach to remuneration is based on reward principles which aims to provide remuneration packages that fairly reward the Executive Director and Senior Management for the contribution they make to the Group, having regard to the size and complexity of the Group's business operations and the need to attract, retain and motivate executives of the highest quality.

The Board has established a formal and transparent Directors' Remuneration Framework which comprise retainer fees, meeting allowances and benefits in-kind.

The Company has undertaken a review on the Directors remuneration to ascertain the competitiveness of the current Non-Executive Directors remuneration framework. A benchmarking exercise was carried out against selected companies in Malaysia. Based on the findings, the Board is recommending an increase in the Directors remuneration for the financial year ending 31 December 2018 to reflect the increase in responsibilities of the Chairman and Non-Executive Directors, for approval by the shareholders at the forthcoming AGM.

DIRECTORS' FEES

The approach to Directors' fees is aligned with our strategic objectives, allows us to attract, motivate and retain high caliber talent, and as part of our risk framework, does not promote excessive risk-taking. The design of our fees architecture complies with regulatory requirements, embraces market practices and trends, and provides attractive and balanced rewards. The fees structure of Directors of the Company is as follows:

	Retainer Fees/month	Meeting allowance per attendance		
		Board	BAC	NRC
Chairman	RM9,000	RM4,000	RM3,500	RM3,000
Member: Non-Independent Non-Executive	RM6,000	RM3,000	RM2,000	RM2,000
Independent Director	RM6,000	RM3,500	RM3,500	RM3,500
Independent Directors (Special Skill)	RM18,000	RM3,500	RM3,500	RM3,500

The fees and allowances for Non-Executive Directors are determined by the Board and are subject to the approval of the shareholders of PCG.

The Director's 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 Directors' remuneration is broadly categorised into the following bands:

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM50,000 and below	-	-
RM50,001 to RM100,000	-	1
RM100,001 to RM150,000	-	5
RM150,001 to RM300,000	-	1
RM700,000 to RM1,100,000	1*	-

** Executive Director's payroll related costs and benefits paid to PETRONAS.*

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

The breakdown of the detailed Directors' remuneration is disclosed in the Corporate Governance Report which is accessible to the public for reference at PCG's official website www. petronaschemicals.com.

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. As an Executive Director, he is not entitled to receive directors' fees or meeting allowances.

Datuk Sazali Hamzah, MD/CEO and an Executive Director of the Company, is an employee of PETRONAS and is seconded to the Company. In consideration for his service, the Company is required to pay PETRONAS a 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 RM1,013,352 for his services as MD/CEO of the Company.

MANAGEMENT TEAM'S REMUNERATION

The Senior Management are employees of PETRONAS and seconded to the Company. Their remuneration has been benchmarked with the industry and is aligned with the market.

PCG has identified the top five senior management as follows:-

a) Datuk Sazali Hamzah,MD/CEO
b) Rashidah Alias, Chief Financial Officer
c) Mahadzir Rani, Head of Manufacturing
d) Shamsairi Ibrahim, Head of Commercial
e) Akbar Md Thayoob, Head of Strategic Planning & Ventures

For information on the top five senior management's remuneration, please refer to website www.petronaschemicals.com.

SUMMARY OF ACTIVITIES OF THE NOMINATION AND REMUNERATION COMMITTEE

Members of the NRC have undertaken their responsibilities diligently and efficiently. The following activities were carried out by the NRC during the financial year ended 31 December 2017:

a) Reviewed and endorsed the Employee Performance of PCG's Senior Management;
b) Reviewed the performance planning and Key Performance Indicators for MD/CEO;
c) Reviewed the performance planning and Key Performance Indicators and development plans for PCG's Senior Management;
d) Reviewed and endorsed the NRC Report for inclusion in the 2016 Annual Report;
e) Reviewed the Directors' Training requirements;
f) Reviewed and endorsed the Board Selection Criteria and its amendment;
g) Reviewed the Board's Skills and Experience Matrix;
h) Reviewed the succession planning for Independent Directors;
i) Assessment on the effectiveness of the Board as a whole, the Committees of the Board, as well as the contribution of each individual Director through a BEE exercise;
j) Reviewed and endorsed the re-appointment of Datuk William Toh Ah Wah as Director of the Company;
k) Reviewed and endorsed the changes of NRC Chairman;
l) Recommended the Directors standing for re-election at the 2018 Annual General Meeting of the Company;
m) Reviewed and endorsed the BEE Questionnaires; and
n) Reviewed the new updates on the MCCG 2017.

Datuk William Toh Ah Wah
Chairman
Nomination and Remuneration Committee
7 March 2018

ACCOUNTABILITY

BOARD AUDIT COMMITTEE REPORT

Vimala V.R. Menon
Chairman

WE ASSIST THE BOARD IN FULFILLING ITS OVERSIGHT RESPONSIBILITIES IN AREAS SUCH AS THE INTEGRITY OF FINANCIAL REPORTING, THE EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS AND RELATED GOVERNANCE AND COMPLIANCE MATTERS.

MEMBERS AND THEIR ATTENDANCE

No.	Name of Members	No. of Meetings Attended
1.	**Vimala V.R. Menon** (Chairman) *Senior Independent Director*	7/7
2.	**Ching Yew Chye** *Independent Non-Executive Director*	7/7
3.	**Dong Soo Kim** *Independent Non-Executive Director*	7/7
4.	**Datuk William Toh Ah Wah** *Independent Non-Executive Director*	7/7
5.	**Freida Amat** *Non-Independent Non-Executive Director*	7/7

TERMS OF REFERENCE

The TOR of the BAC set out the authority, duties and responsibilities of the BAC which are consistent with the requirements of the MMLR and the MCCG 2017. The TOR of the BAC are accessible to the public for reference on PCG's official website at www.petronaschemicals.com.

The TOR were revised during the year under review to accommodate the inclusion of a new policy which requires former key audit partners to observe a two-year cooling-off period before becoming a member of the audit committee. This revision places the Company in line with the requirements under the MCCG 2017.

COMPOSITION

The Chairman of the BAC, Vimala V.R. Menon and Freida Amat are both qualified accountants. Vimala is currently a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA), whilst Freida is a Fellow of the Association of Chartered Certified Accountants (ACCA) and a member of the MIA. In this regard, the Company is in compliance with the MMLR which requires at least one member of the BAC to be a qualified accountant.

The BAC composition is in compliance with the MMLR and the MCCG 2017, where all five BAC members are Non-Executive Directors including four Independent Directors, who fulfill the criteria of independence as defined in the MMLR. None of the Independent Directors have appointed alternate directors.

MEETINGS

The BAC meetings for the financial year 2017 were pre-scheduled in November 2016 to facilitate the Directors in planning ahead and incorporating the BAC meetings into their respective schedules. This also serves to provide the members with ample notice of the meetings. The BAC meets at least quarterly with additional meetings convened as and when necessary. During the year, attendance at all BAC meetings met the requisite quorum as stipulated in the BAC TOR.

By invitation, the MD/CEO, Chief Financial Officer and Head of Internal Audit Division (IAD) attend the BAC meetings to provide input and advice, appropriate information as well as clarification to relevant items on the agenda.

The Head of IAD presents the internal audit reports to the BAC. In this regard, relevant members of the Management are invited to apprise the BAC on specific issues arising from the audit findings. The external auditors also attend the BAC meeting to present the external audit plan for the year as well as the outcome of the statutory audit conducted on the Company and its subsidiaries. In addition, the BAC meets with the external auditors at least once during the financial year without the presence of the Management.

The agenda and a set of meeting papers encompassing qualitative and quantitative information relevant to the business of the meetings are distributed to the BAC members five days prior to the meeting dates.

Deliberations during the BAC meetings include performance review of the Company, interim financial reporting to Bursa Malaysia, year-end statutory audits, assessment of Related Party Transactions (RPT) and Recurrent Related Party Transactions (RRPT) proposed to be entered into by the Company, status of open audit findings together with the agreed corrective actions and risk management activities.

Minutes of the BAC meeting are tabled for confirmation at the next BAC meeting, after which they are circulated to the Board for notation. In addition to communicating to the Board on matters deliberated during the BAC meeting, the BAC Chairman also recommends to the Board the approval of annual financial statements and quarterly financial results.

SUMMARY OF ACTIVITIES OF THE BOARD AUDIT COMMITTEE

Principal activities performed during the year under review were as follows:

Financial Reporting

a) Reviewed the quarterly results for announcements to Bursa Malaysia before recommending the same for approval by the Board upon being satisfied that it had complied with applicable approved MFRS issued by the Malaysian Accounting Standards Board (MASB), MMLR and other relevant regulatory requirements.
b) Reviewed the Company's annual and quarterly management accounts.
c) Reviewed the audited financial statements of the Company prior to submission to the Board for the Board's consideration and approval, upon the BAC being satisfied that, inter alia, the audited financial statements were drawn up in accordance with the provisions of the Companies Act 2016 and the applicable approved MFRS issued by the MASB.
d) Reviewed and deliberated specific key areas affecting the Group's financial results, and endorsed recommendations made by the Management. The key areas deliberated include assessments on the following areas:
   » Impairment indicators on property, plant and equipment and detailed impairment testing.
   » Recognition of deferred tax assets and the probability of future utilisation.
   » Recognition of provisions including provisions for decommissioning and restoration costs.
   » Carrying value of inventories and any write-offs thereon.
   » Revenue and expenses recognition.

Internal Control

a) Reviewed the effectiveness of the system of internal controls, taking account of the findings from internal and external audit reports.

Corporate Governance

a) Reviewed the impact of the relevant regulatory changes, including updates on the new Companies Act 2016 and MCCG 2017 as well as ensuring compliance by the Company and the Group.
b) Reviewed the Group Limits of Authority (LOA) and establishment of Summary of Authority arising from the transfer of PCG's Project Engineering Centralised Services to PETRONAS Technical Services Sdn Bhd (PTSSB), a wholly-owned subsidiary of PETRONAS.

Related Party Transactions and Conflict of Interest

The BAC reviews all RPT/RRPT in accordance with the PCG RPT Policies and Procedures to idenitfy, monitor and track so as to ensure the transactions are at all times carried out on arms-length basis and are not to the detriment of minority shareholders.

During the financial year under review, the BAC reviewed the following:

a) Reviewed the status of the Company's RPT and RRPT.
b) Evaluated and approved the appointment of an Independent Advisor for RRPT in respect of the Company's project in Pengerang Integrated Complex.
c) Reviewed the performance of RPT/RRPT vendors.

Internal Audit

a) Reviewed and deliberated on reports of audits conducted by the IAD.
b) Monitored all corrective actions on audit findings identified by the IAD until all issues were resolved.
c) Reviewed and approved the annual internal audit plan for 2018 to ensure adequacy of coverage and scope of the internal audit plan.
d) Reviewed the adequacy of resources and competencies of staff within the IAD to execute the internal audit plan.
e) Reviewed the Key Performance Indicators of the Head of IAD.

External Audit

a) Reviewed with the external auditors, audit strategies and scope for the statutory audit of the Company's financial statements for the financial year ended 31 December 2017.
b) Reviewed with the external auditors the results of the statutory audit and the audit report.
c) Reviewed and endorsed the proposed fees for the statutory audits.
d) Reviewed and endorsed certain non-audit engagements provided by the external auditors and monitored the fee of total non-audit work carried out by the external auditors with the main objective of ensuring no impairment of independency or objectivity. In relation to this, the BAC noted the assurance provided by the external auditors confirming their independence throughout the financial year under review.
e) During the year, PCG engaged the external auditors for non-audit services. Total fees paid to the external auditors are as follows:

	2017		2016	
Particulars	Group RM'000	Company RM'000	Group RM'000	Company RM'000
Audit Fees				
• Statutory audit	**1,506**	**150**	1,391	150
Total Statutory Audit	**1,506**	**150**	1,391	150
Non-audit Fees				
• Half-yearly Limited Review	**180**	**180**	-	-
• Quarterly Limited Review	**-**	**-**	582	582
• Tax Services	**45**	**-**	22	-
• Review of Statement on Risk Management and Internal Control	**25**	**25**	25	25
• Review of Bursa Realised and Unrealised Profit	**-**	**-**	15	15
• Review of MFRS 15	**304**	**-**	-	-
• Review on Asset Aquisition Exercise of Two Subsidiaries	**-**	**-**	78	36
• Review of Transfer Pricing	**85**	**-**	-	-
Total Non-audit Fees	**639**	**205**	722	658
Percentage of Non-audit Fees over Statutory Audit	**42%**	**>100%**	52%	>100%

Risk Management

- Reviewed and endorsed the corporate risk profile for the Group.
- Reviewed the progress of ongoing risk management activities to identify, evaluate, monitor and manage critical risks.

Annual Reporting

The BAC reviewed its report and the Statement on Risk Management and Internal Control for the financial year ended 31 December 2017 to ensure that they were prepared in compliance with the relevant regulatory requirements and guidelines.

INTERNAL AUDIT FUNCTION

The BAC is supported by an in-house internal audit function, the IAD, in discharging its governance responsibilities stated in the BAC's TOR. The IAD undertakes a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes within the Group.

During the year under review, the internal audit function was headed by Zulaini Ahmad, who reports to the BAC. Effective 1 January 2018, Zulaini has been assigned to another role within the PETRONAS Group and the IAD is now headed by Mohd Effendi Mohd Nawi. Mohd Effendi is a qualified chartered accountant. He is a member of Chartered Accountant Australia and New Zealand (CA ANZ) and MIA. He also holds a Bachelor of Commerce from the University of New South Wales, Australia. Prior to joining PETRONAS in 1999, he was an auditor with Ernst & Young from 1994 until 1998, where his last position was as Audit Senior. He has held various positions within the PETRONAS Group and has vast experience mostly in finance. He was the Head, Finance and Accounts at PETRONAS Carigali Iraq Holding BV before assuming his current position as the PCG Head of IAD.

The BAC approves the internal audit plan and the key performance indicators of Head of IAD and reviews IAD's annual budget and resource requirements. The Head of IAD communicates the results of internal audit engagements performed to the BAC as well as reports on IAD's performance against the approved internal audit plan on a quarterly basis.

The IAD adopts the Institute of Internal Auditors' International Professional Practices Framework and the Committee of Sponsoring Organisation of the Treadway Commission's internal control framework, in its processes and activities. In performing the audit engagements, the internal auditors adhere to the IAD's established procedures and guidelines, as well as relevant policies and procedures adopted by the Group. In maintaining independence and objectivity, internal auditors will not be assigned audit scope that would lead to a conflict of interest.

The IAD continues to adopt a risk-based approach to ensure that the audit plans are prioritised based on the Group's key risks. In deriving the audit plan, the IAD gathers input from various sources including the risk profile of the Group, business plans and strategies, past audit issues and feedbacks from external auditors, BAC and the Management.

In the year under review, the IAD performed reviews on various key business and risk areas of the Group as per the approved internal audit plan and presented the reports for the following audits to the Board Audit Committee:

No.	Audits conducted in 2017
1	Audit on PCG overseas subsidiaries namely PC Marketing Thailand, PC Marketing China, PC Marketing Indonesia and PCM Chemical India Private Limited; and representative offices
2	Audit on subsidiaries namely PC Fertiliser Sabah,KPSB, PC Fertiliser Kedah and PC Ammonia
3	Audit on sales and marketing activities
4	Shareholder's audit on management of selected projects at BASF PETRONAS Chemicals Sdn Bhd
5	Audit on supply and distribution activities
6	Audit on contract manufacturing and term processing agreements across PCG
7	Audit on product inventory management
8	Audit on Kertih Terminals Sdn Bhd
9	Shareholder's audit on BASF PETRONAS Chemicals Sdn Bhd
10	Audit on PCG Corporate Affairs and Administration Department

In its internal audit reports, the IAD highlights to the BAC the key control issues, positive observations, risks and relevant recommendations for improvement, along with the agreed corrective actions.

Subsequent to the BAC review, the resulting reports from the audits were forwarded to the Management. The Management is responsible for ensuring that agreed corrective actions are implemented within the required time frame. The IAD monitors the progress of these corrective actions and reports the status to the BAC on a quarterly basis.

The Group continues its commitment to equip the internal auditors with adequate knowledge and proficiencies to discharge their duties and responsibilities.

Annually, internal auditors go through individual functional competency assessment to determine the learning and development programme necessary to further enhance their competency. The functional competency assessment adopted by the IAD is part of PETRONAS capability development programme for internal auditors, which takes into consideration the core competencies as stipulated by the Institute of Internal Auditors Global Internal Audit Competency Development Framework's core compentencies which includes:

- Internal audit delivery
- Personal skills
- Technical expertise
- Internal audit management
- Professional ethics

There are a total of 19 internal auditors across the Group as at 31 December 2017. The internal auditors have sufficient mix of knowledge, skills and competencies to execute the audit plan. The composition of the internal auditors and the corresponding professional status are as follows:

Professional Status	Percentage	No. of staff
Professional accounting (MICPA, CA ANZ, ACCA, CPA) or Certified Internal Auditor (CIA)	42%	8
Professional technical certification from regulatory bodies (DOSH, DOE)	16%	3
Graduate pursuing professional accounting or CIA	16%	3
Graduate (Bachelor's Degree)	26%	5
Total no. of staff		19

The total costs incurred by the internal audit function of the Company and the Group for the financial year was RM5,857,000.

BOARD AUDIT COMMITTEE EFFECTIVENESS REVIEW AND PERFORMANCE

During the financial year under review, the Board assessed the performance of the BAC through an annual BEE. The Board agreed that BAC contributes to the overall effectiveness of the Company and the Group. PCG Board is satisfied that the BAC has discharged its functions, duties and responsibilities in accordance with the BAC TOR.

REPORTING TO THE EXCHANGE

For the financial year under review, the BAC was of the view that the Company was in compliance with the MMLR.

Vimala V.R. Menon
Chairman
Board Audit Committee
7 March 2018

RELATIONS WITH SHAREHOLDERS

COMMUNICATING EFFECTIVELY WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of effective dialogue with shareholders and investors. We believe that communication with our shareholders is a two-way process. We take into consideration views and feedback that we receive from all of our shareholders. In the past year, the MD/CEO, Chief Financial Officer and other members of Senior Management together with the Company's Investor Relations Unit, conducted regular dialogues with both its local and foreign shareholders and analysts. This resulted in 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 of the Group's businesses and operations.

In addition, 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, media conference post AGM, analyst briefings and quarterly results of the Group are also made available on the website and this serves to promote accessibility of information to the Company's shareholders and all other market participants. Communication and feedback from investors can also be directed to email address petronaschemicals_ir@petronas.com or alternatively, it can be addressed to:

ZAIDA ALIA SHAARI
Head of Investor Relations Performance Management

PETRONAS CHEMICALS GROUP BERHAD
Level 14, Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre,
50088 Kuala Lumpur

In addition, matters of concern to the Group from shareholders or other stakeholders can be addressed to Senior Independent Director, who is also the Chairman of the BAC, Vimala V.R. Menon at vimala.menon@petronas.com or directed to the following address:

VIMALA V.R. MENON
Senior Independent Director

PETRONAS CHEMICALS GROUP BERHAD
Level 15, Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre,
50088 Kuala Lumpur

Shareholders and potential investor meetings

Foreign institutions	Local institutions
63	51

Site visit

2

For more information, please refer to pages 60 to 64 on Investor Relations.

ANNUAL GENERAL MEETING

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 28 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxies 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 pertaining to the Annual Report, resolutions being proposed and the business of the Company or the Group in general prior to seeking approval from members and proxies on the resolutions. The Board, Senior Management, external auditors and other advisors, are present at the AGM to provide answers and clarifications to shareholders. Since 2017, all general meetings' resolutions are decided via an e-polling platform. An independent scrutineer is appointed to oversee the proceedings of the e-polling.

The minutes of the AGM are accessible to the public for reference on PCG's official website at www.petronaschemicals.com

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 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 152 of this Annual Report.

Related Party Transactions and Conflict of Interest Situations

All RPTs including RRPTs entered into by the Company or its subsidiaries are reviewed by the BAC. The list of transactions entered into with related parties are incorporated at page 196 to 201 of this Annual Report.

The Statement on Risk Management and Internal Control provides a comprehensive overview of the Group's policies and procedures on RPTs and RRPTs. This is set out on pages 142 to 143 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 and Internal Control provides an overview of the risk management and internal controls within the Group as set out on pages 134 to 144 of this Annual Report.

INTEGRITY AND ETHICS

The Board further acknowledges its role in establishing a corporate culture that encompasses and embraces ethical conduct within the Group. In line with this principle, the Board has adopted the PETRONAS Code of Conduct and Business Ethics, the Whistleblowing Policy, the Corporate Disclosure Guide and the Anti-Bribery and Corruption Manual. The adoption of these policies is to ensure that the conduct of business and the Group's employees are consistently carried out ethically and with integrity.

Code of Conduct and Business Ethics

The Group adopts and practices the PETRONAS Code of Conduct and Business Ethics (CoBE).

The CoBE is also accessible to the public for reference on the Company's official website at www.petronaschemicals.com.

Whistleblowing Policy

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

Further information on the PETRONAS Whistleblowing Policy can be found on page 142 of this Annual Report. The infomation is also accessible to the public for reference on the Company's official website at www.petronaschemicals.com.

Corporate Disclosure Guide

The Company has, in place, an internal corporate disclosure guide to facilitate the disclosure and conduct on the dissemination of information. This guide is based on the requirements as set out in the MMLR, the Corporate Disclosure Guidelines [2nd Edition] by Bursa Malaysia and promotes transparency and accountability in the communication and dissemination of material information to the public.

Trading on Insider Information

The Board and principal officers of PCG are prohibited from trading in securities based on price sensitive information and knowledge acquired by virtue of their positions which has not been publicly announced.

Notices on the closed period for trading in PCG's shares are sent to the Directors and principal officers on a quarterly basis as a reminder on the prohibition to trade during the identified timeframe when the Directors and the principal officers are prohibited from dealing in PCG's shares. Directors and principle officers are also reminded not to deal in the Company's shares when price sensitive information is shared with them in the proposal papers.

During the year under review, neither the Board nor the principle officers have breached the above ruling.

Selection of Vendors

The Group has adopted the PETRONAS tendering process and governing principles that are embedded in the PETRONAS Supply Chain Management Policy for vendors' selection. Generally, the main selection criteria is based on technically acceptable and commercially lowest bid.

The Group has established a Tender Committees to carry out independent assessment on bidders' proposals and to ensure tendering activities are carried out in accordance with the Tender Committee's Terms of Reference.

The Tender Committee's tendering processes are as follows:

i) Tender Plan approval
ii) Technical Evaluation
iii) Commercial Evaluation
iv) Award Recommendation

RELATIONSHIP WITH EXTERNAL AUDITORS

Through the BAC, the Company maintains a professional and transparent relationship with its external auditors, KPMG PLT. The BAC met the external auditors twice during the financial year to review the scope and adequacy of the Group's audit process, financial results, annual financial statements and audit findings. The BAC also met the external auditors at least once during the financial year under review without the presence of the Management. At the meeting, the external auditors highlighted to both the BAC and the Board on matters that warrant their attention.

STATEMENT BY THE BOARD ON COMPLIANCE

The Board has deliberated, reviewed and approved this Statement. The Board is satisfied that the Group has fulfilled their obligations under the relevant paragraphs of the MMLR, MCCG 2017 and MSWG Malaysia-ASEAN Corporate Governance Scorecard on corporate governance and applicable laws and regulations throughout the financial year ended 31 December 2017.

This statement is made in accordance with the resolution of the Board of Directors dated 7 March 2018.

ADDITIONAL COMPLIANCE INFORMATION - 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 2017 or entered into since the end of the previous period, except as disclosed in the audited financial statements.

Datuk Md Arif Mahmood
Chairman

Datuk Sazali Hamzah
Managing Director/Chief Executive Officer

PCG HAS A RISK MANAGEMENT FRAMEWORK AND INTERNAL CONTROL SYSTEMS IN PLACE TO ENSURE THE SMOOTH RUNNING OF OUR BUSINESS.

We aim to manage our risks and control our business and financial affairs economically, efficiently and effectively to be able to seize profitable business opportunities in a disciplined way, while avoiding or mitigating risks that could cause loss, reputational damage or business failure.

This statement on risk management and internal control is made in accordance with paragraph 15.26(B) of Bursa Malaysia's Main Market Listing Requirements (MMLR) which requires the board of directors of public companies to publish a statement about the state of risk management and internal control of the listed issuer as a Group.

We believe our control systems are appropriate for the Group given the size, diversity and complexity of our operations. Our Board Audit Committee regularly reviews and monitors the adequacy and integrity of these controls to ensure the Group's compliance with applicable laws, regulations and guidelines.

Our Directors recognise that such systems can only provide a reasonable and not absolute assurance that significant risks which impact the Group's strategies and objectives are within levels appropriate to the Group's business as approved by the Board. Key elements of the risk management and systems of internal control are set out below.

BOARD ACCOUNTABILITY

The Board acknowledges the importance of maintaining a sound internal control system and a robust risk management practice for good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. It further affirms its overall responsibility for reviewing the adequacy and integrity of the Group's risk management and internal control systems.

The Group has established a process for identifying, evaluating, treating, monitoring and managing critical risks that may materially affect the achievement of our corporate objectives. The Board monitors the critical risks regularly.

RISK MANAGEMENT

The business environment including market, geopolitical and regulatory in which we operate are volatile, uncertain, complex and ambiguous. Our challenge is to identify all potential risks and either minimise, accept, transfer or avoid them. This demands a proactive Risk Management Framework, which is implemented through PCG Group wide.

We continue to strengthen our risk management approach to safeguard our business and ensure the ability to respond to a crisis. Our focus is on three key areas, namely Enterprise Risk Management, Crisis Management and Business Continuity Management.

While the Board oversees our overall risk management as part of robust corporate governance, we recognise that risk management is the responsibility of everyone in PCG. Rather than being a separate and standalone process, risk management is integrated into our business planning, capital allocation, investment decisions, internal control and day-to-day operations to enhance ownership and agility in managing risk effectively.

RISK MANAGEMENT KEY FOCUS AREAS

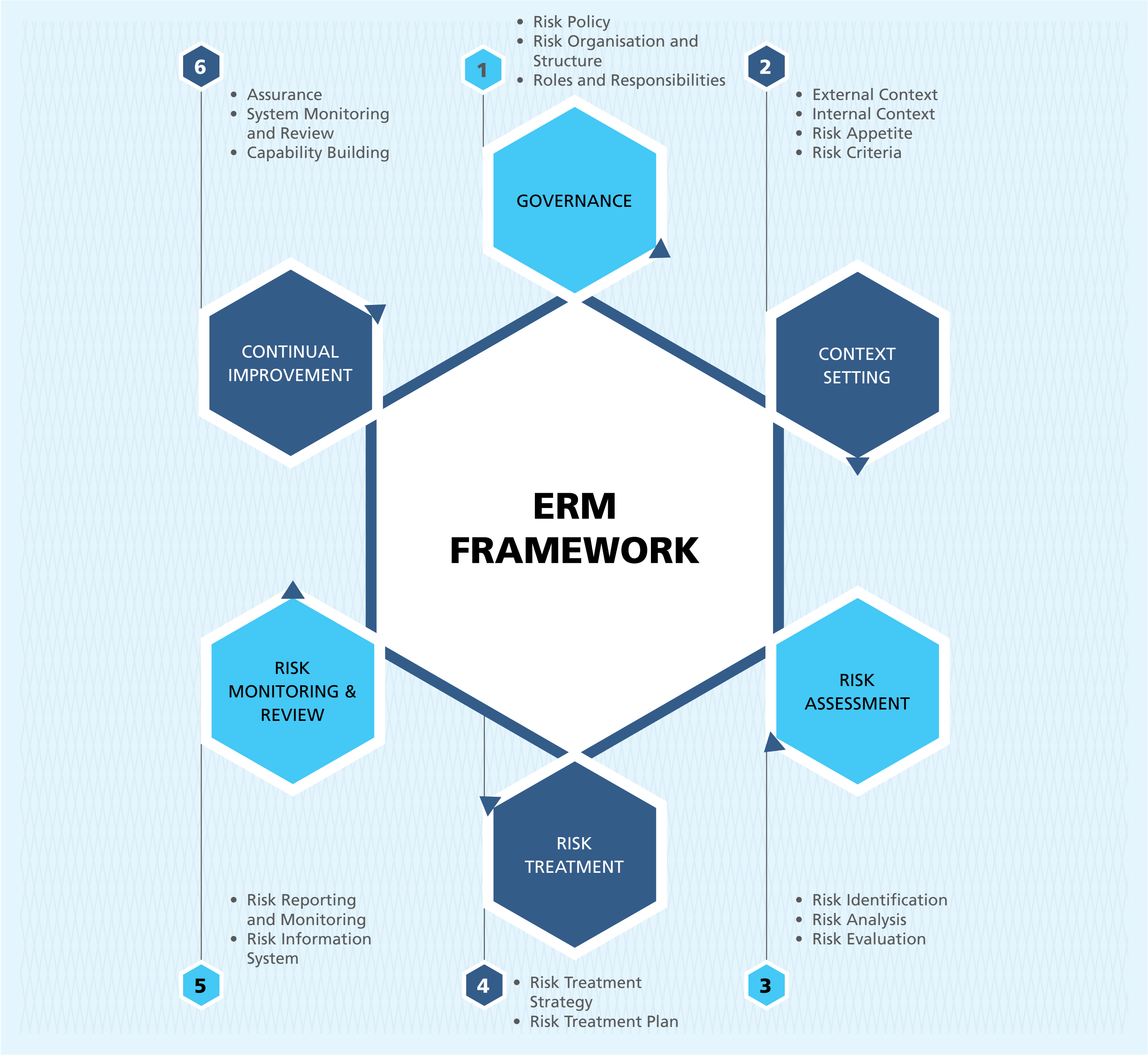
ENTERPRISE RISK MANAGEMENT (ERM)

CRISIS MANAGEMENT (CM)

BUSINESS CONTINUITY MANAGEMENT (BCM)

RISK MANAGEMENT FRAMEWORK

Our ERM Framework and relevant guidelines are generally aligned with ISO 31000:2009, and standardised throughout PCG.



PCG Risk Policy

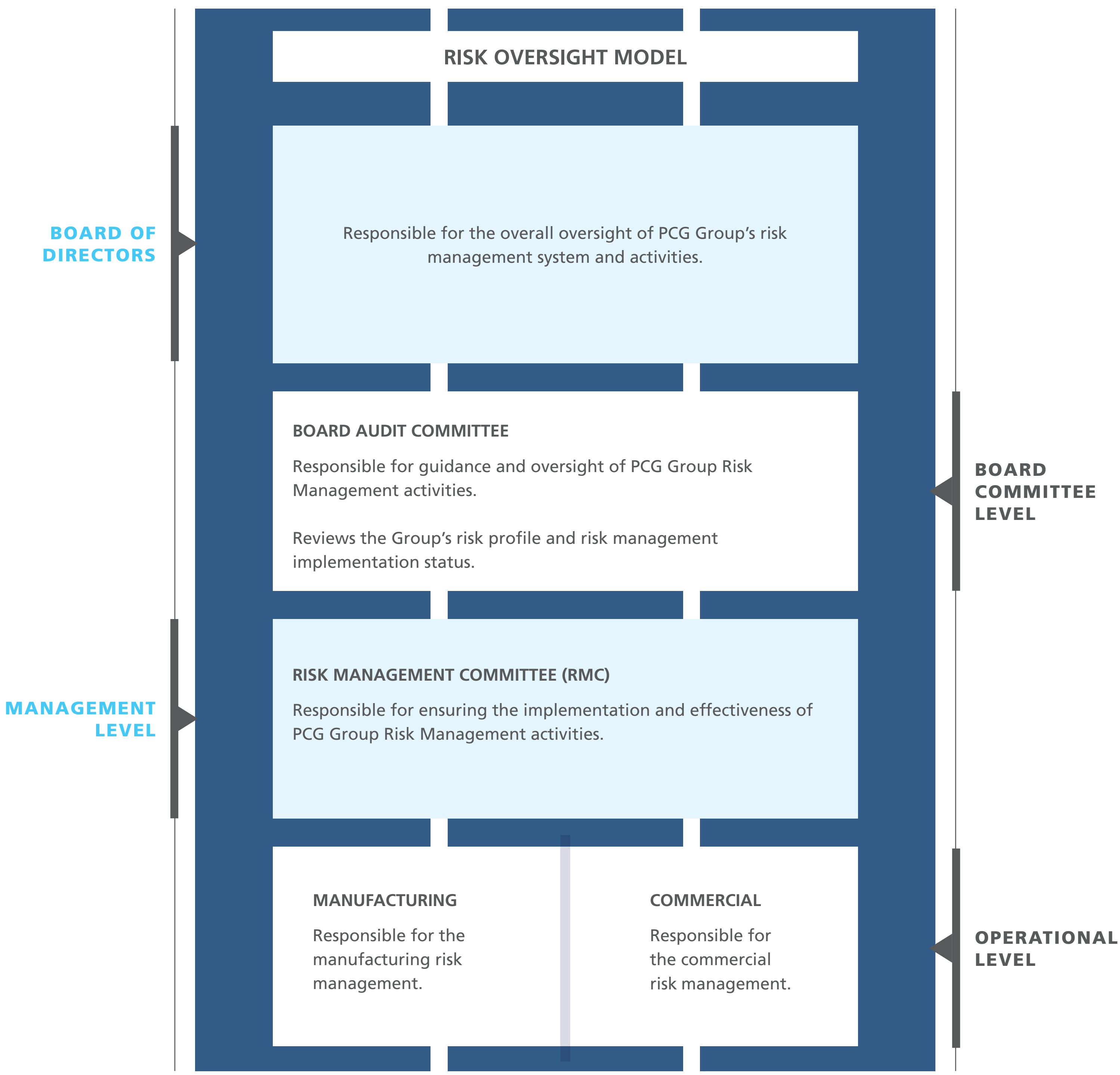
All entities across PCG shall adopt and communicate the PCG Risk Policy:

PETRONAS Chemicals Group shall adopt and implement risk management best practices by identifying, assessing, treating and monitoring risks as well as effectively responding to crises.

In the event of prolonged disruption, business continuity practices shall be adopted to restore and ensure continuity of PETRONAS Chemicals Group's key business activities.

RISK GOVERNANCE AND OVERSIGHT

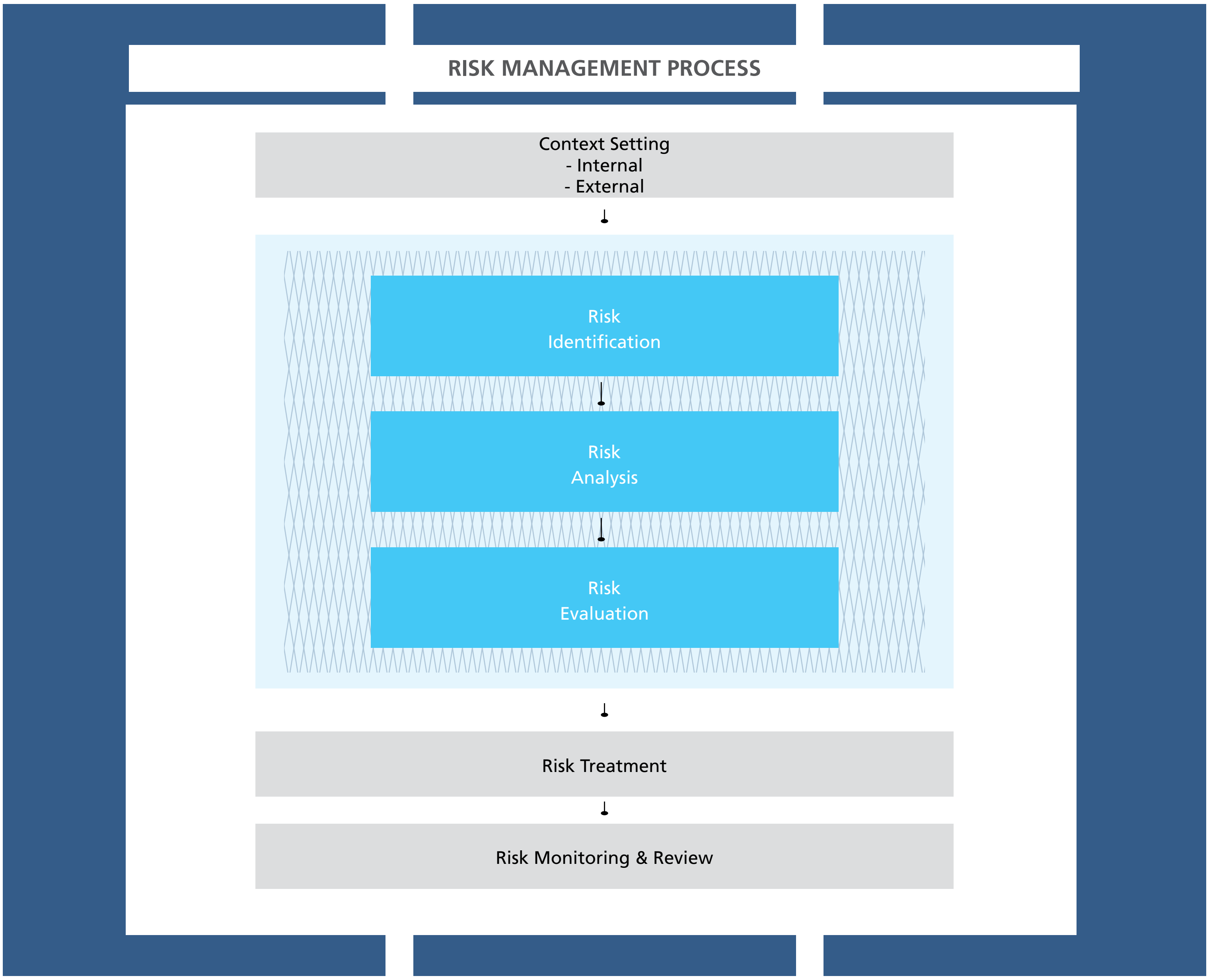
Our risk governance structure facilitates risk identification and escalation whilst providing assurance to the Board. It assigns clear roles and responsibilities, facilitates implementation with guidelines and tools as well as consists of different layers of responsibilities explained below:



Risk Oversight deliberation conducted regularly to ensure risk management is integrated into key business activities. Management committees of the Group's subsidiaries are responsible for risk management and internal control at the respective companies.

RISK MANAGEMENT PROCESS

Our structured risk profiling process, which is in line with the approved PCG Enterprise Risk Management Framework (ERMF) and Enterprise Risk Management Process Guideline (ERMPG), is set out as below.



Our Corporate Risk Profile (CRP) is based on the ERM concept, and is reviewed regularly. The identification of risks takes into account PCG's strategic objectives. Inputs are assessed and analysed based on both internal factors and external factors that may impact our business and operations prior to the risk profiling activities.

The identified risks are analysed, evaluated and mapped onto a matrix which specifies their likelihood of its happening and its impact to PCG. Subsequently, risk mitigation plans are determined depending on risk mitigation strategies to reduce the risks to acceptable levels. Key Risk Indicators (KRIs) are identified to facilitate the monitoring of risks and provide early warning signals on potential risk escalation.

The status of key risk indicators and mitigation of critical risks are deliberated at the Risk Management Committee and presented to the Board Audit Committee as well as the Board of Directors during quarterly meetings. Each critical risk has a dedicated owner responsible for the implementation of control measures, monitoring and tracking of key risk indicators, as well as identifying and implementing additional risk mitigation measures. The risks and mitigation measures are communicated to the line on a timely basis to ensure awareness at all levels.

To further strengthen our risk management, we apply the following PETRONAS structured risk management assessment approach and tools:

- **PETRONAS Health Safety Environment Management System (HSEMS)** – to manage HSE risks and ensure our operations are in tandem with HSE regulatory requirements and industry best practices.
- **Counterparty Risk Assessment** – to ensure the systematic identification, assessment and mitigation of risks associated with credit and performance, in line with PETRONAS Corporate Financial Policy and PETRONAS Credit Guidelines. Each counterparty is assigned credit ratings which eventually facilitate the business decision-making.

For more information on Financial Risk, kindly refer to Notes to the Financial Statements on page 205-211.

- **Project Risk Assessment (PRA)** – to ensure the systematic identification, assessment and mitigation of risks associated with projects, in line with PETRONAS Project Management System (PPMS) requirements.
- **Contractor Risk Assessment (CoRA)** – to ensure the systematic identification, assessment and mitigation of risks critical to contractors' performance. CoRA is undertaken as part of the procurement process prior to contractor selection.
- **Turnaround Risk Assessment (TaRA)** – to ensure the systematic identification, assessment and mitigation of risks for turnaround activities.

CRISIS MANAGEMENT

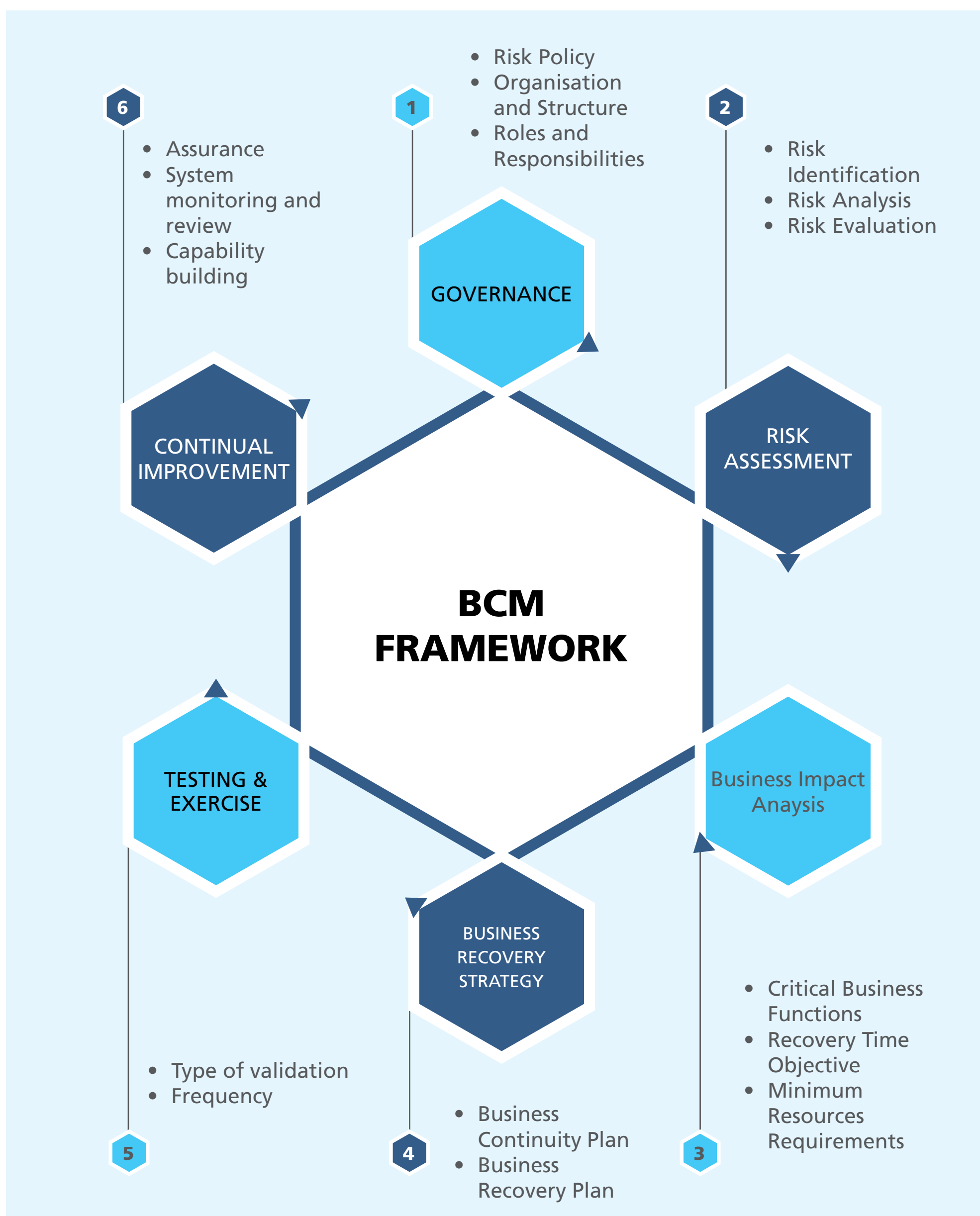
PCG is exposed to potential crisis events of varying severity due to the nature of its business operations. To respond to any crisis that may manifest, PCG has established a Crisis Management Plan (CMP) that prescribes the organisation of the Crisis Management Team (CMT), comprising key management personnel in order to provide strategic support to control and mitigate the crisis.

The CMP has also outlined a three-tiered response system based on severity of the crisis that provides clear demarcation of response control and required capability of emergency or crisis team members in order to protect and save people, environment, asset and reputation.

For more information, kindly refer to our Sustainability Statement from pages 70 to 94.

BUSINESS CONTINUITY MANAGEMENT

In the event of prolonged business disruption, we have a BCM Framework and Guidelines that provides a systematic approach to ensure continuous delivery of products or services to customers.



PCG has established a BCM organisational structure to provide guidance and direction in the implementation and institutionalisation of BCM practices. Risk assessment is undertaken to identify, analyse and evaluate risks that could cause business disruptions justifying the need for recovery plans. Subsequently, a Business Impact Analysis (BIA) is conducted to identify critical business functions and products. It further assesses the impact of unavailability over time, setting minimum timeframes and resources to recover or resume operations. The BIA determines our Business Recovery Strategy (BRS) to resume or recover business activities.

The BCP and BRP describe the organisation structure, roles and responsibilities of each party, required resources and specific recovery strategies. PCG has established BCP for Products Supply to address abrupt and prolonged outage of the products supply, that could affect products delivery to customers. Additionally the Group has developed BCP for PETRONAS Twin Towers to cater for inaccessibility of workplace, failure of critical ICT systems and prolonged unavailability of key personnel.

BRPs for PCG plants and facilities are also tested and the reports presented to management for tracking and monitoring. Findings and feedback gathered post-testing are analysed for continual improvement. The reports are also presented to the various oversight risk management committees.

Tests and drills are regularly conducted to ensure readiness of PCG and our management team in managing crisis and business continuity, as well as the robustness of our plans.

COMPLIANCE UNDER OUR RISK MANAGEMENT FRAMEWORK

The inculcation of a compliance culture is key aspect of an effective risk management. In supporting a risk compliance culture, PCG acknowledges the importance of risk assurance programmes to provide assurance to stakeholders that the systems of risk management and internal controls are implemented and complied with. For the year under review, PCG established its risk assurance programmes based on an annual risk assurance plan that was endorsed by our RMC.

PCG conducted two Tier 1 self-assessments per year whereby all subsidiaries are required to perform self-assessment and validation on their compliance to the requirement stipulated under ERM Framework and proposes gap closure actions, if any. PCG Risk Management Department also performed Tier 2 risk assurance to validate the ERM systems and effectiveness of agreed risk mitigations at PCG subsidiaries. The RMC reviewed the risk assurance reports and monitors the appropriate corrective actions for timely closure. In addition, the status of our risk assurance progress and gap closures are reported to the Risk Management Committee on quarterly basis.

INTERNAL CONTROL

Management is primarily responsible for the design, implementation and maintenance of internal controls, while the Board and the Board Audit Committee oversee the actions of management and monitor the effectiveness of the controls that have put in place. The Group refers to the 17 principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), as a guide for effective internal control as illustrated below:

Control Environment

» Demonstrates a commitment to integrity and ethical values
» Board of Directors demonstrates independence from the management and exercises oversight of internal control performance
» Establishes structures, reporting lines and appropriate authorities and responsibilities
» Demonstrates commitment to attract, develop and retain competent workforce
» Holds individual accountable for their internal control responsibilities

Risk Assessment

» Specifies objectives with sufficient clarity for risk identification and assessment
» Identifies and analyses risks relating to objectives for determining how the risks to be managed
» Evaluates and considers potential for fraud in assessing risks
» Identifies and assesses changes that could significantly impact the internal controls system

Control Activities

- Selects and develops control activities to mitigate risks
- Selects and develops control activities through technology
- Deploys control activities through policies and procedures

Monitoring Activities

- Selects, develops and performs ongoing and/or separate evaluations of internal controls components
- Evaluates and communicates internal control deficiencies in timely manner

Information and Communication

- Obtains or generates and uses relevant, quality information to support the internal control functions
- Communicates internal control information internally
- Communicates internal control information externally

Joint venture and associate companies are not included in our Group internal controls as these companies fall under the purview of their respective majority shareholders. The interests of the Group are safeguarded through Group representatives to the respective Boards of joint venture and associate companies, in addition to the regular review of management accounts and joint shareholders' audit.

INTERNAL AUDIT

Internal audits are undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal controls. 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 and reports directly to the BAC.

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 BAC for approval. The annual audit plan is established primarily on a risk based approach. The BAC reviews audit reports and the necessary corrective actions as advised by the Management. The Management is responsible for ensuring that corrective actions are implemented accordingly. In addition, the status of the closures of audit issues are reported to the BAC on a quarterly basis.

The internal audit processes and activities are guided by the approved Internal Audit Charter and aligned with internal audit industry standards (i.e. The International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA) and Committee of Sponsoring organisations of the Treadway Commission (COSO) internal control framework).

AUDIT COMPETENCIES

In 2017, all internal audit activities were performed by a team of 19 internal audit personnel from selected backgrounds and competencies, as follows:

Discipline	No. of Internal Audit Personnel	%
Accounting & Finance	12	63
Plant Operations	3	16
Sales & Marketing	2	11
Supply Distribution Operations	1	5
Procurement	1	5

To date, 11 of our internal audit personnel have received professional certification from various professional bodies.

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 MD/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, 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.

» **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 BAC.

The BAC 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 BAC 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 BAC was updated on developments in MMLR of Bursa Malaysia, MFRS as well as new legal and regulatory requirements.

The BAC meets at least quarterly and has full and unimpeded access to the internal and external auditors as well as all employees of the Group.

Further information relating to the activities of the BAC is set out in the BAC's report as presented on pages 127 to 131 of this Annual Report.

» **Organisation Structure and Management Committee**
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 Managing Director/CEO in accomplishing the vision, 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 organisational goals and objectives.

» **Financial Control Framework**
The Group has implemented a Financial Control Framework to ensure key internal control systems are adequate and effective at all times. The framework mandates strict processes to improve financial reporting and disclosure so as to protect stakeholders from the possibility of inaccurate accounting. Key components of the Financial Control Framework requirements are:

- Certification on the accuracy of the reported financial statement by senior management.
- Establishment of adequate internal controls and reporting methods as well as proper documentation of all processes.
- Mandatory self and interdepartmental test of controls.
- Identification of the control gaps and the required mitigation action.

- **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's hierarchy.

- **Group Policies**
  The Group has in place policies which govern the day-to-day workings of the business such as HSE, plant operations and human resource management. The Group has also 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 exposure is identified and managed.

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

- **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 KPIs 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.

- **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 communication systems in ensuring that it can act as an enabler to improve business processes including adherence to the Group's business objectives, policies and procedures whilst enhancing work productivity and decision making throughout the Group.

- **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 KPIs on a periodic basis.

- **Whistleblowing Policy**
  The Group has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group employees and members 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, rules and procedures involved. The process is undertaken by PETRONAS' Whistleblowing Committee. The policy and procedures are accessible to the public for reference on the Company's website at www.petronaschemicals.com.

RELATED PARTY TRANSACTION (RPT)/RECURRENT RELATED PARTY TRANSACTIONS (RRPT) AND CONFLICT OF INTEREST (COI)

The Group has established policies and procedures with regards to RPT (including RRPT), 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/RRPTs 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 are listed in the following page:

1

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.

2

All sourcing and sales of PCG's products, general merchandise shared facilities shall be based on market negotiated pricing terms and conditions and/or pricing formulas quoted against international price benchmarks.

3

Whenever practicable, at least two other quotations should be sought, with organisations of similar standing.

4

All RPTs/RRPTs will be reviewed by the Board Audit Committee prior to the approval by either the Board or the shareholders.

5

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.

6

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 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/RRPT or COI situation when it becomes known to them.

7

The Group's Legal and Corporate Secretariat 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 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.

PCG 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 PCG'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 PCG's business operations with the PETRONAS Group, the waiver is of particular significance to ensure PCG does not experience any disruption to its operations.

The details of the RRPTs incurred during the year that were waived by Bursa Malaysia are presented on page 144 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 MD/CEO and CFO 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 MD/CEO and CFO, similar assurances 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 PCG 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.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide (RPG) 5 (Revised 2015), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the annual report of the Group for the year ended 31 December 2017, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

(a) has not been prepared 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
(b) is factually inaccurate.

RPG 5 (Revised 2015) does not require the external auditors to consider whether the Directors' 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. The 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 will, in fact, remedy the problems.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 7 March 2018.

Datuk Md Arif Mahmood
Chairman

Datuk Sazali Hamzah
MD/ Chief Executive Officer

Recurrent Related Party Transactions that were waived by Bursa Malaysia from complying with the requirement of Paragraph 10.09 of the MMLR.

Transacting Parties	Nature of transactions		For Year Ended 31 December 2017 RM '000
	INTEGRATED OPERATIONS OF OUR GROUP		
PCG Group and PETRONAS and its subsidiaries (PETRONAS Group)	(i)	Supply of fuel and feedstock (such as ethane, propane , butane, dry gas, naphtha, natural gas) by PETRONAS Group	6,412,175
	(ii)	Supply of utilities, electricity and water by PETRONAS Group	781,415
	(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	Nil
	(vi)	Purchase of marine diesel oil from PETRONAS Group	8,941
	SERVICES RENDERED WITHIN THE PETRONAS GROUP		
	(vii)	Provision of vessel screening services by PETRONAS Maritime Sdn Bhd	28
	(viii)	Provision of freight, transportation and warehousing services by MISC Berhad and its subsidiaries (MISC Group)	41,244
	OTHERS		
	(ix)	Sales of petrochemical products and other related products to PETRONAS Group	925,592

OUR NUMBERS

CHAPTER

6

Investors and shareholders will find a comprehensive disclosure of our financial standing as described in statements regarding our profit or loss, changes in equity and cash flow performance. We also provide an explanation on how to decode the statements.

APPROACHING OUR FINANCIAL STATEMENTS

FINANCIAL STATEMENTS DECODED

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

"Financial performance measured by recording the flow of resources over a period of time"

This statement comprises (a) profit or loss and (b) other comprehensive income (OCI). The objective of this statement is to present all income or expenses (transactions with non-owners) in a performance statement. OCI represents certain income and expenses which are not recognised in profit or loss as required or permitted by the relevant accounting standard.Transactions with owners such as dividends are presented in the statement of changes in equity.

STATEMENT OF FINANCIAL POSITION

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

This statement sums up the Group's economic resources (total assets), obligations (debts and other liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2017. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

STATEMENT OF CASH FLOWS

"Where the company gets its cash and how it spends it"

This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation and amortisation, are adjusted for, thus the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between its shareholders and lenders.

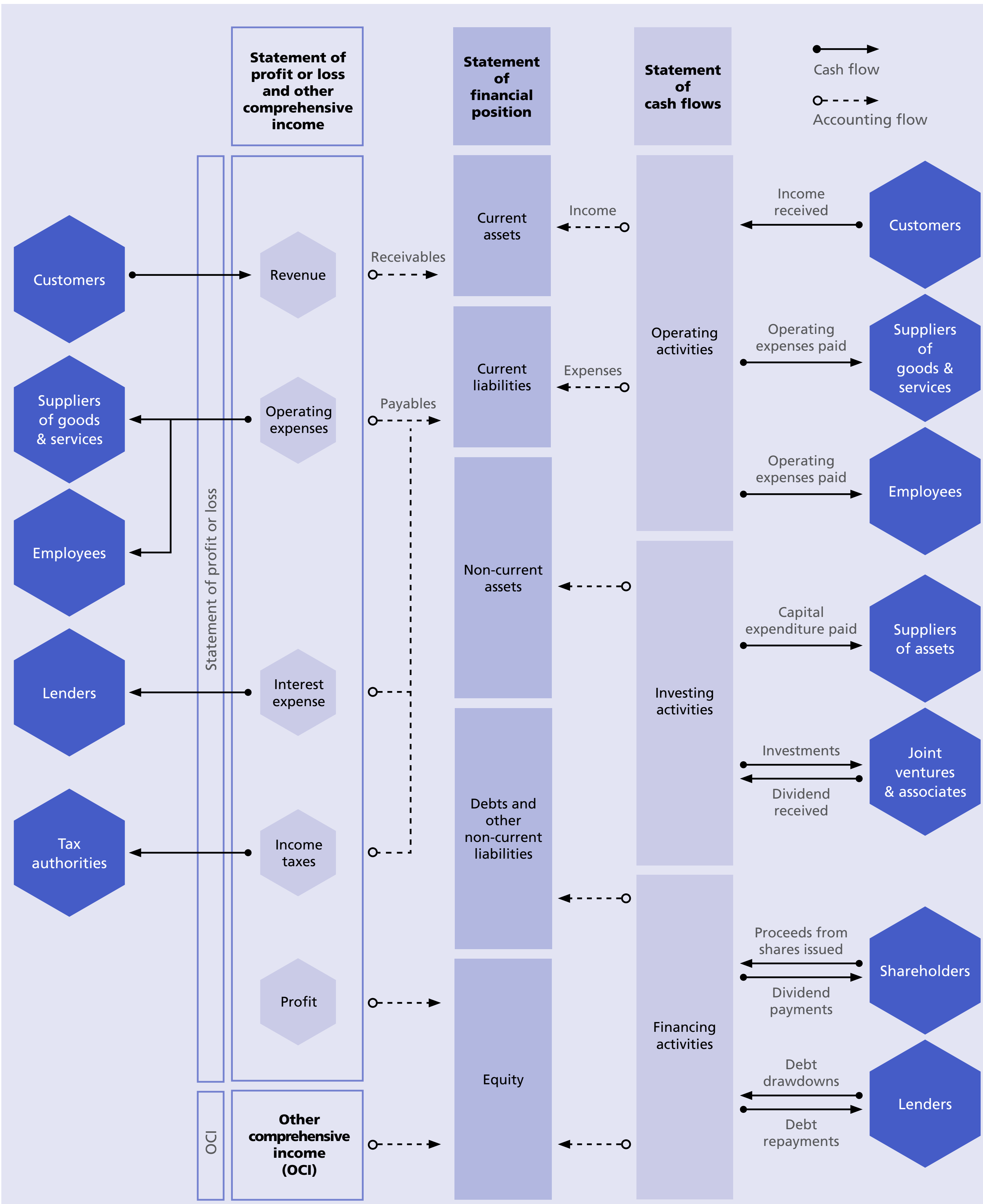
FINANCIAL STATEMENTS ILLUSTRATED

The diagram in the next page illustrates the relationships between the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.

On one hand, the Group earns revenue from customers through the deployment of assets. On the other hand, it pays operating expenses mainly relating to supply of goods and services, staff costs as well as invests in additional non-current assets. The net balance of revenue and operating expenses is the operating profit. After deducting payment to lenders, this profit is available for payment to tax authorities and for distribution to shareholders in return for their contribution of funds to the Group.

APPROACHING OUR FINANCIAL STATEMENTS

1 4 7



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 2017.

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 26 to Note 28 to the financial statements.

ULTIMATE HOLDING COMPANY

The ultimate holding company is Petroliam Nasional Berhad (PETRONAS), a company incorporated in Malaysia.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 26 to the financial statements.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	4,414	6,223
Attributable to:		
Shareholders of the Company	4,177	6,223
Non-controlling interests	237	-

DIVIDENDS

During the financial year, the amount of dividends paid by the Company were as follows:

(i) In respect of the financial year ended 31 December 2016 as reported in the Directors' Report of that year:
   - a second interim dividend of 12 sen per ordinary share amounting to RM960 million declared on 20 February 2017 and paid on 21 March 2017; and

(ii) In respect of the financial year ended 31 December 2017:
   - a first interim dividend of 12 sen per ordinary share amounting to RM960 million declared on 11 August 2017 and paid on 8 September 2017.

The Directors have declared a second interim dividend of 15 sen per ordinary share amounting to RM1,200 million in respect of the financial year ended 31 December 2017 which is payable on 21 March 2018. The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

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 during the financial year until the date of this report are:

Datuk Md Arif bin Mahmood
Datuk Sazali bin Hamzah
Vimala a/p V.R. Menon
Ching Yew Chye
Dong Soo Kim
Datuk Toh Ah Wah
Zakaria bin Kasah
Freida binti Amat

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

DIRECTORS' INTERESTS

The Directors in office at the end of the financial year who have interests and deemed 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 in the Company			
Name	**Balance at 1.1.2017**	**Bought**	**Sold**	**Balance at 31.12.2017**
Datuk Md Arif bin Mahmood	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	-	(10,000)	10,000
Zakaria bin Kasah	6,000	-	-	6,000
Freida binti Amat	6,000	-	-	6,000

	Number of ordinary shares in PETRONAS Gas Berhad			
Name	**Balance at 1.1.2017**	**Bought**	**Sold**	**Balance at 31.12.2017**
Freida binti Amat:				
- others	1,000	-	(1,000)	-

None of the other Directors holding office at 31 December 2017 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, no Director of the Company has received or become entitled to receive any benefit (other than the benefits included in the aggregate amount of remuneration 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 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.

INDEMNITY AND INSURANCE COSTS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors and Officers Liability Insurance as permitted by Section 289 of the Companies Act, 2016. The total insured limit for the Directors and Officers Liability Insurance effected for the Directors and Officers of PETRONAS Group was RM300 million per occurrence and in the aggregate. The insurance premium for the Company is RM7,114.

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.

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 2017 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.

SIGNIFICANT AND SUBSEQUENT EVENTS

The significant and subsequent events are as disclosed in Note 37 and Note 38 to the financial statements.

AUDITORS

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

The auditors' remuneration is disclosed in Note 21 to the financial statements.

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

Datuk Md Arif bin Mahmood
Director

Datuk Sazali bin Hamzah
Director

Kuala Lumpur,

Date: 20 February 2018

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 154 to 217, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 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 2017 and of their financial performance and cash flows for the financial year ended on that date.

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

………………………………………..	………………………………..
Datuk Md Arif bin Mahmood	**Datuk Sazali bin Hamzah**
Director	Director

Kuala Lumpur,

Date: 20 February 2018

STATUTORY DECLARATION

I, Rashidah binti Alias @ Ahmad, 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 154 to 217, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Rashidah binti Alias @ Ahmad, at **Kuala Lumpur**
in **Wilayah Persekutuan** on 20 February 2018

Rashidah

BEFORE ME:

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
ASSETS					
Property, plant and equipment	3	20,792	18,543	9	12
Prepaid lease payments	4	42	-	-	-
Investments in subsidiaries	5	-	-	22,063	16,881
Investments in joint ventures and associates	6	1,192	1,363	1,183	1,159
Intangible asset	7	1	3	-	-
Long term receivables	8	113	83	3,991	7,011
Deferred tax assets	9	300	462	-	-
TOTAL NON-CURRENT ASSETS		22,440	20,454	27,246	25,063
Trade and other inventories	10	1,723	1,383	-	-
Trade and other receivables	11	2,370	2,639	43	553
Tax recoverable		55	69	-	-
Cash and cash equivalents	13	6,674	7,403	3,629	1,254
TOTAL CURRENT ASSETS		10,822	11,494	3,672	1,807
TOTAL ASSETS		33,262	31,948	30,918	26,870
EQUITY					
Share capital	14	8,871	800	8,871	800
Reserves	15	18,994	26,242	21,925	25,693
Total equity attributable to shareholders of the Company		27,865	27,042	30,796	26,493
Non-controlling interests	16	1,003	1,271	-	-
TOTAL EQUITY		28,868	28,313	30,796	26,493
LIABILITIES					
Deferred tax liabilities	9	838	874	1	1
Other long term liabilities and provisions	17	212	308	34	76
TOTAL NON-CURRENT LIABILITIES		1,050	1,182	35	77
Borrowings	18	-	23	-	-
Trade and other payables	19	3,217	2,208	85	292
Current tax payables		127	180	2	8
Dividend payable		-	42	-	-
TOTAL CURRENT LIABILITIES		3,344	2,453	87	300
TOTAL LIABILITIES		4,394	3,635	122	377
TOTAL EQUITY AND LIABILITIES		33,262	31,948	30,918	26,870

The notes set out on pages 161 to 217 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Revenue	20	17,407	13,860	6,972	4,401
Cost of revenue		(11,021)	(8,536)	-	-
Gross profit		6,386	5,324	6,972	4,401
Selling and distribution expenses		(764)	(704)	-	-
Administration expenses		(615)	(667)	(182)	(173)
Other expenses		(9)	(196)	(791)	(267)
Other income		242	289	262	860
Operating profit	21	5,240	4,046	6,261	4,821
Net financing (costs)/income	22	(20)	47	(5)	60
Share of profit of equity-accounted joint ventures and associates, net of tax		16	17	-	-
Profit before taxation		5,236	4,110	6,256	4,881
Tax expense	23	(822)	(888)	(33)	(50)
Profit for the year		4,414	3,222	6,223	4,831
Other comprehensive (expenses)/income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		(1,321)	641	-	-
Share of other comprehensive (expenses)/income of equity-accounted joint ventures and associates		(113)	46	-	-
Total other comprehensive (expenses)/income for the year		(1,434)	687	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,980	3,909	6,223	4,831
Profit attributable to:					
Shareholders of the Company		4,177	2,932	6,223	4,831
Non-controlling interests		237	290	-	-
PROFIT FOR THE YEAR		4,414	3,222	6,223	4,831
Total comprehensive income attributable to:					
Shareholders of the Company		2,743	3,619	6,223	4,831
Non-controlling interests		237	290	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,980	3,909	6,223	4,831
Basic earnings per ordinary share (sen)	24	52.2	36.7	-	-

The notes set out on pages 161 to 217 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to shareholders of the Company								
	Non-distributable					*Distributable*			
Group	**Share capital (Note 14) RM Mil**	**Share premium RM Mil**	**Foreign currency translation reserve (Note 15) RM Mil**	**Merger reserve (Note 15) RM Mil**	**Other reserves (Note 15) RM Mil**	**Retained profits RM Mil**	**Total RM Mil**	**Non-controlling interests RM Mil**	**Total equity RM Mil**
Balance at 1 January 2017	800	8,071	1,077	(204)	550	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	-	(1,321)	-	-	-	(1,321)	-	(1,321)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(113)	-	(113)	-	(113)
Total other comprehensive expenses for the year	-	-	(1,321)	-	(113)	-	(1,434)	-	(1,434)
Profit for the year	-	-	-	-	-	4,177	4,177	237	4,414
Total comprehensive (expenses)/ income for the year	-	-	(1,321)	-	(113)	4,177	2,743	237	2,980
Redemption of redeemable preference shares in a subsidiary	-	-	-	-	24	(24)	-	-	-
Additional issuance of shares to a non-controlling interest	-	-	-	-	-	-	-	7	7
Dividends to shareholders of the Company (Note 25)	-	-	-	-	-	(1,920)	(1,920)	-	(1,920)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(512)	(512)
Total transactions with equity holders of the Group	-	-	-	-	24	(1,944)	(1,920)	(505)	(2,425)
Transfer in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime on 31 January 2017 (Note 14)	8,071	(8,071)	-	-	-	-	-	-	-
Balance at 31 December 2017	8,871	-	(244)	(204)	461	18,981	27,865	1,003	28,868

The notes set out on pages 161 to 217 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to shareholders of the Company								
	Non-distributable					*Distributable*			
Group	**Share capital (Note 14) RM Mil**	**Share premium RM Mil**	**Foreign currency translation reserve (Note 15) RM Mil**	**Merger reserve (Note 15) RM Mil**	**Other reserves (Note 15) RM Mil**	**Retained profits RM Mil**	**Total RM Mil**	**Non-controlling interests RM Mil**	**Total equity RM Mil**
Balance at 1 January 2016	800	8,071	436	(204)	487	15,193	24,783	1,807	26,590
Foreign currency translation differences	-	-	641	-	-	-	641	-	641
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	-	46	-	46	-	46
Total other comprehensive income for the year	-	-	641	-	46	-	687	-	687
Profit for the year	-	-	-	-	-	2,932	2,932	290	3,222
Total comprehensive income for the year	-	-	641	-	46	2,932	3,619	290	3,909
Redemption of redeemable preference shares in subsidiaries	-	-	-	-	17	(17)	-	(11)	(11)
Dividends to shareholders of the Company (Note 25)	-	-	-	-	-	(1,360)	(1,360)	-	(1,360)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(815)	(815)
Total transactions with equity holders of the Group	-	-	-	-	17	(1,377)	(1,360)	(826)	(2,186)
Balance at 31 December 2016	800	8,071	1,077	(204)	550	16,748	27,042	1,271	28,313

The notes set out on pages 161 to 217 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

Company	Share capital (Note 14) RM Mil	Share premium RM Mil	Merger relief (Note 15) RM Mil	Retained profits RM Mil	Total equity RM Mil
	Attributable to shareholders of the Company				
	Non-distributable			*Distributable*	
Balance at 1 January 2017	800	8,071	7,176	10,446	26,493
Profit and total comprehensive income for the year	-	-	-	6,223	6,223
Dividends to shareholders of the Company (Note 25)	-	-	-	(1,920)	(1,920)
Transfer in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime on 31 January 2017 (Note 14)	8,071	(8,071)	-	-	-
Balance at 31 December 2017	8,871	-	7,176	14,749	30,796
Balance at 1 January 2016	800	8,071	7,176	6,975	23,022
Profit and total comprehensive income for the year	-	-	-	4,831	4,831
Dividends to shareholders of the Company (Note 25)	-	-	-	(1,360)	(1,360)
Balance at 31 December 2016	800	8,071	7,176	10,446	26,493

The notes set out on pages 161 to 217 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Group 2017 RM Mil	Group 2016 RM Mil	Company 2017 RM Mil	Company 2016 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		5,236	4,110	6,256	4,881
Adjustment for:					
- depreciation and amortisation		1,589	1,337	3	3
- dividend income		-	-	(6,972)	(4,401)
- net financing costs/(income)		20	(47)	5	(60)
- interest income		(211)	(261)	(189)	(284)
- share of profit after tax and non-controlling interests of equity-accounted associates and joint ventures		(16)	(17)	-	-
- other non-cash items		22	176	785	(234)
Operating profit before changes in working capital		6,640	5,298	(112)	(95)
Change in trade and other inventories		(359)	39	-	-
Change in trade and other receivables		203	(615)	216	(197)
Change in trade and other payables		(751)	(225)	(194)	214
Cash generated from/(used in) operations		5,733	4,497	(90)	(78)
Interest income received		195	260	55	75
Taxation paid		(617)	(799)	(39)	(36)
Net cash generated from/(used in) operating activities		5,311	3,958	(74)	(39)
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received from:					
- subsidiaries		-	-	7,171	4,043
- joint ventures and associates		98	64	96	62
Financial assistance to a subsidiary		-	-	(52)	(24)
Investments in:					
- subsidiaries		-	-	(302)	(1,398)
- an associate		(24)	(84)	(24)	(84)
Interest income from loans to subsidiaries		-	-	134	220
Loan to a subsidiary		-	-	(2,894)	(2,481)
Proceeds from disposal of property, plant and equipment		2	2	-	-
Purchase of property, plant and equipment	(i)	(3,446)	(3,428)	(3)	(5)
Redemption of preference shares in subsidiaries		-	-	243	460
Withdrawal of Islamic deposits		-	622	-	622
Net cash (used in)/generated from investing activities		(3,370)	(2,824)	4,369	1,415
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to:					
- PETRONAS		(1,236)	(875)	(1,236)	(875)
- others (third parties)		(684)	(485)	(684)	(485)
- non-controlling interests		(554)	(773)	-	-
Balance carried forward		(2,474)	(2,133)	(1,920)	(1,360)

The notes set out on pages 161 to 217 are an integral part of these financial statements.

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
CASH FLOWS FROM FINANCING ACTIVITIES (continued)					
Balance brought forward		(2,474)	(2,133)	(1,920)	(1,360)
Drawdown of revolving credit facility		-	8	-	-
Payment to non-controlling interests on redemption of shares by a subsidiary		-	(11)	-	-
Payment for settlement of forward foreign exchange contract		-	(4,366)	-	(4,366)
Proceed from settlement of forward foreign exchange contract		-	3,811	-	3,811
Proceeds from issue of shares to a non-controlling interest		7	-	-	-
Repayment of:					
- finance lease liabilities		(55)	(55)	-	-
- revolving credit facility		(23)	(16)	-	-
Net cash used in financing activities		(2,545)	(2,762)	(1,920)	(1,915)
Net cash flows from operating, investing and financing activities		(604)	(1,628)	2,375	(539)
Effect of foreign currency translation differences		(5)	294	-	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(609)	(1,334)	2,375	(539)
NET FOREIGN EXCHANGE DIFFERENCES ON CASH HELD		(120)	30	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		7,403	8,707	1,254	1,793
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13	6,674	7,403	3,629	1,254

During the financial year, the Group and the Company have changed its presentation for the Statements of Cash Flows from direct to indirect method in order to provide relevant information for the readers of the financial statements.

(i) Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregated cost of RM5,006 million (2016: RM3,043 million) of which RM1,175 million (2016: RM22 million) was included in accruals as at year end and RM407 million (2016: Nil) was utilised from prepayments brought forward from previous year.

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, 2016 in Malaysia.

These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

As of 1 January 2017, the Group and the Company have adopted amendments to MFRS and IC Interpretations (collectively referred to as "pronouncements") that have been issued by Malaysian Accounting Standards Board (MASB) as described fully in Note 33.

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 34. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 35.

These financial statements were approved and authorised for issue by the Board of Directors on 20 February 2018.

1.2 Basis of measurement

The financial statements of the Group and of the Company have been prepared on historical cost basis except for 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 judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimates are revised and in any future years affected.

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

(i) Note 9 : Deferred tax; and
(ii) Note 17 : 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.

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.

Subsidiaries that were acquired from PETRONAS upon Initial Public Offering (IPO) 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 statements 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.

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.

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 acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

The Group measures goodwill as the excess of the cost of an acquisition and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Non-controlling interests

Non-controlling interests at the end of 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 statements of financial position and statements of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statements of profit or loss and other comprehensive income as an allocation of the profit or loss and total comprehensive income for the financial year between the non-controlling interests and shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid is adjusted to or against Group reserves.

Loss of control

Upon loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statements 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 as described in Note 2.1(iii).

(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 statements of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(iii) Associates (continued)

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 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 financing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Buildings are depreciated over their useful lives or over the remaining land lease period, whichever is shorter.

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	20 - 99 years
Buildings	14 - 66 years
Plant and equipment	3 - 67 years
Office equipment, furniture and fittings	5 - 7 years
Computer software and hardware	5 years
Motor vehicles	3 - 5 years

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 as 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 in accordance with the accounting policy below 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 statements of financial position as long term liabilities and other payables.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(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's and the Company's statements 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Leased assets (continued)

(iii) Prepaid lease payments

Prepaid rental and leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payments made on entering into a lease arrangement or acquiring a leasehold land are accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

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 asset

Intangible asset, which comprises a license obtained from a third party, is measured on initial recognition at cost.

Following initial recognition, intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible asset is recognised in the profit or loss on a straight-line basis over the estimated economic useful life. The amortisation method and the useful life for intangible asset are reviewed at each reporting date. Intangible asset is assessed for impairment whenever there is an indication that it may be impaired.

The estimated useful life for the current and comparative years is 10 years.

Subsequent expenditure on intangible asset 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 statements 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, or loans and receivables, 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 transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Purchases or sales under a contract which terms require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") are recognised on the trade date i.e. the date that the Group 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, fund investments, trade and other receivables, loans and advances, and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

<u>Financial assets at fair value through profit or loss</u>

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

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.7.

<u>Loans and receivables</u>

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 method (Note 2.6 (vi)).

(ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or financial liabilities measured at amortised cost, 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 borrowings, trade and other payables, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

<u>Financial liabilities at fair value through profit or loss</u>

Fair value through profit or loss category comprises financial liabilities that are derivatives financial instrument (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.

<u>Financial liabilities measured at amortised cost</u>

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method (see Note 2.6(vi)).

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Financial guarantee contracts are amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee does not have a specific period, the guarantee will only be recognised in the profit or loss upon discharge of the guarantee.

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derivative financial instruments

The Group uses derivative financial instruments such as forward rate contracts to manage certain exposures to fluctuations in foreign currency exchange rates.

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 financial instruments 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 financial instruments during the financial year are recognised in the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the 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 recognised in the profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(vi) Amortised cost of financial instruments

Amortised cost is computed using the effective interest 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(vii) 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.

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 values 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 identifiable 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 Group and the Company recognise transfer between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, and investments 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. If any such objective evidence exists, then the financial asset's recoverable amount is estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

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 more frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows 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 financial 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 a 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 stores, spares and others 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 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. Future operating losses are not provided for. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the net expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

2.12 Employee benefits

(i) Short term employee benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the financial 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.

2.13 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 other 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 other unused tax credits can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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 date and is reduced to the extent that it is no longer probable that the future taxable profit will be available against which the related tax benefit can be realised.

2.14 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated at the reporting date.

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 ruling at reporting date.

The income and expenses are translated at the exchange rates at the dates of the transactions or an average rate that approximates those rates. 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 reclassified to the consolidated profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Revenue

Revenue from the sale of petrochemical 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.

2.16 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.

2.17 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.

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.

2.18 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.

2.19 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 financial year.

2.20 Operating segment

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 Managing Director/Chief Executive Officer (MD/CEO), to make decisions about resources to be allocated to the segments and to assess the performance of the Group.

3. PROPERTY, PLANT AND EQUIPMENT

Group 2017	At 1.1.2017 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
At cost:						
Leasehold land	291	-	-	-	-	291
Buildings	1,446	-	-	507	(30)	1,923
Plant and equipment	22,735	19	(171)	6,498	(350)	28,731
Office equipment, furniture and fittings	116	1	(2)	243	(14)	344
Computer software and hardware	308	2	(12)	30	(4)	324
Motor vehicles	44	2	(6)	4	(1)	43
Projects-in-progress	9,785	4,982	-	(7,282)	(776)	6,709
	34,725	5,006	(191)	-	(1,175)	38,365

	At 1.1.2017 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
Accumulated depreciation and impairment losses:					
Leasehold land	81	5	-	-	86
Buildings	612	42	-	(1)	653
Plant and equipment	15,161	1,470	(161)	(13)	16,457
Office equipment, furniture and fittings	85	34	(2)	(1)	116
Computer software and hardware	208	34	(11)	(1)	230
Motor vehicles	35	2	(6)	-	31
	16,182	1,587	(180)^	(16)	17,573

^ Included in disposals/write-offs is derecognition of accumulated depreciation for plant and equipment of RM5 million.

Included in the accumulated depreciation and impairment losses of property, plant and equipment were impairment losses carried forward of RM266 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2016	At 1.1.2016 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2016 RM Mil
At cost:						
Leasehold land	291	-	-	-	-	291
Buildings	1,396	1	-	47	2	1,446
Plant and equipment	22,159	42	(20)	552	2	22,735
Office equipment, furniture and fittings	102	1	(1)	13	1	116
Computer software and hardware	276	2	(1)	29	2	308
Motor vehicles	41	1	(1)	3	-	44
Projects-in-progress	7,193	2,996	(244)	(644)	484	9,785
	31,458	3,043	(267)^	-	491	34,725

^ Included in disposals/write-offs of projects-in-progress are write-offs relating to the cancellation of elastomers project which was part of the Refinery and Petrochemicals Integrated Development (RAPID) project in Pengerang, Johor amounting to RM244 million.

	At 1.1.2016 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Impairment loss RM Mil	Translation exchange difference RM Mil	At 31.12.2016 RM Mil
Accumulated depreciation and impairment losses:						
Leasehold land	77	4	-	-	-	81
Buildings	582	30	-	-	-	612
Plant and equipment	13,906	1,265	(15)	5	-	15,161
Office equipment, furniture and fittings	78	8	(1)	-	-	85
Computer software and hardware	183	26	(1)	-	-	208
Motor vehicles	35	2	(2)	-	-	35
	14,861	1,335	(19)	5	-	16,182

Included in the accumulated depreciation and impairment losses of property, plant and equipment were impairment losses carried forward of RM271 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	2017 RM Mil	2016 RM Mil
Carrying amount:		
Leasehold land	205	210
Buildings	1,270	834
Plant and equipment	12,274	7,574
Office equipment, furniture and fittings	228	31
Computer software and hardware	94	100
Motor vehicles	12	9
Projects-in-progress	6,709	9,785
	20,792	18,543

Company 2017	At 1.1.2017 RM 000	Additions RM 000	Disposals/ write-offs RM 000	Transfers RM 000	At 31.12.2017 RM 000
At cost:					
Office equipment, furniture and fittings	1,068	-	(756)	465	777
Computer software and hardware	14,117	15	(370)	504	14,266
Motor vehicles	369	308	-	-	677
Projects-in-progress	4,262	965	-	(1,051)	4,176
	19,816	1,288	(1,126)	(82)^	19,896

^ Relates to office renovation expensed off of RM81,550 during the year.

	At 1.1.2017 RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000	At 31.12.2017 RM 000
Accumulated depreciation and impairment losses:				
Office equipment, furniture and fittings	356	307	(348)	315
Computer software and hardware	7,584	2,883	(150)	10,317
Motor vehicles	369	71	-	440
	8,309	3,261	(498)	11,072

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2016	At 1.1.2016 RM 000	Additions RM 000	Disposals/ write-offs RM 000	Transfers RM 000	At 31.12.2016 RM 000
At cost:					
Office equipment, furniture and fittings	996	43	-	29	1,068
Computer software and hardware	13,801	213	-	103	14,117
Motor vehicles	369	-	-	-	369
Projects-in-progress	3,554	3,995	(3,155)	(132)	4,262
	18,720	4,251	(3,155)	-	19,816

	At 1.1.2016 RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000	At 31.12.2016 RM 000
Accumulated depreciation and impairment losses:				
Office equipment, furniture and fittings	148	208	-	356
Computer software and hardware	4,786	2,798	-	7,584
Motor vehicles	369	-	-	369
	5,303	3,006	-	8,309

Company	2017 RM 000	2016 RM 000
Carrying amount:		
Office equipment, furniture and fittings	462	712
Computer software and hardware	3,949	6,533
Motor vehicles	237	-
Projects-in-progress	4,176	4,262
	8,824	11,507

4. PREPAID LEASE PAYMENTS

Group	At 1.1.2017 RM Mil	Transfers RM Mil	Charge for the year RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
Leasehold land	-	50^	(5)	(3)	42

^ Comprises transfers from long term receivables and trade and other receivables of RM46 million and RM4 million respectively.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2017 RM Mil	**2016 RM Mil**
Investments in unquoted shares, at cost	22,636	17,402
Less: Impairment losses	(573)	(521)
	22,063	16,881

The increase in investments in unquoted shares was mainly due to the conversion of the Company's loan due from a subsidiary amounting to RM5,123 million or USD1,254 million into equity via the issuance of 5,123 million of redeemable preference shares.

In the previous financial year, the Group cancelled an elastomers project which was to be undertaken by a subsidiary as part of the RAPID project in Pengerang, Johor. Consequently, the Company impaired the total investment in the subsidiary amounting to RM255 million.

Summarised financial information of non-controlling interests has not been included as the non-controlling interests of the subsidiaries are not individually material to the Group.

Details of subsidiaries are stated in Note 26 to the financial statements.

6. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	Group		Company	
	2017 RM Mil	**2016 RM Mil**	**2017 RM Mil**	**2016 RM Mil**
Investments in unquoted shares, at cost	1,052	1,028	1,183	1,159
Share of post-acquisition profits and reserves	140	335	-	-
	1,192	1,363	1,183	1,159

Summarised financial information has not been included as the joint ventures and associates are not individually material to the Group.

Details of joint ventures and associates are stated in Note 27 and Note 28 to the financial statements respectively.

7. INTANGIBLE ASSET

Group	**At 1.1.2016 RM Mil**	**Addition/ charge for the year RM Mil**	**At 31.12.2016/ 1.1.2017 RM Mil**	**Addition/ charge for the year RM Mil**	**At 31.12.2017 RM Mil**
Licence:					
- At cost	23	-	23	-	23
- Accumulated amortisation	18	2	20	2	22

	2017 RM Mil	**2016 RM Mil**
Carrying amount	1	3

8. LONG TERM RECEIVABLES

	Group		Company	
	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Prepayments	113	83	-	-
Loans due from subsidiaries	-	-	3,991	7,011
	113	83	3,991	7,011

Included in the Company's loan due from a subsidiary is loan amounting to RM3,991 million or USD983 million (2016: loans due from subsidiaries amounting to RM7,011 million or USD1,563 million), which bears interest rates ranging from 1.89% to 2.56% (2016: 1.74% to 4.52%) per annum. Settlement of the loan is not expected within the next twelve months.

During the financial year, the Company converted its loan due from a subsidiary amounting to RM5,123 million or USD1,254 million into equity via the issuance of 5,123 million of redeemable preference shares.

9. DEFERRED TAX

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Property, plant and equipment	69	63	(2,301)	(1,765)	(2,232)	(1,702)
Unused reinvestment allowances	6	6	-	-	6	6
Unused investment tax allowances	799	920	-	-	799	920
Unused tax losses	195	115	-	-	195	115
Unabsorbed capital allowances	483	7	-	-	483	7
Pre-commencement expenses	115	155	-	-	115	155
Others	100	88	(4)	(1)	96	87
Tax assets/(liabilities)	1,767	1,354	(2,305)	(1,766)	(538)	(412)
Set off tax	(1,467)	(892)	1,467	892	-	-
Net tax assets/(liabilities)	300	462	(838)	(874)	(538)	(412)

9. DEFERRED TAX (CONTINUED)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Group 2017	At 1.1.2017 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
Deferred tax liabilities				
Property, plant and equipment	1,765	575	(39)	2,301
Others	1	3	-	4
	1,766	578	(39)	2,305
Deferred tax assets				
Property, plant and equipment	(63)	(6)	-	(69)
Unused reinvestment allowances	(7)	1	-	(6)
Unused investment tax allowances	(920)	121	-	(799)
Unused tax losses	(115)	(84)	4	(195)
Unabsorbed capital allowances	(6)	(506)	29	(483)
Pre-commencement expenses	(155)	26	14	(115)
Others	(88)	(12)	-	(100)
	(1,354)	(460)	47	(1,767)
	412	118	8	538

Included in the above net deferred tax asset is an amount of RM294 million (2016: RM251 million) which has been recognised based on the assumption that certain subsidiaries will generate sufficient profits upon the implementation of tolling arrangements within the Group's integrated value chain.

The deferred tax assets on pre-commencement expenses are in relation to tax benefits in a subsidiary which have been approved by the Ministry of Finance.

9. DEFERRED TAX (CONTINUED)

Group 2016	At 1.1.2016 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	Translation exchange difference RM Mil	At 31.12.2016 RM Mil
Deferred tax liabilities				
Property, plant and equipment	1,795	(30)	-	1,765
Others	-	1	-	1
	1,795	(29)	-	1,766
Deferred tax assets				
Property, plant and equipment	(67)	4	-	(63)
Unused reinvestment allowances	(8)	1	-	(7)
Unused investment tax allowances	(1,043)	123	-	(920)
Unused tax losses	(116)	1	-	(115)
Unabsorbed capital allowances	-	(6)	-	(6)
Pre-commencement expenses	(45)	(100)	(10)	(155)
Others	(91)	3	-	(88)
	(1,370)	26	(10)	(1,354)
	425	(3)	(10)	412

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

Group	2017 RM Mil	2016 RM Mil
Unused tax losses	500	603
Unused investment tax allowances	-	115
Unabsorbed capital allowances	-	21
Pre-commencement expenses	58	-
	558	739

The unused tax losses and pre-commencement expenses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the subsidiaries can utilise the benefits.

Company 2017	At 1.1.2017 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2017 RM Mil
Deferred tax liabilities			
Others	1	-	1

2016	At 1.1.2016 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2016 RM Mil
Deferred tax liabilities			
Others	2	(1)	1

10. TRADE AND OTHER INVENTORIES

	Group	
	2017 RM Mil	2016 RM Mil
Petrochemical products:		
Raw materials	27	19
Finished goods	761	574
Stores, spares and others	935	790
	1,723	1,383

11. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Trade receivables	11.1	1,539	1,475	-	-
Amount due from PETRONAS	11.2				
- Non-trade		355	97	2	3
Amount due from subsidiaries	11.3				
- Non-trade		-	-	23	140
- Dividend receivable		-	-	-	296
Amount due from joint ventures and associates	11.3				
- Trade		261	184	-	-
- Non-trade		3	2	2	-
Amount due from related companies	11.3				
- Trade		99	152	-	-
- Non-trade		15	106	12	99
Other receivables, deposits and prepayments		79	608	4	14
Derivative assets	12	19	15	-	1
		2,370	2,639	43	553

11.1 Included in trade receivables is an amount due from corporate shareholder of a subsidiary of RM70 million (2016: RM61 million).

11.2 Included in amount due from PETRONAS is GST recoverable of RM337 million (2016: RM79 million) for the Group and RM1 million (2016: RM3 million) for the Company.

11.3 Trade amount is unsecured and under normal trade terms. Non-trade amount is unsecured and repayable on demand.

There were no trade receivables and trade payables that were set off for presentation purposes.

12. DERIVATIVE ASSETS/(LIABILITIES)

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Derivative assets					
Current					
Forward foreign exchange contracts		19	15	-	1
Included within:					
Trade and other receivables	11	19	15	-	1
Derivative liabilities					
Current					
Forward foreign exchange contracts		(15)	(17)	-	(1)
Included within:					
Trade and other payables	19	(15)	(17)	-	(1)

In the normal course of business, the Group and the Company enter into derivative financial instruments to manage its normal business exposures in relation to foreign currency exchange rates in accordance with the Group's and the Company's risk management policies and objectives.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Cash with PETRONAS Integrated Financial Shared Service Centre (IFSSC)	6,480	7,230	3,629	1,254
Cash and bank balances	194	173	-	-
	6,674	7,403	3,629	1,254

The Group's and the Company's cash and bank balances are held in an In-House Account (IHA) managed by PETRONAS IFSSC to enable more efficient cash management for the Group and for the Company.

Included in cash and cash equivalents for the Group and the Company are interest-bearing balances amounting to RM6,651 million (2016: RM7,331 million) and RM3,629 million (2016: RM1,254 million) respectively.

14. SHARE CAPITAL

	Group and Company	
	2017 RM Mil	2016 RM Mil
Issued and fully paid: **8,000,000,000 ordinary shares**		
At 1 January	800	800
Transfer of share premium in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime on 31 January 2017	8,071	-
At 31 December	8,871	800

In accordance with Section 618 of Companies Act, 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act, 2016 on 31 January 2017 to utilise the credit.

Included in share capital is share premium amounting to RM8,071 million that is available to be utilised in accordance with Section 618(3) of Companies Act, 2016 on or before 30 January 2019 (24 months from commencement of Section 74).

15. 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.

Company

Merger relief of the Company is premium arising from issuance of shares for the acquisition of wholly-owned subsidiaries.

Foreign currency translation reserve

Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are not Ringgit Malaysia, and the Group's net investment in foreign operations.

Other reserves

Other reserves comprise primarily reserve created upon redemption of preference shares and the Group's share of its joint venture and associate companies' reserves.

16. NON-CONTROLLING INTERESTS

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

17. OTHER LONG TERM LIABILITIES AND PROVISIONS

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Finance lease liabilities	17.1	88	137	-	-
Provisions	17.2	116	162	34	76
Other payables		8	9	-	-
		212	308	34	76

17.1 Finance lease liabilities

		2017			2016		
Group	Note	Minimum lease payments RM Mil	Interest RM Mil	Principal RM Mil	Minimum lease payments RM Mil	Interest RM Mil	Principal RM Mil
Less than 1 year	19.1	56	7	49	55	9	46
Between 1 to 5 years		94	6	88	150	13	137
		150	13	137	205	22	183

17.2 Provisions

Group	Note	2017 RM Mil	2016 RM Mil
Non-current		116	162
Current	19	25	38
		141	200

The movement of provisions is as follows:

	RM Mil
At 1.1.2017	200
Provisions reversed	(3)
Provisions utilised	(58)
Unwinding of discount factor	11
Translation exchange difference	(9)
At 31.12.2017	141

The Group's provisions comprise:

i. Provisions for decommissioning activities and onerous contracts in relation to the discontinuation of the Group's vinyl and polypropylene businesses.

Provision for decommissioning activities includes dismantling/demolishing and removal of equipment, structures and foundation, as well as site remediation.

Provision for onerous contracts is in relation to termination of contractual obligation with committed charges.

The provisions have been made based on present value of estimated decommissioning amount and negotiated settlement amount payable over a period ranging from 1 to 4 years (2016: 2 to 5 years) using a discount rate of 8.6% (2016: 8.6%).

17. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

17.2 Provisions (continued)

ii. Provision for decommissioning of property, plant and equipment in relation to a subsidiary's obligation to decommission and remove all property, plant and equipment, and to restore land subleased to its original condition upon expiry in 2040. The corresponding asset of an amount equivalent to the provision is also created and will be depreciated over the term of the sublease.

The provision has been made based on present value of estimated decommissioning amount using a discount rate of 4.8% (2016: 4.8%).

Company	Note	2017 RM Mil	2016 RM Mil
Non-current		34	76
Current	19	22	32
		56	108

The movement of provisions is as follows:

	RM Mil
At 1.1.2017	108
Provisions reversed	(5)
Provisions utilised	(52)
Unwinding of discount factor	5
At 31.12.2017	56

The Company's provision comprises provision for financial assistance in relation to subscription of redeemable preference shares (RPS) in a subsidiary to meet the 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 4 years (2016: 5 years) using a discount rate of 8.6% (2016: 8.6%).

18. BORROWINGS

	Group	
	2017 RM Mil	2016 RM Mil
Revolving credit facility - unsecured	-	23

In the previous year, revolving credit facility relates to a facility granted by a licensed financial institution to a subsidiary, which bears interest at an average rate of 4.36% per annum.

18. BORROWINGS (CONTINUED)

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities			Equity		
Group	**Revolving credit facility RM Mil**	**Finance lease liabilities RM Mil**	**Dividend payable RM Mil**	**Retained profits RM Mil**	**Non-controlling interests RM Mil**	**Total RM Mil**
At 1.1.2017	23	183	42	16,748	1,271	18,267
Changes from financing cash flows						
Dividends paid to:						
- PETRONAS	-	-	-	(1,236)	-	(1,236)
- others (third parties)	-	-	-	(684)	-	(684)
- non-controlling interests	-	-	(42)	-	(512)	(554)
Proceeds from issue of shares to a non-controlling interest	-	-	-	-	7	7
Repayment of:						
- finance lease liabilities	-	(55)	-	-	-	(55)
- revolving credit facility	(23)	-	-	-	-	(23)
Total changes from financing cash flows	(23)	(55)	(42)	(1,920)	(505)	(2,545)
Other changes						
Interest expense	-	9	-	-	-	9
Total liability-related other changes	-	9	-	-	-	9
Total equity-related other changes	-	-	-	4,153	237	4,390
At 31.12.2017	-	137	-	18,981	1,003	20,121

18. BORROWINGS (CONTINUED)

Reconciliation of movement of liabilities to cash flows arising from financing activities (continued)

Company	Equity Retained profits RM Mil
At 1.1.2017	10,446
Changes from financing cash flows	
Dividends paid to:	
- PETRONAS	(1,236)
- others (third parties)	(684)
Total changes from financing cash flows	(1,920)
Total equity-related other changes	6,223
At 31.12.2017	14,749

Comparative information for prior year is not required under MFRS 107 *Disclosure Initiative* (Amendments to MFRS 107) as the Group and the Company first apply the amendments.

19. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Trade payables		142	66	-	-
Other payables	19.1	1,835	1,096	27	128
Amount due to PETRONAS	19.2				
- Trade		439	345	-	-
- Non-trade		68	134	22	19
Amount due to subsidiaries	19.2				
- Non-trade		-	-	13	111
Amount due to related companies	19.2				
- Trade		402	329	-	-
- Non-trade		291	183	1	1
Provisions	17.2	25	38	22	32
Derivative liabilities	12	15	17	-	1
		3,217	2,208	85	292

19.1 Included in other payables for the Group is the current portion of finance lease liabilities amounting to RM49 million (2016: RM46 million).

19.2 Trade amount is unsecured and under normal trade terms. Non-trade amount is unsecured and repayable on demand.

20. REVENUE

	Group		Company	
	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Sales of petrochemical products, net	17,363	13,808	-	-
Dividend income	-	-	6,972	4,401
Others	44	52	-	-
	17,407	13,860	6,972	4,401

21. OPERATING PROFIT

		Group		Company	
	Note	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Included in operating profit are the following charges:					
Auditors' remuneration*		2	2	-	1
Amortisation of intangible asset	7	2	2	-	-
Depreciation of property, plant and equipment	3	1,587	1,335	3	3
Net loss on foreign exchange		1	2	791	3
Loss on disposal of property, plant and equipment		11	4	-	-
Staff costs:					
- wages, salaries and others		713	758	85	84
- contributions to Employees Provident Fund		108	104	14	16
Impairment losses on:					
- property, plant and equipment		-	5	-	-
- investments in subsidiaries		-	-	-	255
Inventories:					
- written down to net realisable value		13	2	-	-
- written-off		6	-	-	-
Property, plant and equipment written-off		-	244	-	-
and credits:					
Net gain on foreign exchange		3	17	-	416
Gain on disposal of property, plant and equipment		2	-	-	-
Dividend income:					
- subsidiaries		-	-	6,876	4,339
- joint ventures and associates		-	-	96	62
Interest income:					
- others		211	261	55	64
- subsidiaries		-	-	134	220
Management fee		-	-	66	77

* The auditors' remuneration includes the following:

	Group		Company	
	2017 RM 000	2016 RM 000	2017 RM 000	2016 RM 000
Statutory audit				
KPMG PLT	816	775	150	150
Other auditors	690	616	-	-
Non-audit fees				
KPMG PLT	358	582	165	540
Other auditors	281	140	40	118

22. NET FINANCING COSTS/(INCOME)

	Group		Company	
	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Unwinding of discount factor for other long term liabilities and provisions	20	21	5	9
Net realised gain on forward foreign exchange contract	-	(160)	-	(160)
Realised foreign exchange loss on loan due from a subsidiary	-	91	-	91
Interest on revolving credit facility	-	1	-	-
	20	(47)	5	(60)

In the previous financial year, net realised gain on forward foreign exchange contract arose from forward foreign exchange contracts entered in relation to loan due from a subsidiary.

23. TAX EXPENSE

	Group		Company	
	2017 RM Mil	2016 RM Mil	2017 RM Mil	2016 RM Mil
Current tax expenses				
Current year	721	913	33	52
Over provision in prior year	(17)	(22)	-	(1)
	704	891	33	51
Deferred tax expenses				
Origination and reversal of temporary differences	119	(64)	-	(1)
(Over)/Under provision in prior year	(1)	61	-	-
	118	(3)	-	(1)
	822	888	33	50

23. 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 is as follows:

	2017		2016	
Group	**%**	**RM Mil**	**%**	**RM Mil**
Profit before taxation		5,236		4,110
Taxation at Malaysian statutory tax rate	24	1,257	24	986
Non-deductible expenses, net of non-assessable income	1	62	1	60
Tax exempt income and incentives	(1)	(54)	(1)	(61)
Effect of lower tax rate under Global Incentive for Trading (GIFT)	(9)	(489)	(4)	(170)
Effect of net deferred tax benefits not recognised	-	14	1	50
Recognition of previously unrecognised tax losses	(1)	(57)	(1)	(60)
Temporary difference arising from movement in exchange rate of tax base	2	104	-	-
Others	-	3	1	44
	17	840	21	849
(Over)/Under provision in prior year		(18)		39
Tax expense		822		888

	2017		2016	
Company	**%**	**RM Mil**	**%**	**RM Mil**
Profit before taxation		6,256		4,881
Taxation at Malaysian statutory tax rate	24	1,501	24	1,171
Non-deductible expenses, net of non-assessable income	3	218	(2)	(122)
Tax exempt income	(27)	(1,686)	(20)	(998)
	-	33	2	51
Over provision in prior year		-		(1)
Tax expense		33		50

24. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for year ended 31 December 2017 was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

Group	2017	2016
In RM million		
Profit for the year attributable to shareholders of the Company	4,177	2,932
In millions of shares		
Number of shares issued at 31 December	8,000	8,000
In sen		
Basic earnings per ordinary share	52.2	36.7

Diluted earnings per ordinary share

No diluted earnings per share is disclosed in these financial statements as there is no dilutive potential ordinary share.

25. DIVIDENDS

Company	Sen per share	Total amount RM Mil	Date of payment
2017			
Second interim dividend for financial year ended 31 December 2016	12	960	21 March 2017
First interim dividend for financial year ended 31 December 2017	12	960	8 September 2017
		1,920	
2016			
Second interim dividend for financial year ended 31 December 2015	10	800	23 March 2016
First interim dividend for financial year ended 31 December 2016	7	560	7 September 2016
		1,360	

After the financial year end, the following dividend was approved by the Directors:

	Sen per share	Total amount RM Mil
Second interim dividend for financial year ended 31 December 2017	15	1,200

The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

26. SUBSIDIARIES AND ACTIVITIES

The Group includes the following subsidiaries:

Name of company	Effective ownership interest (%) 2017	Effective ownership interest (%) 2016	Country of incorporation	Principal activities
PETRONAS Chemicals Ammonia Sdn. Bhd.*	100	100	Malaysia	Production and sale of ammonia, syngas and carbon monoxide.
PETRONAS Chemicals Derivatives Sdn. Bhd.*	100	100	Malaysia	Production and sale of ethylene oxide derivatives, propylene derivatives and related chemical products.
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.*	100	100	Malaysia	Production and sale of urea, ammonia and methanol.
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	100	100	Malaysia	Production and sale of ammonia and urea. The company commenced operation during the financial year.
PETRONAS Chemicals Glycols Sdn. Bhd.*	100	100	Malaysia	Production and sale of ethylene oxide, ethylene glycol and other related by-products.
PETRONAS Chemicals Isononanol Sdn. Bhd. (formerly known as PRPC Glycols Sdn. Bhd.)	100	100	Malaysia	Production and sale of processed chemicals and all petrochemicals and chemicals products. The company has not commenced operation during the financial year.
PETRONAS Chemicals Marketing Sdn. Bhd.	100	100	Malaysia	Marketing of petrochemical products.
PETRONAS Chemicals Marketing (Labuan) Ltd.	100	100	Malaysia	Marketing of petrochemical products.
PCM (China) Company Limited**	100	100	China	Marketing of petrochemical products.
PCM (Thailand) Company Limited*	100	100	Thailand	Marketing of petrochemical products.
PT PCM Kimia Indonesia*	100	-	Indonesia	Marketing of petrochemical products. The company has not commenced operation during the financial year.
PETRONAS Chemicals Methanol Sdn. Bhd.	100	100	Malaysia	Production and sale of methanol.

26. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

Name of company	Effective ownership interest (%) 2017	Effective ownership interest (%) 2016	Country of incorporation	Principal activities
PETRONAS Chemicals MTBE Sdn. Bhd.	100	100	Malaysia	Production and sale of methyl tertiary butyl ether (MTBE), propylene and n-butane.
PETRONAS Chemicals Polyethylene Sdn. Bhd.	100	100	Malaysia	Processing of ethylene into polyethylene.
PRPC Polymers Sdn. Bhd.	100	100	Malaysia	Production and sale of products within ethane, propane chains and ethane derivatives. The company has not commenced operation during the financial year.
PRPC Elastomers Sdn. Bhd.	100	100	Malaysia	The company has ceased operation and remained dormant thereafter.
Kertih Port Sdn. Bhd.*	100	100	Malaysia	Owning, operating and managing Kertih Marine Facilities.
Polypropylene Malaysia Sdn. Bhd.	100	100	Malaysia	Production and sale of polypropylene and its derivatives. The company has ceased production.
Vinyl Chloride (Malaysia) Sdn. Bhd.*	100	100	Malaysia	Production and sale of vinyl chloride monomer (VCM) and polyvinyl chloride (PVC). The company has ceased production.
PETRONAS Chemicals Olefins Sdn. Bhd.*	88	88	Malaysia	Production and sale of ethylene, propylene and other hydrocarbon by-products.
PETRONAS Chemicals Ethylene Sdn. Bhd.	87.50	87.50	Malaysia	Processing of ethane into ethylene.
PETRONAS Chemicals Aromatics Sdn. Bhd.	70	70	Malaysia	Production and sale of paraxylene, benzene and other by-products.
ASEAN Bintulu Fertilizer Sdn. Bhd.	63.47	63.47	Malaysia	Processing of natural gas into urea and ammonia.
PETRONAS Chemicals LDPE Sdn. Bhd.*	60	60	Malaysia	Production and sale of low-density polyethylene pellets (LDPE).
PCM Chemical India Private Limited*	0.01	0.01	India	Marketing and business promotional services. The company has ceased operation and remained dormant thereafter.

* Audited by firms of auditors other than KPMG PLT.
** Audited by a member firm of KPMG International.

During the financial year, PETRONAS Chemicals Isononanol Sdn. Bhd., formerly known as PRPC Glycols Sdn. Bhd. had changed its principal activities from manufacturing and selling of ethylene oxide, ethylene glycol and other related by-products to manufacturing and selling of processed chemicals and all petrochemicals and chemicals products. The company has not commenced operation.

27. JOINT VENTURES AND ACTIVITIES

The Group includes the following joint ventures:

Name of company	Effective ownership interest (%) 2017	Effective ownership interest (%) 2016	Country of incorporation	Nature of relationship
Kertih Terminals Sdn. Bhd.	40	40	Malaysia	Provides bulk chemical storage and handling services to the Group.
BP PETRONAS Acetyls Sdn. Bhd.	30	30	Malaysia	Purchases carbon monoxide feedstock from the Group for production and sale of acetic acid.

28. ASSOCIATES AND ACTIVITIES

The Group includes the following associates:

Name of company	Effective ownership interest (%) 2017	Effective ownership interest (%) 2016	Country of incorporation	Nature of relationship
BASF PETRONAS Chemicals Sdn. Bhd.	40	40	Malaysia	Purchases propylene and n-butane feedstock from the Group for production, marketing and sale of acrylic, oxo and butanediol products.
Idemitsu SM (Malaysia) Sdn. Bhd.	30	30	Malaysia	Purchases ethylene feedstock from the Group for production, marketing and sale of styrene monomer.
Malaysian NPK Fertilizer Sdn. Bhd.	20	20	Malaysia	Purchases urea feedstock and utilities from the Group for production and sale of NPK fertiliser products.

29. CAPITAL COMMITMENTS

Outstanding commitments in respect of capital expenditure not provided for in the consolidated financial statements at the end of the financial year are:

	Group	
	2017 RM Mil	**2016 RM Mil**
Property, plant and equipment		
Approved and contracted for	3,695	6,216
Approved but not contracted for	3,257	4,719
	6,952	10,935

Included in the capital commitments are RM6,176 million (2016: RM9,302 million) relating to development of petrochemical plants which are part of the RAPID project in Pengerang, Johor.

30. RELATED PARTIES DISCLOSURES

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. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

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.

(a) Key management personnel compensation

	Group and Company	
	2017 RM 000	**2016 RM 000**
Directors remuneration:		
- Fees	790	773

The Company paid management fees to the holding company in relation to services of key management personnel of the Company as disclosed in Note 30(b).

30. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties

In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the financial year:

Group	Note	2017 RM Mil	2016 RM Mil
PETRONAS:			
Purchase of processed gas and natural gas		(4,153)	(3,160)
Management fees	30.1	(7)	(8)
Centralised management services		(83)	(65)
Information, communication and technology charges		(73)	(73)
Rental of office space		(21)	(21)
Interest income from PETRONAS IFSSC		208	251
Project expenses		7	(20)
Subsidiaries of PETRONAS:			
MISC Berhad			
Purchase of warehouse and transportation services		(34)	(40)
MISC Integrated Logistic Sdn. Bhd.			
Purchase of warehouse and transportation services		-	(40)
MISC Tanker Holdings Sdn. Bhd.			
Purchase of warehouse and transportation services		(7)	-
PETRONAS Carigali Sdn. Bhd.			
Purchase of processed gas and natural gas		(164)	(125)
Provision of operating and maintenance services		2	2
PETRONAS Gas Berhad			
Purchase of utilities and materials and supplies		(781)	(755)
PETRONAS Hartabina Sdn. Bhd.			
Right of use of land		(20)	-
PETRONAS Management Training Sdn. Bhd.			
Training and development related costs		(3)	(8)
PETRONAS Refinery & Petrochemical Corporation Sdn. Bhd.			
Project expenses		(283)	(355)
PETRONAS Technical Services Sdn. Bhd.			
Technical retainer fee		(39)	(55)
PETRONAS Technical Training Sdn. Bhd.			
Training and development related costs		(12)	(11)
PETCO Trading Labuan Company Ltd.			
Sales of petrochemical products		926	881
Purchase of heavy naphtha		(2,095)	(1,458)
Purchase of marine diesel		(9)	(2)

30. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Group	Note	2017 RM Mil	2016 RM Mil
Joint ventures and associates of the Group:			
BASF PETRONAS Chemicals Sdn. Bhd.			
Sale of petrochemical products		1,165	876
BP PETRONAS Acetyls Sdn. Bhd.			
Sale of petrochemical products		247	73
Purchase of petrochemical products		(29)	(28)
Rendering of port services		14	17
Idemitsu SM (Malaysia) Sdn. Bhd.			
Sale of petrochemical products		421	324
Kertih Terminals Sdn. Bhd.			
Purchase of warehouse and transportation services		(165)	(161)
Malaysian NPK Fertilizer Sdn. Bhd.			
Sale of petrochemical products		33	38
Corporate shareholder of the Group:			
MJPX Co. Ltd.			
Sale of petrochemical products		738	552
Management fees		-	(1)
Government related entities:			
CIMB Bank Berhad			
Interest income		-	7
Pertubuhan Peladang Kebangsaan			
Sale of petrochemical products		172	94
Sabah Electricity Sdn. Bhd.			
Purchase of electricity		(1)	(1)
Sarawak Energy Berhad			
Purchase of electricity		(8)	(8)
Tenaga Nasional Berhad			
Purchase of electricity		(99)	(96)

30.1 Management fees paid to holding company relate to payment for services of certain key management personnel of the Group.

30. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Company	Note	2017 RM 000	2016 RM 000
PETRONAS:			
Fees for representation on the Board of Directors	30.2	(226)	(229)
Management fees	30.3	(1,013)	(1,282)
Centralised management services		(2,557)	(2,495)
Information, communication and technology charges		(8,353)	(7,377)
Rental of office space		(14,765)	(14,847)
Interest income from PETRONAS IFSSC		54,156	55,151
Subsidiaries:			
PETRONAS Chemicals Ammonia Sdn. Bhd.			
Dividend income		-	148,000
Management fee income		4,203	4,995
PETRONAS Chemicals Derivatives Sdn. Bhd.			
Management fee income		3,438	7,098
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.			
Dividend income		164,164	70,051
Management fee income		2,314	3,572
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.			
Interest income		75,513	215,223
Management fee income		5,204	5,852
Loan and advance		(95,032)	(1,054,150)
PETRONAS Chemicals Glycols Sdn. Bhd.			
Management fee income		2,269	5,719
PETRONAS Chemicals Marketing Sdn. Bhd.			
Dividend income		2,883,140	200,000
Management fee income		5,766	5,668
PETRONAS Chemicals Marketing (Labuan) Ltd.			
Management fee income		12,232	4,557
PCM (China) Company Limited			
Management fee income		161	649
PCM (Thailand) Company Limited			
Management fee income		124	746
PETRONAS Chemicals Methanol Sdn. Bhd.			
Dividend income		840,000	156,000
Management fee income		4,587	4,798
PETRONAS Chemicals MTBE Sdn. Bhd.			
Dividend income		80,000	213,000
Management fee income		7,247	9,777
PETRONAS Chemicals Polyethylene Sdn. Bhd.			
Management fee income		2,613	3,743

30. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Company	Note	2017 RM 000	2016 RM 000
Subsidiaries:			
PRPC Polymers Sdn. Bhd.			
Interest income		58,689	4,683
Loan and advance		(2,798,763)	(1,416,567)
PRPC Elastomers Sdn. Bhd.			
Loan and advance		-	(9,856)
Kertih Port Sdn. Bhd.			
Dividend income		64,000	100,000
Management fee income		1,395	1,546
Polypropylene Malaysia Sdn. Bhd.			
Management fee income		(119)	285
Vinyl Chloride (Malaysia) Sdn. Bhd.			
Management fee income		2,714	2,508
PETRONAS Chemicals Olefins Sdn. Bhd.			
Dividend income		2,376,388	880,116
Management fee income		3,312	3,218
PETRONAS Chemicals Ethylene Sdn. Bhd.			
Dividend income		102,287	1,738,275
Management fee income		4,138	4,225
PETRONAS Chemicals Aromatics Sdn. Bhd.			
Dividend income		251,300	224,000
Management fee income		154	77
ASEAN Bintulu Fertilizer Sdn. Bhd.			
Dividend income		114,240	609,280
Management fee income		2,502	5,011
PETRONAS Chemicals LDPE Sdn. Bhd.			
Management fee income		1,379	3,391
Joint ventures and associates:			
Kertih Terminals Sdn. Bhd.			
Dividend income		64,000	48,000
BASF PETRONAS Chemicals Sdn. Bhd.			
Dividend income		12,750	8,382
Idemitsu SM (Malaysia) Sdn. Bhd.			
Dividend income		19,541	5,699
Government related entities:			
CIMB Bank Berhad			
Interest income		-	7,156
Malayan Banking Berhad			
Interest income		478	-

30. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

30.2 Fees for representation on the Board of Directors paid directly to holding company relate to payment of fees for Directors who are appointees of the holding company.

30.3 Management fees paid to holding company relate to payment for services of certain key management personnel of the Company.

Information regarding outstanding balances arising from related party transactions as at 31 December 2017 is disclosed in Notes 11, 13, 17 and 19.

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.

Other related party transactions have not been included as the transactions are not significant to the Group.

31. OPERATING SEGMENTS

For management purposes, the Group has two 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.

Management monitors the operating results of the 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 Managing Director/Chief Executive Officer (MD/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.

Other non-reportable segment comprises operations related to investment holding company and port services which provide product distribution infrastructure to the Group, which only contributes 0.3% (2016: 0.4%) of the Group's revenue and represents 19.6% (2016: 13.4%) of the Group's assets.

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 MD/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.

31. OPERATING SEGMENTS (CONTINUED)

2017	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,771	1,609	34	-	4,414
Included in the measure of segment profit are:					
Revenue from external customers	11,350	6,013	44	-	17,407
Inter-segment revenue	12	155	41	(208)	-
Depreciation and amortisation	(817)	(750)	(22)	-	(1,589)
Interest income	122	33	190	(134)	211
Financing (costs)/income	(14)	(56)	-	50	(20)
Share of (loss)/profit of joint ventures and associates	(45)	16	45	-	16
Tax expense	(574)	(205)	(43)	-	(822)
Segment assets	15,040	11,724	6,526	(28)	33,262
Included in the measure of segment assets are:					
Investments in joint ventures and associates	1,008	111	73	-	1,192
Additions to non-current assets other than financial instruments and deferred tax assets	4,820	272	(86)	-	5,006

2016	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,159	999	64	-	3,222
Included in the measure of segment profit are:					
Revenue from external customers	9,744	4,063	53	-	13,860
Inter-segment revenue	13	165	45	(223)	-
Depreciation and amortisation	(804)	(514)	(19)	-	(1,337)
Property, plant and equipment written-off	(244)	-	-	-	(244)
Interest income	148	46	287	(220)	261
Financing (costs)/income	(19)	(3)	69	-	47
Share of (loss)/profit of joint ventures and associates	(30)	15	32	-	17
Tax expense	(754)	(71)	(63)	-	(888)
Segment assets	13,752	13,923	4,293	(20)	31,948
Included in the measure of segment assets are:					
Investments in joint ventures and associates	1,152	119	92	-	1,363
Additions to non-current assets other than financial instruments and deferred tax assets	2,089	801	153	-	3,043

31. OPERATING SEGMENTS (CONTINUED)

Geographical information

Geographical revenue is determined based on location of customers. The amounts presented for non-current assets are based on the geographical location of the assets and do not include financial instruments (including long term receivables, investments in joint ventures and associates) and deferred tax assets.

Group	Revenue RM Mil	Non-current assets RM Mil
2017		
Malaysia	5,767	20,832
Asia:		
- China	3,538	-
- Indonesia	2,384	1
- Thailand	1,806	1
- Others	3,468	1
Rest of the world	444	-
	17,407	20,835
2016		
Malaysia	4,530	18,543
Asia:		
- China	3,010	1
- Indonesia	1,895	-
- Thailand	1,388	2
- Others	2,778	-
Rest of the world	259	-
	13,860	18,546

Major customers

None of the customers individually contributes to more than 10% of the Group's revenue.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

The following tables provide 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	2017 L&R/ (FL) RM Mil	2017 FVTPL - HFT RM Mil	2017 Total carrying amount RM Mil	2016 L&R/ (FL) RM Mil	2016 FVTPL - HFT RM Mil	2016 Total carrying amount RM Mil
Financial assets							
Trade and other receivables*	11	2,090	19	2,109	2,092	15	2,107
Cash and cash equivalents	13	6,674	-	6,674	7,403	-	7,403
		8,764	19	8,783	9,495	15	9,510
Financial liabilities							
Other long term liabilities*	17	(126)	-	(126)	(216)	-	(216)
Borrowings	18	-	-	-	(23)	-	(23)
Trade and other payables*	19	(3,191)	(15)	(3,206)	(2,175)	(17)	(2,192)
Dividend payable		-	-	-	(42)	-	(42)
		(3,317)	(15)	(3,332)	(2,456)	(17)	(2,473)

* These balances exclude balances which are not within the scope of MFRS 139, *Financial Instruments: Recognition and Measurement.*

32. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Company	Note	2017 L&R/ (FL) RM Mil	2017 FVTPL - HFT RM Mil	2017 Total carrying amount RM Mil	2016 L&R/ (FL) RM Mil	2016 FVTPL - HFT RM Mil	2016 Total carrying amount RM Mil
Financial assets							
Long term receivables	8	3,991	-	3,991	7,011	-	7,011
Trade and other receivables*	11	43	-	43	552	1	553
Cash and cash equivalents	13	3,629	-	3,629	1,254	-	1,254
		7,663	-	7,663	8,817	1	8,818
Financial liabilities							
Trade and other payables*	19	(60)	-	(60)	(259)	(1)	(260)

* These balances exclude balances which are not within the scope of MFRS 139, *Financial Instruments: Recognition and Measurement.*

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 risk 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.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board level, where relevant, based on defined methodology and translated into operational thresholds.

The Group's 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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

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's 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 statements of financial position.

Receivables

The Group minimises credit risk by ensuring that all potential counterparties are subject to credit assessment and approval prior to any transaction being concluded. Existing counterparties are also 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.

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:

Group	2017 RM Mil	2016 RM Mil
Olefins and Derivatives	997	1,525
Fertilisers and Methanol	172	522
Others	921	45
	2,090	2,092

As at the end of the financial 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 trade receivables. The Group has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values.

The ageing of trade receivables and amount due from PETRONAS, related companies and associates which are trade in nature as at the end of the financial year is analysed below:

Group	2017 RM Mil	2016 RM Mil
At net		
Current	1,884	1,809
Past due 1 to 30 days	15	2
	1,899	1,811

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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Financial guarantee

The Company provides unsecured financial guarantee to bank in respect of banking facility granted to an associate. The Company monitors on an ongoing basis, the results of the associate and repayments made by the associate.

The maximum exposure to credit risk is amounting to RM390 million (2016: Nil) which represents the outstanding banking facility of the associate as at reporting date. As at reporting date, there was no indication that the associate would default on repayment.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligationas as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from its trade and other payables and borrowings. 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
2017						
Financial liabilities						
Finance lease liabilities	137	5.00	150	55	50	45
Other long term liabilities	38	-	42	-	28	14
Trade and other payables	3,142	-	3,142	3,142	-	-
Derivative liabilities	15	-	15	15	-	-
Financial guarantee	-	-	390	390	-	-
	3,332		3,739	3,602	78	59
2016						
Financial liabilities						
Finance lease liabilities	183	5.00	205	55	55	95
Other long term liabilities	79	-	95	-	67	28
Borrowings	23	4.36	23	23	-	-
Trade and other payables	2,129	-	2,129	2,129	-	-
Dividend payable	42	-	42	42	-	-
Derivative liabilities	17	-	17	17	-	-
	2,473		2,511	2,266	122	123

32. 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
2017				
Financial liabilities				
Trade and other payables	60	-	60	60
Financial guarantee	-	-	390	390
	60		450	450
2016				
Financial liabilities				
Trade and other payables	259	-	259	259
Derivative liabilities	1	-	1	1
	260		260	260

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes arising from financial instruments that the Group and the Company are exposed to includes 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 rates. Short term receivables and payables are not significantly exposed to interest rate risk.

In managing interest rate risk, the Group and the Company maintain 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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	Group		Company	
	2017 RM Mil	**2016 RM Mil**	**2017 RM Mil**	**2016 RM Mil**
Fixed rate instruments				
Financial assets	171	101	-	5,527
Financial liabilities	(137)	(183)	-	-
	34	(82)	-	5,527
Floating rate instruments				
Financial assets	6,480	7,230	7,620	2,738
Financial liabilities	-	(23)	-	-
	6,480	7,207	7,620	2,738

The Group's and the Company's financial assets and liabilities are 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 arising from most of its revenue and expenses being denominated in US Dollar. In addition, the Group, where applicable, hedges using derivative instruments in respect of current and forecasted transactions.

32. 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:

	Denominated in		
Group	**USD RM Mil**	**EURO RM Mil**	**JPY RM Mil**
2017			
Financial assets			
Trade and other receivables*	487	5	3
Financial liabilities			
Trade and other payables*	(95)	(1)	(1)
Derivative assets/liabilities at nominal value	(393)	-	-
Net exposure	(1)	4	2
2016			
Financial assets			
Trade and other receivables*	633	-	-
Cash and cash equivalents	16	-	-
	649	-	-
Financial liabilities			
Trade and other payables*	(30)	(14)	-
Derivative assets/liabilities at nominal value	(561)	-	-
Net exposure	58	(14)	-

* These amounts include foreign currency risk exposure arising from intra-group balances.

Most of the Group's foreign denominated financial currency financial instruments are in US Dollar and since 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 profit or loss.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Foreign exchange risk (continued)

	Denominated in USD	
Company	**2017 RM Mil**	**2016 RM Mil**
Financial assets		
Long term receivables	3,991	7,011
Trade and other receivables	2	9
	3,993	7,020
Financial liabilities		
Trade and other payables	-	(10)
Net exposure	3,993	7,010

The following table demonstrates the indicative pre-tax effects on the profit or loss of applying reasonable foreseeable market movements on the net exposure at the reporting date in the following currency exchange rate:

		Profit/(Loss)	
	Appreciation in foreign currency rate %	**2017 RM Mil**	**2016 RM Mil**
USD	10	399	701

A decrease in change in currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information

The carrying amounts of cash and cash equivalents, and short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

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		Carrying amount
Group	**Level 2 RM Mil**	**Total RM Mil**	**Level 3 RM Mil**	**Total RM Mil**	**Total RM Mil**
2017					
Financial assets					
Forward foreign exchange contracts	19	19	-	-	19
Financial liabilities					
Forward foreign exchange contracts	(15)	(15)	-	-	(15)
Finance lease liabilities	-	-	(88)	(88)	(88)
	(15)	(15)	(88)	(88)	(103)
2016					
Financial assets					
Forward foreign exchange contracts	15	15	-	-	15
Financial liabilities					
Forward foreign exchange contracts	(17)	(17)	-	-	(17)
Finance lease liabilities	-	-	(136)	(136)	(137)
	(17)	(17)	(136)	(136)	(154)

32. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company	Fair value of financial instruments carried at fair value		Fair value of financial instruments not carried at fair value		Carrying amount
	Level 2 RM Mil	Total RM Mil	Level 3 RM Mil	Total RM Mil	Total RM Mil
2017					
Financial assets					
Long term receivables	-	-	3,621	3,621	3,991
2016					
Financial assets					
Long term receivables	-	-	7,011	7,011	7,011
Forward foreign exchange contracts	1	1	-	-	1
	1	1	7,011	7,011	7,012
Financial liabilities					
Forward foreign exchange contracts	(1)	(1)	-	-	(1)

Forward foreign exchange contracts

The fair value of forward foreign exchange contracts is based on the fair value difference between forward exchange rates and the contracted rates.

Finance lease liabilities

The fair value of finance lease 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 the projected repayment of loans, discounted at the market rate of interest at the end of the reporting period.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments

Group	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
2017				
Loans and receivables	211	-	(59)	152
Financial instruments at fair value through profit or loss				
- Held for trading	-	-	96	96
Financial liabilities measured at amortised cost	-	-	(35)	(35)
	211	-	2	213
2016				
Loans and receivables	261	-	(47)	214
Financial instruments at fair value through profit or loss				
- Held for trading	-	-	93	93
Financial liabilities measured at amortised cost	-	(1)	38	37
	261	(1)	84	344

Company	Interest income RM Mil	Others RM Mil	Total RM Mil
2017			
Loans and receivables	189	(791)	(602)
Financial liabilities measured at amortised cost	-	1	1
	189	(790)	(601)
2016			
Loans and receivables	284	325	609
Financial instruments at fair value through profit or loss			
- Held for trading	-	150	150
Financial liabilities measured at amortised cost	-	7	7
	284	482	766

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.

33. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2017, the Group and the Company adopted the following pronouncements that are applicable and have been issued by MASB as listed below:

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12	*Disclosure of Interests in Other Entities (Annual Improvements 2014 – 2016 Cycle)*
Amendments to MFRS 107	*Statement of Cash Flows: Disclosure Initiative*
Amendments to MFRS 112	*Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The initial application of the abovementioned pronouncements do not have any material impact to the financial statements of the Group and the Company.

34. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by 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 January 2018

MFRS 9	*Financial Instruments (2014)*
MFRS 15	*Revenue from Contracts with Customers*
Clarifications to MFRS 15	*Revenue from Contracts with Customers*
IC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to MFRS 128	*Investments in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)*

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	*Leases*
Amendments to MFRS 3	*Business Combinations (Annual Improvements 2015 – 2017 Cycle)*
Amendments to MFRS 11	*Joint Arrangements (Annual Improvements 2015 – 2017 Cycle)*
Amendments to MFRS 112	*Income Taxes (Annual Improvements 2015 – 2017 Cycle)*
Amendments to MFRS 123	*Borrowing Costs (Annual Improvements 2015 – 2017 Cycle)*
Amendments to MFRS 128	*Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
IC Interpretation 23	*Uncertainty over Income Tax Treatments*

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.

i. MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting.

The Group has established a structured implementation program which includes undertaking impact assessment, guideline, training program as well as engaging with relevant experts within PETRONAS Group to ensure readiness and smooth implementation of MFRS 9.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. MFRS 9 also introduces a new impairment model with a forward-looking expected credit loss (ECL) model.

Based on the assessment, the Group and the Company do not expect the application of MFRS 9 to have a significant impact on its consolidated financial statements, other than the disclosure impact of which the Group and the Company are finalising.

34. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT (CONTINUED)

ii. 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 T*ransfers of Assets from Customers* and IC Interpretation 131 Revenue – *Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

Based on the assessment, the Group and the Company do not expect the application of MFRS 15 to have a significant impact on its consolidated financial statements.

iii. MFRS 16 *Leases*

MFRS 16 replaces existing leases guidance in MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives*, and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Group and the Company are currently assessing the impact of adopting MFRS 16.

35. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 1	*First-time Application of Malaysian Financial Reporting Standards (Annual Improvements 2014 – 2016 Cycle)*
Amendments to MFRS 2	*Share-based Payment: Classification and Measurement of Share-based Payment Transactions*
Amendments to MFRS 4	*Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
Amendments to MFRS 140	*Investment Property: Transfer of Investment Property*

Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 9	*Financial Instruments: Prepayment Features with Negative Compensation*

Effective for annual periods beginning on or after 1 January 2021

MFRS 17	*Insurance Contracts*

Effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10 and MFRS 128	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

36. CAPITAL MANAGEMENT

The Group defines capital as the total equity and debt of the Group. The objective of the Group's 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's and the Company's approach to capital management during the financial year.

37. SIGNIFICANT EVENT

On 29 September 2017, the Company entered into a Share Purchase Agreement (SPA) with Aramco Overseas Holding Coöperatief U.A., a wholly-owned subsidiary of Saudi Arabian Oil Company, in relation to the divestment of 50% of the equity interest and 50% of any shareholder loans held by the Company in PRPC Polymers Sdn. Bhd. (PRPC Polymers) for a consideration of approximately USD0.9 billion (equivalent to RM3.8 billion), subject to certain post-closing adjustments set out in the SPA.

The divestment is expected to be completed upon fulfilment of conditions precedent of the SPA. Subsequent to the completion of the divestment, PRPC Polymers will cease to be a subsidiary of the Group.

38. SUBSEQUENT EVENT

On 8 February 2018, the Company via its subsidiary PRPC Polymers, has entered into a Land Lease Agreement with PETRONAS Hartabina Sdn. Bhd., a wholly-owned subsidiary of PETRONAS for a lease period of 30 years.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PETRONAS CHEMICALS GROUP BERHAD (COMPANY NO. 459830-K) (INCORPORATED IN MALAYSIA)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PETRONAS Chemicals Group Berhad ("PCG"), which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 154 to 217.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their 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 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there is no key audit matter in the audit of the separate financial statements of the Company to communicate in our auditors' report.

Deferred tax assets

Refer to note 2.13(ii) (accounting policy) and note 9 of the financial statements.

Where deferred tax assets are recognised, significant management judgment is required to assess the utilisation of the balance by reference to projections of future taxable income. The periods over which the deferred tax assets are expected to be recovered can be extensive. This is one of the areas that our audit focuses on because there are inherent uncertainties involved in projecting future taxable income, in particular, when the deferred tax assets are recognised by subsidiaries which continue to be loss making.

We performed the following audit procedures, among others:

- assessed the adequacy of the audit procedures performed by the component auditors (which included amongst others, challenging the key assumptions, testing mathematical accuracy and assessing reasonableness of taxable income projections) to review the recognised deferred tax asset as two of the subsidiaries in the Group that had recognised significant deferred tax assets are audited by another firm of auditors; and
- evaluated the likelihood of successful implementation of the proposed tolling arrangements within the Group's integrated value chain involving the aforesaid two subsidiaries and evaluated the appropriateness of the Group's assessment that it is probable that sufficient taxable income would be generated to utilise the deferred tax assets.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report and Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the Annual Report, which are expected to be made available to us after the auditors' report date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in note 26 to the financial statements.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Thong Foo Vung
Approval Number: 02867/08/2018 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 20 February 2018

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 31/12/2017: (RM '000)
1	**PETRONAS Chemicals Derivatives Sdn Bhd, PETRONAS Chemicals Olefins Sdn Bhd, PETRONAS Chemicals Glycols Sdn Bhd** (each a 1/3 part owner)					277,656
	H.S.(D) 3385, PT No. 10535, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 29 August 2060	30.08.2000	Industrial land - TNB sub-station	3,886	17	
	H.S.(D) 3316, PT No. 9015, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 29 August 2060	30.08.2000	Industrial land - Waste water and treatment substation	260,469	17	
	Pajakan Negeri No. Hakmilik 7594, No. Lot 8068, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 29 August 2060	30.08.2000	Industrial land - Plant for production of ethylene derivatives	611,075	17	
2	**PETRONAS Chemicals Methanol Sdn Bhd**					
	No. 205350607, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan Leasehold for 99 years, expiring on 31 December 2082	31.8.2004	Industrial land - Plant for production of methanol	14 hectares	13	1,242,084
3	**PETRONAS Chemicals Methanol Sdn Bhd**					
	No. 206291590, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan Leasehold for 51 years, expiring on 30 December 2043	01.06.1992	Industrial land - Plant for production of methanol and administration office	34 acres	26	493,156
4	**PETRONAS Chemicals MTBE Sdn Bhd**					
	H.S.(D) 9688 P.T. No. 4538, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 66 years, expiring on 14 July 2058	17.11.1992	Industrial land - Plant for production of MTBE	36 hectares	25	181,899

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 31/12/2017: (RM '000)
5	**PETRONAS Chemicals MTBE Sdn Bhd**					
	H.S.(D) 34911, No. P.T. 15128, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 99 years, expiring on 8 January 2100	09.01.2001	Industrial land – Propane dehydrogenation plant	34 acres	17	457,197
6	**PETRONAS Chemicals MTBE Sdn Bhd**					
	H.S.(D) 34912, No.P.T. 15129, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 99 years, expiring on 8 January 2100	09.01.2001	Emergency response building	15 acres	17	6,465
7	**Polypropylene Malaysia Sdn Bhd**					
	H.S. (D) 9686, No. Lot P.T. 4536, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 66 years, expiring on 14 July 2058	15.07.1992	Industrial land - Plant for production of polypropylene	20 hectares	25	10,022
8	**PETRONAS Chemicals Fertiliser Kedah Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 1010, No. Lot 10750 Gurun, Kuala Muda, Kedah Leasehold for 99 years, expiring on 22 April 2102	01.11.1999	Commercial/industrial land - Plant for production of urea and ammonia	699,100	18	239,527
9	**PETRONAS Chemicals Fertiliser Kedah Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 3396 - 3399, No. Lot 174 - 177, Seksyen 6, Gurun, Kuala Muda, Kedah Leasehold for 99 years, expiring on 12 February 2105	01.11.1999	Commercial/industrial land - Plant for production of urea and ammonia	201,233	18	68,947

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 31/12/2017: (RM '000)
10	**ASEAN Bintulu Fertilizer Sdn Bhd**					
	No.323, Lot 35, Block 20, Kemena Land District, Bintulu, Sarawak Leasehold for 99 years, expiring on 19 February 2083	01.04.1983	Mixed zone/town land - Plant for production of urea and ammonia	38 hectares	35	191,573
11	**ASEAN Bintulu Fertilizer Sdn Bhd**					
	No.321, Lot 2233-2239, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	08.02.2005	Mixed zone/town land - Dwelling house	8,298	13	1,379
12	**PETRONAS Chemicals Ethylene Sdn Bhd, PETRONAS Chemicals Polyethylene Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 6282, No. Lot 8075, Mukim Kertih, Kemaman, Terengganu Leasehold for 51 years, expiring on 16 June 2052	02.04.1993	Industrial land - Plant for production of ethylene/polyethylene	567,800	25	428,860
13	**PETRONAS Chemicals Ethylene Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 3939, No. Lot 5217, Mukim Kertih, Kemaman,Terengganu Leasehold for 60 years, expiring on 23 October 2054	31.05.1995	Industrial land - Storage facility for water	191,200	23	4,480
14	**PETRONAS Chemicals Ammonia Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 7588, No. Lot 8066, Mukim Kertih, Kemaman,Terengganu Leasehold for 60 years, expiring on 19 August 2060	01.08.2000	Industrial land- Plant for production of ammonia and any other related gas	98,490	17	258,696

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 31/12/2017: (RM '000)
15	**PETRONAS Chemicals Ammonia Sdn Bhd**					
	PT 15786, Lot 5276, Mukim Kertih, Kemaman, Terengganu Leasehold for 44 years, expiring on 08 January 2055	30.12.2011	Industrial land- KIPC Shared Facilities which includes the administrative, laboratory and workshop buildings	96,208	6	31,805
16	**PETRONAS Chemicals LDPE Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 7593, No. Lot 8073, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 19 August 2060	20.08.2000	Industrial land - Plant for production of LDPE	184,677	17	93,333
17	**Kertih Port Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 4695, No. Lot 7120, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 5 March 2060	02.08.2000	Industrial land - Operations of Kertih Port (Jetty and marine related facilities)	43,100	17	330,100
18	**Kertih Port Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 4696, No. Lot 7121, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 5 March 2060	02.08.2000	Industrial land – Gas and oil pipelines (Reclaimation area land & Coastal Strip Land)	41,400	17	421
19	**Kertih Port Sdn Bhd**					
	Pajakan Negeri No. Hakmilik 6280, No. Lot 8077 Mukim Kertih, Kemaman, Terengganu Leasehold for 51 years, expiring on 16 June 2052	31.03.1993	Industrial land - Administration complex and other related facilities.	58,570	25	16,524
20	**Vinyl Chloride (Malaysia) Sdn Bhd**					3,810
	Pajakan Negeri No. Hakmilik 3331, No. Lot 51062, Mukim Kertih, Kemaman, Terengganu Leasehold for 44 years, expiring on 8 January 2055	07.09.1998	Industrial land - Integrated PVC manufacturing plant	187,958	19	
	Pajakan Negeri No. Hakmilik 7394, No. Lot 6058, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 18 December 2056	07.09.1998	Industrial land - Integrated PVC manufacturing plant	121,400	19	

ANALYSIS OF SHAREHOLDINGS

AS AT 28 FEBRUARY 2018

Share Capital	:	RM800,000,000 comprising 8,000,000,000 ordinary shares
Class of Shares	:	Ordinary shares
Voting Rights	:	One Vote Per Ordinary Share (on a poll)

Size of Holdings	No. of Shareholders	% of Total Shareholders	No. of Shares	% of Total Shareholdings
Less than 100	176	1.07	1,323	0.00
100 - 1,000	5,574	33.92	4,849,281	0.06
1,001 - 10,000	8,242	50.15	34,290,729	0.44
10,001 - 100,000	1,529	9.30	46,650,834	0.58
100,001 to less than 5% of issued shares	912	5.55	2,238,725,233	27.98
5% and above of issued shares	2	0.01	5,675,482,600	70.94
Total	**16,435**	**100.00**	**8,000,000,000**	**100.00**

List of Directors' Shareholdings

As at 28 February 2018

		No. of Shares				
No	Name	Opening Balance	Bought	Sold	Closing Balance	% of Total Shareholdings
1	Datuk Md Arif Mahmood	20,000	-	-	20,000	0.00
2	Datuk Sazali Hamzah	-	-	-	-	0.00
3	Vimala V.R Menon	20,000	-	-	20,000	0.00
4	Ching Yew Chye	20,000	-	-	20,000	0.00
5	Dong Soo Kim	20,000	-	10,000	10,000	0.00
6	Datuk William Toh Ah Wah	-	-	-	-	0.00
7	Zakaria Kasah	6,000	-	-	6,000	0.00
8	Freida Amat	6,000	-	-	6,000	0.00

List of Management's Shareholdings

As at 28 February 2018

		No. of Shares				
No	Name	Opening Balance	Bought	Sold	Closing Balance	% of Total Shareholdings
1	Rashidah Alias	6000	-	-	6000	0.00
2	Mahadzir Rani	-	-	-	-	-
3	Shamsairi Mohd Ibrahim	6000	-	-	6000	0.00
4	Akbar Md Thayoob	6000	-	-	6000	0.00
5	Ch'ng Guang How	2000	-	-	2000	0.00
6	Mohamad Iskandar Bakeri	-	-	-	-	-
7	Noor Lily Zuriati Abdullah	-	-	-	-	-
8	Datin Zarina Zakaria	-	-	-	-	-
9	Siti Azlina Abd Latif	-	-	-	-	-
10	Ahmad Zaki Daud	-	-	-	-	-

ANALYSIS OF SHAREHOLDINGS

AS AT 28 FEBRUARY 2018

Category of Shareholders	No. of Shareholders		% of Shareholders		No. of Shares		% of Shareholdings	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
Individual	12,765	117	77.67	0.71	54,794,103	894,141	0.68	0.01
Body Corporate								
Bank/ Finance Companies	83	1	0.51	0.01	888,434,310	2,700	11.11	0.00
Investments Trusts/ Foundation/ Charities	3	0	0.02	0.00	470,000	0	0.01	0.00
Other types of companies	225	4	1.37	0.02	9,645,200	44,000	0.12	0.00
Government Agencies/ Institutions	4	0	0.02	0.00	1,250,000	0	0.02	0.00
Nominees	2,300	933	13.99	5.68	6,148,395,353	896,070,193	76.85	11.20
Others	0	0	0.00	0.00	0	0	0.00	0.00
Total	15,380	1,055	93.58	6.42	7,102,988,966	897,011,034	88.79	11.21

LIST OF TOP 30 HOLDERS

No.	Name	No. of Shares	% of Shareholdings
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	527,482,600	6.59
3	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	290,462,200	3.63
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	252,681,600	3.16
5	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	84,478,200	1.06
6	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	57,906,800	0.72
7	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	49,980,900	0.62
8	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	49,117,086	0.61
9	CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	41,925,900	0.52
10	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	38,549,520	0.48
11	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	36,000,000	0.45
12	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	35,352,800	0.44
13	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	30,097,900	0.38
14	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	29,710,400	0.37
15	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	29,064,900	0.36
16	CARTABAN NOMINEES (ASING) SDN BHD RBC INVESTOR SERVICES BANK S.A. FOR ROBECO CAPITAL GROWTH FUNDS	28,298,500	0.35
17	AMSEC NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	27,990,300	0.35

LIST OF TOP 30 HOLDERS (CONTINUED)

No.	Name	No. of Shares	% of Shareholdings
18	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	24,777,800	0.31
19	PERMODALAN NASIONAL BERHAD	23,100,000	0.29
20	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD.	21,751,400	0.27
21	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	21,667,500	0.27
22	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	19,605,000	0.25
23	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	18,181,000	0.23
24	CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	17,900,600	0.22
25	PERTUBUHAN KESELAMATAN SOSIAL	15,576,210	0.19
26	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	15,471,700	0.19
27	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)	14,817,800	0.19
28	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND	14,768,000	0.18
29	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 9)	14,183,900	0.18
30	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	12,700,000	0.16

LIST OF SUBSTANTIAL SHAREHOLDERS

No.	Name		No. of Shares	% of Shareholdings
1	PETROLIAM NASIONAL BERHAD			
	SHARES HELD UNDER CIMB GROUP NOMINEES (TEMPATAN) SDN BHD		5,148,000,000	64.35
2	EMPLOYEES PROVIDENT FUND BOARD		589,182,300	7.36
	SHARES HELD UNDER CITIGROUP NOMINEES (TEMPATAN) SDN BHD			
	EMPLOYEES PROVIDENT FUND BOARD	527,482,600		
	EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	21,667,500		
	EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	15,471,700		
	EMPLOYEES PROVIDENT FUND BOARD (AFFIN-HWG)	7,582,200		
	EMPLOYEES PROVIDENT FUND BOARD (AM /NV)	3,706,500		
	EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	3,150,000		
	EMPLOYEES PROVIDENT FUND BOARD (F TEMPLETON)	2,608,700		
	EMPLOYEES PROVIDENT FUND BOARD (ARIM)	2,000,000		
	EMPLOYEES PROVIDENT FUND BOARD (F.TEMISLAMIC)	1,697,600		
	EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	1,445,600		
	EMPLOYEES PROVIDENT FUND BOARD (ABERISLAMIC)	1,369,900		
	EMPLOYEES PROVIDENT FUND BOARD (RHBISLAMIC)	1,000,000		

WHOLLY-OWNED SUBSIDIARIES

1. **Kertih Port Sdn Bhd**
Lot 3633, Kawasan Bukit Tengah
KM 105, Jln Kuantan-Kuala Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5648/5796
Fax : +609 830 5618/5623/5639

2. **PCM (China) Company Limited**
Room 10-011, 10th Floor
No. 1000 Lujiazui Ring Road
Hang Seng Bank Tower
Pudong New Area
Shanghai 200120
China
Tel : +8621 6887 1445
Fax : +8621 1445 ext 211

3. **PCM (Thailand) Company Limited**
5th Floor, Bangkok City Tower
179 South Sathorn Road
Kwaeng Tungmahamek
Khet Sathorn Bangkok
10120 Thailand
Tel : +66 2679 5600
Fax : +66 2679 5511

4. **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

5. **PETRONAS Chemicals Derivatives Sdn Bhd**
Administration Building
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuala Terengganu-Kuantan
24300 Kertih
Terengganu Darul Iman
Tel : +609 830 7700
Fax : +609 830 7759

6. **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

7. **PETRONAS Chemicals Fertiliser Sabah Sdn Bhd**
WDT32, PETRONAS Office
SAMUR Project
89857, Sipitang
Sabah
Tel : +608 781 3872
Fax : +608 781 3852

8. **PETRONAS Chemicals Glycols Sdn Bhd**
Administration Building,
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuala Terengganu-Kuantan
24300 Kertih
Terengganu Darul Iman
Tel : +609 830 7700
Fax : +609 830 7759

9. **PETRONAS Chemicals Isononanol Sdn Bhd**
(formerly known as PRPC Glycols Sdn Bhd)
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2858 2174
Fax : +603 2858 2444

10. **PETRONAS Chemicals Marketing Sdn Bhd**
Level 19, Tower 2, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2331 5000
Fax : +603 2331 1747

11. **PETRONAS Chemicals Marketing (Labuan) Ltd**
Level 19, Tower 2, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2331 5000
Fax : +603 2331 1747

12. **PETRONAS Chemicals Methanol Sdn Bhd**
Kawasan Perindustrian Rancha-Rancha
P.O. Box 80079
87010 Federal Territory Labuan
Tel : +6087 594 000
Fax : +6087 594 979

13. **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

14. **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

15. **Polypropylene Malaysia Sdn Bhd**
Lot 111/112
Kawasan Perindustrian Gebeng
26080 Kuantan
Pahang Darul Makmur
Tel : +609 585 6700
Fax : +609 583 4090/4743

16. **PRPC Elastomers Sdn Bhd**
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2858 2174
Fax : +603 2858 2444

17. **PRPC Polymers Sdn Bhd**
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2858 2174
Fax : +603 2858 2444

18. **PT PCM Kimia Indonesia**
Menara 165, Lantai 14
J1.TB Simatupang Kav 1
Cilandak Timur
Jakarta Selatan
12560 Indonesia
Tel : +6221 2940 6682
Fax : +6221 2940 6683

19. **Vinyl Chloride (M) Sdn Bhd**
Aras 1, Kompleks Pentadbiran
Petrokimia PETRONAS
Km105 Jalan Kuantan-Kuala Terengganu
24300, Kerteh Kemaman
Terengganu Darul Iman
Tel : +609 830 5000
Fax : +603 2331 1747

PARTLY OWNED SUBSIDIARIES

20. 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

21. PCM Chemical India Private Limited
9th floor, Hindustan Times House
15-17 Kasturba Gandhi Marg
New Delhi 110001
Tel : +9111 2373 8715
Fax : +9111 2373 8712

22. PETRONAS Chemicals Aromatics Sdn Bhd
c/o PETRONAS Penapisan (T) Sdn Bhd
KM 105 Jalan Kuantan-Kuala Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 3007
Fax : +609 830 3188

23. 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

24. PETRONAS Chemicals LDPE Sdn Bhd
Lot 9717, 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

25. PETRONAS Chemicals Olefins Sdn Bhd
Administration Building
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuala Terengganu-Kuantan
24300 Kertih
Terengganu Darul Iman
Tel : +609 830 7700
Fax : +609 830 7759

JOINT VENTURES

26. BP PETRONAS Acetyls Sdn Bhd
Kompleks Pentadbiran
Petrokimia PETRONAS
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5300
Fax : +609 830 5321

27. 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

ASSOCIATES

28. 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

29. 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

30. Malaysian NPK Fertilizer Sdn Bhd
Batu 2, Jalan Jeniang
P.O. Box 24
08300 Gurun
Kedah Darul Aman
Tel : +604 468 4075
Fax : +604 468 4619

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 20th Annual General Meeting (AGM) of the Company will be held at the Exhibition Hall 1, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia on Wednesday, 2 May 2018 at 10.30 a.m. to transact the following businesses:-

Agenda

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors thereon.

   Please refer to Explanatory Note A.

2. To re-elect the following Directors who retire by rotation pursuant to Article 93 of the Company's Constitution and being eligible, offer themselves for re-election:

   (a) Datuk Md Arif Mahmood (Resolution 1)

   (b) Vimala V.R. Menon (Resolution 2)

   (c) Zakaria Kasah (Resolution 3)

   Please refer to Explanatory Note B.

3. To approve the payment of the Directors' Fees and Allowances of RM288,000 per annum for the Non-Executive Chairman, RM144,000 per annum for the Non-Executive Directors and Fuel Allowance of RM6,000 per annum for Independent Non-Executive Directors in respect of the financial year ending 31 December 2018. (Resolution 4)

   Please refer to Explanatory Note C.

4. To approve the Directors' Fees and Allowances payable to the Non-Executive Directors of up to an amount of RM2.6 million with effect from 1 January 2018 until the next Annual General Meeting of the Company. (Resolution 5)

   Please refer to Explanatory Note C.

5. To approve the re-appointment of KPMG PLT, as Auditors of the Company for the financial year ending 31 December 2018 and to authorise the Directors to fix their remuneration. (Resolution 6)

   Please refer to Explanatory Note D.

6. To transact any other business for which due notice has been given.

By Order of the Board

Noor Lily Zuriati Abdullah (LS0010101)
Kang Shew Meng (MAICSA 0778565)
Company Secretaries

Kuala Lumpur
2 April 2018

Notes:-

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming 20th AGM, the Company shall be requesting the Record of Depositors as at 25 April 2018. Only a depositor whose name appears on the Record of Depositors as at 25 April 2018 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.

2 A member of the Company entitled to attend and vote at the meeting may appoint not more than 2 proxies to attend and vote on his behalf provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.

3 Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 (SICDA), 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 accounts.

4 Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

5 Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

6 The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at 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, Malaysia, not less than 48 hours before the time fixed for holding the meeting.

7 If the Proxy Form 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 Proxy Form 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 this Proxy Form.

8. Explanatory Notes

a) Note A

Audited Financial Statements for the Financial Year Ended 31 December 2017

The audited financial statements are laid before the shareholders pursuant to the provisions of Section 244(2)(a) of the Companies Act, 2016. The same is for discussion and not put forward for voting.

b) Note B

Re-election of Directors who retire in accordance with Article 93 of the Company's Constitution

Article 93 of the Company's Constitution provides that one-third of the Directors of the Company for the time being shall retire by rotation at an AGM of the Company provided always that all Directors, shall retire from office once at least in each three years but shall be eligible for re-election at the AGM. A Director retiring at a meeting shall retain office until the close of the meeting whether adjourned or not. With current Board size of eight, three Directors are to retire in accordance with Article 93 of the Company's Constitution.

The profiles of the retiring Directors are set out in the Profile of the Board of Directors on pages 98 to 104 (inclusive) of this 2017 Annual Report.

The Board endorsed the NRC's recommendation that the Directors who retire in accordance with Article 93 of the Company's Constitution are eligible to stand for re-election.

In view that there was no Director appointed during the financial year under review, there is no retirement pursuant to Article 99 of the Company's Constitution.

c) Note C

Non-Executive Directors' Fees and Allowances

Section 230(1) of the Companies Act 2016 provides amongst others, that the fees of the directors and benefits payable to the Directors shall be approved at the general meeting. In this respect, the Board agreed that the shareholders' approval be sought at the 20th AGM in two separate resolutions as below:-

- Resolution 4 – on the payment of the Directors' Fees and Allowances for the Non-Executive Chairman and the Non-Executive Directors in respect of the Financial Year Ending 31 December 2018.

Description	Amount (RM) Per Annum
a) Directors' Fee for Non-Executive Chairman	288,000
b) Directors' Fee for Non-Executive Director	144,000
c) Fuel Allowance for Independent Non-Executive Director	6,000

The proposed Ordinary Resolution 4 is in accordance with Article 86(b) of the Company's Constitution (i.e. approval for increase in Directors' Fees) and if passed, shall be effective from 1 January 2018. The proposed increase in the Directors' Fees is to reflect the significant increase in responsibilities of the Non-Executive Chairman and Non-Executive Directors of the Company.

The comparison between the existing and new remuneration package for the Non-Executive Directors is illustrated below:

	CURRENT FEE/ALLOWANCE				PROPOSED FEE/ALLOWANCE			
	Director's Fee (per annum)	Attendance Fee (per meeting)		Fuel (per annum)	Director's Fee (per annum)	Attendance Fee (per meeting)		Fuel (per annum)
		BOD	Committee			BOD	Committee	
Chairman	108,000	4,000	3,500	n/a	288,000	3,500	3,500	n/a
Non-Independent Non-Executive Director	72,000	3,000	2,000	n/a	144,000	3,500	3,500	n/a
Independent Director	72,000	3,500	3,500	n/a	144,000	3,500	3,500	6,000
Independent Director (Special Skill)	216,000	3,500	3,500	n/a	144,000	3,500 + [Special Fee = Between 1 to 5 times multiple of meeting attendance fee]	3,500	6,000

A Special Fee shall be paid to the Non-Executive Directors with special experience and skills which are critical to the Company's business as an addition to the Retainer Fee. It shall be paid per every meeting attended using the following formula and shall be determined by the Nomination and Remuneration Committee on a case to case basis:

[Special Fee = Between 1 to 5 times multiple of meeting attendance fee]

The Special Fee shall only be paid per the attendance of Board meetings and it does not apply to Board Committee meetings or general meetings. It shall also be paid as an addition to the standard attendance allowance received by all Non-Executive Directors.

- Resolution 5 – The proposed Ordinary Resolution 5 is to approve the Directors' Fees and Allowances payable to the Non-Executive Directors of up to an amount of RM2.6 million with effect from 1 January 2018 until the next AGM of the Company. The fees structure of the Non-Executive Directors of the Company is as follows:

  - Monthly fixed fees for duties as Director/Chairman;
  - Meeting and attendance allowance for each Board/Board Committee attended; and
  - Fuel Allowance.

  The Directors' fees and meeting allowances for Non-Independent Non-Executive Directors who are also employees of Petroliam Nasional Berhad (PETRONAS) are paid directly to PETRONAS.

  The shareholders at the last AGM held on 26 April 2017 approved the Directors' Fees of RM1,500,000 for the period from 1 January 2017 until the next AGM of the Company. The actual Directors' Fees and other benefits paid to the Non-Executive Directors for the financial year ended 31 December 2017 is RM1,019,000.

  The Directors' fees for the Non-Executive Directors for the period from 1 January 2018 until the conclusion of the next Annual General Meeting are estimated not to exceed RM2.6 million. The calculation is based on the estimated number of scheduled Board and Board Committees' meetings and on assumption that all the Non-Executive Directors will remain in office until the next AGM. This resolution is to facilitate payment of the Directors' Fees for financial year 2018/2019.

  The Board will seek shareholders' approval at the next AGM in the event the Directors' fees proposed is insufficient.

  Details of the fees paid to the Non-Executive Directors for the financial year ended 31 December 2017 are published on the Company's official website at www.petronaschemicals.com.

d) Note D

Re-Appointment of Auditors

The Board at its meeting held on 20 February 2018 recommended the re-appointment of KPMG PLT as external Auditors of the Company for the financial year ending 31 December 2018 for approval of the shareholders.

KPMG PLT has met the criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

9 **Abstention from Voting**

Any Non-Executive Director of the Company who is a shareholder of the Company will abstain from voting on Resolutions 4 and 5 concerning remuneration of the Non-Executive Directors at the 20th AGM.

10 **Other Information**

The Company has engaged independent scrutineers to count, audit and validate the votes for each proposal presented to shareholders.

ADMINISTRATIVE DETAILS PETRONAS CHEMICALS GROUP BERHAD 20TH ANNUAL GENERAL MEETING

Day, Date and Time	Wednesday, 2 May 2018 at 10.30 a.m.
Venue for the Meeting	Exhibition Hall 1, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia.

Registration

- Registration will start at 8.15 a.m. in Exhibition Hall 2, Kuala Lumpur Convention Centre.
- Please produce your original Identification Card (IC) at the registration counters for verification and ensure that you collect your IC upon completion of verification.
- Upon verification of your IC and signing of the attendance list, you will be given an identification wristband to be secured around your wrist.
- If you are attending the meeting as a shareholder as well as a proxy, you will be registered once and will be given only one identification wristband to enter the meeting hall.
- No person will be allowed to enter the meeting hall without wearing the identification wristband. There will be no replacement in the event you lose or misplace your identification wristband. After registration, please exit the registration area immediately and proceed to the meeting venue at Exhibition Hall 1, Kuala Lumpur Convention Centre.
- Please note that you will not be allowed to register on behalf of another member even with the original IC of that other member.
- The registration counters will only handle verification of identities and registrations. If you have other queries or need clarifications, please proceed to the Help Desk.

Parking

- Please take note that PETRONAS Chemicals Group Berhad (PCG) will not be providing cash reimbursement for parking. Instead, you are advised to park either at Kuala Lumpur Convention Centre or Suria KLCC ONLY. Please bring your parking ticket for validation at the counter located at Hall 2, Kuala Lumpur Convention Centre.
- By validating the parking ticket, you will not be charged for parking when you leave. Please be advised that the parking ticket will expire by 3.00 p.m. on 2 May 2018. Any additional costs incurred for parking after 3.00 p.m. will not be borne by PCG.
- Please be advised that PCG will not reimburse any parking costs incurred at any other location. As such, please observe the abovementioned parking areas.
- Please note that PCG shall not bear any responsibilities for lost parking ticket(s).
- Shareholders are encouraged to use the KELANA JAYA LINE (Light Rail Transit) and disembark at the KLCC Station, which is about 10 minutes walking distance to the venue of the meeting.

Help Desk

- The Help Desk is provided for enquiries or clarifications in relation to registration matters, and also handle revocation of proxy appointments.

Annual Report

- PCG's Annual Report for Financial Year 2017 is available at:

  http://www.petronaschemicals.com
  http://www.bursamalaysia.com

PROXY FORM

PETRONAS CHEMICALS GROUP BERHAD (COMPANY NO: 459830-K)

PETRONAS

No. of Ordinary Shares Held	
CDS Account No.	

I/We .... Tel: ....

(Full Name In Capital Letters)

of ....

(Full Address)

being a Member/Members* of PETRONAS Chemicals Group Berhad ("the Company") do hereby appoint:

Full Name (in Block)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or*

Full Name (in Block)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the 20th Annual General Meeting of the Company to be held at the Exhibition Hall 1, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia on Wednesday, 2 May 2018 at 10.30 a.m. and at any adjournment thereof.

Resolution		For	Against
1	Re-election of Datuk Md Arif Mahmood as a Director		
2	Re-election of Vimala V.R. Menon as a Director		
3	Re-election of Zakaria Kasah as a Director		
4	Proposed Payment of Directors' fees and allowances		
5	Directors' Fees and Allowances of up to RM2.6 million with effect from 1 January 2018 until the next Annual General Meeting of the Company payable to Non-Executive Directors.		
6	Re-Appointment of KPMG PLT as Auditors of the Company		

* Please refer to the Notice of Annual General Meeting for full details of the proposed Resolutions.

(Please indicate with an "X" in the spaces provided whether you wish your vote to be cast for or against the Resolutions. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit)

Date: ....

....

Signature/Common Seal of Shareholder(s)

Notes:-

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming 20th AGM, the Company shall be requesting the Record of Depositors as at 25 April 2018. Only a depositor whose name appears on the Record of Depositors as at 25 April 2018 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.

2. A member of the Company entitled to attend and vote at the meeting may appoint not more than two proxies to attend and vote on his behalf provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.

3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 (SICDA), 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 accounts.

4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

5. Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at 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, Malaysia, not less than 48 hours before the time fixed for holding the meeting.

7. If the Proxy Form 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 Proxy Form 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 this Proxy Form.

FOLD HERE

Affix
Stamp
here

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

FOLD HERE

PETRONAS Chemicals Group Berhad

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