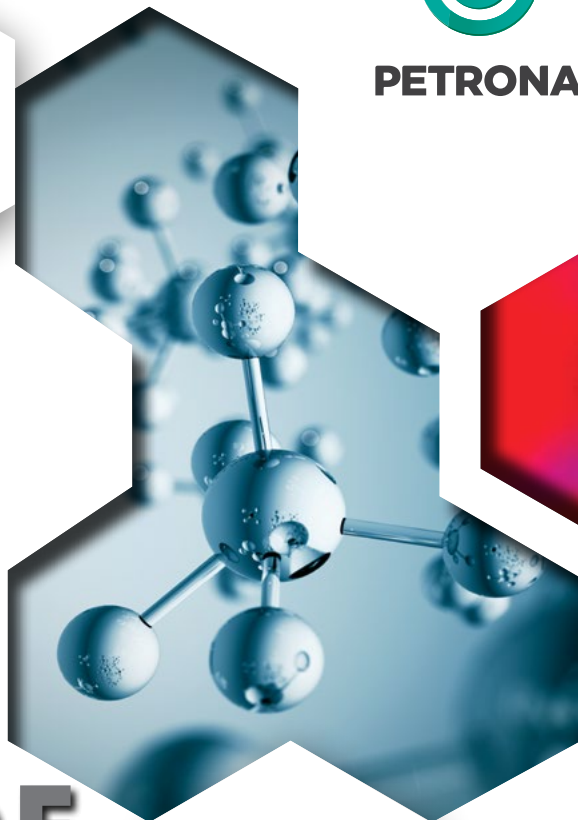
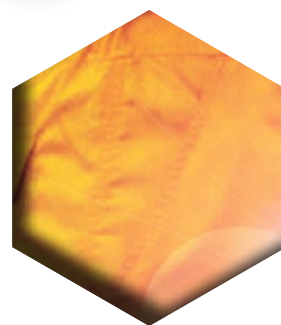




PETRONAS



EXCELLENCE. DYNAMIC GROWTH



ANNUAL REPORT 2016

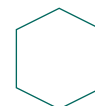
PETRONAS CHEMICALS GROUP BERHAD (459830-K)



THE PURSUIT OF EXCELLENCE IS A DRIVING FORCE
IT SPARKS OUR CREATIVITY, EMBEDS OUR COMMIT
VALUE IN EVERYTHING WE DO. THIS ALLOWED US
FOCUSING OUR ENERGIES ON STRENGTHENING
DIVERSIFYING INTO DERIVATIVES, SPECIALTY CHEM
MARKET UNCERTAINTIES, WE SET NEW BENCHMARKS
96% PLANT UTILISATION, SURPASSING WORLD-CLASS
AND INNOVATION EXCELLENCE, LED TO OUR HIGHEST
ON OUR UNDERSTANDING OF MARKET DEMAND, V
PROJECTS THAT DRIVE OUR STRATEGIC VISION. WITH
A KEY CATALYST, THESE PROJECTS WILL CREATE GRE
EMPLOYEES, BUSINESS PARTNERS AND COMMUNIT
THE MOLECULAR STRUCTURE OF THE CHEMICALS
RELATIONSHIPS WE HAVE BUILT WITH OUR VARIOUS ST
DYNAMIC GROWTH.

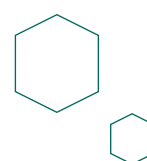
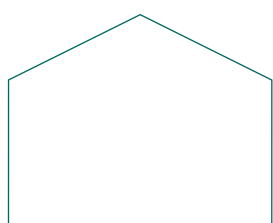
EXCELLENCE. DY

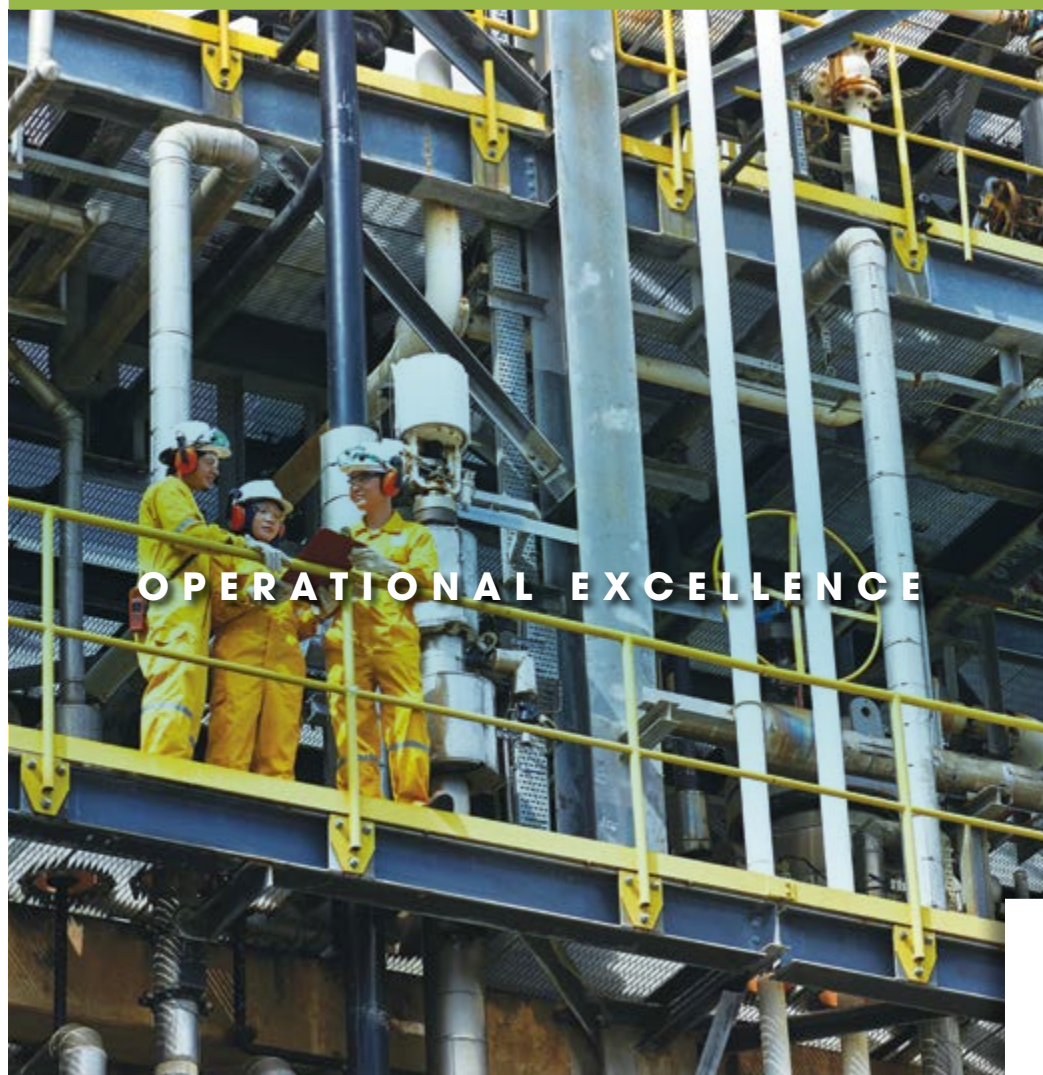




AT PETRONAS CHEMICALS GROUP BERHAD (PCG).
MENT TO SAFETY, AND FUELS A DESIRE TO CREATE
TO RIDE OVER YET ANOTHER CHALLENGING YEAR.
OUR BASIC PETROCHEMICALS BUSINESS, WHILE
ICALS AND SOLUTIONS, WE NOT ONLY OVERCAME
S IN 2016. OPERATIONAL EXCELLENCE RESULTED IN
S STANDARDS. THIS, COMBINED WITH COMMERCIAL
ST EBITDA MARGIN SINCE OUR LISTING. LEVERAGING
WE HAVE IN THE PIPELINE A NUMBER OF GROWTH
H THE PENDERANG INTEGRATED COMPLEX (PIC) AS
ATER VALUE FOR OUR CUSTOMERS, SHAREHOLDERS,
TIES. THE HEXAGONS ON THE COVER REPRESENT
WE PRODUCE. THEIR LINKAGE DEPICTS THE MANY
AKEHOLDERS WHICH CONTRIBUTE TO OUR ONGOING

NAMIC GROWTH

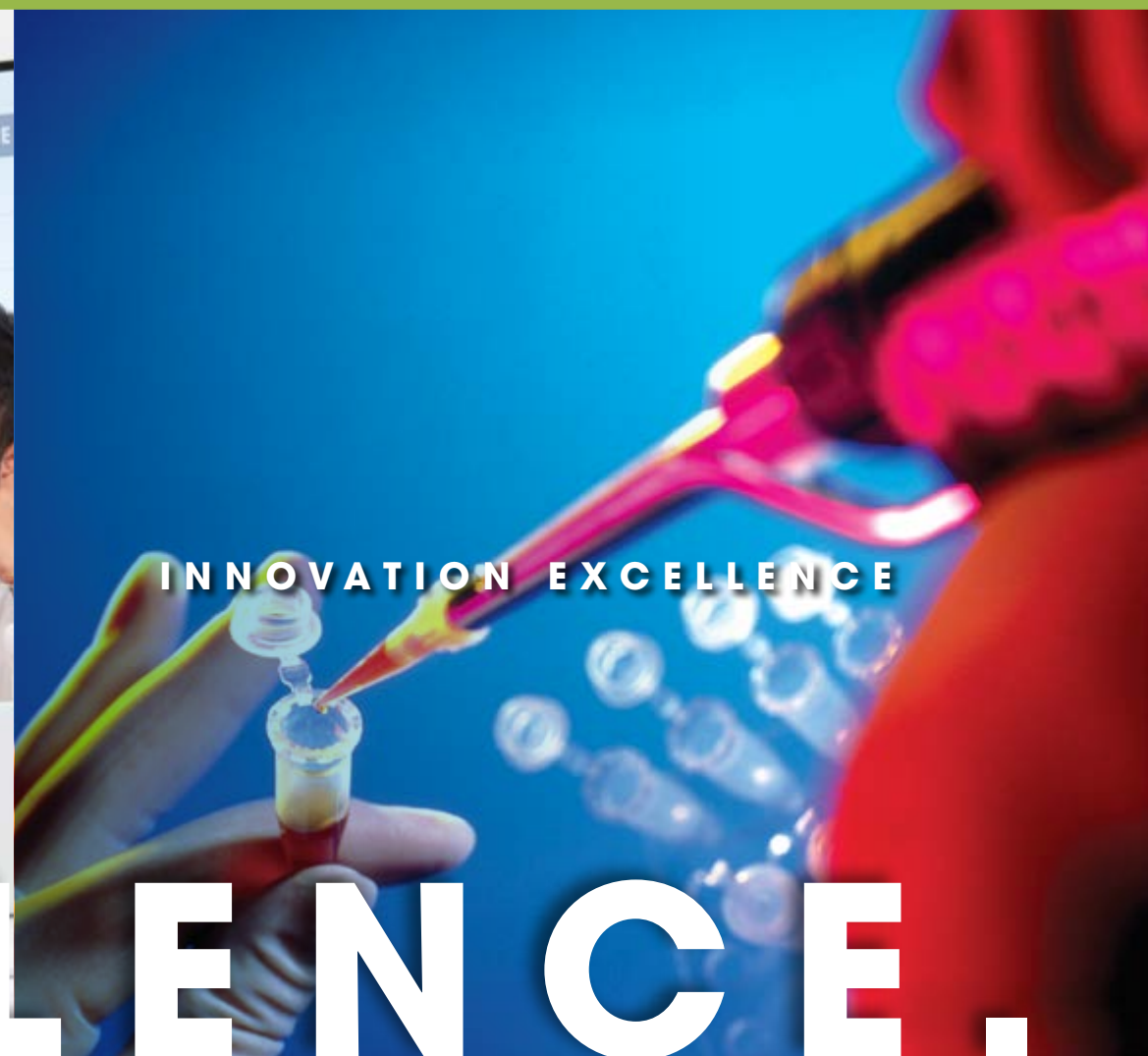




OPERATIONAL EXCELLENCE



COMMERCIAL EXCELLENCE



INNOVATION EXCELLENCE

EXCELLENCE.

Efficiency, reliability and safety are at the heart of everything we do. Sound management and the drive for excellence continues our pursuit for greater heights across all of our operating units.



PLANT RELIABILITY

- Perform internal reliability and efficiency enhancement programmes.
- Invest in technical capabilities of our people.
- Maintain consistent top quartile world-class plant performance and Health, Safety & Environment (HSE) performance at all our operating units.



TURNAROUND MANAGEMENT

- Centralised our turnaround functions and installed tighter controls to deliver flawless plant turnarounds; executed safely, effectively and on schedule.
- Coordinate downtime plans of all our facilities at optimum level through centralised management.



SUPPLIER RELATIONSHIP MANAGEMENT

- Collaborate across the value chain through various improvement programmes resulting in higher feedstock volume and better feed composition from upstream with higher recovery and more reliable utilities supply.

Customised value propositions and reliability are valuable differentiators to our success. Leveraging on our marketing acumen, we are able to sustain as well as expand our network and capabilities.



CUSTOMER FOCUS

- Develop innovative customised solutions and channel towards high value applications.
- Offer effective technical support to serve our customers better.



SUSTAIN & ENHANCE MARKET POSITION

- Focus on domestic and key markets in the Asia Pacific region where we have geographical advantage.
- Ensure unyielding reliability in delivery and product quality, as well as establish strategic collaborations with customers to develop solutions.
- Strengthen our regional presence with overseas marketing subsidiaries in Thailand, China and Indonesia.



CX CAPABILITIES

- Improve our market savviness capabilities with the right systems and tools to capture better value.
- Develop internal expertise to enhance our competitive edge and resilience.

Innovation is an integral part of the company that differentiates and allows us to adapt to changing market landscapes. We are able to connect the dots for our customers from a wide range of industries and fortify our market position.



INNOVATIVE SOLUTIONS

- Connect with our customers' specific business challenges and fortify our market position through differentiation.
- Pursue collaborative efforts between customers and various innovation networks to deliver focused applications of products and process technologies.



INNOVATIVE CULTURE

- Cultivate innovation mindset to deliver breakthrough performance through establishment of ideas and innovation management platform accessible throughout the Group.
- Position innovation as a key leadership attribute.



<div>UREA</div> <div>SAMUR</div>	<div>POLYMERS & GLYCOLS</div> <div>PIC</div>	<div>CITRAL, CITRONELLOL & L-MENTHOL</div> <div>Integrated Aroma Ingredients Complex</div>	<div>2-EHACID</div> <div>2-EHAcid</div>	<div>HR-PIB</div> <div>HR-PIB</div>
/LOCATION/ Sipitang, Sabah	/LOCATION/ Pengerang, Johor	/LOCATION/ Gebeng, Pahang	/LOCATION/ Gebeng, Pahang	/LOCATION/ Gebeng, Pahang
/CUMULATIVE CAPACITY/ 5.1 million mtpa primarily contributed by SAMUR and PIC				
/PRODUCT APPLICATION/ Granular urea fertiliser for agriculture and industrial applications such as adhesives and moulding powder	/PRODUCT APPLICATION/ Polymers - Feedstock for manufacturing plastic products, including packaging films, wires, cables and ducting Glycols - Feedstock for manufacturing polyester fibres, resins and oil & gas chemicals	/PRODUCT APPLICATION/ Aroma ingredients are sold to the flavour and fragrance industry, mainly in home and personal care products and in the food industry as well as pharmaceutical applications	/PRODUCT APPLICATION/ Chemical intermediate used as a compound, in the production of synthetic lubricants, as well as oil additives, functional fluids like automotive coolants and other applications in various industries	/PRODUCT APPLICATION/ Intermediate product for the manufacturing of high-performance fuel and lubricant additives
/PROGRESS STATUS/ Successfully produced on-specification urea and in the process of ramping up for full commercial operations in 2017	/PROGRESS STATUS/ The project is progressing on schedule. Achieved the final investment decision (FID) for flexi polyethylene (Flexi PE) plant	/PROGRESS STATUS/ Within the range of start-up schedule and expect Citral production in 2017. The production units for Citronellol and L-Menthol will come on-stream in phases in 2017	/PROGRESS STATUS/ The plant came on-stream as planned with the successful production of on-specification 2-EHAcid in late 2016	/PROGRESS STATUS/ Construction underway and expected to start production in the fourth quarter of 2017
/POSITION/ PCG becomes second largest urea producer in Southeast Asia	/POSITION/ PCG becomes the largest glycols and polypropylene (PP) producer as well as the second largest HDPE producer in Southeast Asia	/POSITION/ First plant in Asia Pacific to produce intermediates for flavours and fragrances, marking PCG's foray into derivatives, specialty chemicals and solutions	/POSITION/ The first and only 2-EHAcid plant in Southeast Asia paving the way for PCG to diversify into specialty chemicals	/POSITION/ The first and only HR-PIB plant in Southeast Asia allowing PCG to further diversify into specialty chemicals
/EMPLOYMENT OPPORTUNITIES/ Some 400 high-value direct jobs are created from this investment, in addition to spin-off opportunities for local support and services providers	/EMPLOYMENT OPPORTUNITIES/ An approximately 50,000 - 60,000 workers at peak project phase	/EMPLOYMENT OPPORTUNITIES/ Some 140 high-value direct jobs are expected to be created from these three investments, in addition to providing spin-off opportunities for over 1,000 local contractors		

OUR VISION

The preferred **CHEMICAL COMPANY**

providing innovative
customer solutions

SHARED VALUES

1

LOYALTY

3

PROFESSIONALISM

INTEGRITY

2

COHESIVENESS

4

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01

ABOUT

PETRONAS

CHEMICALS

GROUP

BERHAD



* The cross-referencing icons refer readers to information elsewhere in this report

This section provides a comprehensive account of who we are, how we create value for our various stakeholders, and the domains where we operate. It also explains what we intend to accomplish through this annual report and provides details of where supplementary information on the Company can be found.

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AS THE LEADING INTEGRATED CHEMICALS PRODUCER IN MALAYSIA AND ONE OF THE LARGEST IN SOUTHEAST ASIA, PCG HAS AN EXTENSIVE NUMBER OF STAKEHOLDERS WHO ARE IMPACTED BY OUR BUSINESS, NOT ONLY BY OUR FINANCIAL PERFORMANCE BUT ALSO THE WAY WE CONDUCT OUR BUSINESS. WE APPRECIATE THAT THIS LARGE AND VARIED GROUP NEEDS TO UNDERSTAND OUR COMMITMENTS AND POLICIES, OUR DIRECTIONS AND STRATEGIES, AND OUR CURRENT AS WELL AS FUTURE PROSPECTS TO BE ABLE TO PLACE THEIR TRUST IN US.

Although we provide various reports throughout the year [see 'Our Reporting Suite' on page 4], our Annual Report is intended to present a clear and comprehensive summary of the way in which we have continued to create financial and non-financial value for our stakeholders over the 12 months. This year's Annual Report marks a sharp departure from our previous reports as we have strived to create greater transparency in the content disclosed as well as the manner in which it is presented. This is in line both with the latest reporting guidelines for listed companies by Bursa Malaysia Securities Berhad (Bursa Malaysia), as well as our own desire to produce a report that is relevant, readable and responsible.

We have introduced a new section 'How We Treat Risks' see page 58 which provides an insight into our efforts to contain and manage current risks. We have also restructured what was previously our Sustainability Report into disclosure of 'Our Responsibilities' see pages 75 to 88 that is more aligned with our stakeholders' interests, focusing on areas that are relevant to them.

Our financial statements, audited by KPMG PLT, have been prepared in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and requirements of the Companies Act, 1965 in Malaysia. Our non-financial statements reflect local and international reporting guidelines, namely Main Market Listing Requirement (MMLR) of Bursa Malaysia, the Malaysian Code on Corporate Governance 2012 (MCCG 2012), Bursa Malaysia Sustainability Reporting Guidelines, International Integrated Reporting Framework, as well as the FTSE4Good recommendations.

We have made every effort to ensure this Annual Report presents a balanced and accessible assessment of our strategy, performance, governance and prospects. The issues and developments included were determined by quantitative and qualitative considerations that have an impact on our current and future performance.

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward-looking. Typically, they contain words such as 'anticipates', 'estimates', 'expects', 'projects', 'believes', 'intends', 'plans', 'may', 'will' and 'should', or similar expressions. Such statements relate to the plans, objectives, goals, strategies, future operations and performance of PCG. They are not guarantees of future operating, financial or other results and involve certain risks, uncertainties and assumptions. Actual results and outcomes may therefore differ materially from those expressed or implied. We make no express or implied representation or warranty that the results anticipated by such forward-looking statements will be achieved. These statements represent one of many possible scenarios and should not be viewed as the most likely or standard scenario. We are not obligated to update the historical information or forward-looking statements in this document.

Our annual report serves as the most comprehensive report we produce for our shareholders and other stakeholders. In addition to providing an account of our financial performance, it also describes the way in which we uphold corporate governance and safeguard our sustainability. It is supplemented with online disclosures of our quarterly financial results, analyst briefings, Bursa announcements and media releases.

Report	Reporting frameworks	Assurance/Approval
ANNUAL REPORT		
Our primary report for communicating to our shareholders and other stakeholders	<ul style="list-style-type: none"> Companies Act, 1965 in Malaysia Malaysian Financial Reporting Standards (MFRS) International Financial Reporting Standards (IFRS) Main Market Listing Requirements (MMLR) of Bursa Malaysia Malaysian Code on Corporate Governance 2012 (MCCG 2012) International Integrated Reporting Framework Bursa Malaysia Sustainability Reporting Guidelines FTSE4Good recommendations 	<ul style="list-style-type: none"> Internal controls and management assurance Compliance and internal audit reviews External audit by KPMG PLT on financial statements Board approval on governance and financial information
QUARTERLY FINANCIAL STATEMENTS		
Financial statements on our performance every quarter	<ul style="list-style-type: none"> Companies Act, 1965 in Malaysia Malaysian Financial Reporting Standards (MFRS) International Financial Reporting Standards (IFRS) Main Market Listing Requirements (MMLR) of Bursa Malaysia 	<ul style="list-style-type: none"> Internal controls and management assurance Compliance and internal audit reviews Limited review by KPMG PLT on financial information* Board approval upon endorsement by the Board Audit Committee
ANALYSTS AND STAKEHOLDERS BRIEFINGS		
Presentations on the Group's performance and key activities		<ul style="list-style-type: none"> Internal controls and management assurance
BURSA ANNOUNCEMENTS		
Announcements made to Bursa Malaysia on material information	<ul style="list-style-type: none"> Main Market Listing Requirements (MMLR) of Bursa Malaysia 	<ul style="list-style-type: none"> Internal controls and management assurance Board approval
MEDIA RELEASES		
Announcements made to the media on key corporate, social, environmental and financial events and activities		<ul style="list-style-type: none"> Internal controls and management assurance

* Reported to the Board and does not cover Part B, Other Explanatory Notes of Quarterly Report to Bursa Malaysia



PCG OPERATES A NUMBER OF WORLD-CLASS PRODUCTION SITES, WHICH ARE FULLY VERTICALLY INTEGRATED FROM FEEDSTOCK TO DOWNSTREAM END PRODUCTS.

With a total combined production capacity of 10.8 million metric tonnes per annum (mtpa), it is involved primarily in manufacturing, marketing and selling a diversified range of chemical products, including olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products. Listed on Bursa Malaysia and with three decades of experience in the chemicals industry, PCG is established as part of the PETRONAS Group to maximise value from Malaysia's natural gas resources.

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

THE LEADING INTEGRATED
**CHEMICALS
PRODUCER**
IN MALAYSIA



OPERATES A NUMBER OF
WORLD-CLASS
PRODUCTION SITES



A TOTAL COMBINED
PRODUCTION CAPACITY OF

10.8 MILLION

METRIC TONNES PER ANNUM



OVER
THREE DECADES
OF EXPERIENCE IN THE
CHEMICAL INDUSTRY

30
YEARS

DIVERSIFIED RANGE OF
**CHEMICAL
PRODUCTS**



PCG IS THE INDUSTRY LEADER FOR HIGHLY ATTRACTIVE VALUE CREATION OPPORTUNITIES FOR INVESTORS. WE HAVE MARKET LEADERSHIP ACROSS PRINCIPAL PRODUCTS BESIDES GAS FEEDSTOCK ADVANTAGE AND FULLY INTEGRATED PRODUCTION FACILITIES. OUR CLOSE PROXIMITY TO KEY GROWTH MARKETS HAS ENABLED US TO FORGE STRONG PARTNERSHIPS WITH LEADING CHEMICALS AND ENERGY MAJORS.

Backed by the parentage and support of PETRONAS Group, our competitive strengths also include an attractive financial profile and an experienced leadership team.

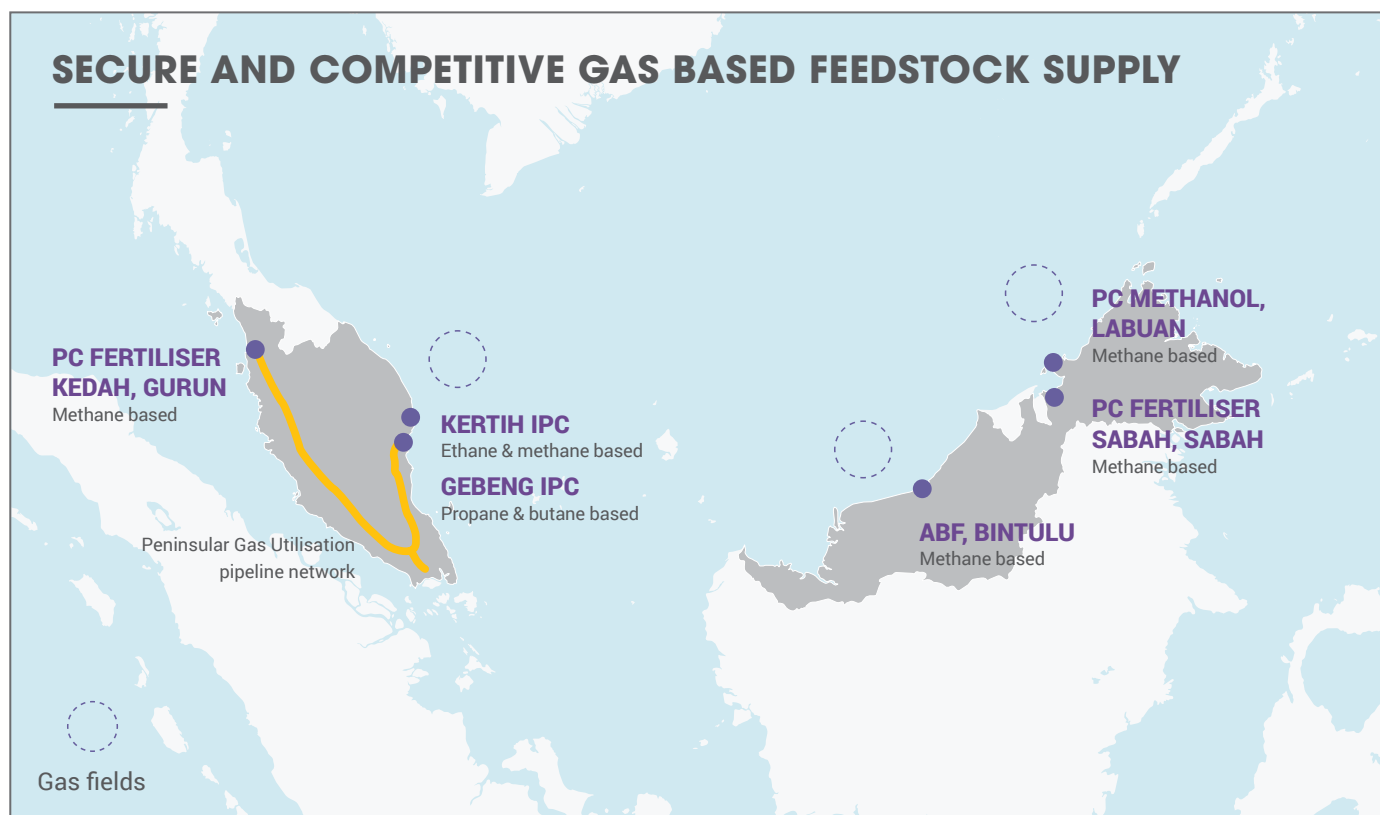
FULLY INTEGRATED FACILITIES AND INFRASTRUCTURE RESULTING IN LOWER COST, OPTIMUM YIELDS AND GREATER FLEXIBILITY

- Minimise molecule loss
- Maximises production efficiency & margins

PCG VALUE CHAIN



SECURE AND COMPETITIVE GAS BASED FEEDSTOCK SUPPLY



MARKET LEADERSHIP WITH ATTRACTIVE GROWTH
MARKETS AND RETURNS

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

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

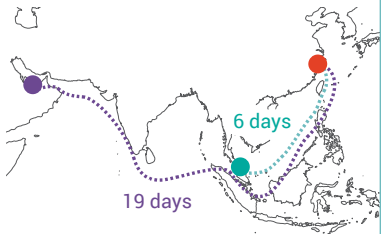
2ND AMMONIA, UREA &
BUTYL ACETATE
PRODUCER IN SEA*

3RD ETHOXYLATES, MEG &
LDPE PRODUCER IN SEA*

* by capacity

PROXIMITY TO KEY GROWTH MARKETS
WHICH ENABLES US TO OPTIMISE
INVENTORY AND HAVE COMPETITIVE
STORAGE AND DISTRIBUTION

- Close to key growth
markets in Asia Pacific



**CAPACITY
GROWTH** 
WITH WORLD-SCALE PLANTS

**PORTFOLIO
EXPANSION**

WITH LEADING EDGE
TECHNOLOGY



**LARGE-SCALE AND
DIVERSIFIED
PRODUCT PORTFOLIO**

LEADING TO ECONOMIES
OF SCALE AND SPREADING
MARKET RISKS

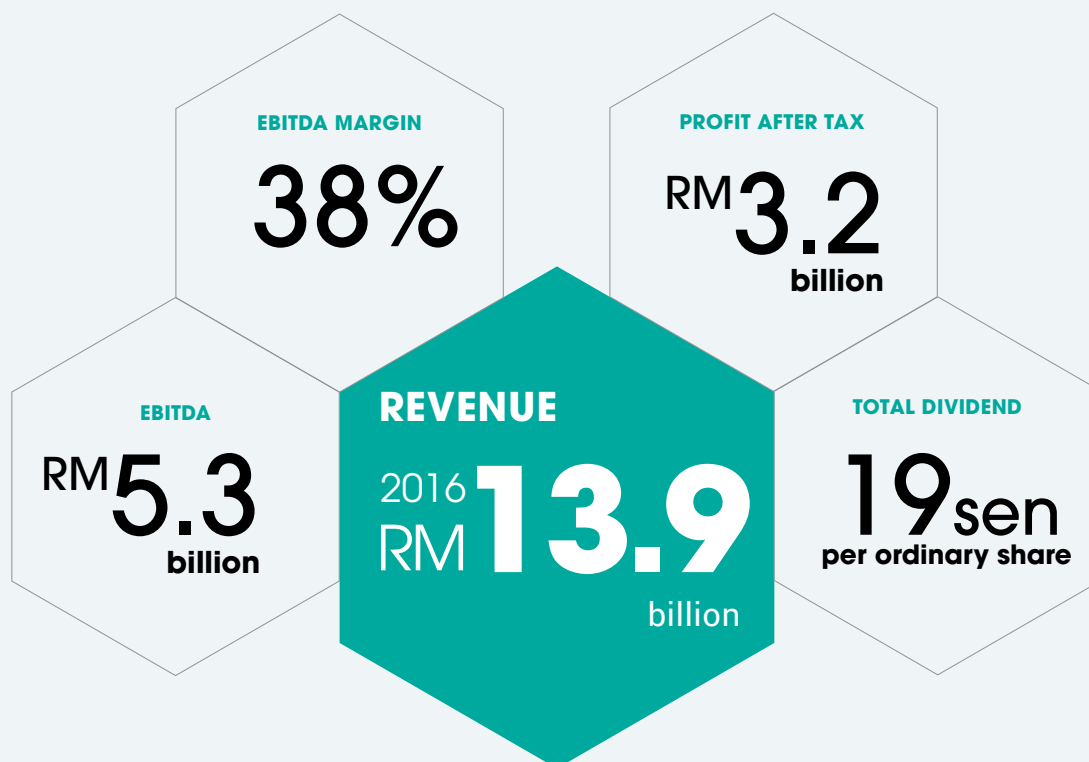


OUR PERFORMANCE HIGHLIGHTS

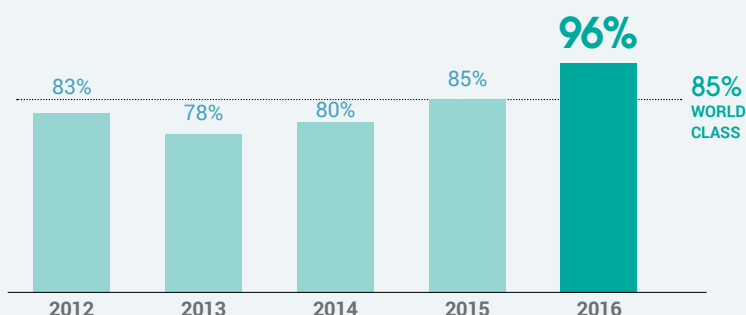
PETRONAS
CHEMICALS
GROUP
BERHAD

8

Section
one



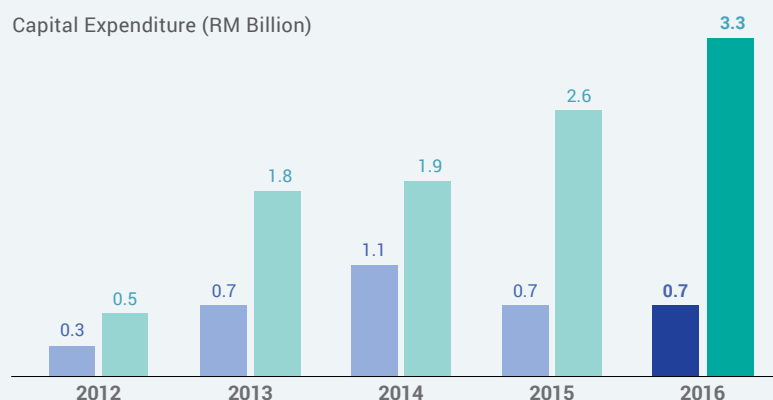
PLANT UTILISATION RATE



- HIGHEST PLANT UTILISATION OF 96% SINCE LISTING
- IMPROVED PLANT RELIABILITY RESULTING FROM EFFECTIVE ASSET MANAGEMENT
- IMPROVED FEEDSTOCK SUPPLY THROUGH CLOSE RELATIONSHIP WITH SUPPLIERS

CAPITAL EXPENDITURE ALLOCATED FOR EXISTING ASSETS AND FUTURE GROWTH

Capital Expenditure (RM Billion)



OPERATIONS CAPEX

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

GROWTH CAPEX

mainly for SAMUR, Integrated Aroma Ingredients Complex, 2-EHAcid, HR-PIB and PIC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS:

RM Million (unless otherwise stated) 12 months ended	2012	2013	2014	2015	2016
Revenue	16,599	15,202	14,597	13,536	13,860
Profit Before Tax	4,550	4,547	3,551	3,833	4,110
Profit Before Tax as % Revenue	27%	30%	24%	28%	30%
Profit After Tax	3,837	3,504	2,726	3,091	3,222
Profit After Tax as % Revenue	23%	23%	19%	23%	23%
Earnings per Share (sen) - Basic	44.0	39.3	30.8	34.8	36.7
EBITDA	5,778	5,076	4,644	4,660	5,291
EBITDA Margin	35%	33%	32%	34%	38%

STATEMENT OF FINANCIAL POSITION ITEMS:

RM Million (unless otherwise stated) As at 31 December	2012	2013	2014	2015	2016
Total Assets	25,920	27,731	28,463	30,833	31,948
Total Equity	21,906	23,389	24,477	26,590	28,313
Total Liabilities	4,014	4,342	3,986	4,243	3,635
Net Tangible Asset per Share (RM)	2.54	2.72	2.84	3.10	3.38

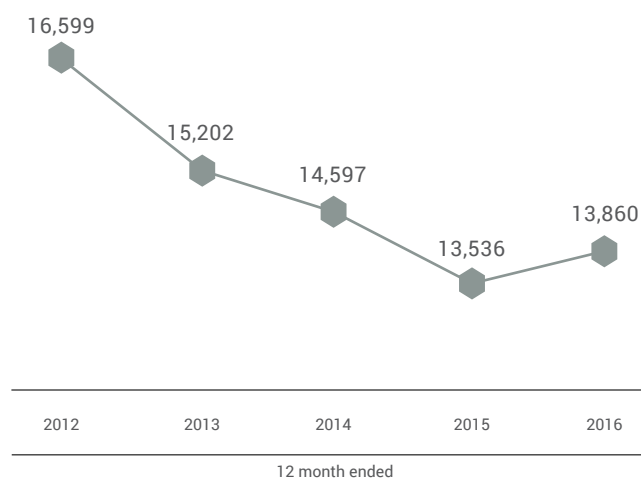
REVENUE INCREMENT

2016
+ 2%
compared to 2015

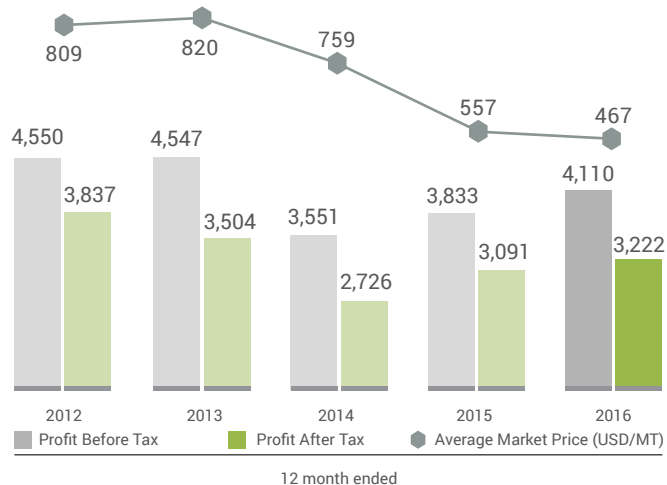
PROFIT AFTER TAX INCREMENT

2016
+ 4%
compared to 2015

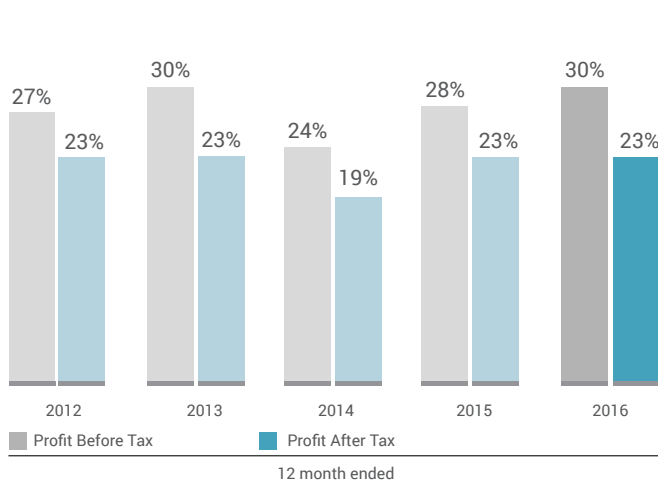
REVENUE (RM Million)



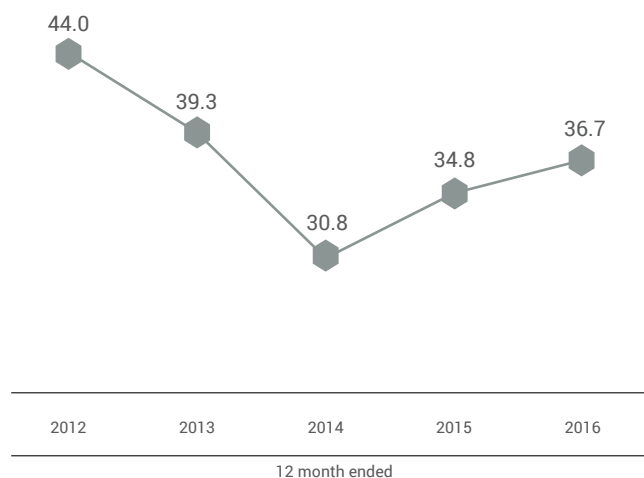
PROFIT (RM Million) & MARKET PRICE (USD/MT)



PROFIT AS % REVENUE



EARNINGS PER SHARE-BASIC (SEN)



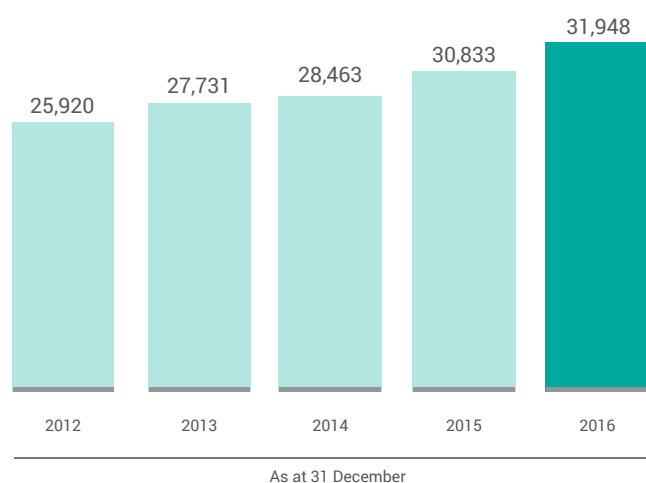
TOTAL ASSETS INCREMENT

2016
+ 4%
compared to 2015

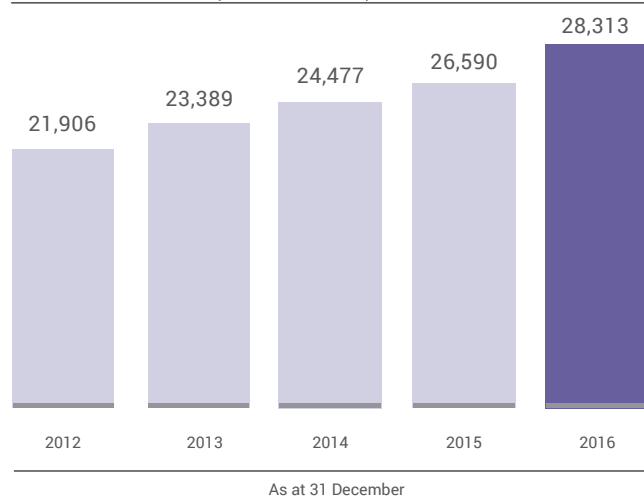
TOTAL EQUITY INCREMENT

2016
+ 6%
compared to 2015

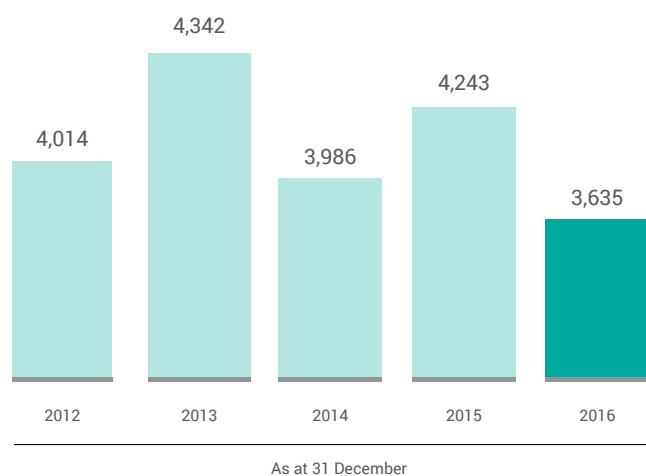
TOTAL ASSETS (RM Million)



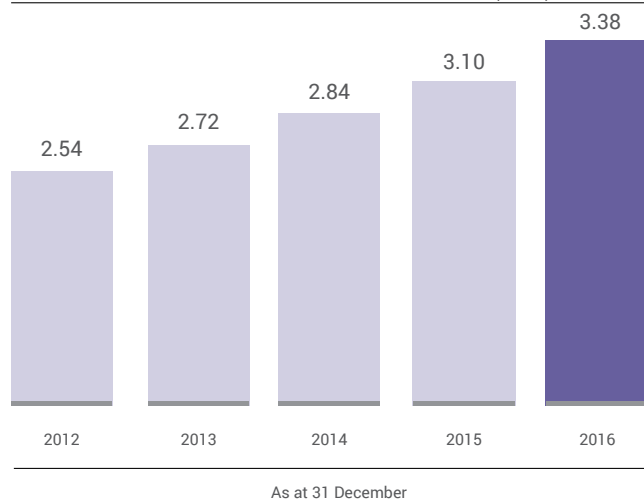
TOTAL EQUITY (RM Million)



TOTAL LIABILITIES (RM Million)



NET TANGIBLE ASSETS PER SHARE (RM)



OUR MILESTONES

PETRONAS
CHEMICALS
GROUP
BERHAD

12

Section
one

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.



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.

1999

Commenced production of urea, ammonia and methanol in Gurun.

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.

**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.

2014

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 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.



KEDAH

Gurun

- Ammonia
- Methanol
- Urea
- NPK Fertilisers*

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*

PAHANG

Gebeng Integrated Petrochemical Complex

- Methyl Tertiary Butyl Ether (MTBE)
- n-Butane
- Propylene
- Acrylics*
- Butanediol*
- Oxo-alcohols*
- 2-EHAcid*

JOHOR

Pasir Gudang

- Styrene Monomer*

PETRONAS CHEMICALS GROUP is headquartered in the PETRONAS TWIN TOWERS

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

FEDERAL TERRITORY OF LABUAN

Federal Territory of Labuan

- Methanol

SABAH

Sipitang

- Ammonia
- Urea

SARAWAK

Bintulu

- Ammonia
- Urea

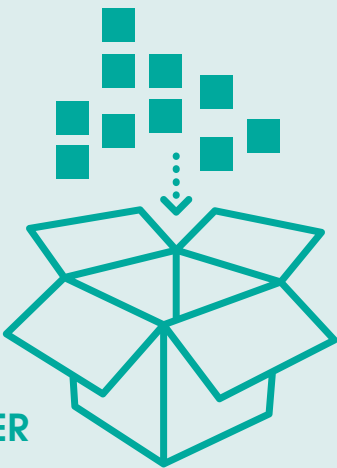
* Products produced by joint venture and associate companies

CURRENT TOTAL
PRODUCTION
CAPACITY OF

10.8

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

5.9 MILLION
MTPA

PRODUCTION OF
FERTILISER & METHANOL
FROM

5 PLANTS

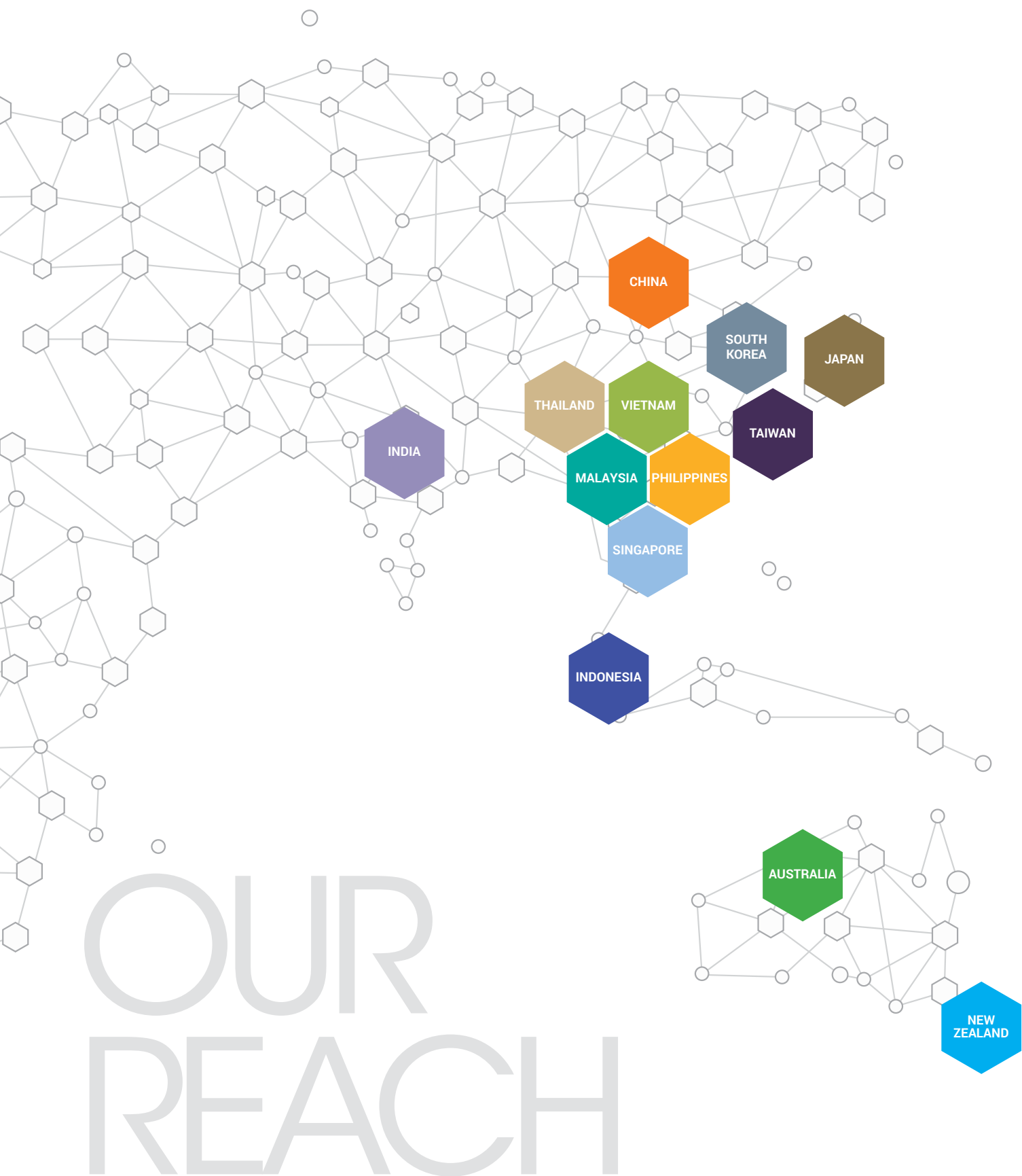
- PC Methanol
- ABF
- PC Fertiliser Kedah
- PC Ammonia
- Malaysian NPK Fertilizer Sdn Bhd



WE MARKET A WIDE RANGE OF CHEMICAL PRODUCTS TO CUSTOMERS IN 30 COUNTRIES WORLDWIDE PARTICULARLY IN ASIA PACIFIC. BESIDES MALAYSIA, OUR KEY MARKETS INCLUDE THAILAND, INDONESIA, SINGAPORE, VIETNAM, THE PHILIPPINES, NORTHEAST ASIA, INDIA SUBCONTINENT, NORTH AMERICA AND AUSTRALASIA.

We are physically present in Thailand, China, Indonesia, India, Vietnam and the Philippines through our overseas subsidiaries and representative offices.

In total, 41% of our volume is sold in Southeast Asia (excluding Malaysia) markets while 30% is being consumed by the Malaysian market. The remaining of our total volume are being channeled to other key growth chemical markets in Northeast Asia such as China, Japan, South Korea, Taiwan and Hong Kong.



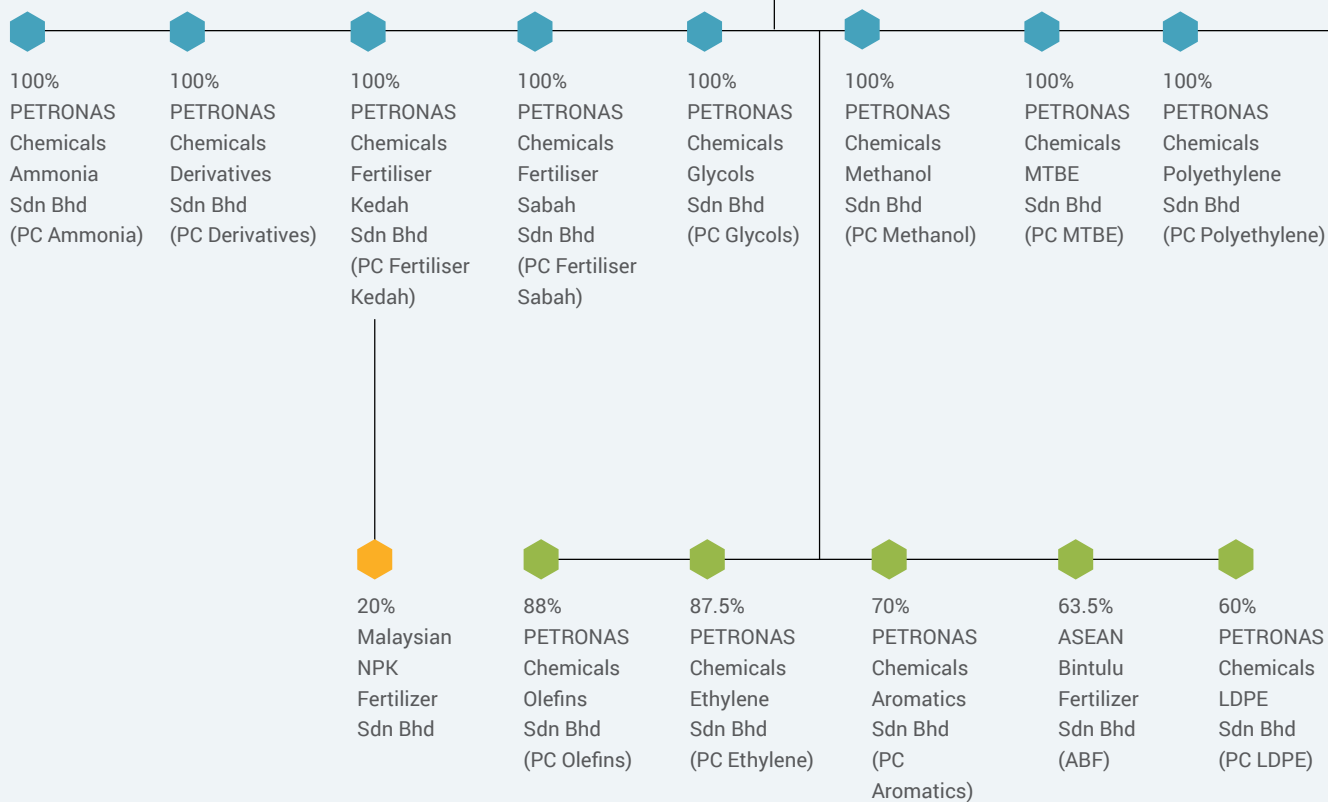


PETRONAS

64.35%

PETRONAS CHEMICALS GROUP BERHAD

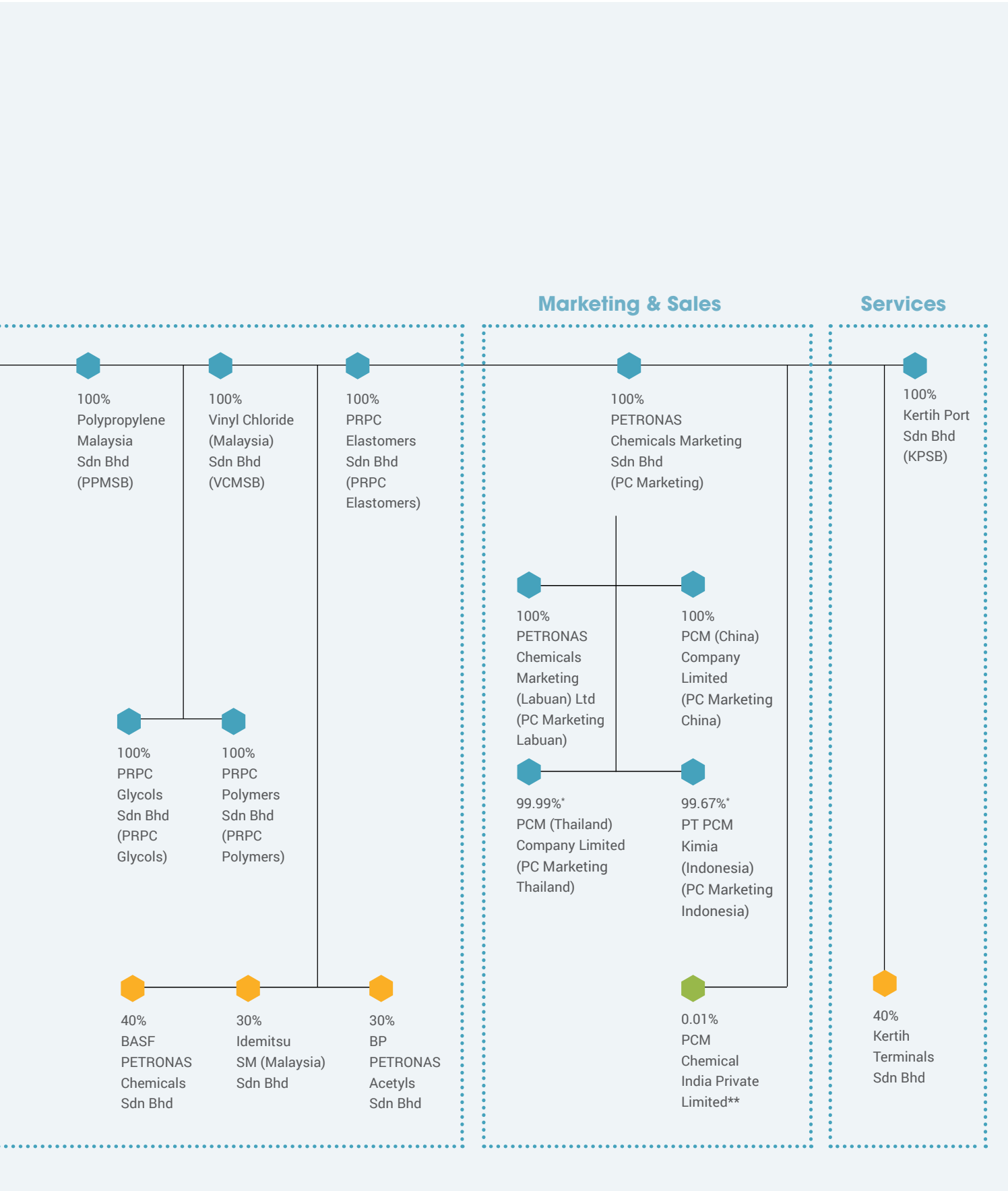
Manufacturing



■ Wholly-owned subsidiaries
 ■ Majority-owned subsidiaries
 ■ Joint ventures and associates

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

** Subsidiary pursuant to Malaysian Financial Reporting Standard 10



DIRECTORS**MD ARIF MAHMOOD***(Chairman)***DATUK SAZALI HAMZAH***(Managing Director/Chief Executive Officer)***VIMALA V.R. MENON****CHING YEW CHYE****DONG SOO KIM****DATUK TOH AH WAH****ZAKARIA KASAH****FREIDA AMAT****BOARD AUDIT COMMITTEE****Vimala V.R. Menon***(Chairman)***Ching Yew Chye****Dong Soo Kim****Datuk Toh Ah Wah****Freida Amat****NOMINATION & REMUNERATION
COMMITTEE****Ching Yew Chye***(Chairman)***Vimala V.R. Menon****Dong Soo Kim****COMPANY SECRETARIES****Noor Lily Zuriati Abdullah****Kang Shew Meng****REGISTRAR**

Symphony Share Registrars Sdn Bhd

Level 6, Symphony House

Pusat Dagangan Dana 1

Jalan PJU 1A/46

47301 Petaling Jaya

Selangor, Darul Ehsan

Malaysia

Tel : (+603) 7841 8000

Fax : (+603) 7841 8151

REGISTERED OFFICE

Tower 1

PETRONAS Twin Towers

Kuala Lumpur City Centre

50088 Kuala Lumpur

Malaysia

Tel : (+603) 2051 5000

Fax : (+603) 2331 1747

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

BANKING SERVICES PROVIDER

PETRONAS Integrated Financial

Shared Service Centre (IFSSC)*

STOCK EXCHANGE LISTING

Main Market of

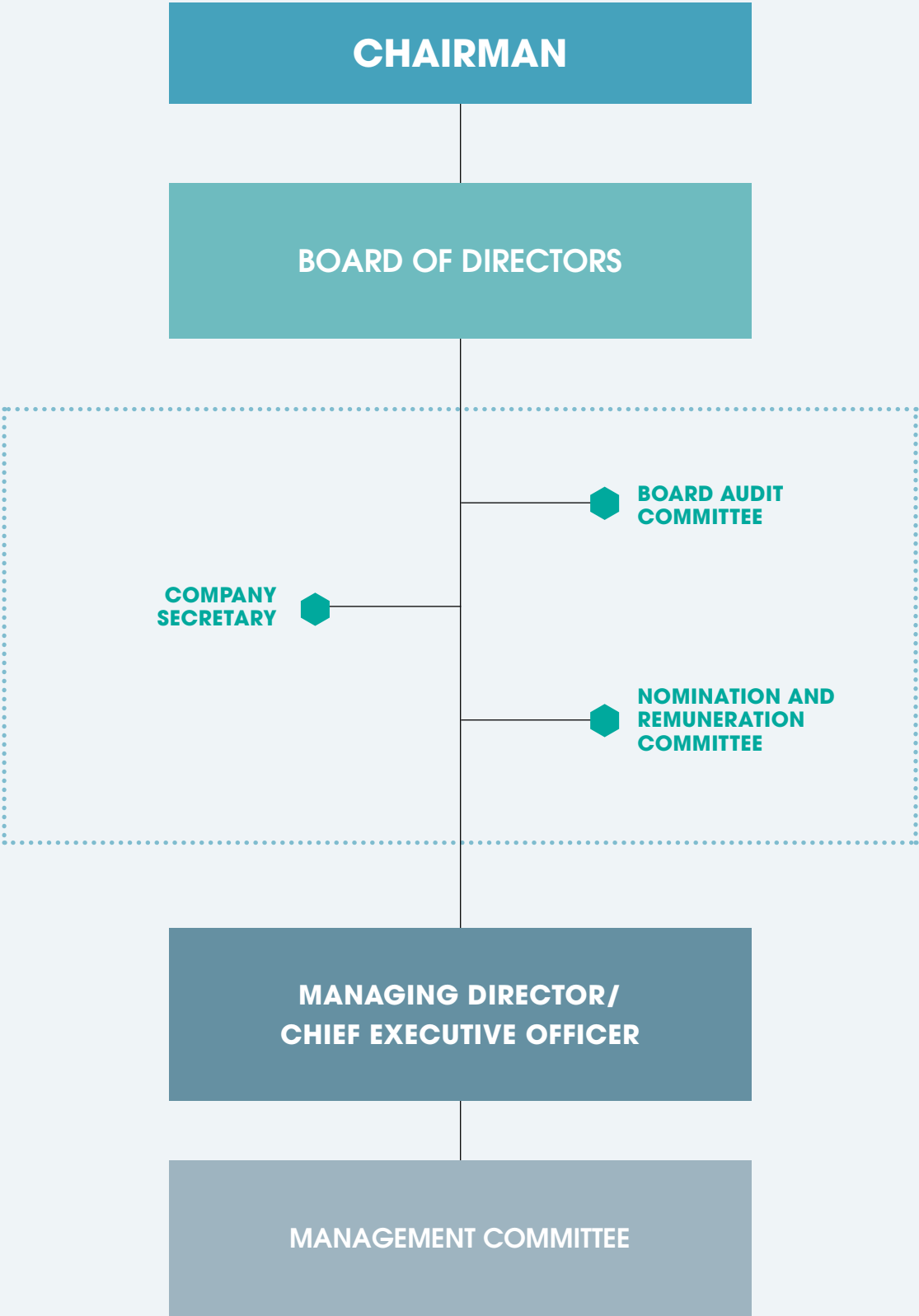
Bursa Malaysia Securities Berhad

AUDITORS

KPMG PLT

WEBSITEwww.petronaschemicals.com

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



**OUR PRODUCTS ARE ALL
AROUND YOU – IN AND OUT OF
YOUR HOME, IN THE OFFICE, THE
MALL AND CINEMA. BECAUSE
OF THEIR COMPOSITION AND
PROPERTIES, PETROCHEMICALS
HAVE APPLICATIONS IN A WIDE
RANGE OF ITEMS THAT WE USE
DAILY. THEY'RE FOUND IN WHAT
WE WEAR, OUR SKIN AND HAIR
PRODUCTS, AND IN ALMOST ALL
PACKAGING OF GOODS WE BUY.**

With innovation, more uses are being found for petrochemicals to make life better. They keep enriching the world we live in. And we are proud to be a part of this evolution.



**OLEFINS,
GLYCOLS &
DERIVATIVES**

POLYMERS

**AROMATICS
& MTBE**

METHANOL

**AMMONIA &
FERTILISERS**



OLEFINS, GLYCOLS & DERIVATIVES

KEY PRODUCTS	DESCRIPTION	FEEDSTOCK	APPLICATION
Ethylene	A two carbon molecule colourless gas converted from natural gas	Ethane	Feedstock for production of polyethylene, ethylene glycol, ethylene oxide (EO) and derivatives of EO
Propylene	A three carbon molecule colourless gas converted from natural gas	Propane	Feedstock for the production of acrylic acids, acrylic esters and oxo-alcohols
Monoethylene Glycol (MEG)	A colourless hygroscopic liquid derived from ethylene glycol	Ethylene Oxide	Feedstock for manufacturing polyester fibers, polyethylene terephthalate resins (PET) and an ingredient of antifreeze products
Diethylene Glycol (DEG)	A colourless hygroscopic liquid derived from ethylene glycol	Ethylene Oxide	Ingredient in printing ink, pigments and dyes
Performance Chemicals	Colourless liquids derived from ethylene oxide	Ethylene Oxide, Ammonia, Fatty Alcohol	Surfactants, gas treating solvents and personal care products

A photograph of a man and a woman in a laundry room. The man, wearing a light blue t-shirt, is leaning over a white front-loading washing machine, smiling and looking at the woman. The woman, wearing a blue t-shirt, is kneeling and loading a pink cloth into the machine. On top of the washing machine are several folded white towels and a white detergent bottle. The background is a bright, clean laundry room with white cabinets and a window.

WE KEEP YOU AND YOUR SURROUNDINGS CLEAN

Petrochemicals are found in a wide range of cleaning agents, from shampoos and soaps to dishwashing liquids, and detergents used to wash your clothes. They remove grit and grime from your home, keep your clothes spotless, and your own body feeling fresh and clean.



POLYMERS

KEY PRODUCTS

Polyethylene
(LLDPE, HDPE,
LDPE)

DESCRIPTION

Solid resins produced
from the polymerisation of
ethylene

FEEDSTOCK

Ethylene

APPLICATION

Feedstock for manufacturing plastic
products, including packaging films, wires,
cables and ducting

AROMATICS

KEY PRODUCTS

Paraxylene

DESCRIPTION

A six-carbon ring structure
molecule, which is a
colourless, flammable liquid

FEEDSTOCK

Naphtha

APPLICATION

Production of terephthalic acid, used in the
manufacture of polyester for packaging
applications, drink bottles and textiles

Benzene

A six-carbon ring structure
molecule, which is a
colourless, flammable liquid

Naphtha

Feedstock for manufacturing polystyrene
used for packaging

MTBE

KEY PRODUCTS

Methyl Tertiary
Butyl Ether
(MTBE)

DESCRIPTION

A five-carbon molecule
colourless liquid

FEEDSTOCK

Butane,
Methanol

APPLICATION

Gasoline additive to boost octane level
to improve burning of fuels and reduce
emissions



WE MAKE SURE YOU HAVE FRESH, NOURISHING FOOD

Not only do we produce fertilisers that enhance food production, our petrochemicals are also used in the manufacture of plastics and packaging materials that ensure fresh food maintains all its goodness until it reaches your table, and that cooked or processed food can be kept till needed.



METHANOL

KEY PRODUCTS

Methanol

DESCRIPTION

Simplest organic alcohol and is a colourless flammable liquid

FEEDSTOCK

Methane

APPLICATION

Production of formaldehyde, acetic acid, chloromethanes and methyl methacrylate, which in turn are used in the production of resins, adhesives, paints, plastics, flavourings, silicones and plexiglass

AMMONIA & FERTILISERS

KEY PRODUCTS

Ammonia

DESCRIPTION

A nitrogen and hydrogen compound colourless gas with a characteristic pungent odour

FEEDSTOCK

Methane, Hydrogen, Nitrogen

APPLICATION

Feedstock for the production of urea and other industrial applications, including use as refrigerant and latex anti-coagulant

Urea

A high nitrogen-content organic solid

Ammonia, Carbon Dioxide

Fertiliser used for the supply of nitrogen to crops and raw material for manufacturing adhesives, moulding powders, varnishes and foams



WE ADD COLOUR TO YOUR LIFE

All the colours you see around you – the paint on walls and works of art; the interesting patterns on garments; hair dyes and even cosmetics – they contain petrochemical products that have been refined and are safe to use.



JOINT VENTURE & ASSOCIATE PRODUCTS

KEY PRODUCTS	DESCRIPTION	FEEDSTOCK	APPLICATION
Acrylics	Crude Acrylic Acid (CAA): Colourless liquid with a strong smell. It is flammable and corrosive	Propylene	Primarily used in the production of superabsorbent polymers (SAP) used in diapers, in the production of acrylic esters and in the manufacturing of plastic resins, coatings and adhesives
	Glacial Acrylic Acid (GAA): Clear, colourless liquid with a pungent odour. It is corrosive and is flammable		Primarily used in the production of superabsorbent polymers (SAP) used in diapers, in the production of acrylic esters and in the manufacturing of plastic resins, coatings and adhesives
	Butyl Acrylate (BA): Flammable, colourless liquid with a "fruity" smell		Mainly used in the manufacture of resins, coatings, adhesives and plastics
	2-Ethylhexyl Acrylate (2-EHA): Clear, colourless liquid with a "fruity" smell		Mainly used in the manufacture of resins, coatings, adhesives and plastics
Oxo-Alcohols	2-Ethylhexanol (2-EH): Flammable, clear liquid with a distinctive smell	Propylene	Mainly used for the production of plasticisers
	n-Butanol (n-Bol): Flammable, colourless liquid with an alcoholic smell		Mainly used as a solvent in the paint industry and for the production of PVC plasticisers
	iso-Butanol (i-Bol): Flammable, colourless liquid with an alcoholic smell		Mainly used as a solvent in the paint industry and for the production of PVC plasticisers
	Iso-butyraldehyde (i-BA): Toxic, flammable, colourless to yellow liquid with a strong smell		Chemical intermediate or raw material used to make different types of solvents and resin intermediates for the paint and ink industries
	Oxo Oil: Flammable, yellowish liquid with pungent odour		Mainly used as an auxiliary in floatation processes in the mining industry (coal, copper, silver, gold and phosphorus, etc) and as a defoamer in the aluminium industry



KEY PRODUCTS	DESCRIPTION	FEEDSTOCK	APPLICATION
Butanediol	<p>1,4-Butanediol (BDO): Colourless and almost odourless liquid</p> <p>Tetrahydrofuran (THF): Colourless, water-miscible liquid with an ether-like odour</p> <p>gamma-Butyrolactone (GBL): An industrial chemical with excellent solvency, little toxicity and few environmental hazards</p>	n-Butane	<p>Butanediol and its derivatives are used in a broad spectrum of applications in the chemical industry; amongst others in the manufacturing of technical plastics, polyurethanes, solvents, electronic chemicals and elastic fibres</p> <p>Mainly used in the production of a polymer used to manufacture elastomers and fibers. THF is also a versatile solvent with applications in areas such as adhesives, vinyl films and cellophanes, industrial resins, elastomers, coatings and printing inks</p> <p>Used in the production of clinical needs, for filtering beverages and cleaning auxiliaries. GBL is also used for applications in conductor wafer cleaning in the electronics industry or high-tech industry as well as an intermediate for the synthesis of other chemicals</p>
2-EHAcid	Colourless to yellow liquid with a faint odour	2-ethylhexenal (2-EHoI)	Chemical intermediate used in esters for Polyvinylbutyral (PVB) film plasticisers and synthetic lubricants, in metal salts for paint dryers, in automotive coolants, PVC stabilisers, cosmetics and various other applications. In cosmetics, 2-EHAcid is used to produce emollients. Other applications include corrosion inhibitors in automotive coolants, catalyst for polymer production, raw material for acid chloride and fragrances
Styrene Monomer	A clear, colourless, flammable liquid with a distinctive aromatic odour	Benzene, Ethylene	Production of polystyrene which is used in packaging containers and high impact plastic such as acrylonitrile butadiene styrene (ABS), latex paints and most synthetic rubber
Acetic Acid	Chemical intermediate in the form of colourless liquid	Methanol, Carbon Monoxide	Precursor for making various vinyl acetate, metal acetate and cellulose acetate. Vinyl acetate is used for coatings and adhesives, metal acetate is used in printing, and cellulose acetate is used to make film for photography. Also used in the production of esters used as solvents in many commercial products, such as inks and paints
Various NPK Grades of Fertilisers	Clear colourless granules with a characteristic odour	Urea, Ammonia, Phosphates, Potassium	End fertilisers of high yield growth for paddy fields and oil palms

WE'RE ALL AROUND YOU

22

Section
one





**ENRICHING YOUR LIVES
EVERYDAY, IN EVERY WAY**



PETRONAS

www.petronaschemicals.com

**OLEFINS,
GLYCOLS &
DERIVATIVES**

POLYMERS

**AROMATICS
& MTBE**

METHANOL

**AMMONIA &
FERTILISERS**

02

THE LEADERSHIP



* The cross-referencing icons refer readers to information elsewhere in this report

The Group is led by a strong and highly experienced management team with broad experience of various aspects of the oil and gas industry. They are in turn guided by a values-driven and diverse Board of Directors with international industry expertise as well as professional experience in other corporate sectors.

CONTENTS

25	The Value Our Board Brings
26	Profile of Board Members
34	Management Committee
36	Profile of Management Committee

THE VALUE OUR BOARD BRINGS

Our eight Directors on average represent more than 30 years of experience in the oil and gas industry, covering various engineering disciplines, operations, corporate planning and development, financial, global petrochemical consultancy, commercial, information technology, human resource and economics. Their top-level management and technical skills combined with regional as well as international corporate experience serve the Group well as we strive for dynamic growth to achieve our vision of becoming the preferred chemical company in the region.

SKILLS MATRIX



EXPERIENCE

MORE THAN
30*
YEARS OF
EXPERIENCE

*on average

KEY FEATURES OF OUR BOARD

- The Board comprises a **balance of Independent Directors**
- The Chairman is a **Non-Independent Non-Executive Director**
- The role of the Chairman and Managing Director/Chief Executive Officer are **distinct**

BOARD COMPOSITION

8 DIRECTORS 1 Executive Director 3 Non-Independent Non-Executive Directors 4 Independent Non-Executive Directors



MD ARIF MAHMOOD

Malaysian, age 54, Male, Malay

Chairman, Non-Independent Non-Executive Director

Board Skills Matrix

- Engineering
- Corporate Planning and Development
- Operations
- Commercial/Marketing
- Industry Experience
 - Oil and Gas
 - Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad
- PETRONAS Dagangan Berhad

Other Public Company:

- Nil

Qualifications

- Bachelor of Science in Electrical Engineering (*summa cum laude*), Boston University, USA
- Masters of Business Administration from Massachusetts Institute of Technology, USA

MD ARIF MAHMOOD BRINGS TO THE BOARD EXTENSIVE EXPERIENCE IN THE OIL AND GAS INDUSTRY. HE HAS MORE THAN 30 YEARS OF ENGINEERING AND STRATEGIC MANAGEMENT EXPERIENCE IN VARIOUS COMPANIES WITHIN THE PETRONAS GROUP.

Working Experience

Present Appointments:

- Chairman, PETRONAS Chemicals Group Berhad
- Chairman, PETRONAS Dagangan Berhad
- Executive Vice President and Chief Executive Officer of the Downstream Business, PETRONAS
- Member, PETRONAS Executive Leadership Team
- Member, PETRONAS People Development Committee
- Member, PETRONAS Talent Council
- Member, Industry Advisory Panel of Universiti Teknologi PETRONAS (UTP)
- Chairman, various companies within PETRONAS

Past Experiences:

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

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. He has never been charged for any offence within the past 5 years other than traffic offences, if any



Date appointed to Board

1 May 2015



Number of Board meetings attended in 2016

6 out of 7



Length of service (as at 17 February 2017)

1 year and 10 months


DATUK SAALI HAMZAH

Malaysian, age 50, Male, Malay

Managing Director/Chief Executive Officer

Board Skills Matrix

- Engineering
- Operations
- Commercial/Marketing
- Industrial Experience
 - Oil and Gas
 - Shipping/Logistics
 - Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad

Other Public Company:

- Nil

Qualifications

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

DATUK SAALI HAMZAH SPEARHEADS PCG'S OVERALL GROWTH AND EXPANSION STRATEGIES. HE OVERSEES AND ENSURES A GOOD BALANCE BETWEEN DRIVING CORE EXCELLENCE AND STRONG GOVERNANCE TO DELIVER SUSTAINABLE LONG TERM VALUE.

Working Experience

Present Appointments:


- Managing Director/Chief Executive Officer, PETRONAS Chemicals Group Berhad
- Vice President, PETRONAS
- Board of Institution of Chemical Engineers UK, Malaysian branch
- Chairman, various companies within PETRONAS

Past Experiences:


- Managing Director/Chief Executive Officer, PETRONAS Penapisan (Melaka) Sdn Bhd
- Senior General Manager, Group Technology Solutions PETRONAS
- Head, Project Management and Delivery PETRONAS
- Various senior management positions through roles in the refinery and petrochemical business within PETRONAS

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. He has never been charged for any offence within the past 5 years other than traffic offences, if any

 **Date appointed to Board**
8 May 2014

 **Number of Board meetings attended in 2016**
7 out of 7

 **Length of service (as at 17 February 2017)**
2 years and 2 months



VIMALA V.R. MENON

Malaysian, age 62, Female, Indian

Senior Independent Director

Board Skills Matrix

- Finance/Audit
- Corporate Planning and Development
- Information Technology
- Industrial Experience
 - Banking and Finance
 - Commercial/Marketing
 - Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad
- PETRONAS Dagangan Berhad
- Cycle & Carriage Bintang Berhad
- DiGi.Com Berhad

Other Public Company:

- Nil

Qualifications

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

IN ADDITION TO MORE THAN 30 YEARS' EXPERIENCE IN FINANCIAL AND CORPORATE PLANNING, VIMALA V.R. MENON LEADS THE GROUP TO REFLECT AN UNWAVERING COMMITMENT TO PROMOTING GOVERNANCE AND DEMONSTRATING A CULTURE OF INTEGRITY.

Working Experience

Present Appointments:

- Chairman, Board Audit Committee, PETRONAS Chemicals Group Berhad
- Chairman, Board Audit Committee, PETRONAS Dagangan Berhad
- Chairman, Board Audit Committee, Cycle & Carriage Bintang Berhad
- Member, Audit and Risk Committee, DiGi.Com Berhad
- Member, Nomination and Remuneration Committee, PETRONAS Chemicals Group Berhad
- Member, Nomination Committee, Cycle & Carriage Bintang Berhad
- Member, Remuneration Committee, Cycle & Carriage Bintang Berhad

Past Experiences:

- Director, Finance and Corporate Affairs, Proton Holdings Berhad
- Executive Director, Finance and Corporate Services, Edaran Otomobil Nasional Berhad
- Director, EON Bank Berhad
- Director, Jardine Cycle & Carriage Limited
- Director, PT Astra International Tbk, Indonesia
- Deloitte KassimChan

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. She has never been charged for any offence within the past 5 years other than traffic offences, if any



Date appointed to Board

13 August 2010



Number of Board meetings attended in 2016

7 out of 7



Length of service (as at 17 February 2017)

6 years and 6 months


CHING YEW CHYE

Malaysian, age 63, Male, Chinese
Independent Non-Executive Director

Board Skills Matrix

- Information Technology
- Commercial/Marketing
- Finance/Audit
- Industrial Experience
 - Banking and Finance
 - Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad
- Genting Plantations Berhad

Other Public Company:

- AIA Berhad

Qualifications

- Bachelor of Science (Honours), University of London, UK

AS A GLOBAL MANAGEMENT CONSULTANT WITH CLOSE TO 40 YEARS OF EXPERIENCE, CHING YEW CHYE ENRICHES THE BOARD'S COMPETITIVE EDGE, CONTRIBUTING HIS EXPERTISE IN CORPORATE STRATEGY AND ENHANCING BUSINESS PERFORMANCE.

Working Experience

Present Appointments:

- Chairman, Nomination and Remuneration Committee, PETRONAS Chemicals Group Berhad
- Member, Board Audit Committee, PETRONAS Chemicals Group Berhad

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, UK

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. He has never been charged for any offence within the past 5 years other than traffic offences, if any



Date appointed to Board

13 August 2010



Number of Board meetings attended in 2016

7 out of 7



Length of service (as at 17 February 2017)

6 year and 6 months



DONG SOO KIM

Korean, age 70, Male, Korean
Independent Non-Executive Director

Board Skills Matrix

- Engineering
- Operations
- Corporate Planning and Development
- Global Petrochemical Consultancy
- Industry Experience
- Oil and Gas
- Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad

Other Public Company:

- Nil

Qualifications

- Bachelor of Science in Chemical Engineering, University of California, USA
- Master of Science in Chemical Engineering, University of Idaho, USA

DONG SOO KIM'S MORE THAN 30 YEARS CAREER IN THE CHEMICALS INDUSTRY HAS BEEN NOTHING LESS THAN STERLING. THE CONVERGENCE OF HIS SKILLS, KNOWLEDGE AND EXPERIENCE IS WHAT LEADS THE BOARD TO STEP UP TO THE 'CALL TO ACTION' AND DRIVE OPERATIONAL EXCELLENCE.

Working Experience

Present Appointments:

- Member, Board Audit Committee, PETRONAS Chemicals Group Berhad
- Member, Nomination and Remuneration Committee, PETRONAS Chemicals Group Berhad
- 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

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. He has never been charged for any offence within the past 5 years other than traffic offences, if any

 **Date appointed to Board**
13 August 2010

 **Number of Board meetings attended in 2016**
7 out of 7

 **Length of service (as at 17 February 2017)**
6 years and 6 months


DATUK TOH AH WAH

Malaysian, age 59, Male, Chinese
Independent Non-Executive Director

Board Skills Matrix

- Commercial/Marketing
- Corporate Planning and Development
- Finance/Audit
- Economics
- Industrial Experience - Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad
- Tien Wah Press Holdings Berhad

Other Public Company:

- Nil

Qualifications

- Bachelor of Commerce, Concordia University, Canada

DATUK TOH AH WAH CONTRIBUTES A HIGH LEVEL OF EXPERTISE IN MARKETING AND REGIONALISATION DERIVED FROM 32 YEARS' EXPERIENCE WITH BRITISH AMERICAN TOBACCO. HIS COMMERCIAL FINESSE HELPS TO NAVIGATE THE GROUP TOWARDS BUILDING GREATER SYNERGY WITH CUSTOMERS AND ACCELERATE PROFITABILITY FOR LONG TERM GROWTH.

Working Experience

Present Appointments:

- Member, Board Audit Committee, PETRONAS Chemicals Group Berhad
- Chairman, Risk & Finance Committee, Tien Wah Press Holdings Berhad
- Member, Board Audit Committee, Tien Wah Press Holdings Berhad
- Member, Board Nomination Committee, Tien Wah Press Holdings Berhad
- Council Member, Badminton Association of Malaysia

Past Experiences:

- Managing Director, 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.
- Managing Director/Chief Executive Officer, Pakistan Tobacco Limited and Area Director South Asia Area
- Managing Director, British American Tobacco New Zealand
- Business Development Director China for British American Tobacco Asia Pacific North
- Various senior management positions within Rothmans

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. He has never been charged for any offence within the past 5 years other than traffic offences, if any



Date appointed to Board

13 June 2014



Number of Board meetings attended in 2016

7 out of 7



Length of service (as at 17 February 2017)

2 year and 8 months



ZAKARIA KASAH

Malaysian, age 52, Male, Malay

Non-Independent Non-Executive Director

Board Skills Matrix

- Engineering
- Operations
- Corporate Planning and Development
- Industry Experience
 - Oil and Gas
 - Regional/International

Directorships

Listed Entities:

- PETRONAS Chemicals Group Berhad

Other Public Company:

- Nil

Qualifications

- Bachelor of Mechanical Engineering, George Washington University, USA
- Leadership Management, Henley Business School, UK

ZAKARIA KASAH'S ENGINEERING BACKGROUND AND EXTENSIVE PROJECT DELIVERY EXPERIENCE SET THE BOARD TOWARDS THE SUCCESSFUL DELIVERY OF OUR GROWTH STRATEGIES.

Working Experience

Present Appointments:

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

Past Experience:

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

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. He has never been charged for any offence within the past 5 years other than traffic offences, if any



Date appointed to Board

31 July 2015



Number of Board meetings attended in 2016

6 out of 7



Length of service (as at 17 February 2017)

1 years and 7 months

**FREIDA AMAT**

Malaysian, age 48, Female, Malay

Non-Independent Non-Executive Director**Board Skills Matrix**

- Finance/Audit
- Commercial/Marketing
- Industry Experience
- Oil and Gas

Directorships**Listed Entities:**

- PETRONAS Chemicals Group Berhad

Other Public Company:

- Nil

Qualifications

- Bachelor of Science in Accounting and Finance, London School of Economics & Political Science, University of London, UK
- Fellow of the Association of Chartered Certified Accountants (ACCA)

FREIDA AMAT LENDS THE BOARD A BROAD UNDERSTANDING OF CORPORATE FINANCE, FINANCIAL REPORTING AND TREASURY, STEERING THE GROUP TOWARDS EFFECTIVE CAPITAL MANAGEMENT AND EFFICIENCY.

Working Experience**Present Appointments:**

- Member, Board Audit Committee, PETRONAS Chemicals Group Berhad
- Senior General Manager of Finance & Accounts Services Department, PETRONAS
- Director, various companies within PETRONAS

Past Experience:

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

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Chemicals Group Berhad. She has never been charged for any offence within the past 5 years other than traffic offences, if any



Date appointed to Board

31 July 2015



Number of Board meetings attended in 2016

7 out of 7



Length of service (as at 17 February 2017)

1 year and 7 months

MANAGEMENT COMMITTEE

PETRONAS
CHEMICALS
GROUP
BERHAD

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Section
two

from right to left:

DATUK SAZALI HAMZAH

Managing Director/Chief Executive Officer

RASHIDAH ALIAS

Chief Financial Officer



from right to left:

ABDUL AZIZ OTHMAN

Head of Strategic Planning
& Ventures

AKBAR MD THAYOOB

Head of Commercial

IR MOHD YUSRI MOHAMED YUSOF

Head of Manufacturing





from right to left:

MOHAMAD ISKANDAR BAKERI
Head of Project Directorate

NOOR LILY ZURIATI ABDULLAH
Head of Legal & Corporate Secretariat



from right to left:

DATIN ZARINA ZAKARIA @ MOHAMAD
Head of Human Resource Management

DR ROSS FORREST GILMOUR
Chief Innovation & Technology Officer



from right to left:

AHMAD ZAKI DAUD
Head of Health, Safety & Environment

SITI AZLINA ABD LATIF
Head of Corporate Affairs & Administration

PROFILE OF MANAGEMENT COMMITTEE

PETRONAS
CHEMICALS
GROUP
BERHAD

TECHNICAL SKILLS AND EXPERIENCE	Competency
	Accounting
	Corporate governance
	Finance
	Human Resource
	Industry experience
	Law
	Risk management
	Strategic marketing
	Strategy development and implementation
	Technology



DATUK SAZALI HAMZAH
Malaysian, age 50, Male, Malay
Managing Director/Chief Executive Officer



RASHIDAH ALIAS
Malaysian, age 44, Female, Malay
Chief Financial Officer

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
- Advanced Management Program, The Wharton School, University of Pennsylvania
- Chartered Fellow of the Institution of Chemical Engineers (ICHEME), UK

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 - Audit & advisory
- 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
- 2010 PETRONAS - Senior General Manager, Finance & Accounts Services
- 2013 PETRONAS - Senior General Manager, Group Treasury

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



IR MOHD YUSRI MOHAMED YUSOF

Malaysian, age 50, Male, Malay
Head of Manufacturing

Current role

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

Employment history

1989	PETRONAS - HSE executive
1992	Ethylene & Polyethylene Malaysia - Various roles in project, technical and operation
2004	Dow Chemicals (Pacific) Ltd, Hong Kong - Production engineer
2006	Optimal Group of Companies - Manager, Plant Technical Services
2008	PETRONAS Group Strategic Planning - Manager of Strategy and Portfolio (Oil Business)
2009	PETRONAS Chemicals Ethylene Sdn Bhd - General Manager
2012	PETRONAS Chemicals Olefins Sdn Bhd, PETRONAS Chemicals Glycols Sdn Bhd, PETRONAS Chemicals Derivatives Sdn Bhd - CEO
2014	PCG - Head of Manufacturing

Academic/Professional Qualifications

- Bachelor of Science in Chemical Engineering, Oklahoma State University, USA
- Advanced Management Program, The Wharton School, University of Pennsylvania, USA
- Chartered Fellow, Institution of Chemical Engineers (IChemE), UK
- Registered Professional Engineer, Board of Engineers Malaysia



AKBAR MD THAYOOB

Malaysian, age 53, Male, Malay
Head of Commercial

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

1987	PETRONAS - Various project engineering and corporate planning roles
2004	Phu My Plastics & Chemicals Co Ltd, Vietnam - General Director/CEO
2008	PETRONAS Chemicals LDPE Sdn Bhd - CEO
2010	PETRONAS Downstream Business - Head of the Office of the Executive Vice President
2012	PETRONAS Dagangan Berhad - Head of Retail Business
2014	PCG - Head of Commercial

Academic/Professional Qualifications

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



ABDUL AZIZ OTHMAN

Malaysian, age 51, Male, Malay
Head of Strategic Planning & Ventures

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 Gas Berhad - Mechanical engineer
2000	PETRONAS - Head, Strategy & Business Planning, Gas Business Unit
2005	PETRONAS Gas Berhad - General Manager (Centralised Utilities Facilities)
2009	Vinyl Chloride Malaysia Sdn Bhd - CEO
2011	PCG - Head of Strategic Planning and Ventures

Academic/Professional Qualifications

- Bachelor of Science in Mechanical Engineering, George Washington University, USA
- Senior Executive Program, London Business School



MOHAMAD ISKANDAR BAKERI

Malaysian, age 50, Male, Malay
Head of Project Directorate

Current role

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

Employment history

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 - Head of Project Directorate

Academic/Professional Qualifications

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



NOOR LILY ZURIATI ABDULLAH

Malaysian, age 58, Female, Malay
Head of Legal and Corporate Secretariat

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 - 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



DR ROSS FORREST GILMOUR

Australian, age 56, Male, Caucasian
Chief Innovation & Technology Officer

Current role

- Responsible for PCG's product improvement, technical support, regulatory and stewardship functions to deliver innovative customer solutions
- Director of PETRONAS Research Sdn Bhd

Employment history

1985	Department of Agriculture, Western Australia - Research Programme Leader
1995	ForBio Asia Pty Ltd (Malaysia) - Regional Director for SE Asia
2000	Grains Research and Development Corporation - Investment Manager
2003	BSES Limited (Australia) - R&D Manager
2009	E.I du Pont de Nemours and Company, USA - Programme Leader, Agricultural Biotechnology
2013	PCG - Chief Innovation & Technology Officer

Academic/Professional Qualifications

- Bachelor of Agriculture in Plant Breeding and Genetics, University of Queensland, Australia
- PhD in Agricultural Science, University of Queensland, Australia



DATIN ZARINA ZAKARIA @ MOHAMAD

Malaysian, age 49, Female, Malay
Head of Human Resource Management

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
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 - Head of Human Resource Management

Academic/Professional Qualifications

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



SITI AZLINA ABD LATIF

Malaysian, age 45, Female, Malay
Head of Corporate Affairs & Administration

Current role

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

Employment history

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

Academic/Professional Qualifications

- Bachelor of Arts in Accounting, University of Portsmouth, UK
- Masters of Business Administration, Cardiff University, UK



AHMAD ZAKI DAUD

Malaysian, age 44, Male, Malay
Head of Health, Safety & Environment

Current role

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

Employment history

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 - Head of Operation Work Process
2015	PCG - Head of HSE

Academic/Professional Qualifications

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

03

OUR STRATEGIC PERFORMANCE



* The cross-referencing icons refer readers to information elsewhere in this report

What is the state of the petrochemicals industry? What are the challenges and risks faced? Find out by reading this section, and discover the strategic direction we are taking to leverage on our strengths to maintain our leading edge. In the following pages, we also disclose how well we performed during the year.

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DEAR SHAREHOLDERS,

IT GIVES ME GREAT PLEASURE TO PRESENT AN OVERVIEW OF PCG'S PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016. FOR THE PERIOD UNDER REVIEW, WE CONTINUED TO FOCUS INTENTLY ON OUR OPERATIONAL, COMMERCIAL AND INNOVATION EXCELLENCE, AND FORGED AHEAD WITH OUR GROWTH PLANS. THE END RESULTS HAVE BEEN VERY POSITIVE AS WE FURTHER CEMENTED OUR POSITION AS A LEADING PETROCHEMICALS PLAYER IN THE REGION, CREATING ADDED VALUE FOR YOU.

It is by no means the best of times for the petrochemicals industry, with low oil prices and soft global demand suppressing the margin of our products. Within this scenario, PCG continued to secure strategic markets in the Asia Pacific region with optimised cost. Combined with improved feedstock supply and enhanced plant reliability, we pulled together an impressive performance for the year.

PCG continued to focus on the Asia Pacific region to leverage on the benefits of reduced transport costs as well as hot spots of demand. The price of ethylene, a basic product which serves as a barometer of petrochemical commodities for Olefins and Derivatives (O&D) market, increased in the first half of the year due to several plant shutdowns and turnarounds in the region. However, upon completion of these turnarounds, ethylene flooded the market once again, pushing down prices towards year end. On average, the price of ethylene was 6% lower in 2016 than it was in 2015.



Demand was noticeably softer in comparison with supply in the Fertilisers and Methanol (F&M) market. The accompanying decrease in price of products was reflected in those for urea and methanol which dropped by 25% and 16% respectively in 2016 compared to 2015.

While such macro-economic factors and the dynamics of supply and demand are beyond our control, I am proud that in areas where we can make a difference, we have done so. PCG continued to persevere with our two-pronged strategy of strengthening basic petrochemicals while selectively diversifying into derivatives, specialty chemicals and solutions. Underpinned by our focused efforts to enhance our operational and commercial efficiencies, the results were gratifying in terms of key financial and operational parameters.

Operationally, we recorded our highest plant utilisation of 96% since incorporation, surpassing world-class benchmark of 85%, thus setting a solid foundation for our growth. With record production and sales volumes as well as various measures to enhance efficiencies, the Group's revenue increased 2% from RM13.5 billion in 2015 to RM13.9 billion. Meanwhile earnings before income tax, depreciation and amortisation (EBITDA) grew markedly from RM4.7 billion to RM5.3 billion, providing us an EBITDA margin of 38%. Most significantly for our shareholders, we recorded a profit after tax (PAT) of RM3.2 billion and a higher return on average capital employed (ROACE) (3 years average) of 12% for the year.



For further discussion on our fiscal policies and recognition of our financial risks please turn to pages 46 to 47.

ON TRACK IN OUR JOURNEY TO EXCELLENCE

Operational excellence is imperative for the success of our business. Our efforts to achieve world-class benchmark in plant performance through effective implementation of internal reliability and efficiency enhancement programmes, supported by reliable feedstock and utilities supply, were rewarded with exceptional results. We achieved 100% utilisation rate in the third quarter and averaged 96% for the year. This was especially significant as increased capacity globally, combined with subdued demand, has negatively impacted the utilisation rate of many players.

PCG could afford to run at its highest capacity, secure in the knowledge of a ready market for our products, because of effective sales and marketing initiatives. While strengthening our relationship with more than 1,000 existing customers, our team has been proactive in leveraging sales channels for high-value applications, riding on PCG's established reputation. Years of truly valuing our customers and ensuring we meet their expectations at every single opportunity have gone a long way towards opening many doors for us.

REVENUE RM 13.9 billion	EBITDA RM 5.3 billion	PROFIT AFTER TAX RM 3.2 billion
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Looking at things from our customers’ lens has enabled us to offer compelling value proposition ranging from innovative customised solutions to effective sales support in delivering the right customers experience. PCG has also been continuously improving our logistics efficiencies by using the most appropriate logistic arrangements to accommodate customers’ needs.

To further elevate our regional presence and increase understanding of our customers’ needs and requirements, we have incorporated a marketing subsidiary in Indonesia to add to our existing marketing subsidiaries in Thailand and China as well as regional representative offices in Vietnam and the Philippines. All these efforts have resulted in the achievement of our highest EBITDA margin and strong cash generation amidst a challenging market.

HSE: ALWAYS A PRIORITY

In a competitive industry, achieving top numbers is a priority. But when it comes to HSE, PCG aims for zero. Zero incident and zero injury. We invest significantly in creating a strong HSE culture among all our employees and our contractors' employees, and keep reinforcing safe behaviours via programmes, communiques and training.

Our HSE procedures are guided by global best practices and have been recognised with accolades from both local and international organisations such as Chemical Industry Council of Malaysia (CICM), Malaysian Society for Occupational Safety and Health (MSOSH) and Royal Society for the Prevention of Accidents (RoSPA).

The two fatalities during the year involving contractors' workers at the Sabah Ammonia Urea (SAMUR) project were a stark reminder of the high level of risk that face personnel at our plants throughout an operating day. Although we have the best safety systems and processes, we recognise the need to keep reinforcing strict adherence to set procedures at every stage along the operational chain. We were deeply saddened by the incident, which was unacceptable, and have redoubled our HSE and risk management efforts to safeguard everyone at work and around the areas where we operate.



Find out more about our HSE practices in our Sustainability Statement from pages 82 to 84.

GROWING INTO A DYNAMIC FUTURE

Our two-pronged growth strategy focuses on strengthening basic petrochemicals to increase our volume-play advantage as a competitive regional player; and selectively diversifying into derivatives, specialty chemicals and solutions which in turn will allow us to harness value-play from higher margin products. With this in mind, PCG has invested in five key projects with a total CAPEX of RM10.1 billion, which will add 5.1 million mtpa to our nameplate capacity.

The investments include SAMUR, an ammonia and urea plant in Sipitang, Sabah, which will increase our current capacity of 10.8 million mtpa by 18%, establishing us firmly as a leading supplier of fertiliser in the region. We were very excited to see SAMUR successfully producing on-specification urea and we are now in the process of ramping up the plant for full commercial operations.

While SAMUR strengthens our basic petrochemicals portfolio, we are also deepening our footprints in the derivatives, specialty products and solutions portfolio. We are undertaking three projects with BASF through our associate company, BASF PETRONAS Chemicals Sdn Bhd, at its plant in Gebeng, Pahang. These projects will produce aroma ingredients, as well as 2-EHAcid and HR-PIB. Demand is expected to continue to increase in the long term driven by global economic growth, and increasing wealth in the Asia Pacific region. We are well within the range of start-up schedule and expect Citral production in 2017. The production units for Citronellol and L-Menthol will come



on-stream in phases in 2017. We also saw the successful production of on-specification 2-EHAcid in late 2016. Work on the production facility for HR-PIB is progressing well, and we expect this facility to be commissioned in 2017, as planned.

Finally, upon acquisition of PRPC Polymers and PRPC Glycols in November 2015, PCG is proud to be part of the Pengerang Integrated Complex (PIC) in Pengerang, Johor. Through the two plants, we will spearhead the petrochemicals component of PIC, enjoying the benefits of integrated feedstock supply from PRPC's refinery and cracker, located within the same complex.

This project is progressing well whereby to date, we have awarded the engineering, procurement, construction and commissioning (EPCC) for the polypropylene (PP), ethylene oxide/ethylene glycol (EO/EG), and linear low-density polyethylene (LLDPE) plants. This year itself, we achieved the final investment decision (FID) and awarded EPCC for flexi polyethylene (Flexi PE) plant.

Once completed in 2019, our total production capacity will increase by a further 20%. Our investments in PIC provide us a solid foundation to diversify our feedstock source for business sustainability while pursuing our presence in the derivatives and specialty chemicals sectors.

SERVING OUR PEOPLE & COMMUNITY

Our focus on growth is finely balanced by our commitments to the people whose lives we impact in ways that may not be directly related to our business, namely our employees and the larger communities in which we operate.

As an employer, PCG aims to create a dynamic work environment that truly engages our people and inspires them to develop their true potential, promoting a greater sense of well-being through a high level of job satisfaction. Our HR focuses on identifying individual talents and skills, and enhancing these for career advancement. Every employee



receives comprehensive on-the-job training which is supplemented by formal training programmes that include leadership development. At the same time, we respect the need for good work-life balance and offer a measure of flexibility in working hours and annual leave while providing our female staff with various facilities to help them manage their professional and family commitments.

Within our local communities, PCG is dedicated to developing meaningful programmes that have a sustainable impact on the lives we touch. Most of our efforts are centred on narrowing the education gap as well as elevating the well-being of the underprivileged. Through one of our flagship initiatives, Program Sentuhan Ilmu PETRONAS (PSIP), we adopt schools where we help to improve student capabilities in core subjects such as English, Science and Mathematics. Another signature outreach programme is Sentuhan Kasih, which serves to empower marginalised pockets of the community through donations and activities.

As part of our corporate social responsibility (CSR) we also get involved with the community to conserve the environment. Since 2005, we have been running an ecoCare programme together with the Malaysian Nature Society (MNS) that seeks to create awareness of the importance of preserving mangrove habitats. Under this programme, we have set up an ecoCare Environmental Education Centre (ecoCare EEC) in Kertih which runs various activities to rehabilitate the mangrove ecosystem along the banks of Kertih River. To date, over 11,000 square metres of the mangrove forest have been replanted with more than 10,000 seedlings.

These initiatives, which stem from a deep desire to operate ethically, serve also to reinforce our sustainability by strengthening our stakeholder relationships. It gives me pride to see our efforts to sustain our financial performance with a healthy environmental, social and governance (ESG) scorecard gain momentum. This year, as you will observe from our Sustainability Statement, we are adopting a more strategic approach in terms of engaging with our stakeholders and creating greater transparency in our operations. We believe these efforts, together with robust financial performance, will contribute to enhanced investors' confidence. For a fuller account of our ESG considerations, please refer to our Sustainability Statement on pages 75 - 88. I am pleased to share that our ESG efforts have been recognised with PCG being named one of the top 10 companies as ranked by market capitalisation listed in the FTSE4Good Bursa Malaysia (F4GBM) Index.

OUTLOOK

All indicators point to another challenging year in 2017. Although the price of oil and global economy are expected to pick up, the increase is forecast to be slight, and demand for petrochemicals is likely to continue to be dwarfed by supply. From the number of projects planned between 2016 and 2020, world ethylene capacity is anticipated to grow by 3.7% annually while demand is expected to average 3.5% in the same period.

Within this environment, we remain optimistic of continuing to bring added value to you. Our strategic position in the centre of Southeast Asia, one of the fastest growing regions in the world, as well as our world-class operational and commercial excellence, will stand us on a strong footing to face the soft environment. Most important for us is to continue to focus on our growth plans while strengthening our fundamentals. These will continue to be key driving forces at PCG and will enable us to further enhance our inherent value, and our value to you.

Our steady performance in these trying times is the combined result of a number of people, whom I would like to acknowledge. They include our Board of Directors, particularly our Chairman, who have continued to guide PCG with great industry insight and entrepreneurial wisdom; my colleagues on the Management Committee, many of whom have put in time beyond their call of duty to ensure we achieve our goals; and all our employees who truly are the engine of growth of PCG. Thank you for your commitment and dedication to PCG.

At the same time, I would like to thank our shareholders for your continued support; our customers, for their trust in our products; and all other stakeholders for helping to create the company that we are today. All your contributions are highly valued and, on behalf of the management, we would like to say a collective '*terima kasih*'.



RASHIDAH ALIAS
CHIEF FINANCIAL
OFFICER

IN THE CURRENT ENVIRONMENT OF LOW CRUDE OIL PRICES AND SUBDUED DEMAND FOR PETROCHEMICAL PRODUCTS, INDUSTRY PLAYERS HAVE HAD TO TIGHTEN THEIR BELTS, AND PCG HAS BEEN NO DIFFERENT.

We have had some significant successes on this score for 2016, thanks to various cost optimisation initiatives, not least of which has been our focus on operational excellence which has significantly increased our plant utilisation thus reducing our unit production cost. This has been further supported by reduced repair and maintenance expenses, efficiencies in our supply and distribution and a keen eye on optimising our day-to-day operating expenses.

Our plant utilisation hit a record level of 96%, up from 85% in 2015, due largely to improved ethane and methane supplies as well as a lower level of turnaround activity across the Group. Along with higher plant utilisation, we saw an increase in production and sales volumes. This, together with a stronger US Dollar against the Malaysian Ringgit, enabled us to record an increase in revenue despite lower prices of products on average. Our Group revenue surged by RM324 million or 2% to RM13.9 billion.

The efficiencies brought about by increased production volume and lower unit cost, together with a favourable foreign exchange environment, allowed us to mitigate the impact of thinner spreads to record 14% growth in earnings before income tax, depreciation and amortisation (EBITDA) by RM631 million to RM5.3 billion.

Accordingly, profit after tax (PAT) increased by 4%, or RM131 million, to RM3.2 billion. Excluding the assets write-off amounting to RM244 million (or USD59 million) due to cancellation of the elastomers project during the year, our PAT would have been RM3.5 billion, which is a 12% increase from the previous year.

SEGMENTAL REVIEW

Olefins and Derivatives

While there were scheduled turnarounds undertaken at the propane dehydrogenation (PDH) and aromatic plants, we still achieved 100% utilisation rates in the Olefins and Derivatives segment, up from 93% in the previous year. This contributed to a 3% increase in revenue from RM9.5 billion to RM9.8 billion. Further supported by a strengthening US Dollar, EBITDA grew by RM596 million or 19% to RM3.8 billion. Segmental PAT grew by 8% to RM2.2 billion. Excluding the elastomers write-off, PAT for the segment would have amounted to RM2.4 billion, marking an increase of 21% from the RM2.0 billion achieved in 2015.

Fertilisers and Methanol

Plant utilisation rate similarly grew in the Fertilisers and Methanol segment, from 80% to 93%, mainly due to better methane supply. The increase in production more than compensated for the price decrease of methanol due to lower demand for fuel additives, as well as that for urea and ammonia due to oversupply in the market from new capacity. Complemented by the strong US Dollar, the segment recorded slight increase of 1% in revenue.

Nevertheless, EBITDA and PAT were slightly lower by RM19 million or 1% to RM1.5 billion and RM60 million or 6% to RM999 million respectively on lower spreads.

FINANCIAL POSITION

Total Assets

During the year, our total assets grew by 4% from RM30.8 billion to RM31.9 billion along with an increase in our Property, Plant and Equipment (PPE). The value of our PPE grew by 12% to RM18.5 billion with RM3.0 billion in additions during the year under review, comprising RM1.8 billion for petrochemical projects under the PIC project, RM557 million for the SAMUR Project, and RM337 million for other plant operational CAPEX. Depreciation charges for the year, stood at RM1.3 billion.

Total Liabilities

Our total liabilities decreased by 14% from RM4.2 billion to RM3.6 billion as a result of lower trade and other payables. The group has minimal borrowings as at 31 December 2016 of RM23 million relating to a facility taken for working capital purposes by one of its subsidiaries.

Cash Flow

Although the Group's cash and cash equivalents was lower by 15% from 2015, it remained at a very healthy RM7.4 billion. We incurred a higher cash outflow for financing due to higher dividends paid to shareholders and non-controlling interest. Cash flow from investing activities, meanwhile stood at RM2.8 billion mainly reflecting investments made for growth projects. Cash flow from operating activities for the year remains strong at close to RM4 billion.



CASH FLOW GENERATION AND UTILISATION

We are rigorous in monitoring cash flow throughout the Group. Today, as we are gearing for growth, we strive to maintain optimal level of working capital at our subsidiaries to enable the repatriation of dividends to PCG as the holding company for ongoing and future projects. Based on their respective working capital needs, our subsidiaries prepare regular and robust cash flow forecasts which is then used to manage all receivables and payables including short term financing with overall direction and oversight at Group level.

CORPORATE FINANCIAL POLICY

The management of our cash flows, as well as other financial aspects of the Group's operations that could pose a risk to our business, is guided by our Corporate Financial Policy. This serves as a foundation upon which our financial risk management is built and the resultant risk exposures identified, managed and mitigated. The policy promotes effective information flow for proactive and integrated financial risk management, and improves the quality of decision-making throughout the Group.

DIVIDEND POLICY

The Group has a dividend policy that is subject to the discretion of the Board and final approval from the Shareholders. The policy takes into consideration a number of factors, which include, the Group's earnings, capital requirements, general financial condition, its distributable reserves and other factors considered relevant by the Board.

The Board intends to adopt a policy of active capital management. The Board proposes payment of dividends through cash generated from the Group's operations after setting aside necessary funding for capital expenditure and working capital needs. As part of this policy, the Group targets a payout ratio of around 50% of its consolidated PAT under Malaysian GAAP in each calendar year, subject to the confirmation of the Board and to any applicable law, licence and contractual obligations and provided that such distribution would not be detrimental to the Group's cash needs or to any plans approved by the Board.

TOWARDS STRONGER GOVERNANCE

During the year, we undertook a review of PCG's Group Limits of Authority to delegate greater responsibility to members of our senior management in terms of making operational decisions. This has the dual benefits of enhancing efficiencies in our decision-making process as well as enabling our Board to focus on more strategic and high-impact matters. As a result, we have been able to execute our plans more efficiently and quickly than we did previously whilst ensuring proper governance is in place.

KEY FINANCIAL RISKS AND UNCERTAINTIES AFFECTING OUR PERFORMANCE

RISKS → HOW ARE WE MANAGING IT?

FOREIGN EXCHANGE RISKS

We adhere to the foreign exchange (forex) management guidelines in PETRONAS' Corporate Financial Policy, which help us identify, measure and manage our forex exposure. The guidelines encompass functional currency considerations, currency netting, currency matching and hedging. We also conduct forex exposure analysis prior to making decisions on any business with forex risk.

REGULATORY CHANGES

The Group keeps abreast of regulatory changes by PETRONAS and statutory bodies, and complies with these.

TAX RISKS

The Group has adopted PETRONAS' Corporate Financial Policy which details guidelines on tax administration in respect of tax compliance and planning. The guidelines cover corporate income tax, tax audit and investigation, withholding tax and indirect tax, transfer pricing and tax planning. The Group's tax administration, as well as that of our subsidiaries, is monitored and reported to PETRONAS Group Tax Division.

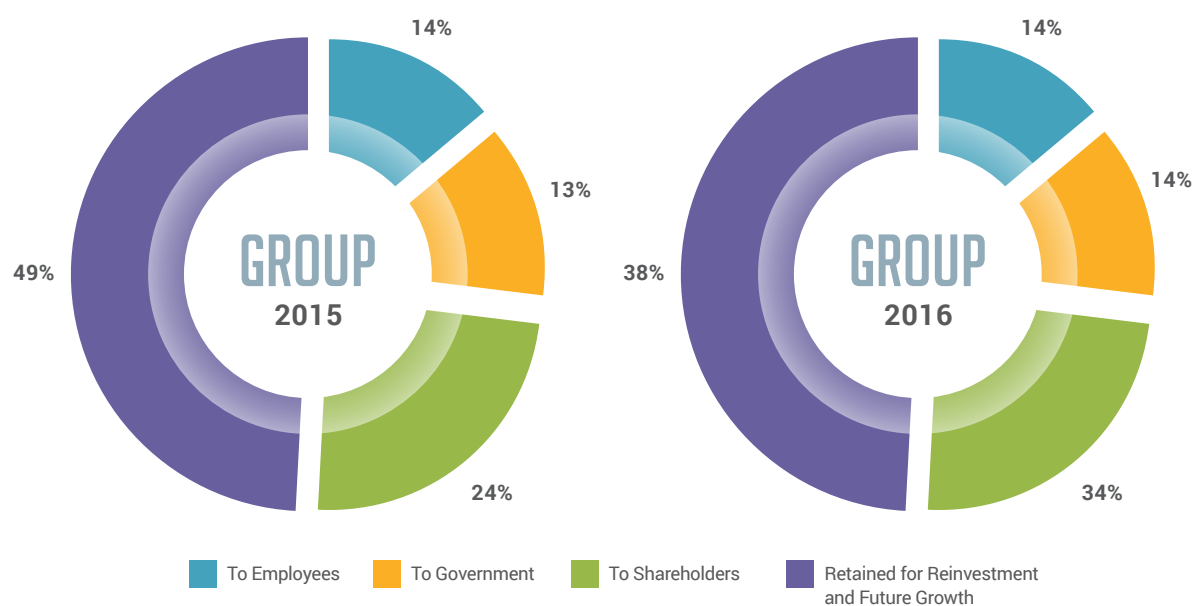
Looking ahead, our mid-term goals will entail further enhancing our cash and liquidity management. This will ensure we are able to efficiently service our growth projects.

During the year, a total of RM3.3 billion was invested in five ongoing growth projects namely SAMUR, the polymers and glycols plants in PIC, and three further projects with our partners.

Our performance in 2016 was achieved in the midst of slower economic growth and financial market volatility. It attests to the resilience of our business, which is underpinned by multiple growth engines, a solid balance sheet and prudent cash management. With a sound foundation, we will be able to face 2017 from a position of strength.

	Group		Company	
	2015 RM mil	2016 RM mil	2015 RM mil	2016 RM mil
Revenue	13,536	13,860	2,796	4,401
Purchase of goods and services	(8,090)	(7,708)	(64)	(70)
Value added by the companies	5,446	6,152	2,732	4,331
Other Expenses	(391)	(196)	(6)	(267)
Other Income	733	289	346	860
Financing costs	(11)	47	2	60
Share of profit after tax of equity accounted associate and jointly controlled entity	87	17	-	-
Value added available for distribution	5,864	6,309	3,074	4,984
DISTRIBUTION				
To employees				
Employment costs	817	862	127	100
To government				
Taxation	742	888	14	50
To shareholders				
Dividends	1,280	1,360	1,280	1,360
Minority Interest	146	815		
Retained for reinvestment and future growth				
Depreciation, amortisation and impairment	1,279	1,337	3	3
Retained profit	1,600	1,047	1,650	3,471
	5,864	6,309	3,074	4,984

Value Added Available for Distribution (RM Million)





**IR MOHD YUSRI
MOHAMED YUSOF**
HEAD OF
MANUFACTURING

IT HAS BEEN A VERY ENCOURAGING YEAR FOR THE MANUFACTURING DIVISION. COLLABORATIVE EFFORTS TO ENHANCE OUR PERFORMANCE LED TO OUR HIGHEST EVER PRODUCTION VOLUME.

Plant utilisation is dependent on a number of factors, key amongst which are reliability of the plants and feedstock supply as well as the ability to conduct turnarounds with minimum disruption to operations. I am pleased to share that PCG made marked improvements in these areas as a result of rigorous operational excellence practices and modus operandi that facilitates collaboration, cooperation, and collective decision making across the value chain.

Improvement in asset management practices such as preventive maintenance and effective Bad Actor management, focusing on items that impact plant reliability ensures our plants are available throughout the year. By engaging more closely with suppliers of feedstock as well as utilities in planning and operations, we were able to reap the benefits of greater security in the volumes of methane and ethane received, as well as utilities supply.

Methane supply was further secured by commissioning of the Dalak pipeline in the first quarter of the year, adding to supply from Kikeh. With Dalak feeding methane to our methanol facility in Labuan, total production of this plant increased 45% compared to 2015. At the same time, ethylene production grew by 15% as a result of more reliable gas plants and crackers performance throughout the year.

**WITH DALAK FEEDING
METHANE TO OUR
METHANOL FACILITY
IN LABUAN, TOTAL
PRODUCTION OF THIS
PLANT INCREASED
45% COMPARED TO
2015. AT THE SAME
TIME, ETHYLENE
PRODUCTION GREW
BY 15%.**





There were three scheduled turnarounds – at PC MTBE (PDH Plant) in Gebeng, Pahang; PC Aromatics in Kertih, Terengganu and ABF in Bintulu, Sarawak – all of which were planned in great detail and executed systematically, with better coordination among the parties involved. With the benefit of experience, our internal team has a clear understanding of running these programmes, and managing our contractors, to ensure they meet expected levels of competency in all functional areas, including safety. As our turnaround competency increases every year, we were able to shorten the duration of the programmes. In 2016, not only did we have more compressed turnaround schedules, we also exceeded our targets by 7%.

Integral to our efforts to achieve operational excellence is to optimise production at the lowest cost. This involves minimising feedstock loss and being energy efficient. As examples, any excess ethane from Gas Processing Kertih to PC Ethylene is re-routed to PC Olefins; while flaring of surplus fuel at PC Olefins during high plant loading is reduced by exporting the surplus fuel to surrounding plants. Similarly, excess steam generated by the plant is re-routed to our butanol plant. These initiatives helped us to operate at a higher level of energy efficiency as compared to 2015.

The pursuit of operational excellence encompasses having a strong foundation on safety. Safety is our top priority and is reinforced by our leadership's commitment to build on our safety framework, guided by PETRONAS' HSE Policy. We ensure all our employees

adhere to the standards and operating practices of this Policy and abide by our Zero Tolerance (ZeTo) Rules which serve to inculcate safe behavior and cultivate the generative HSE mindset.

During the year, we appointed ZeTo ambassadors to ensure compliance with all ZeTo Rules. We also placed numerous banners and buntings carrying safety messages in strategic places at our plants. I am pleased to share that these initiatives have had a positive effect in terms of compliance with the ZeTo rules.

We also reinforced our process safety assurance by conducting various emergency readiness exercises and upskilling our employees to the required technical standards in managing our fire protection system.

Our safety culture is extended to contractors with whom we share our HSE expectations and requirements. We also provide trainings to their workers on our safety systems and technical standards, and complement this by regular briefings on safe work procedures. As a large number of contractors are involved in our plant turnarounds, we continuously strengthen our HSE plan specifically for this. To ensure safety requirements are adhered to, members of the management team regularly conduct walkabouts and audits.

Looking ahead, we will strive to maintain existing plant utilisation beyond the world-class benchmark, ramp up operations at SAMUR to full capacity, while focusing further on operational efficiencies.



AKBAR MD THAYOOB
HEAD OF
COMMERCIAL

2016 WAS CERTAINLY A GOOD YEAR FOR THE COMMERCIAL DIVISION, AS WE CELEBRATED OUR HIGHEST SALES VOLUME TO DATE. IT IS PARTICULARLY GRATIFYING TO SEE OUR SALES AND MARKETING EFFORTS BEAR FRUIT AT A TIME WHEN THE MARKET WAS VERY CHALLENGING. THERE CAN BE NO DOUBT THAT THE 17% INCREASE IN SALES ACHIEVED WAS A DIRECT RESULT OF HARD WORK AND DETERMINATION BY THE ENTIRE TEAM TO ATTAIN OUR 'GOLD STANDARD' - COMMERCIAL EXCELLENCE - WHICH IS ONE OF THE THREE DRIVING FORCES OF PCG AS WE SEEK DYNAMIC GROWTH.

One of the key functions of the team is to monitor the global petrochemicals market and keep track of fluctuations in the supply demand situation. Last year, we were able to channel our additional volume into Southeast Asia where manufacturing activity was more intense than other regions, resulting in greater need for our products. We were also able to strategically shift some volume to a higher value market and increase our sales to end users by 4%. These efforts had contributed to a better overall commercial performance.

We further enhanced our profitability by optimising our cost-to-serve. Logistics cost is a significant component in our cost structure, especially for long distance deliveries. Our location at the heart of Southeast Asia gives us a natural edge, one which we are further enhancing by optimising effective vessel arrangements. Smaller vessels were deployed to Southeast Asia destinations that have limitation to accommodate large parcel size. Whenever possible, shipments were planned to utilise larger vessel to take advantage of co-loading or co-mingling opportunities to lower our logistics cost. Aided by efficient integrated delivery planning and channel management, we were able to shave off 11% from our cost-to-serve as compared to 2015.

Our company also created new sales channels during the year by incorporating a new subsidiary in Indonesia in August, while commencing full operations at our subsidiaries that had been set up earlier in Thailand and China. These establishments enable us to strengthen our relationships with key customers and enhance our presence in the focus markets.

We have more than 1,000 active customers around the world; and as an indicator of their loyalty, more than 80% of our business comes from customers who have been with us for more than 10 years. This has a strong basis on the fact that customers truly come first at PCG. We make an effort to understand our customers' needs, and even greater effort to meet them.

**AIDED BY EFFICIENT
DELIVERY PLANNING
AND CHANNEL
MANAGEMENT, WE
WERE ABLE TO SHAVE
OFF 11% FROM OUR
COST-TO-SERVE AS
COMPARED TO 2015.**



Recognising the importance of prompt and efficient delivery to enable a smooth flow of customer operations, our company consistently achieved top class order fulfilment reliability throughout the year. This was supported by an efficient management of inventory which allowed us to consistently keep an optimum level of stock and enhance our reputation as a reliable supplier. Another unique proposition that we are able to offer is to adapt our product specifications to suit customers' changing needs. Backed up by the Innovation and Technology team, we work closely with customers to determine the solutions they require and are able to commercialise these innovative products timely.

During the year, our company produced two new solutions, namely low freezing grade glycol (LFG MEG) which serves as a hydrate inhibitor in oil and gas applications, and a special chemical blend for use in brake fluids. Both solutions have been well received, leading to new applications to our product slate. To further reinforce our relationships, we engage regularly with our customers, both domestic and international. We also conducted a product stewardship session in the Philippines, where we have just started exporting glycols in bulk and container.

Internally, our company is building capabilities to ensure our people have the knowledge and skills to support business expansion. This is

being achieved through enhanced professional development training and programmes. During the year, we strengthened our capability development efforts, and enhanced our Capability Development Steering Committee and Working Committee to spearhead our training initiatives. Thus far, we have certified another 32 pricing system experts this year on top of the 20 certified in 2015.

Health and safety continue to be given top priority. Underlining our commitment to ensure the highest safety standards in our sales and distribution activities, we collaborate closely with CICM to develop industry guidelines for safe transportation of petrochemicals. On our own effort, we gathered our transport providers for a safety forum in Padang Besar, Perlis in March; and held a similar event in Kertih, Terengganu in November. At both events, the emphasis was on safe behaviours of the truck drivers to prevent road incidents. Our company also engages with vendors and third-party service providers to increase awareness of our HSE requirements and procedures.

Now that we have savoured a measure of success from our hard work, we are determined to keep the momentum going and have outlined our next course of action to achieve our 2017 goals. With CX as our guiding principle, our mission is not merely to survive, but to thrive in delivering the best value to our stakeholders.



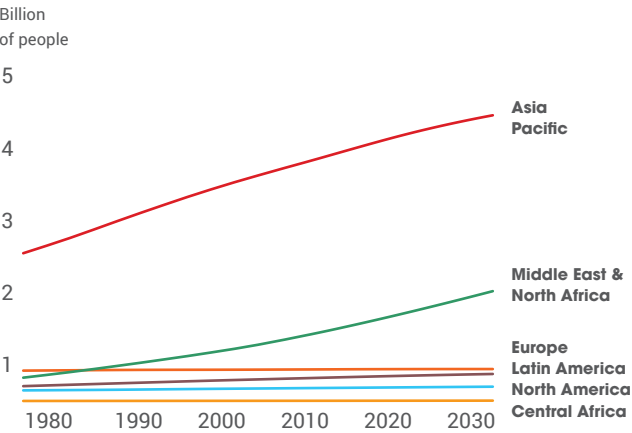
WE HAVE ALIGNED OUR MID TO LONG-TERM STRATEGIES TO CAPITALISE ON MALAYSIA'S STRATEGIC LOCATION IN ASIA PACIFIC, WHICH PROVIDES US AN ADDED EDGE TO LEVERAGE ON GLOBAL MEGATRENDS.



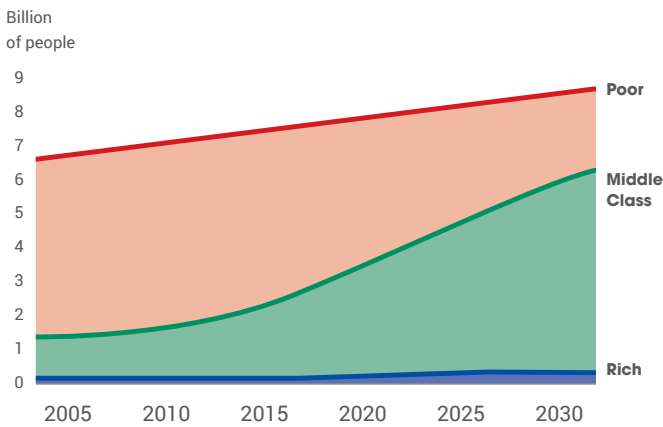
MALAYSIA IS STRATEGICALLY LOCATED IN ASIA PACIFIC

- Centrally located within the region with:
- more than 4 billion population
 - growing middle class

POPULATION GROWTH IN ASIA PACIFIC EXCEEDS OTHER REGIONS

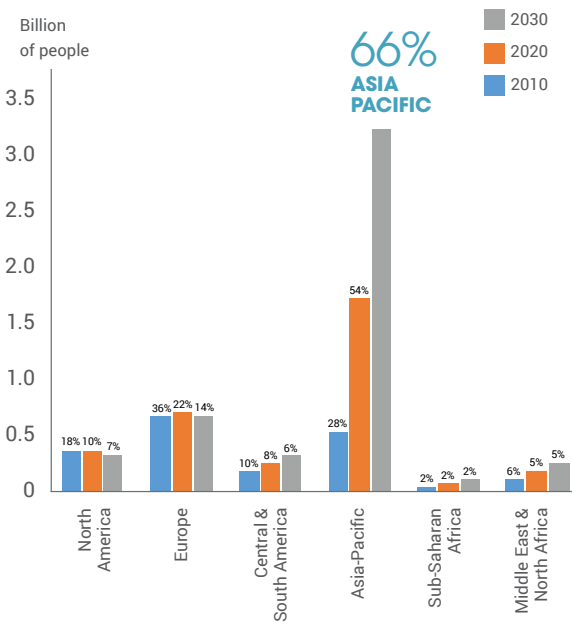


FORECASTING A SURGE IN THE GLOBAL MIDDLE CLASS



Global rise in the middle class predominantly from Asia Pacific

Middle class: size and distribution (millions of people, global share)



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Focusing on addressing global
KEY MEGATRENDS and CHALLENGES

The world will face challenges....

Increase in population
from
6.9 BILLION
people (2010) to
8.5 BILLION
people (2030)

More middle class population...
from
1.8 BILLION
people (2010) to
4.9 BILLION
people (2030)

Leading to higher demand for...



...amidst less arable land and less resources

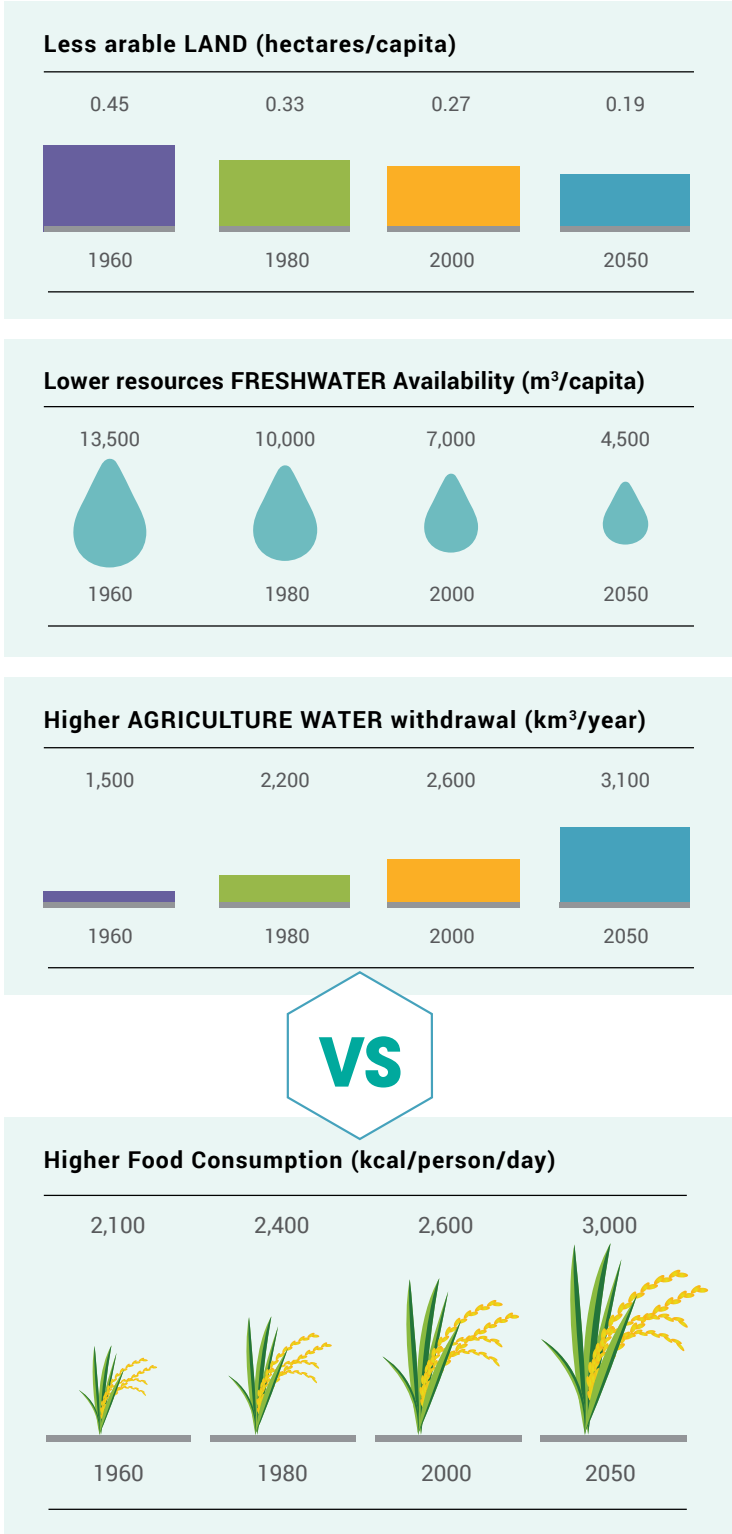
Increasing global population and affluent consumers
drive the demand for various manufactured goods

	2010	2015	2020	2030
Global Population (Bil)	6.9	7.4	7.8	8.5
Middle Class Population (Bil)	1.8	2.5	3.2	4.9
Polyester Production (Mil MT)	53	66	82	117
Plastic Packaging Sales (USD Bil)	211	283	375	574
Motor Vehicle Sales (Mil Unit)	1,000	1,400	1,600	2,000
Personal Care Consumption (USD Bil)	374	453	530	770

Sources: Organization for Economic Cooperation and Development

The World Bank, PCI Wood Mackenzie, PlasticsToday, Platts, Euromonitor, World Resources Institute and Food and Agriculture Organization of the United Nations (FAO).

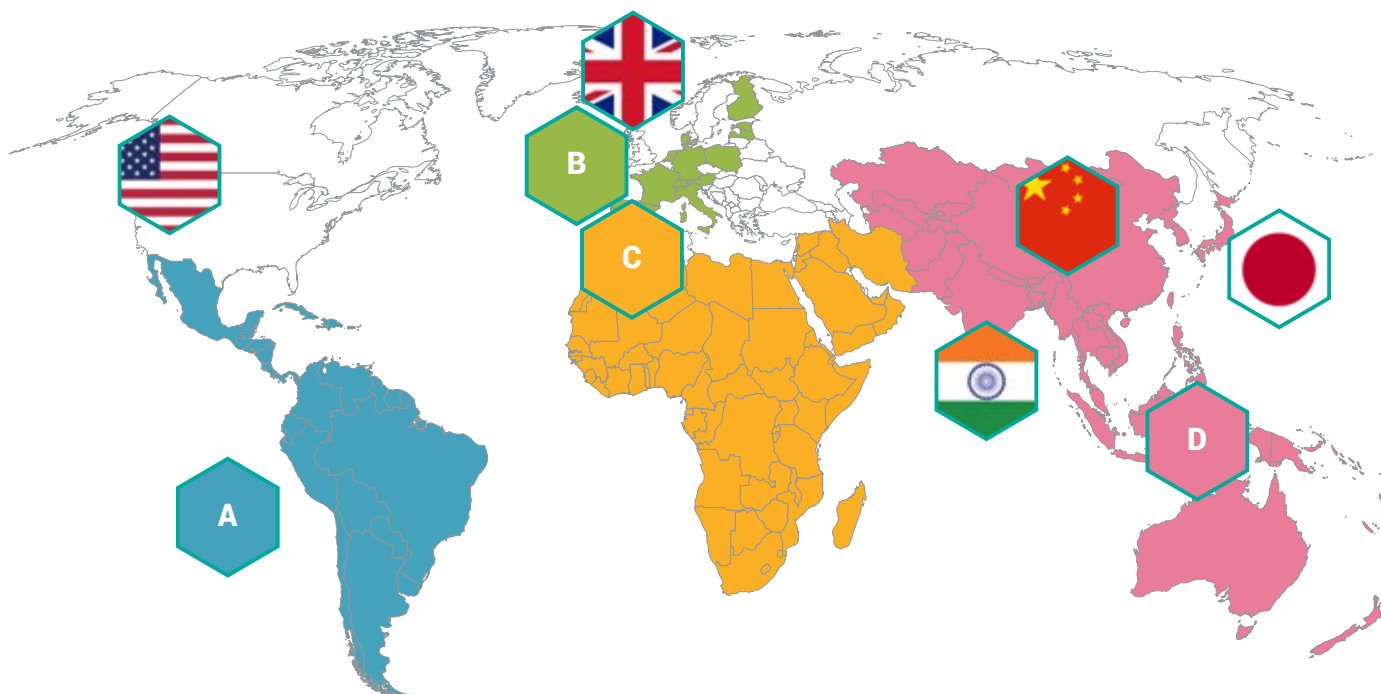
The growing population amidst
decreasing arable land and
resources necessitates effective
food production



Economic indicators point to another challenging year in 2017 particularly in Asia Pacific.

54

Section
three



% change YoY (2017 vs. 2016)

Down

No Change

Up



United States

Real GDP	Industrial Production	Chemical Production
2.3	1.5	3.3



Eurozone

Real GDP	Industrial Production	Chemical Production
1.5	1.5	1.2



Asia Pacific

Real GDP	Industrial Production	Chemical Production
4.7	4.3	4.8



Latin America & Caribbean

Real GDP	Industrial Production	Chemical Production
1.2	0.3	2.6



United Kingdom

Real GDP	Industrial Production	Chemical Production
1.4	1.3	0.0



China

Real GDP	Industrial Production	Chemical Production
6.5	5.8	6.3



Middle East & Africa

Real GDP	Industrial Production	Chemical Production
2.7	1.3	4.4



Japan

Real GDP	Industrial Production	Chemical Production
1.1	2.7	-0.9

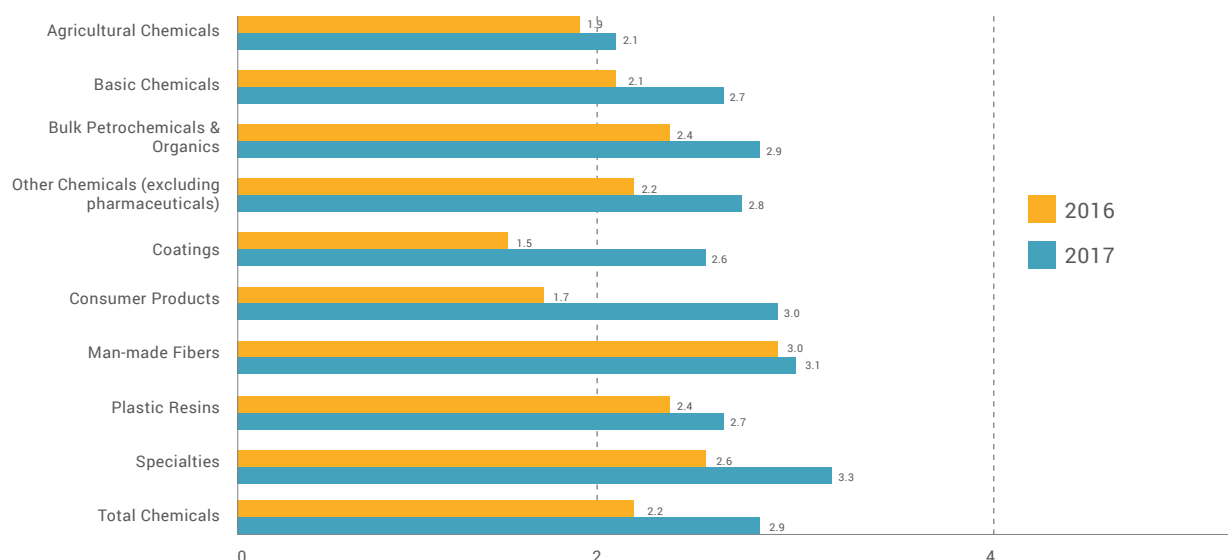


India

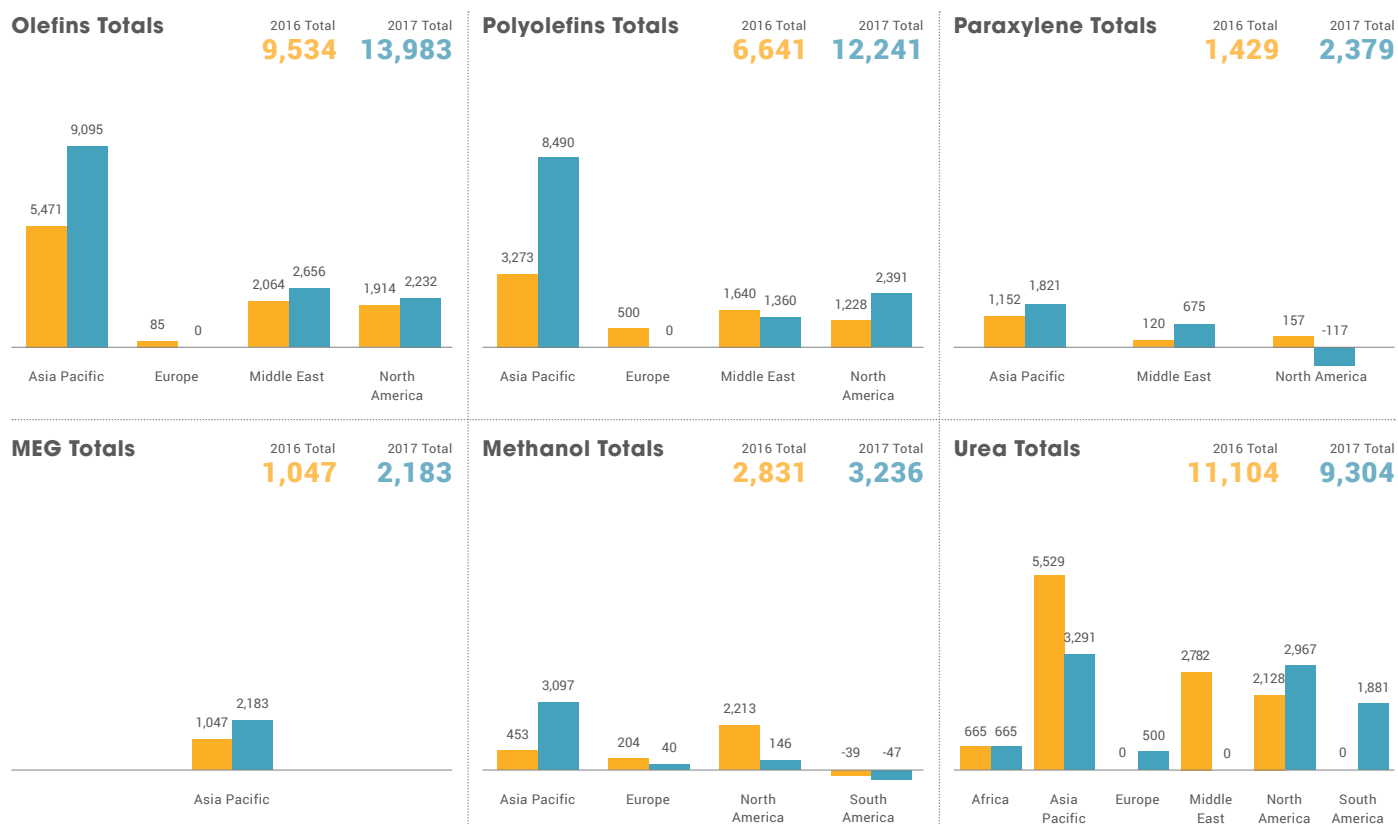
Real GDP	Industrial Production	Chemical Production
7.3	2.6	6.4

Petrochemical market will continue to be challenging despite improving demand as capacity additions continue to be strong.

Global Chemical Production Outlook by Segment (% change YoY)



Net Capacity Expansion by Region (in thousands of metric tonnes)





ABDUL AZIZ OTHMAN
HEAD OF STRATEGIC
PLANNING & VENTURES

PETROCHEMICAL LANDSCAPE

The petrochemical industry is a growing industry driven by increased demand for plastics, textiles, automotive, healthcare, food and agriculture in tandem with population growth and increasing affluence of developing nations. According to the World Bank, world population is expected to reach 8.5 billion by 2030, and increase further to 9.7 billion by 2050. In line with this growth, the global middle class will expand from 1.8 billion in 2010 to 3.2 billion by 2020 and 4.9 billion by 2030. Most of this growth will come from Asia, with the region representing 66% of the global middle-class population by 2030. In China alone, the number of upper middle-class and affluent households is forecast to double to 100 million by 2020. The result is increasing consumption of food per capita. The growing consumption of food amidst decreasing arable land and resources necessitates effective food production. Furthermore, the rise of middle class income population leads to higher end-customer preference towards high quality and luxury products.

Safer and durable packaging due to the increasing health consciousness

More vehicles ownership due to affordability and higher mobility requirements

Changes in lifestyle and health trends towards higher consumption of personal care

ACCORDING TO THE WORLD BANK, WORLD POPULATION IS EXPECTED TO REACH

**8.5
BILLION**
BY 2030 AND
INCREASE FURTHER TO
9.7 BILLION BY 2050



GLOBAL MIDDLE CLASS WILL EXPAND FROM
1.8 BILLION IN 2009 TO
3.2 BILLION BY 2020 AND

**4.9
BILLION**
BY 2030



OUR UNIQUE 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.

METHANOL, ETHANOLAMINES AND ETHOXYLATES

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

MTBE

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

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.

POLYMER

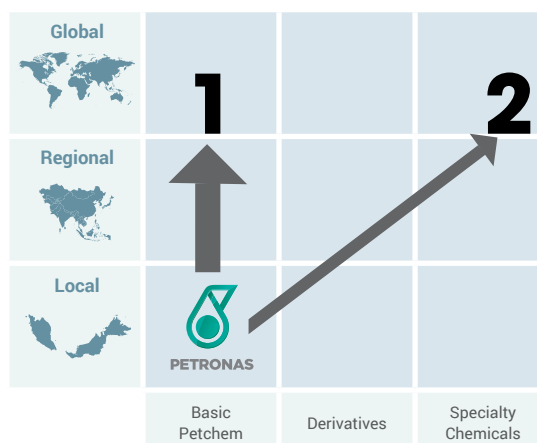
Our polymers can be customised to meet the robust growth of automotive industry and the growing higher mobility requirement for light and smart packaging.

OUR TWO-PRONGED STRATEGY

Our two-pronged strategy is about further solidifying the intent to meet these needs. The growth projects under implementation today will further cement our regional market leadership position. Our strategy allows us to leverage on the economies of scale from the increased volume of basic petrochemicals and enables us to derive greater margins from value-added products, which will also serve as a buffer against market cyclical and volatility.

CORPORATE VISION

The Preferred Chemical Company Providing Innovative Customer Solutions



- 1** Strengthen basic petrochemicals
- 2** Selectively diversifying into derivatives, specialty chemicals and solutions

By 2019, upon completion of our sanctioned projects, PCG will add about 47% of additional capacity bringing PCG capacity to over 15 million mtpa. The completion of the projects will also further strengthen PCG's position as follows:

Petrochemical projects in PIC will propel PCG to become the **largest** producer for mono ethylene glycols (MEG) & polypropylene (PP) and **2nd largest** producer for HDPE in Southeast Asia.

SAMUR will position PCG as the **2nd largest** urea producer in SEA.

Collaboration with BASF will diversify PCG's portfolio into niche **specialty chemicals**.

LOOKING AHEAD

We continue to explore other significant growth opportunities in the production of ethylene, propylene and butadiene derivatives, and specialty chemicals at PIC, whilst taking into consideration the availability of excess ethylene, propylene and butadiene molecules. In addition, we are constantly assessing further downstream opportunities for our polymers and glycols that not only would enhance PCG's product offerings but also complement our existing product slates.

These efforts are in line with PCG's aspirations to pursue dynamic growth projects to keep ourselves at par with our peers. With our strong cash generation, we will be able to pursue growth opportunities in line with our two-pronged strategy.

Integrated business model.

Provide synergy with our existing products with large scale for commodity and niche for specialty chemicals. The potential product slate will be selected to meet the trend as mentioned in the megatrends.

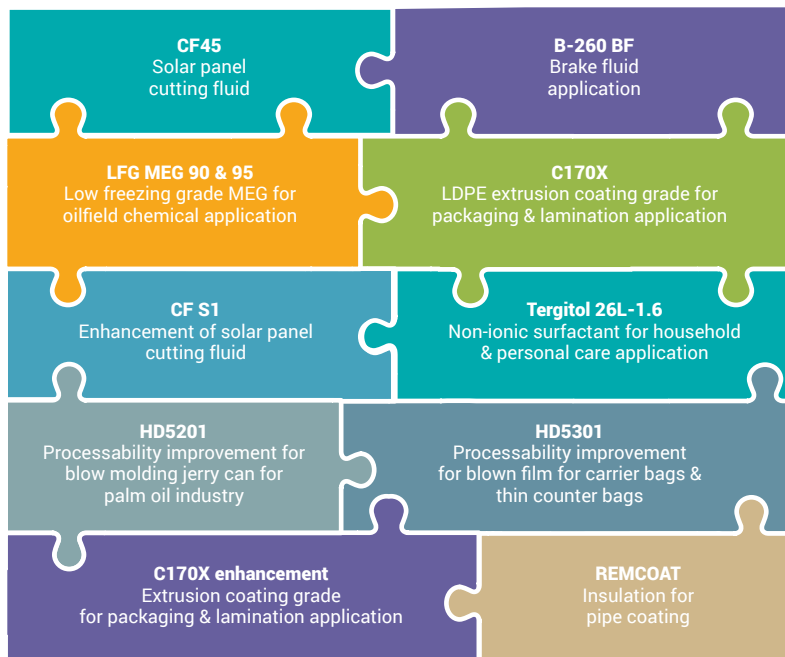
Fundamental to our two-pronged strategy is the continued efforts to strengthen our Operational Excellence, Commercial Excellence and Innovation Excellence.

Operational Excellence has reached world-class levels in 2016. Moving forward, we look to sustain the utilisation of assets at 90% and above, underpinned by sustainable best practice of HSE Excellence. The continuous strengthening and internalising of HSE values amongst all our employees and contractors are prerequisite in building a strong HSE culture.

Our **Commercial Excellence** has enabled us to gain additional value by embarking on several initiatives such as optimizing product mix, logistics & inventory and focusing on higher value markets. We have successfully operationalised our overseas subsidiaries in Thailand and China and have recently incorporated a subsidiary in Indonesia.

This is part of our strategy to be closer to our markets and gain insights in order to enhance our market position. Moving forward, the key focus will be to execute activities, such as route-to-market for chosen products from PIC. This will ensure that we strengthen our market leadership position.

Since 2013, we have constantly pursue collaborative efforts with our customers in view of meeting their needs. To date, we have successfully developed ten (10) **Innovative Customer Solutions**;



Echoing this success, we are continuously identifying and developing our customers' needs and requirements, especially in food and agriculture, automotive and personal care.

Innovation Excellence will be key to strengthening our capabilities in view of offering tailor-made applications and solutions to meet our customers' needs. As we expand our innovation capabilities, we will be able to develop more specialised solutions, thus truly setting PCG apart in the industry.

We determine our risks based on the considerations of the complexities, hazards and integrated nature of our manufacturing processes as well as the exposures to the cyclical nature of the petrochemical industry with its volatile market and competitive environment.

The identified risks are closely monitored and managed to ensure any adverse impacts to PCG bottom line and growth strategies are minimised.

	RISKS	HOW DOES IT AFFECT US?	HOW ARE WE MANAGING IT?
1	Disruptions to plant operations.	<p>This risk is inherent to PCG due to the complexity and integrated nature of PCG manufacturing process. While being integrated in operation provides advantage and synergy, PCG is exposed to interruptions of its operations if one or more plants in the integrated chain failed to operate reliably.</p> <p>Interruptions to plant operations can be caused by several key factors such as inherent hardware/software design deficiencies, equipment failure, as well as disruption in feedstock and utilities supply.</p>	<p>Further enhance operational excellence through:</p> <ul style="list-style-type: none"> • Structured technical competencies programmes. • Asset Life Management program to maximise asset availability at minimum cost. • Turnaround Management, where the plant is shut down for inspection and overhaul for a planned time frame. • Regular plant maintenance and inspection programmes. • Relevant assurance and audit programmes. • Close collaboration with our feedstock and utilities suppliers to ensure reliable supplies to our plants. <p>Business Recovery Plan (BRP) and Business Continuity Plan (BCP) are also in place to restore the plant to normal operations and business continuity respectively, should a prolonged interruption occur.</p>
2	Major HSE incidents impacting people, environment and assets.	<p>Our operations entail the use of complex manufacturing processes and handling of hazardous chemicals. Thus, major HSE incident is an inherent risk for PCG plants and facilities.</p>	<p>Continuous efforts to strengthen HSE in PCG are performed through:</p> <ul style="list-style-type: none"> • Focused execution of Process Safety Management (PSM). • Strengthened HSE governance. • Enhanced HSE communication to all PCG staff and contractors, with tracked action plans. • Product stewardship.

3

RISKS

Cyclical nature of petrochemical industry and volatility of product prices.

HOW DOES IT AFFECT US?

Cyclical nature of petrochemical industry is an inherent risk for PCG, influenced by market demand and supply as well as the state of the global economy.

The declining of crude oil price softens the prices and demand of several PCG products.

PCG operates in a highly competitive market, against competitors with larger scale of operations, greater financial reserves and more operating flexibility. Most of our products are commodity based and face price competition.

HOW ARE WE MANAGING IT?

- Ensure operational excellence for cost competitiveness.
- Ensure prudent fiscal management.
- Continuously strengthen our network, nurture relationships and understand customers' needs.

4

Inability to realise growth projects, hindering PCG from achieving its vision and aspirations.

With several capital projects committed, PCG needs to ensure its projects are completed at the right scope and within schedule and budget, to capture maximum value.

Some 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.

- Implemented several initiatives to strengthen project and contractor management.
- Ensure compliance to the prescribed project management framework and guidelines.
- Project monitoring at various levels, up to Board level.
- Leverage on PETRONAS' expertise in project management and delivery.

2016 PROVED TO BE AN EVENTFUL YEAR, WITH LANDMARK DECISIONS AFFECTING THE GLOBAL ECONOMY AND, SUBSEQUENTLY, THE CAPITAL MARKET. UNCERTAINTIES SURROUNDING THE PRICE OF CRUDE OIL, ALWAYS A SIGNIFICANT ECONOMIC INDICATOR, CONTINUED TO AFFECT MAJOR MARKETS. THE BENCHMARK PRICE OF BRENT HIT ITS LOWEST AT USD26 PER BARREL IN JANUARY ON NEWS OF HIGH US STOCKPILE INVENTORY, FOLLOWING WHICH IT CLIMBED SLOWLY BASED ON PRODUCTION OUTAGES AND TALK OF REGULATING PRODUCTION TO MANAGE THE OVERSUPPLY. WITH THE COMMITMENT BY EXPORTING COUNTRIES TO CUT PRODUCTION ANNOUNCED IN NOVEMBER, BRENT CRUDE SURGED TO CLOSE AT USD57 PER BARREL BY END 2016, AVERAGING USD45 PER BARREL FOR THE YEAR.

Developments within the US, UK and China affected emerging markets sentiment. Reservations following President-elect Donald Trump's win in early November and fears over an expected US rate hike as well as changes in trade policy renewed pressure on regional currencies. Overall, the Malaysian Ringgit continued to depreciate, although it was buoyed to an extent by the increase in crude oil price following the Organisation of the Petroleum Exporting Countries (OPEC)'s agreement. It closed the year at RM4.89 against the US Dollar, down 4.5% from its opening of RM4.29.

The FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) was very much impacted by the movement of both crude oil prices and the Malaysian Ringgit against the US Dollar. Opening at 1,693 points, the index plunged to its lowest at 1,601 points in January pulled down by oil and gas stocks. The index then reached its highest at 1,728 points in mid-April, spurred by signs of China's economic recovery, a stabilising Ringgit and crude oil prices before easing slightly at the end of the month. The following months saw the index lose ground, along with regional peers, upon an MSCI rebalancing exercise that saw reduced weightage on ASEAN markets in May, and UK's surprise vote to leave the European Union in June. The index saw some support towards the end of the year, along with the OPEC agreement and improved sentiments over the Chinese economy. At the tail end of the year, the FBM KLCI declined 3% from its initial opening, to close at 1,642 points on 31 December.

PCG's share price was on a downtrend in the early part of the year, affected by the crude oil price and a bearish market. Our share price fell to its lowest of RM6.22 mid-year in tandem with the FBM KLCI, then began to move up following the announcement of our second quarter results, supported by our strong operational and financial performance. The improvement in crude oil prices lent further support to the upward momentum as the stock outperformed the FBM KLCI to close at RM6.98 at year end, just 4% below its opening of RM7.27.

Our Average Daily Traded Volume (ADTV) for 2016 was 6.22 million units, higher than the 4.63 million recorded in 2015.

2017 started on a positive note, with most major economies registering expansion and growth. The Brent crude price has climbed and remained above USD50 per barrel, supported by the OPEC agreement. The local bourse has seen some active trade alongside regional bourses, though a cautious sentiment prevails with continued focus and concerns on the US rate increase and the outcomes of new policies and changes being implemented by the new administration. Nonetheless, our share price has remained strong, closing at RM7.50 on 17 February 2017 and remaining among the top 10 counters of the FBM KLCI with a market capitalisation of RM60 billion.

INVESTOR RELATIONS



PCG recognises the importance of having an effective communication channel between the Company, our shareholders and the general public. As such, we have structured our Investor Relations programme in line with our Investor Relations policy, that serves to promote the sharing of accurate information in a transparent and timely manner, in accordance with Bursa Malaysia's requirements and guidelines.

We are committed to providing relevant information to our shareholders and stakeholders, while being 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 address investor interests and concerns in a timely and appropriate manner.

In 2016, PCG held about 100 engagement sessions with key shareholders, analysts and fund managers, through face-to-face meetings, conference calls, analyst briefings, investor events, plant visits, participation in roadshows and corporate conferences.

QUARTERLY ANALYST BRIEFINGS

The timely release of financial results on a quarterly basis provides the capital markets with up-to-date information and analysis of PCG's performance and operations. In conjunction with the release of our quarterly financial announcements to Bursa Malaysia, we host analyst briefings for both local and foreign participants via webcast and conference calls. This facilitates timely management discussion and analysis of the quarterly results, as well as questions and answers for the briefing participants.

Presentation materials for the briefings are made available on our corporate website on the same day, while the transcripts are verified by a third party before being uploaded.

INVESTOR ENGAGEMENTS AND CORPORATE EVENTS

As one of the largest public listed companies in Malaysia, PCG fully supports events and initiatives organised by Bursa Malaysia in its efforts to showcase Malaysia as an attractive marketplace. As such, Invest Malaysia conferences have always been among key events on our calendars. In 2016, we participated in Invest Malaysia Kuala Lumpur, with a series of one-on-one and group meetings hosted by our MD/CEO and CFO.

PLANT VISITS

We recognise the need for analysts and investors to appreciate the nature of our business, hence organise regular visits to our plants. This year, we hosted our retail shareholders at PC LDPE, situated in the KIPC, where presentations on our business, plant management and safety processes were conducted. The visit was well received and enabled our shareholders to gain first-hand experience of a plant environment. It also heightened their awareness of our commitment to Environmental, Social and Governance practices.



CAPITAL MARKET FEEDBACK

PCG is well covered with regular reports from around 20 research houses. Our website continues to serve as an important link with our investors. Interested stakeholders can access our quarterly and annual reports, Bursa Malaysia announcements, corporate presentations, analyst briefing transcripts and other relevant corporate news and information on the website. We strive continuously to improve 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.

Investor Relations can be contacted at:

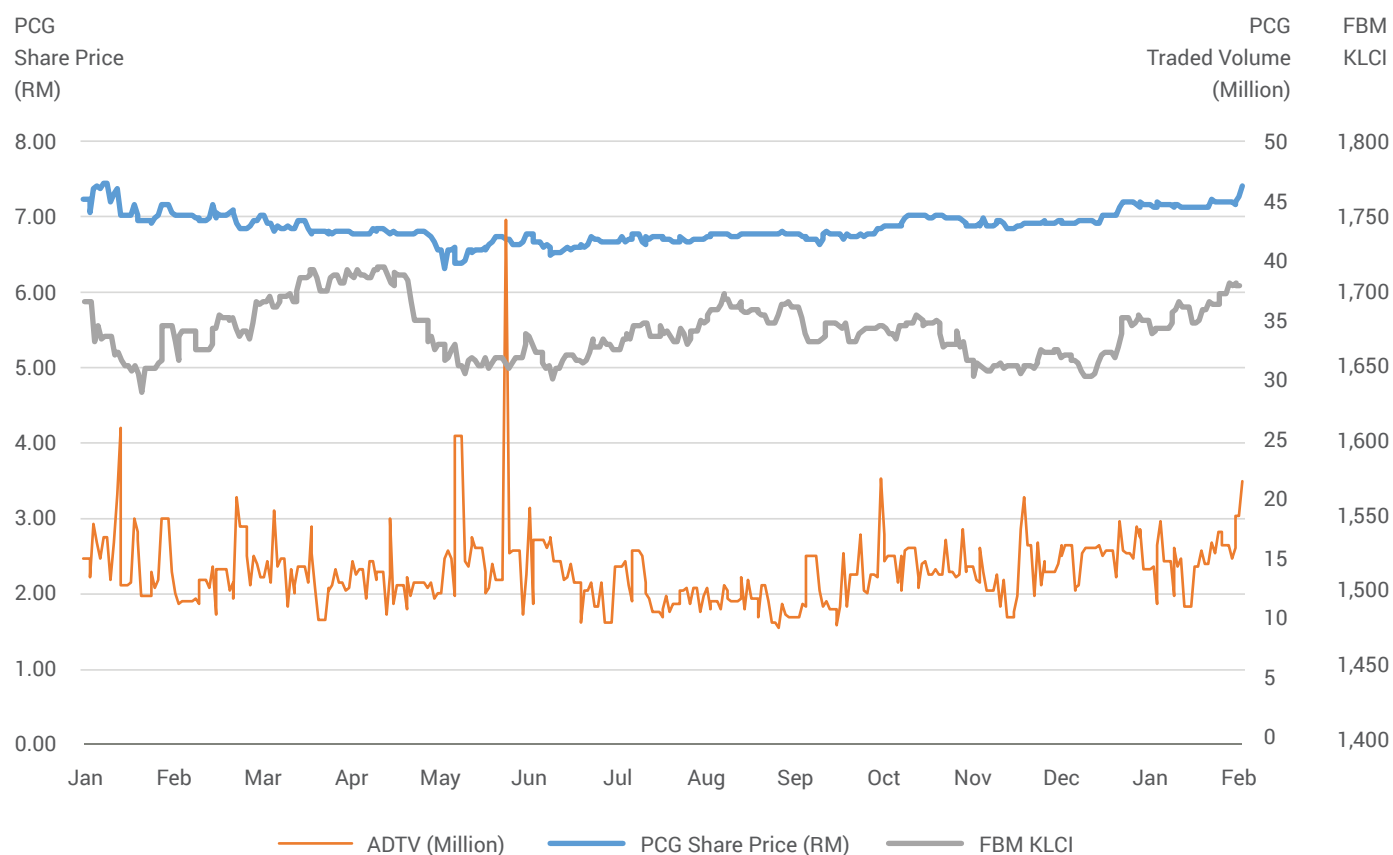
- Email: petronaschemicals_ir@petronas.com.my
- Website: www.petronaschemicals.com

Investor Relations and Share Performance (Cont'd)

PETRONAS
CHEMICALS
GROUP
BERHAD

62

Section
three



Closing Price	RM	Date
High	7.55	8 January 2016
Low	6.11	9 May 2016

Average Daily Traded Volume (ADTV)

6,224,044

2016

23 FEBRUARY

- Announcement of unaudited quarterly report of consolidated results for the 4th Quarter Ended 31 December 2015

9 MARCH

- Date of entitlement of the 2nd interim dividend for Financial Year Ended 31 December 2015

23 MARCH

- Date of payment of the 2nd interim dividend for Financial Year Ended 31 December 2015

30 MARCH

- Date of Notice of Annual General Meeting and date of issuance of Annual Report 2015

28 APRIL

- Date of 18th Annual General Meeting

9 MAY

- Announcement of unaudited quarterly report of consolidated results for the 1st Quarter Ended 31 March 2016

9 AUGUST

- Announcement of unaudited quarterly report of consolidated results for the 2nd Quarter Ended 30 June 2016

24 AUGUST

- Date of entitlement of the 1st interim dividend for Financial Year Ended 31 December 2016

7 SEPTEMBER

- Date of payment of the 1st interim dividend for Financial Year Ended 31 December 2016

2 NOVEMBER

- Announcement of unaudited quarterly report of consolidated results for the 3rd Quarter Ended 30 September 2016

2017

20 FEBRUARY

- Announcement of unaudited quarterly report of consolidated results for the 4th Quarter Ended 31 December 2016

7 MARCH

- Date of entitlement of the 2nd interim dividend for Financial Year Ended 31 December 2016

21 MARCH

- Date of payment of the 2nd interim dividend for Financial Year Ended 31 December 2016

28 MARCH

- Date of Notice of Annual General Meeting and date of issuance of Annual Report 2016

26 APRIL

- Date of 19th Annual General Meeting

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.



ASEAN BINTULU FERTILIZER SDN BHD

- **Gold Merit** – Excellence in OSH Performance (MSOSH)
- **Silver Award** in Pollution Prevention Code (CICM Responsible Care Award)
- **Merit Award** in 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)

PETRONAS CHEMICALS ETHYLENE SDN BHD

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

PETRONAS CHEMICALS GLYCOLS SDN BHD

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

PETRONAS CHEMICALS AMMONIA SDN BHD

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

PETRONAS CHEMICALS LDPE SDN BHD

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

PETRONAS CHEMICALS MTBE SDN BHD

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

PETRONAS CHEMICALS METHANOL SDN BHD

- **Laboratory Excellence Award** (Institut Kimia Malaysia)

PETRONAS CHEMICALS FERTILISER KEDAH SDN BHD

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



Petronas Chemicals Group Bhd's plant utilisation rate rose to 96 per cent last year, surpassing world-class benchmarks, even as the market bucked under uncertainties brought on by volatile crude prices.

PCG POSTS STRONGEST PROFIT SINCE LISTING

Company records net income of RM3.47b, riding on back of higher plant utilisation rates

KUALA LUMPUR

PETRONAS Chemicals Group Bhd's (PCG) after-tax profit edged up to RM3.22 billion last year from RM2.04 billion in 2015, as higher plant utilisation rates delivered the group's strongest performance since its 2005 listing.

Excluding a one-time write-off of RM2.4 million, profit after tax for the year would have been RM3.47 billion, 52 per cent higher than the previous year.

Average product prices fell 17 per cent last year compared with 2015. Despite the drop, however, PCG's revenue climbed 2.4 per cent year-on-year to RM3.69 billion, driven by higher sales volume and supported by the impact of favourable foreign exchange, it said in a statement.

Fourth-quarter revenue rose 13.7 per cent to RM1.03 billion against the prevailing quarter with improved market conditions and favourable foreign exchange impact.

Quarterly after-tax profit was higher at RM1.03 billion compared with RM1.01 billion in the preceding quarter. Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose to RM1.29 billion from RM1.04 billion in the previous year, surpassing the RM1.5 billion mark, as PCG benefited from higher sales volume, lower unit costs and margin mix improvement initiatives, which eased the impact of oil price volatility.

As a result, PCG recorded its highest annual margin since listing of 36 per cent.

For the year ended December 31, 2016, the board of directors declared a second interim dividend of 11 sen per ordinary share amounting to RM0.997 million, payable next month.

This is in addition to the first interim dividend of seven sen per ordinary share amounting to RM0.7 million, which was paid to investors on September last year.

"It has been a challenging year, with sustained uncertainties surrounding crude oil prices. These uncertainties, coupled with volume oversupply and soft demand, kept petrochemical product prices low, thus suppressing margins," said PCG managing director and chief executive officer Datuk Saizal Hamzah in a statement.

The group's plant utilisation rate rose to 96 per cent last year, surpassing world-class benchmarks in an environment that remained challenging amid the low prices and subdued demand.

The improvement in plant utilisation was the result of continuous focus on improving plant efficiency and reducing costs to secure higher feedback supply.

"The resultant increase in sales volume helped PCG ride the impact of low petrochemical product spreads, it said.

"Moving forward, we will continue to further strengthen PCG's Health, Safety and Environment (HSE) culture and sustain world-class plant performance."



Datuk Saizal Hamzah

"Through our commercial excellence initiatives, we will increase efforts to enhance customer experience, create greater value, while continuing to grow strategic markets in the Asia Pacific region," said Saizal.

Pembangunan Loji Aroma, Samur ikut jadual

KUALA LUMPUR 28 April - Petronas Chemicals Group Bhd. (PetChem) memberi jaminan bahawa pembangunan Loji Aroma dan Ammonia Urea Sabah (Samur) tidak akan mengalami kelewatan.

Pengerusinya, Md. Arif Mahmood berkata, sehingga sekarang, pembangunan loji itu mengikut jadual. "Kami menjangkakan Samur akan mula beroperasi menjelang separuh kedua tahun ini dan mula menyumbang kepada keuntungan PetChem pada suku akhir.

"Aroma dijangka beroperasi menjelang akhir 2016. Mudah-mudahan,"



Mengenai loji Aroma di Gebeng, Pahang, beliau berkata, ia hanya akan mula menyumbang kepada keuntungan syarikat pada tahun depan.

Sementara itu, Arif berkata, kumpulan telah memperuntukkan sebanyak AS\$1 bilion (RM3.91 bilion) sebagai perbelanjaan modal (capex) tahun ini yang turut digunakan bagi Projek Pembangunan Bersepadu Penapisan Minyak dan Petrokimia (RAPID) di Pengarang, Johor.

Bajet AS\$1 bilion itu merupakan sebahagian daripada peruntukan capex Petchem berjumlah AS\$4

"selapas menyuarat agung tahunan PetChem di sini hari ini.

Arif menjangkakan Loji Samur akan memulakan operasi pada tahap 50 peratus daripada pengeluaran satu tahunan sebanyak 300,000 setan metrik sebulan menuju kepada kapasiti 70-75 peratus daripada keupayaan penuh sebanyak 1.2 juta tan menjelang tahun depan.

Sipitang's road to industrial success

Border town known for good satay soon to be country's largest urea and ammonia producer

story by RUBEN SANGU

seniorthean.com.my

So much is happening. What we need now is a more organised planning for Sipitang's future developments.

Datuk Saizal Hamzah

SIPITANG: familiar with lighting, the attention of the investors, the town will probably rise a special image. The town, the town located in the district of the same name, is associated with the area of ready-made offering what is known to be among the best satay in Sabah.

Others will think of Sipitang as a border town just north of Lahad Datu and Brunei. Sipitang is also known as the gateway to the petro area around remote satellite settlement of Long Peta including the Karamas beach front and the so-called 'Maga' waterfront. And for others, Sipitang is associated with Sabah's first pulp and paper mill that was set up in 1970.



petro facilities at Sabah Ammonia Urea (Samur) in Sipitang. - Photos: NORRIS DUNN/The Star



Petronas Methanol Labuan pemangkin ekonomi Labuan

LABUAN: Petronas Chemicals Methanol Sdn Bhd (PC Methanol) yang beroperasi di Labuan, telah berjaya memperkukuhkan pembangunan ekonomi pulau ini khususnya dalam sektor perindustrian, petrokimia, minyak dan gas, seterusnya menyumbang kepada peningkatan taraf hidup masyarakat setempat.

Pengerus urusan pemasaran Kerjasama Industri Kawasan Kompartemen Petronas Chemical (PCG) Datuk Saizal Hamzah berkata PC Methanol di Labuan telah hampir 60 peratus warga tempatan Labuan dan juga Sabah.

"Pada masa yang sama, kerajaan FELDA juga disokong oleh agensi-agensi kerajaan

nas Chemicals Group Berhad berada pada landasan yang kukuh ke arah menjadikan Labuan hub metanol terbesar di rantau ini bagi memenuhi permintaan metanol dunia yang semakin meningkat. "Dengan kapasiti pengeluaran sebanyak 2.4 juta tan metrik setahun, PC Methanol merupakan pengeluar metanol terbesar di rantau Asia Tenggara dan yang keempat terbesar di dunia.

"PC Methanol juga menyumbang secara langsung kepada ekonomi negara melalui peningkatan eksport, bertindak sebagai pemangkin kepada industri petrokimia negara, menggalakkan penyertaan syarikat tempatan yang menyediakan perkhidmatan

petro perkhidmatan yang ditawarkan oleh sektor tersebut," tambahnya.

Sementara itu, Saizal berkata syarikat turut melaksanakan pelbagai program tanggungjawab sosial korporat (CSR) merangkumi tiga fokus utama: sumbangan kepada komuniti setempat; pembangunan modal insan dan pemuliharaan alam sekitar.

Antaranya, PC Methanol bersama pendidik dengan kerjasama pihak berkuasa tempatan seperti Perbadanan Labuan, Jabatan Bomba dan Penyelamat dan Polis Diraja Malaysia (PDRM) membekalkan dan memelihara kawasan Kampung Rantau-Rantau Laut. Petronas juga telah meng-

turut bekerjasama dengan sekolah agam Datuk Petronas di Labuan termasuk Sekolah Rendah Kebangsaan Rantau-Rantau, Sekolah Rendah Kebangsaan Berbalok dan Sekolah Rendah Kebangsaan Pata-Pata bagi membentuk generasi masa hadapan yang cemerlang. "Selain itu, bagi meningkatkan konsep pemeraksaan insan melalui pendidikan, PC Methanol dengan kerjasama Yayasan Peneraja Pendidikan Bantupetara, Industri Latihan Perindustrian Labuan dan Jabatan Tenaga Kerja Labuan turut telah mengwujudkan Program Skill Iltizam untuk memberikan pendedahan kepada anak muda tempatan.

BASF Petronas Chemicals invests RM2bil more in Pahang

GEBENG: BASF Petronas Chemicals Sdn Bhd (BPC) has invested an additional RM2bil for the development of three new plants at its integrated petrochemical complex here.

This brings total investments at the site to RM5.4bil, said director for business management division, Miguel Pea.

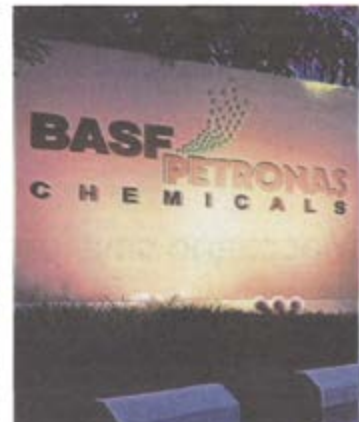
He said the three new plants, namely an integrated aroma ingredients complex, and a 2-ethylhexanoic acid and highly reactive polyisobutene plant, would gradually start operations from the fourth quarter of 2016.

"The market growth of the products from these plants is steady and continuous. The number of players is limited and we are in a good position.

"These additional plants are also needed to maintain the market supply," he told reporters on a media familiarisation trip here last Friday.

He said the investments would also translate into the creation of 140 high-value direct jobs and spin-off opportunities for over 1,000 local contractors.

Petronas Chemicals has a 40% stake in BPC.



Sapawi, Saizal and other guests with the annual back-to-school programme participants.

Petronas contributes to Sipitang schoolchildren

SIPITANG: Petronas through its petrochemical entity Petronas Chemicals Group Berhad (PCG) presented daily schooling needs through its annual back-to-school programme to 600 schoolchildren

chief executive officer Datuk Saizal Hamzah said: "This program is part of Petronas' continuous efforts to promote human capital development in the communities where we operate."

Petronas Chemicals not slowing down, charts future growth in RAPID project

By HANAFI AZHAR

Petronas Chemicals Group (PCG), which had a weak start to the year as first quarter profit slipped 2% from a year earlier, has no plans to slow down capital spending.

After posting losses in the first quarter, the group has set its sights on ramping up capacity and boosting supply reliability to cater to increasing demand in the market and boost of investment, respectively, especially from the Middle East.

Under the latest investment plan, PCG will spend an additional 1.2 billion ringgit per year on capital expenditure, with a total of 12 billion ringgit over the next five years.

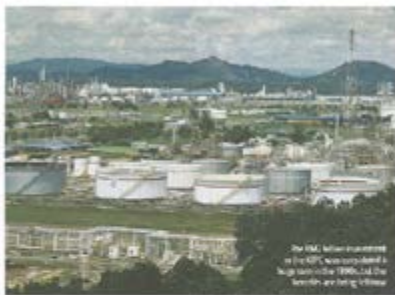
PCG is also planning to build new petrochemical plants in the Middle East, with a total capacity of 1.2 million tonnes per year. The group has awarded four contracts worth a combined 1.2 billion ringgit to build the four petrochemical and gas processing plants in the Middle East, including the petrochemical plant in Ras Laffan, Qatar.

But, considering the adverse conditions in the oil and gas (O&G) market, it is a good idea to make such large investment now.

PCG is targeting to build and commission new petrochemical plants by 2015 to 2016, which will allow the group to meet the demand for petrochemical products in the region, but will also give the group a competitive edge in the market.

PCG is also planning to build new petrochemical plants in the Middle East, with a total capacity of 1.2 million tonnes per year.

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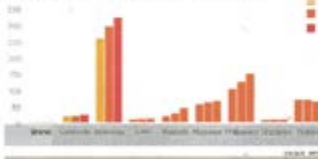


The (left) new investment plan, PCG will spend an additional 1.2 billion ringgit per year on capital expenditure, with a total of 12 billion ringgit over the next five years.



Saazli Hamzah, CEO of Petronas Chemicals Group, says the group will continue to invest in the RAPID project.

Total population of Southeast Asian countries (medium variant) (millions of people)



Petronas Chemicals Group



Petronas Chemicals Group Bhd's quarterly earnings

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2014
Revenue	2,800	2,900	3,000	3,100	2,700
Profit	1,200	1,300	1,400	1,500	1,100
EPS	0.12	0.13	0.14	0.15	0.11

Petronas Chemicals' quarterly plant utilisation

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2014
PCG	92	93	94	95	91
PCMA	95	96	97	98	94
PCGMA	98	99	100	100	99

Dijangka memulakan produksi pada suku keempat 2017

BASF, PCG lancar loji HR-PIB

Kuantan - Sektor kimia dan plastik di negara ini dijangka akan terus memulakan pertumbuhan, dengan petronas loji HR-PIB bakal memulakan produksi pada suku keempat 2017.

Petronas Chemicals Group Bhd (PCG) dan BASF telah mengumumkan bahawa mereka akan bekerjasama untuk membangunkan petronas loji HR-PIB di Kuantan.

Petronas loji HR-PIB akan menghasilkan produk petrokimia yang digunakan dalam industri plastik dan tekstil.

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HR-PIB plant inauguration ceremony.

Petronas Chem unit sets up new unit in Indonesia

KUALA LUMPUR: Petronas Chemicals Group Bhd's unit Petronas Chemicals Marketing Sdn Bhd has incorporated a new subsidiary in Indonesia. The company said the incorporation of PT PCM Kimia Indonesia was under the Limited Liability Act with an authorised capital of 11 billion rupiah (RM3.1 million) and the intended business activity is wholesale trading.

BFM 89.9 FOR GROWTH, PCHEM HAS TO ADDRESS THE OLEFIN IN THE ROOM

Datuk Saazli Hamzah, CEO, Petronas Chemicals Group (PCG) says the company has to address the olefin in the room to achieve growth.

PCG is targeting to build and commission new petrochemical plants by 2015 to 2016, which will allow the group to meet the demand for petrochemical products in the region, but will also give the group a competitive edge in the market.

PETRONAS, BH giat anjur program pendidikan

Bantu tingkat kecemerlangan pelajar dalam akademik

Oleh Mohd Nazli Zainul

Petronas Chemicals Group Berhad (PCG) dan Berhad (BH) telah mengumumkan bahawa mereka akan bekerjasama untuk membangunkan program pendidikan untuk meningkatkan kecemerlangan pelajar dalam akademik.

Program ini akan dijalankan di seluruh negara, dengan tujuan untuk meningkatkan prestasi akademik pelajar-pelajar yang berkecuali.

Petronas bags six IChemE Malaysia Awards

KUALA LUMPUR: Petronas National Berhad (Petronas) was the big winner at the Institution of Chemical Engineers (IChemE) Malaysia Awards 2016, bagging six out of the 10 awards under eight categories presented at a reception held at the Petronas Twin Towers on Monday.

The awards were presented to Petronas by the IChemE Malaysia Chapter, which is a member of the Institution of Chemical Engineers (IChemE), the leading international body providing services for, and representing the interests of those involved in chemical, biochemical and process engineering worldwide.

Petronas Chemicals Group Berhad (PCG) Vice President, Managing Director/Chief Executive Officer Datuk Saazli Hamzah, who is also a member of IChemE Malaysia's Board of Directors said, "PCG received four out of the six awards presented to PETRONAS. We are honored by this recognition for our long-standing commitment and efforts in upholding world-class standards in our processes, being part of the global awards programme is indeed an impetus for us to continuously strive for excellence for the benefit of the chemical engineering industry and chemical industry at large."

The accreditation by IChemE is an important milestone for Petronas in its effort to develop and improve the quality of Petronas' chemical engineers. "It serves as a recognition of Petronas' credibility and the vast experience of its chemical engineering fraternity to ensure that it develops engineers who are highly competent and capable of bringing value to the organisation, industry and society," Saazli added.

IChemE, the leading international body providing services for, and representing the interests of those involved in chemical, biochemical and process engineering worldwide, recognises individual and team achievements, innovation and excellence in the chemical and process industry, as part of a global awards programme launched over 50 years ago.

Also, IChemE awards licences and accreditations to suitably qualified members. Having worked closely with PETRONAS, IChemE has made the oil and gas multinational the first organisation in Malaysia to receive the Accredited Company Training Scheme (ACTS) status for its Accelerated Capability Development (ACD) training scheme to produce highly qualified and skilled chemical engineers.



ONE FOR THE ALBUM: IChemE 2016 winners.

国油化学派息 12 仙

【吉隆坡 20 日讯】国油化学集团有限公司 (PCHEM, 5183, 工业产品组) 宣布, 派发 12 仙的第二次中期股息。

股息派付日期在 2017 年 3 月 3 日, 而截止过户日期是 2017 年 3 月 7 日, 至于支付日期则在 2017 年 3 月 21 日。

மலேசியத் தமிழ் ஊடகங்களுடன் தீபத் திருநாளைக் கொண்டாடியது பெட்ரோனாஸ்!

கொழும்பு, 20.03.2016 - மலேசியத் தமிழ் ஊடகங்களுடன் தீபத் திருநாளைக் கொண்டாடியது பெட்ரோனாஸ்! பெட்ரோனாஸ் தமிழ் ஊடகங்களுடன் தீபத் திருநாளைக் கொண்டாடியது பெட்ரோனாஸ்! பெட்ரோனாஸ் தமிழ் ஊடகங்களுடன் தீபத் திருநாளைக் கொண்டாடியது பெட்ரோனாஸ்!



国油化学5年投资40亿 发展柔佛炼油石化中心

【吉隆坡 20 日讯】国油化学 (PCHEM, 5183, 工业产品组) 宣布, 未来 5 年内将投入近 40 亿令投资于柔佛的炼油及石化中心。

国油化学首席执行官沙扎里表示, 柔佛炼油石化中心的发展将为公司带来巨大的增长机会, 并将为公司带来巨大的增长机会。

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JAN

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15 PCG SIGNS AGREEMENT TO SUPPLY METHANOL TO CELANESE SINGAPORE



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THROUGH ecoCare



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DEC



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04

OUR RESPONSIBILITIES



* The cross-referencing icons refer readers to information elsewhere in this report

We understand that we have a much wider responsibility to our stakeholders than merely to make profits. Indeed, we believe that caring for our stakeholders – and the environment – in ways that are not directly related to our business makes good sustainable sense. How we do this is outlined in this section.

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SUSTAINABILITY TO US IS ABOUT CREATING VALUE FOR YOU, OUR STAKEHOLDERS. IT IS ABOUT UNDERSTANDING THE IMPACT WE HAVE ON THE PEOPLE WHOSE LIVES WE TOUCH AND ENSURING WE ACHIEVE OUR BUSINESS OBJECTIVES IN A MANNER THAT CREATES THE MOST POSITIVE OUTCOMES FOR EVERYONE. THIS INCLUDES LEAVING AS SMALL AS POSSIBLE AN ENVIRONMENTAL IMPRINT, AS OUR NATURAL SURROUNDINGS ARE CRITICAL TO THE WELL-BEING OF COMMUNITIES THAT LIVE AROUND US.

Sustainability has always been integral to our business philosophy. By grounding our financial success on ethical environmental and social considerations, we implicitly put in place structures that allow us to manage potential challenges and risks. Equally as important, our efforts to engage with stakeholders serve to build a strong network of relationships based on trust. Managing our consumption of natural resources further prolongs the sustainability of our business in the long term, while ensuring sufficient resources are conserved to meet the needs of future generations.

Steered by firm principles of corporate governance, and a genuine desire to secure a positive future for our local communities and societies, our sustainability efforts go beyond mere compliance with regulations.

It ensures we create the most conducive work environment that allows our employees to realise their true potential. And it allows us to empower local communities via the creation of employment opportunities as well as through the support of local businesses.

While we have always been driven by sound principles of sustainability, in 2016 we adopted a more structured approach to our efforts. This year's sustainability reporting fulfills Bursa Malaysia's recently released sustainability framework and goes further to focus on industry efforts in sustainability through referencing IPIECA's* 'Oil and Gas Industry Guidance on Voluntary Sustainability Reporting'. Essentially, these elevate the effectiveness of sustainability reporting, further enhancing our transparency and allowing us to present to our stakeholders a clear picture of what we are doing in matters that count.

THE BOUNDARIES OF OUR REPORTING

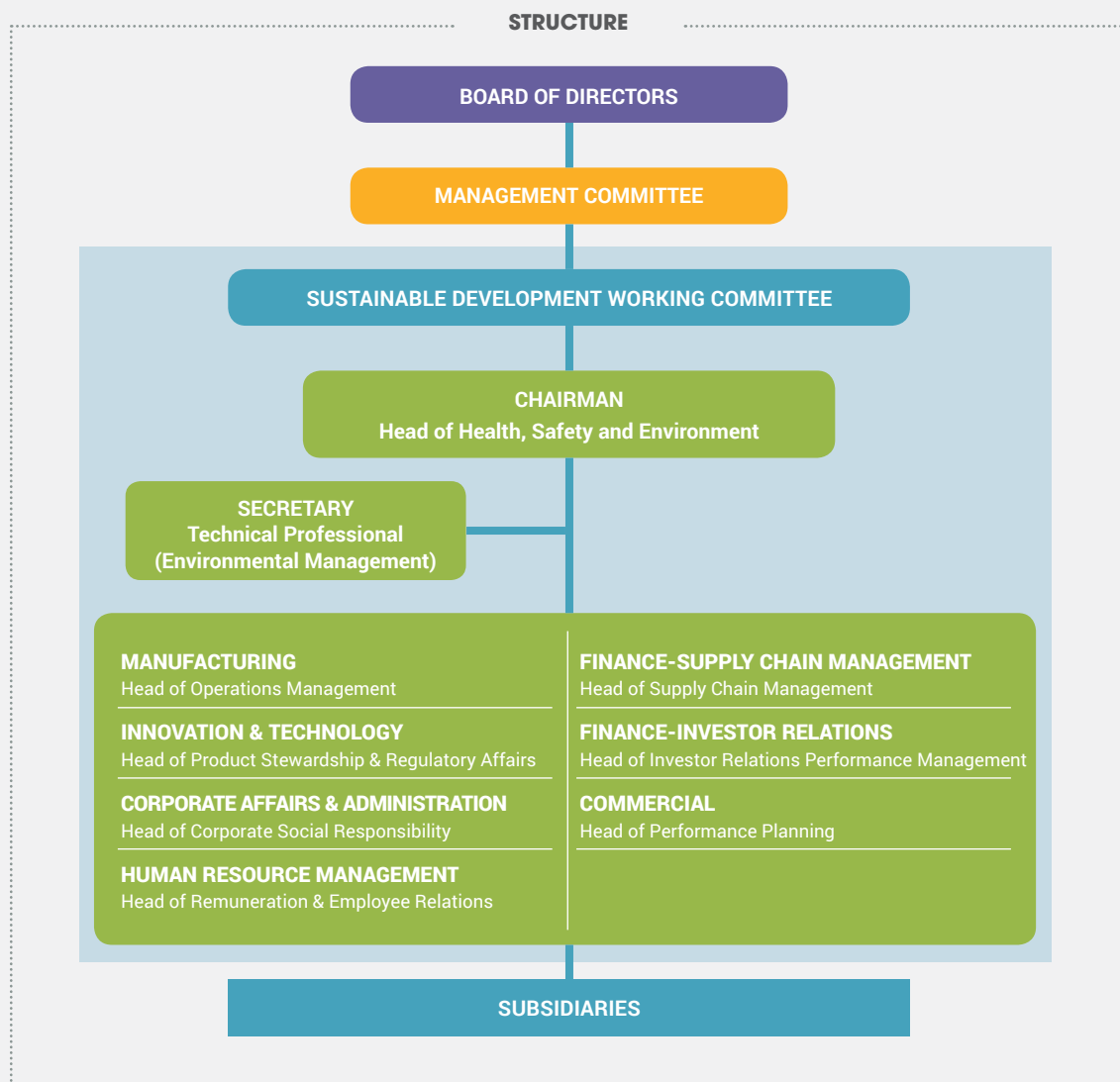
This Report comprises sustainability information from subsidiaries where PCG has operational control, namely companies in which we have more than 50% ownership. These subsidiaries practise our approach in managing sustainable development issues.

* IPIECA is the global oil and gas industry association for environmental and social issues

HOW SUSTAINABILITY IS GOVERNED

In early 2016, we set up a Sustainable Development Working Committee (SDWC) to guide us on our new sustainability reporting strategy. The committee is also responsible for overseeing various systems implemented to monitor and report on our sustainability performance, via representation in all the relevant departments within PCG. In addition, SDWC members work closely with their counterparts at each subsidiary to ensure stakeholders' value creation across the Group. All decisions by the SDWC are vetted and approved by our Management Committee (MC) and Board of Directors which, ultimately, takes responsibility for the sustainability of the organisation.

OUR GOVERNANCE STRUCTURE FOR SUSTAINABLE DEVELOPMENT



Our sustainable development is further supported by the following systems, policies and requirements:

OPERATIONAL EXCELLENCE MANAGEMENT SYSTEM



PCG has adopted a single common management system, known as the Operational Excellence Management System (OeXMS), to deliver sustainable results for all our operations. Leveraging on a Plan-Do-Check-Act cycle, OeXMS combines our People, Documents and Assurance Processes into an integrated management system.



Its implementation enables the continuous improvement of our operations by ensuring:

- Relevant procedures are developed
- Adequate resources are allocated
- Activities are implemented to achieve specified objectives
- Audits and inspections are carried out to ensure compliance to PCG requirements
- Management reviews are conducted on the system's effectiveness



In addition, OeXMS allows our manufacturing sites to attain internationally recognised management systems certifications such as the ISO 9001 (for Quality Management), ISO 14001 (for Environmental Management) and OHSAS 18001 (for Occupational Safety and Health Management). The list of manufacturing sites with such certification is shown on our website at: www.petronaschemicals.com.my/HSE/Pages/HSE-Certification.aspx

HEALTH, SAFETY & ENVIRONMENT POLICY



Our Health, Safety and Environment (HSE) Policy outlines our HSE aspirations and commitments, which forms a significant component of our sustainability efforts. Guided by this policy, we strive to be in the top quartile of HSE performance globally, aiming for zero incidents and zero occupational illness or injury. The policy commits us to:

- Continuously improve our HSE performance
- Operate our business according to industrial best practices and legal requirements
- Communicate with our key stakeholders on HSE matters
- Recognise that HSE is everyone's responsibility



Our HSE Policy can be viewed in its entirety at: www.petronaschemicals.com.my/HSE/Pages/HSE-Policy.aspx

PETRONAS HSE MANDATORY CONTROL FRAMEWORK AND PETRONAS TECHNICAL STANDARDS



Our HSE management is governed by PETRONAS' HSE Mandatory Control Framework (MCF) which specifies key requirements that must be implemented in order to safeguard our workforce, the public and environment. We also leverage on PETRONAS Technical Standards (PTS) to manage HSE and issues related to sustainable development. PTS provides clear standards and guidelines for managing key activities, including those related to sustainable development.

IDENTIFYING OUR SUSTAINABILITY FOCUS AREAS

Key to the development of a sustainability reporting strategy was to determine sustainability issues that have the greatest impact on both PCG as well as our stakeholders. The SDWC undertook the task by conducting a materiality assessment based on the following structured approach:

STEP 1:

Identification of Sustainability Issues

The SDWC identified sustainability issues that are relevant to the petrochemical and oil & gas industry. This list of issues were obtained from IPIECA's 'Oil and Gas Industry Guidance on Voluntary Sustainability Reporting'.

STEP 2:

Assessing the Significance of Each Issue to Stakeholders

Each sustainability issue was assessed to determine their significance to our stakeholders. This was done by evaluating each issue based on various criteria, including:

- a) opinions of external experts;
- b) the level of stakeholder interest;
- c) relevance to our industry;
- d) governmental interest.

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.

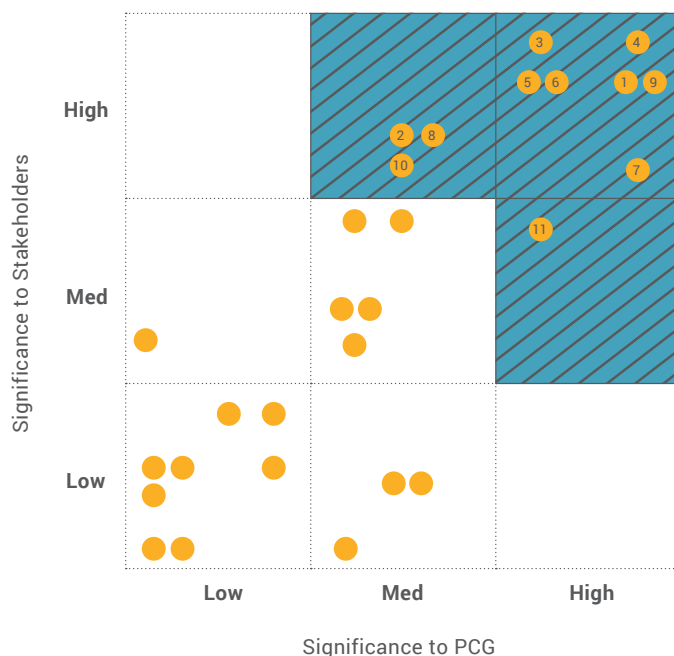
STEP 4:

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 & 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	

REPORTING ON OUR FOCUS AREAS

ENVIRONMENT

ENERGY USE AND
GREENHOUSE GAS EMISSIONS

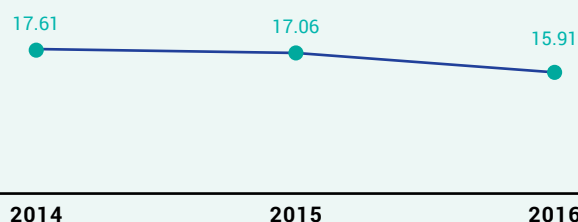
Our energy consumption is closely linked with our greenhouse gas (GHG) emissions. More than 75% of our total GHG emissions originates from our fuel, steam and electricity consumption. As the cost of energy rises continuously, efficient energy management helps to optimise our operating costs, while conserving natural resources and mitigating our impact on climate change. This is also aligned with increasing global concern on climate change.

Our energy consumption and GHG emissions are managed through an Energy & Loss Management System (ELMS), which provides standardised requirements, best practices and work processes tailored to the energy needs of each manufacturing site. Each manufacturing site has its own targets and initiatives to reduce its energy consumption. These are monitored by dedicated ELMS engineers.

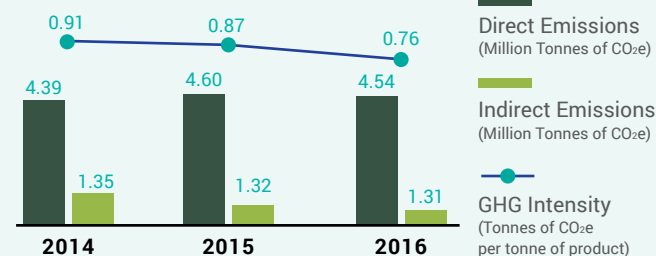
Our Energy Intensity and GHG Emissions Intensity improved in 2016 from 2015 due to better plant utilisation supported by ongoing energy efficiency initiatives.

ENERGY INTENSITY

(GJ of Energy Consumed per Tonne of Product)



GREENHOUSE GAS EMISSION



What it all means:

- Direct GHG Emissions:** GHG emitted from assets that are owned or controlled by PCG
- Indirect GHG Emissions:** GHG emitted to generate electricity and/or steam purchased by PCG
- GHG Emission Intensity:** Total GHG emissions per unit of production
- CO₂e:** Carbon dioxide equivalent

Energy Efficiency at PC Olefins

A success story in energy management recently has been seen at PC Olefins. Beginning in 2015, PC Olefins has significantly improved its energy efficiency by implementing initiatives to conserve fuel gas and steam.

PC Olefins generates fuel gas as part of the olefins manufacturing process. Most of this fuel gas is consumed internally, while the excess is flared. To reduce flaring, PC Olefins conducted a thorough evaluation of the overall fuel gas system, and modified its plant processes to allow the surplus fuel gas to be distributed to surrounding plants. In addition, excess steam generated by PC Olefins is re-routed to PC Derivatives where it is used for process heating.

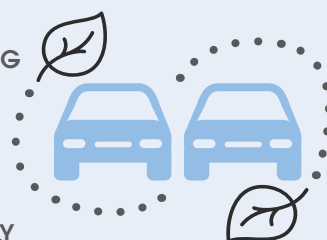
These energy management strategies helped to reduce our energy consumption by 1,200,000 gigajoules (GJ) during the year under review. It also reduced CO₂ emissions by 81,000 tonnes, which is equivalent to removing 17,000 cars off the roads annually*.

EMISSION REDUCTION

EQUIVALENT TO REMOVING

17,000
CARS

OFF THE ROADS ANNUALLY



* As calculated using the United States Environmental Protection Agency's GHG Equivalencies Calculator.

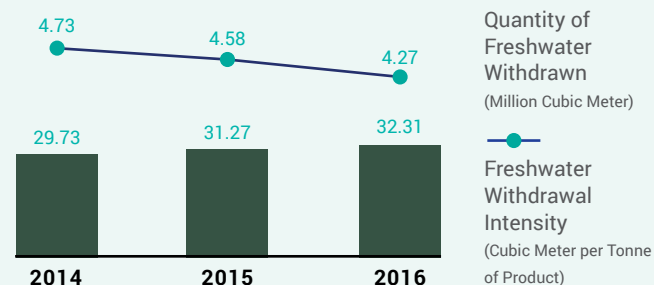
FRESHWATER CONSUMPTION



We use significant amounts of water to generate steam required by our plants as well as for cooling and cleaning purposes. However, we closely monitor all activities involving water as we recognise it is a vital and limited natural resource. Starting from 2016, our plants have adopted PETRONAS' Guidelines on Water Practices which defines the operating conditions and maintenance practices for efficient water use.

Our water withdrawal intensity improved in 2016 as a result of increased plant utilisation. This means we used less water per tonne of product during the year under review.

FRESHWATER WITHDRAWAL



What it all means:

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

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

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

EMISSIONS TO AIR AND WATER



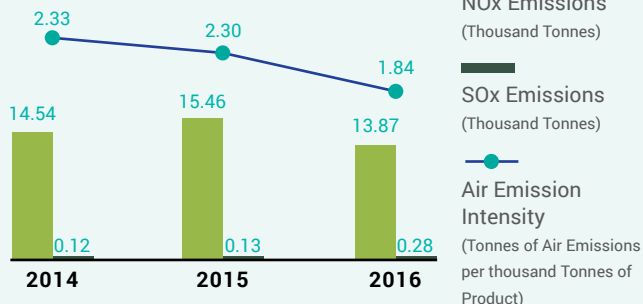
The management of our air and water emissions is guided by our HSE Policy, which commits us to safeguard the environment in areas where we operate. We manage our emissions by reducing them at source, and through the use of pollution control equipment. We also monitor the ambient air quality and water quality of surrounding rivers or sea to ensure compliance with regulatory limits. Our efforts are guided by PETRONAS Technical Standards.

One of our key air pollutants are NOx, which are generated during fuel combustion for energy generation. NOx are also generated when waste

gas containing ammonia gas is flared. Our SOx emissions are relatively low because we use processed fuel gas, which is low in sulphur.

Our air emissions intensity reduced in 2016 as a result of increased plant utilisation and a reduction in flaring.

EMISSIONS TO AIR



What it all means:

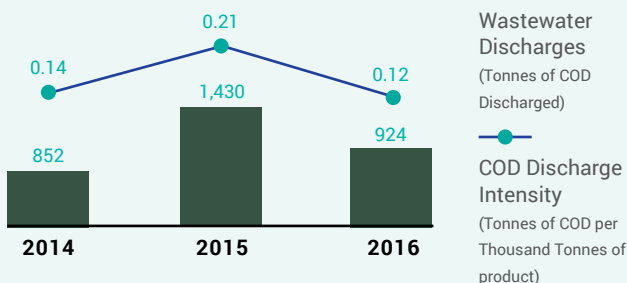
NOx: Nitrogen oxides, a common air pollutant

SOx: Sulphur oxides, a common air pollutant

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

We monitor the Chemical Oxygen Demand (COD) of our wastewater, which tells us how much organic matter is released into surrounding waters. Our COD discharges were higher in 2015 due to a minor methanol leakage at our methanol plant, which did not result in any noticeable environmental impact to coastal waters surrounding the plant. The leak was rectified and additional preventive measures were implemented, which helped to normalise our COD discharges in 2016.

WASTEWATER DISCHARGES



WASTE GENERATION

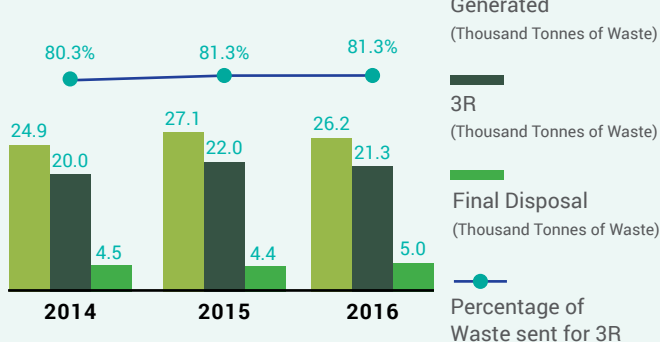


We strive to minimise hazardous waste generation at our manufacturing sites, while maximising opportunities to recycle, reuse or recover (3R) waste at offsite facilities. For example, some of our waste is converted into fuels and lubricants, while other forms of waste are sent to specialised facilities where precious metals are recovered from them.

We quantify, inventorise and store all hazardous waste in dedicated areas within each manufacturing site. The waste is then sent to government licensed waste facilities for 3R or disposal. Proper waste management is integral to our efforts to minimise the environmental impact of our operations. Minimising waste generation conserves natural resources and improves our bottom line, while 3R reduces consumption of natural resources.

In 2016, 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.

HAZARDOUS WASTE



What it all means:

Generated: Quantity of hazardous waste produced

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

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

Reducing Acid Waste Generation

ABF, our urea manufacturing facility in Bintulu, embarked on an initiative to reduce the hazardous waste generated during the cleaning of its ammonia stripper. The ammonia stripper is used to remove ammonia from ABF's wastewater. Previously, hazardous acid waste was generated when the stripper was cleaned with hydrochloric acid. This waste was subsequently sent to a licensed offsite facility for disposal.

In 2015, the hydrochloric acid was substituted with an acidic wastewater produced by ABF's own operations. ABF also modified its stripper to reduce exposure to hazardous chemicals during the cleaning process. Once the stripper is clean, the acidic wastewater is treated internally at ABF's own wastewater treatment plant.

The new cleaning process eliminates the generation of acid waste, which in the past amounted to 38.4 tonnes per year.

HEALTH & SAFETY

OCCUPATIONAL SAFETY AND HEALTH



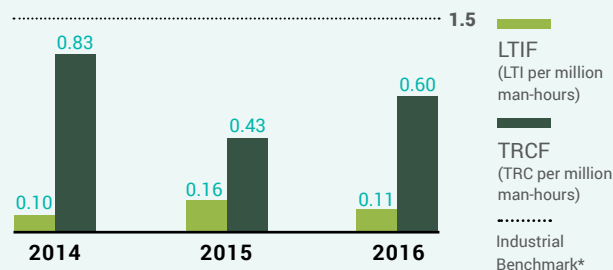
Because we value our workforce, we place the highest priority on occupational safety and health. Guided by our HSE Policy, we take every reasonable step to eliminate the risk of injury and protect the well-being of our workforce and the public.

Our workforce which comprises our employees as well as those of our contractors receive all the necessary trainings in order for them to carry out their work safely. This includes specific trainings on safety systems related to chemical handling, working at height, energy isolation, excavation and confined space entry.

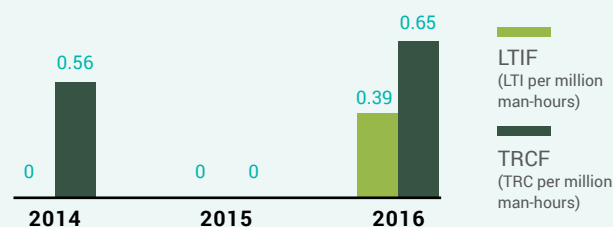
To maintain good HSE performance, we engage regularly with our workforce. For example, before any specific job begins at a worksite, we hold safety meetings called toolbox talks. These short meetings focus on potential hazards of the job and reinforce safe work practices among our workers. HSE Committees, comprising employees and management representatives, are also established at all our manufacturing sites. These committees develop, promote and evaluate measures to ensure the safety and health of our employees.

Unfortunately, we had two fatalities during the year as a result of an ammonia leakage at SAMUR during the project's commissioning. Having identified the root causes of the leak, we have further strengthened the safety procedures at all our plants to prevent any recurrence of similar incidents.

OCCUPATIONAL SAFETY INCIDENTS - OPERATIONS



OCCUPATIONAL SAFETY INCIDENTS - SAMUR



* Average TRCF for petrochemical companies in the USA with more than 1000 employees in 2014
Source: US Bureau of Labor Statistics

What it all means:

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

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

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

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

EMERGENCY EXERCISE

We carried out a major emergency response exercise on 22 September 2016 involving four plants in the KIPC. Simulating an explosion and fire resulting from an ethylene pipeline leak, the exercise enabled us to evaluate our readiness to manage emergencies. It also tested our internal communications as well as our links with relevant government agencies such as the Fire and Rescue Department, Police Department, Civil Defence Force and local medical facilities.

We were encouraged by the efficient way in which our Corporate Crisis Management Team, the plants' Emergency Management Teams and all parties involved cooperated in this exercise. Lessons learnt have been used to further enhance our emergency preparedness.

In addition to this exercise, three other manufacturing sites also conducted full-scale emergency exercise drills in 2016.

PROCESS SAFETY AND SPILLS



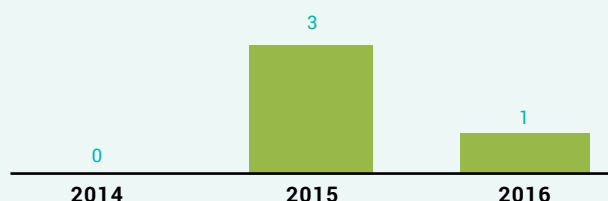
Our HSE Policy extends to ensuring the safety of our plant processes. By guarding against fire, explosions or material releases, we safeguard our people, local communities and our assets while preventing unplanned shutdowns.

In 2015 we established a Process Safety Focus Group to spearhead our process safety management strategy. Comprising Process Safety managers from the different manufacturing sites, the Focus Group resolves any process safety challenges faced within PCG. It also develops competency programmes to ensure our Process Safety practitioners keep sharpening their skills in this field.

The Focus Group is supported by a PETRONAS-wide Process Safety Community of Practice (CoP), which continuously raises the bar in best practices via knowledge sharing among CoP members, and by coaching and mentoring junior staff.

There was a reduction in process safety incidents in 2016, none of which resulted in spills that caused significant environmental impacts.

NUMBER OF SIGNIFICANT PROCESS SAFETY INCIDENTS



What it all means:

Significant Process Safety Incidents: Unplanned release of significant quantities of hazardous materials from a process

PRODUCT STEWARDSHIP



We embrace Product Stewardship, which is the act of systematically assessing, controlling and communicating HSE and social impacts of all our products and packaging throughout their life cycle, while maximising their economic benefits. We have made a conscious and voluntary decision to implement Product Stewardship programmes, knowing this has great impact on our stakeholders, including employees, suppliers, retailers and consumers.

Our commitment to product HSE 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 with 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:

1. Product Regulatory Compliance

- We meet all product regulatory requirements in the countries where our products are made and sold, and are able to respond appropriately to customer enquiries.
- This includes global chemical management, dangerous goods transportation, banned/restricted chemical management and Halal Assurance Systems.

2. Product Risk Characterisation and Management

- We ensure new and existing products are safe for use and handling throughout the entire supply chain.
- Product risks are managed appropriately during business planning, R&D, product realisation, distribution, application, disposal and recycling (if any).

3. Product Safety Documentation & Communication

- Product HSE information is provided to all stakeholders involved in the entire life cycle of our products. This includes safety data sheets (SDS), labels, safe handling instructions, product safety summaries, product dossiers and declarations.
- SDS, labels and hazard classification are managed by an efficient SAP system supported by a dedicated toxicology team and product testing. We also engage regularly with customers, suppliers and distributors by organising site visits, seminars and trainings.

4. Product Sustainability

- Product sustainability programmes provide environmental, social and economic benefits while managing a product's HSE impacts throughout its life cycle, from the sourcing of feedstock until its final disposal. Awareness of safer chemicals substitution and carbon footprint analysis are being considered for future action.

One of our key Product Stewardship programmes is the development of Global Product Safety Summaries (GPSS) for selected products. Each GPSS provides information on the typical applications of a product, its physical and chemical properties, and effects on health and the

environment. Written for easy comprehension, these GPSS enable our customers and the public to understand how our products can be used in a safe and environmentally responsible manner.

OUR ACHIEVEMENTS TO DATE:

- We confirmed our polymer products – LDPE (5 grades), LLDPE (5 grades) & HDPE (3 grades) – comply with the US Food and Drug Administration Federal Regulations USFDA 21 CFR 177.1520, CFR 178.2010.
- We have received *Halal* certification for more than 80 of our products as of 2016.
- We reported our compliance under Korea REACH regulations & Taiwan-TCSCA registration for exports.
- We conducted product stewardship sessions with chemicals buyers in various countries, most recently in the Philippines.
- We committed to complete GPSS for selected products. Five of the summaries are accessible to the public on the International Council of Chemical Association's GPS Chemicals portal (<http://icca.cefic.org/>).

SOCIETY

CORPORATE SOCIAL RESPONSIBILITY



We take pride in being able to share some of our success with the communities that live in the vicinity of our operations. Over the years, we have developed some meaningful programmes that strive to empower the communities where we operate.

Our CSR programmes focus on education, community well-being and the environment. In 2016, these programmes included Back-to-School, *Program Cintai Sungai* and *ecoCare*.

BACK-TO-SCHOOL

Through this programme, we help to improve the academic performance of rural school children in subjects such as science and mathematics, in addition to providing them with school supplies. In 2016, we organised Back-to-School programmes in Sipitang, Kertih and Labuan which saw us provide 1,175 underprivileged school children with bags and stationery before the start of the new academic year. For the first time, we also collaborated with Malay-language daily, *Berita Harian*, to run science and mathematics workshops for students and teachers from 44 primary schools.



PROGRAM CINTAI SUNGAI

Our subsidiary, PC MTBE, runs an annual river conservation initiative called *Program Cintai Sungai*. This year, it was organised at Jeti Nelayan Kampung Balok Pantai in Kuantan. Collaborating with local government authorities and community representatives, we raised awareness among the local community and school children of the need to keep Balok River clean. We worked with the community to pick up rubbish from the river banks and release 'pollution-absorbing mud balls' into the river, in addition to carrying out fun-filled Reduce, Reuse and Recycle (3R) activities. We also helped local boat owners paint their boats and gave them free medical checkups to enhance their livelihood and well-being.

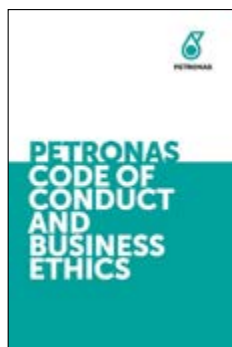


ecoCare Environmental Education Centre

ecoCare

ecoCare is our signature environment-based CSR programme, conducted in collaboration with the Malaysian Nature Society. Now in its 11th year, the programme involves reforestation and rehabilitation of mangrove habitats along Kertih River. To increase public awareness of the importance of mangrove conservation, in 2013 we set up an ecoCare Environmental Education Centre (EEC), which has helped to garner greater participation in the programme. To date, 250 organisations and schools, as well as 12,200 individuals have visited the centre. In total, 10,469 mangrove seedlings have been planted on all degraded patches rehabilitating more than 11,000 square metres of area along the Kertih River.

This year, for the first time, we organised a two-day ecoCare Community Programme in conjunction with Malaysian Environment Week 2016. During the programme, members of the community, students, local authorities and PETRONAS staff took part in planting mangrove seedlings. They also attended a talk on recycling and responsible usage of plastics by the Malaysian Plastics Manufacturers Association.



ANTI-CORRUPTION

We have zero tolerance for any form of bribery or corruption and ingrain all our employees with PETRONAS' Code of Conduct and Business Ethics (CoBE) to ensure everyone upholds a high level of professionalism and integrity.



To find out more about PETRONAS' CoBE and Whistle-Blowing Policy please refer to pages 94, 107 and 124 in Our Governance section.

WORKFORCE DIVERSITY AND INCLUSION

We value people from different backgrounds and age groups for the fresh perspectives and insights they bring to our company. This is especially important as we operate in an increasingly globalised environment. We therefore strive to bring together a diverse group of talents who are recruited based on merit, and who are given equal opportunities to grow and contribute to our dynamic team.

As an equal opportunity employer, we create a work environment that is women-friendly. Women with children can avail of our flexible working hours to balance their job commitments with personal responsibilities. We strive to accommodate requests from women to move from jobs in our plants to an office environment, for more manageable working hours. Within our headquarters and plants, we have allocated dedicated rooms with conducive facilities for mothers.

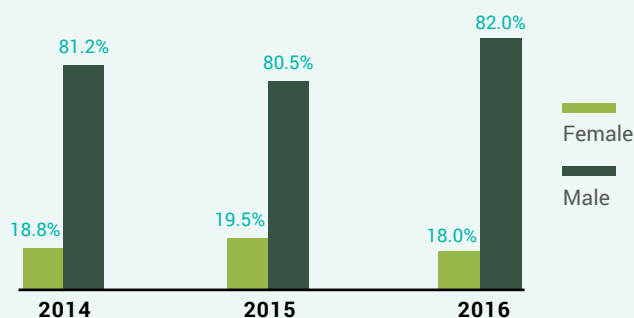
Our women executives are further encouraged to join the PETRONAS Leading Women Network to benefit from role-modelling for their professional development, and networking opportunities with leaders and peers.

Company-wide, female employees make up 18% of our total workforce. This is influenced by the largely male dominated representation in our plants. At the senior management level, gender balance is amplified with women making up 27% of our Management Committee.

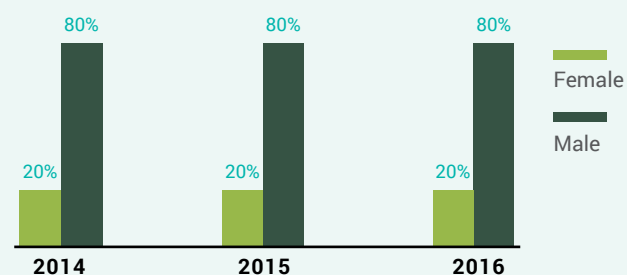


Diversity is also reflected at the Board level. During the year, a new Board Diversity Policy was developed which underlines its commitment to ensure a suitable mix of members' profiles as to achieve effective stewardship and management. The new policy also reiterates the Board's aim to have at least 30% representation of women directors.

GENDER DIVERSITY - TOTAL

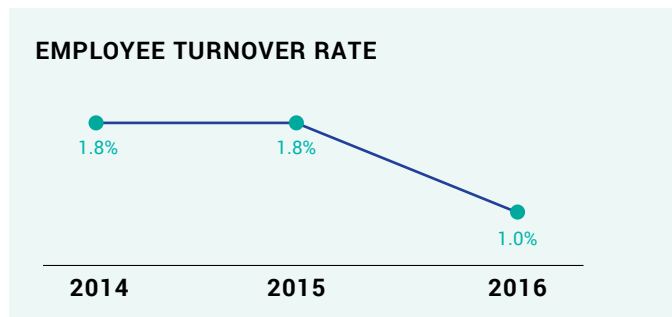
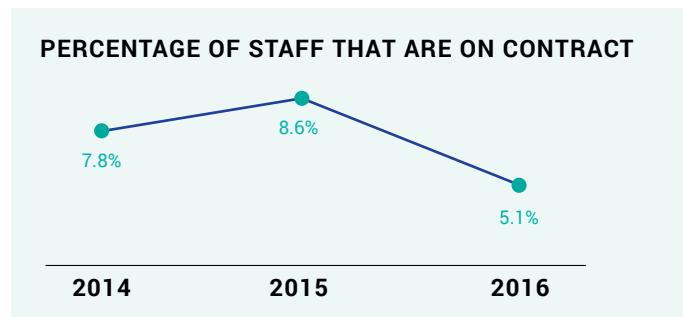


GENDER DIVERSITY - BOARD OF DIRECTORS



EMPLOYEE RETENTION & CONTRACT STAFF

As a result of increased focus on empowering our full-time employees and reducing our dependency on contract staff, the number of the latter at PCG dropped from 8.6% in 2015 to 5.1% in 2016. At the same time, our turnover rate for 2016 remains low at 1%.

**WORKFORCE TRAINING AND DEVELOPMENT**

Our employees determine the effective execution of PCG's business strategy and operations. To ensure they have the capabilities required, we provide continuous training and development for everyone at all levels in the Company.

LEADERSHIP DEVELOPMENT PROGRAMME

Leadership programmes at the entrance level are designed around helping individuals develop leadership skills and continue until the level of leading the self, i.e. becoming committed to own goals, managing challenges and risks, and recognising own strengths and development areas.

To assist our new managers make the transition into leadership roles, conditioning programmes are introduced to enhance self-awareness,

equip them with essential knowledge as well as key skills to effectively lead themselves and others to effect change in the business. Ultimately, our leaders are trained to make the efficient transition into strategic implementers.

CAPABILITY DEVELOPMENT PROGRAMMES

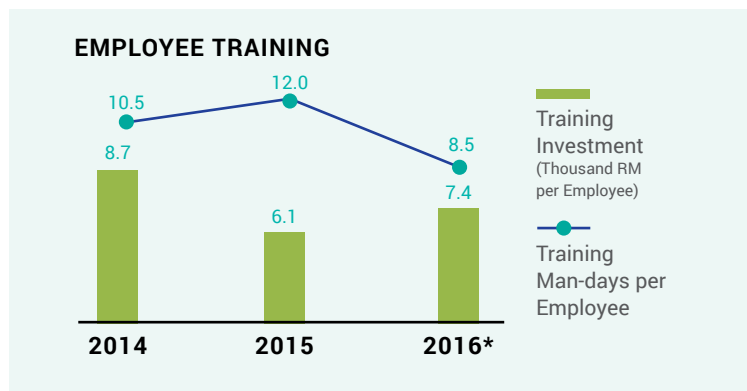
Our employee development programmes are focused on technical and non-technical employees, guided by PETRONAS' competency framework.

The leadership team is heavily involved in our training and development programmes to ensure we have a pipeline of competent staff. In 2015, a special committee was set up to steer our capabilities development direction and its execution.

Various competency-enhancing programmes and assessments have been implemented, including:

1. Downstream Grounding Programme (DGP) that provides new technical executives and non-executives structured and systematic 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.
2. Accelerated Competency Development (ACD) that develops technical executives in specialised disciplines to ensure targeted competency levels are achieved. They are assigned with coaches and provided on-the-job as well as classroom training. In 2016, about 1,080 technical executives underwent ACD assessments conducted by certified assessors to identify their competency levels and to serve as input for individual development plans.

3. Downstream Technical Managers Capability Assessment (TMCA) which assesses the functional capabilities of technical managers in carrying out their role in plants. A total of 25 technical managers were assessed in 2016.
4. PETRONAS Competency-based Assessment System (PECAS) which ascertains the competency of our non-executive technical employees, who have to undergo the programme within 2.5 years. In 2016, about 1,200 staff were involved in various phases of the programme; and by the end of the year, about 350 staff had completed it, 80% of whom completed it within the 2.5-year timeframe.
5. A Capability Development Framework (CDF) for the Commercial team was established to provide a structured approach in developing a versatile commercial team with overall exposure to critical roles in business, leadership and specialised areas. Meanwhile, a feasibility study on a Professional Career Path for the Marketing & Sales team was conducted.



During the year, we spent more on training per employee although the average number of days spent on training dipped slightly from that in 2015. This was due to more efficient focus on meeting individual needs and filling competency gaps, especially in specialised areas.

As part of our CSR, in 2016 we provided industrial training opportunities in both technical and non-technical areas to approximately 275 undergraduates. The students were assigned to areas related to their academic backgrounds.

SUCCESSION MANAGEMENT

Succession planning is critical for the continuity of our business operations, ensuring we have ready and credible talent to fill in leadership gaps in a timely manner. Our talent pool is not limited to PCG's own workforce but extends to suitable leaders within the PETRONAS Group.

OUR WAY FORWARD

PCG views sustainability as an ongoing journey, which requires our continuous improvement to meet future challenges and opportunities. Moving forward, we will continue to strengthen our sustainability strategy by:

Incorporating sustainability elements into more sections of PCG's business



Further strengthening our governance and processes related to sustainability



Enhancing our stakeholder engagement process



Expanding our sustainability reporting to include additional sustainability issues



Periodically reviewing our sustainability materiality assessment



05

HOW WE ARE GOVERNED



* The cross-referencing icons refer readers to information elsewhere in this report

We believe in operating at the highest level of integrity and transparency, and are guided to do so by our principles of corporate governance. Here, we provide a transparent account of what corporate governance means to us and how we enhance our value to stakeholders by having in place a strong system of checks and balances.

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	• Nomination and Remuneration Committee Report
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MD ARIF MAHMOOD

CHAIRMAN

CHAIRMAN'S OVERVIEW

DEAR SHAREHOLDERS,

EFFECTIVE CORPORATE GOVERNANCE IS INTEGRAL TO THE SUCCESSFUL DELIVERY OF BUSINESS GOALS FOR OUR MANY AND DIVERSE STAKEHOLDERS, HOW WE WORK IS AS IMPORTANT AS WHAT WE DO. PCG OPERATES UNDER A WELL-DEVELOPED GOVERNANCE FRAMEWORK DESIGNED TO FOSTER TRANSPARENCY, INTEGRITY AND AN INFORMED APPROACH TO RISK MANAGEMENT ACROSS OUR WORLDWIDE BUSINESS. WE HAVE CLEAR STANDARDS OF BEHAVIOUR WE EXPECT FROM EVERYONE WHO WORKS WITH US.

The Board's role is to review and guide the strategy for the Group, appoint the right leadership and ensure effective implementation whilst monitoring business performance and ensuring the timely and effective assessment and management of business risks. Our goal is to build an enduring and profitable business admired by customers and other stakeholders, whilst achieving strong returns for our shareholders. This was a year of excellence for PCG and the Board played a leading role in steering major transactions described in the Management Discussion and Analysis on pages 41 to 52. 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.

I am fortunate as Chairman to be able to call on a broad and diverse range of skills and perspectives around the boardroom table. In its current composition, our Board consists of eight Directors, with vast leadership experience across numerous industrial sectors. With two female directors, I am pleased to say that we are well on our way to achieving the nation's target of 30% of Board roles held by women. We will continue the pursuit of female directors to ensure continued diversity in the Board.

Whilst the Board is confident that PCG is well-placed to continue to reward shareholders for their support for our strategy, we expect operating conditions to remain challenging in a number of our key markets over the year ahead. To this end, we will have a linear focus on ensuring the Group maintains a rigorous and analytical approach to the management of risk whilst seeking to encourage the entrepreneurship and innovation necessary to drive performance excellence and dynamic growth across the portfolio.

Md Arif Mahmood
Chairman

OUR APPLICATION OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012

The table below sets out the observance of PCG with the principles and recommendations of Malaysian Code on Corporate Governance 2012 in respect of 2016.

Principle/Recommendation		Page No.	Remarks
Principle 1 – Establish Clear Roles and Responsibilities			
1.1	The Board should establish clear functions reserved for the Board and those delegated to management.	94 - 96, 104, 118	
1.2	The Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.	95, 114	
1.3	The Board should formalise ethical standards through a code of conduct and ensure its compliance.	94	
1.4	The Board should ensure that the Company's strategies promote sustainability.	75 - 88	
1.5	The Board should have procedures to allow its members access to information and advice.	104	
1.6	The Board should ensure it is supported by a suitably qualified and competent company secretary.	104, 115	
1.7	The Board should formalise, periodically review and make public its Board Charter.	95	
Principle 2 – Strengthen Composition			
2.1	The Board should establish a Nominating Committee which should comprise exclusively Non-Executive Directors, a majority of whom must be independent. The chair of the Nominating Committee should be the Senior Independent Director.	111 - 113	The Nomination and Remuneration Committee is chaired by an Independent Director, Ching Yew Chye, who is not the Senior Independent Director identified by the Board. The Senior Independent Director, Vimala V.R. Menon, is currently the Chairman of the Board Audit Committee. The Company elects to have different chairmanships in Board Audit Committee, and Nomination and Remuneration Committee so as to leverage on the different perspectives and dynamics which emanates from such arrangements, as well as to ensure that each independent director has equitable roles and responsibilities respectively. The Company intends to maintain the current arrangement.

	Principle/Recommendation	Page No.	Remarks
2.2	The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors.	97, 104 - 105, 112	
2.3	The Board should establish formal and transparent remuneration policies and procedures to attract and retain Directors.	101 - 102	A policy is currently being developed and will be put to the Board for approval in due course. At present Board remuneration remains competitive and is benchmarked against industry standards.
Principle 3 – Reinforce Independence			
3.1	The Board should undertake an assessment of its Independent Directors annually.	104 - 105, 112	
3.2	The tenure of an Independent Director should not exceed a cumulative term of nine years. Upon completion of the nine years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director.	26 - 33, 98	
3.3	The Board must justify and seek shareholders' approval in the event it retains as an Independent Director, a person who has served in that capacity for more than nine years.	98	
3.4	The positions of Chairman and Chief Executive Officer should be held by different individuals, and the Chairman must be a Non-Executive member of the Board.	26 - 27, 96, 114	
3.5	The Board must comprise a majority of Independent Directors where the Chairman of the Board is not an Independent Director.	96	The Chairman of the Company is currently a Non-Independent Non-Executive Director. This is premised on the high level of integration with PETRONAS' business. The Board currently has four Independent Non-Executive Directors, three Non-Independent Non-Executive Directors and one Executive Director. The current Board composition is balanced and complies with Paragraph 15.02 of the MMLR, as 50% of the Board members are Independent Directors. The Company intends to maintain the current Board composition.

Principle/Recommendation		Page No.	Remarks
Principle 4 – Foster Commitment			
4.1	The Board should set out expectations on time commitment for its members and protocols for accepting new directorships.	95, 104	
4.2	The Board should ensure its members have access to appropriate continuing education programmes.	98 - 99	
Principle 5 – Uphold Integrity in Financial Reporting			
5.1	The Audit Committee should ensure financial statements comply with the applicable financial reporting standards.	108 - 109	
5.2	The Audit Committee should have policies and procedures to assess the suitability and independence of External Auditors.	-	A policy is currently being developed and will be put to the Board for approval in due course. At present the Board Audit Committee continues to review and monitor the suitability and independence of external auditors.
Principle 6 – Recognise and Manage Risks			
6.1	The Board should establish a sound framework to manage risks.	94, 116 - 121	
6.2	The Board should establish an internal audit function which reports directly to the Audit Committee.	109 - 110	
Principle 7 – Ensure the Timely and High Quality Disclosure			
7.1	The Board should ensure the Company has appropriate corporate disclosure policies and procedures.	106	
7.2	The Board should encourage the Company to leverage on information technology for effective dissemination of information.	104, 106	
Principle 8 – Strengthen Relationship between Company and Shareholders			
8.1	The Board should take reasonable steps to encourage shareholder participation at general meetings.	106	
8.2	The Board should encourage poll voting.	106	Effective 2017, general meetings will be conducted via e-polling. Independent Scrutineers and Poll Administrator will be appointed to conduct the polling process and verify the results of the poll.
8.3	The Board should promote effective communication and proactive engagements with shareholders.	106	

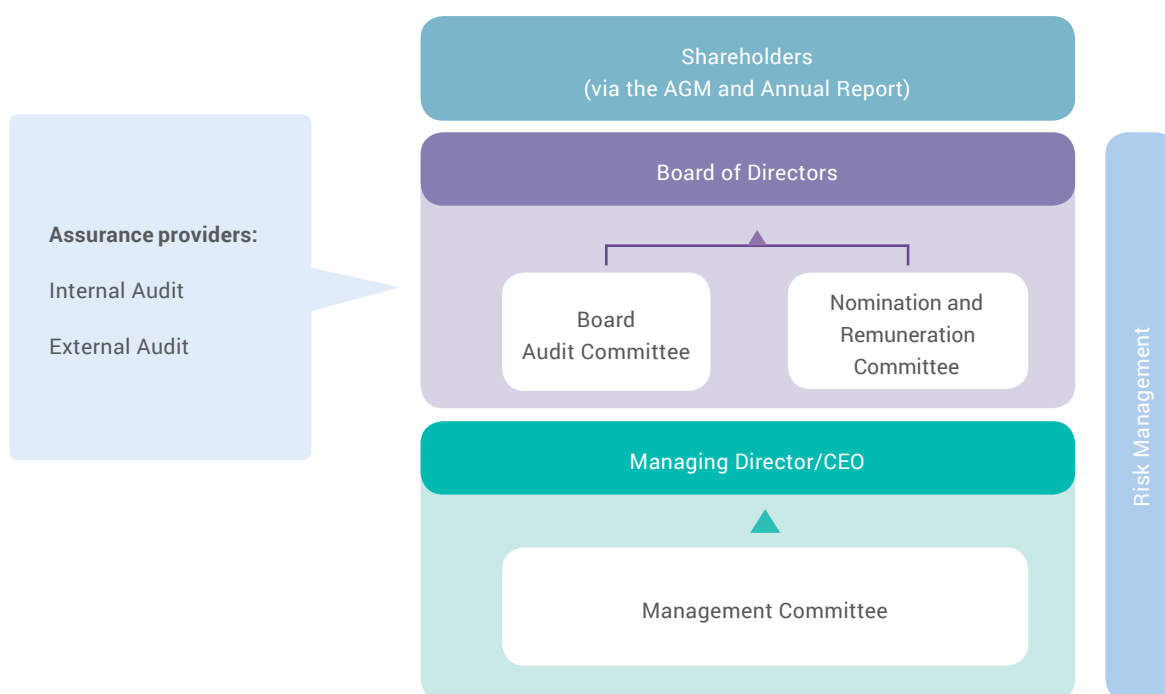
HOW WE APPROACH OUR GOVERNANCE

We believe effective governance begins at the top. The Board provides guidance and oversight, while management defines and executes strategy and simultaneously manages risks. Success at the Board and management level at PCG involves setting the right priorities, having the appropriate team members in place, evaluating ourselves, continuing our education and communicating with our stakeholders.

OUR GOVERNANCE FRAMEWORK

Good corporate governance enhances the credibility and reputation of the Company, as well as promoting and safeguarding the interests of shareholders and other stakeholders. Maintaining a good and solid framework of corporate governance has been and remains one of PCG's top priorities.

We use a Corporate Governance Framework to identify all the key participants in good governance, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.

**OUR ETHICS AND STANDARDS**

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

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

BOARD OF DIRECTORS

The Board Charter

The Board Charter assigns responsibility for strategic direction and control of the Group to the Board. The Board exercises this control by way of the Group's governance framework, which includes detailed reporting to the Board and its committees, and a system of assurances on internal controls. The Board regularly reviews the Board Charter, which includes those matters reserved for board decision-making and approves the delegation of authority to management in specified matters. Our last Board Charter review, held on 20 February 2017, resulted in the approval of a provision explaining the roles of the Chairman, Managing Director/CEO, Non-Executive Directors and Senior Independent Director in addition to the duties and responsibilities of the Board, Board accountability and Board processes.

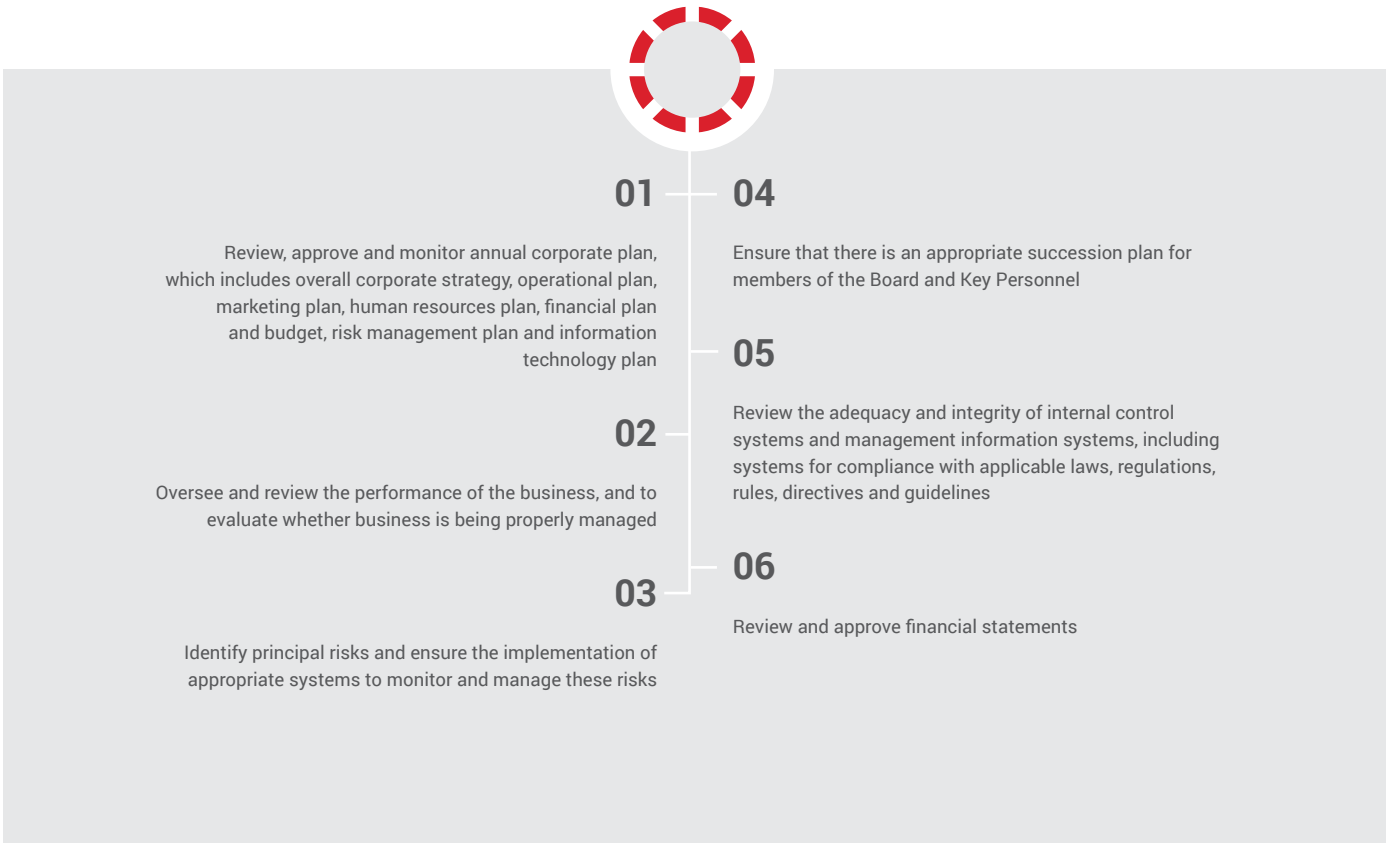
The Board Charter sets out the practices and processes adopted to enable the Board to discharge its responsibilities. The Board Charter is available on the Company's website, www.petronaschemicals.com together with the terms of reference of all its committees. The Board is satisfied that it fulfilled these duties and obligations during the year under review.

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 below 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 based on the long-term opportunities for the business and its stakeholders.

KEY AREAS OF FOCUS FOR THE BOARD



PROVIDING SOUND LEADERSHIP

Board Balance and Composition

The Board comprises eight Directors as at 31 December 2016, of whom one is an Executive Director and seven are Non-Executive Directors. 25% of the directors are women.

The Board has determined that four of the Non-Executive Directors are independent in accordance with the MMLR of Bursa Malaysia. The Board is of the view that all Non-Executive Directors exercise independent judgement at all times.

The Nomination and Remuneration Committee takes into account corporate leadership skills, experience and expertise required to advance the strategic direction of the Company when appointments to the Board are considered. The Board ensures that it has the right balance of skills, experience, independence and business knowledge necessary to discharge its responsibilities in keeping with the highest standards of governance. In the Board's assessment, all Directors have the knowledge, skills and experience to make a meaningful contribution to the business of the Company.

The positions of Chairman and Managing Director/CEO are held separately by Md Arif Mahmood and Datuk Sazali Hamzah respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the Managing Director/CEO's responsibility to manage the Company's business. The respective responsibilities of the Chairman and Managing Director/CEO are more fully set out on page 114. The Managing Director/CEO is assisted by the Management Committee in managing the business on a day-to-day basis, which he consults regularly. The Management Committee ensures effective systems, controls and resources are in place to execute business strategies and decisions taken by the Board and/or the Managing Director/CEO.

BOARD OF DIRECTORS**Non-Independent Non-Executive Director**

- Md Arif Mahmood
- Zakaria Kasah
- Freida Amat

Executive Director

- Datuk Sazali Hamzah

Independent Non-Executive Director

- Vimala V.R. Menon
- Ching Yew Chye
- Dong Soo Kim
- Datuk Toh Ah Wah

Right balance of skills and experience to make a meaningful contribution to the business of the Company**BOARD SKILLS AND DIVERSITY**

The Board consists of Directors with a diverse range of experience including oil and gas, engineering, finance and commercial.

SKILLS

Oil and Gas Industry

Finance/Audit

Economics

Engineering

Commercial/Marketing

Operations

Corporate Planning and Development

Human Resource

Information Technology

Global Petrochemical Consultancy

TENURE

4 to 7 years — 3 Directors

2 to 4 years — 2 Directors

0 to 2 years — 3 Directors

Management Committee

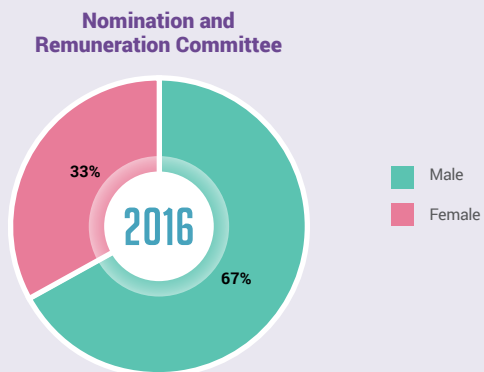
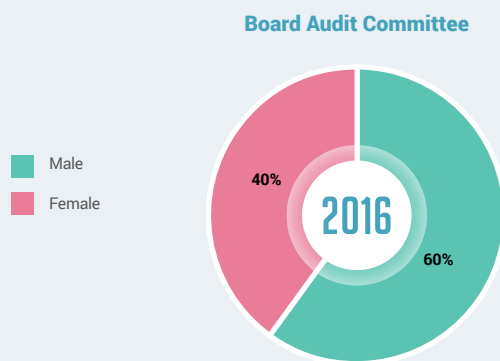
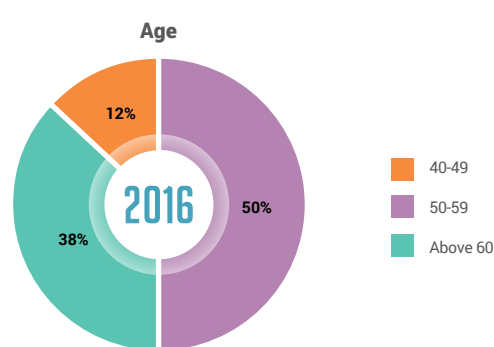
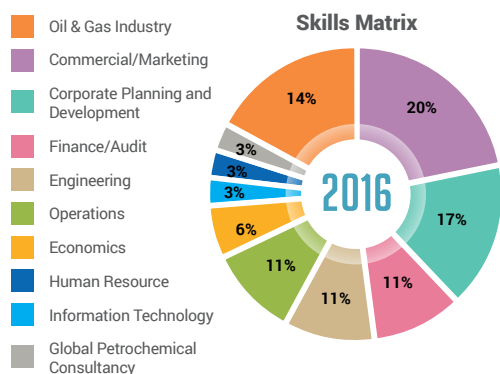
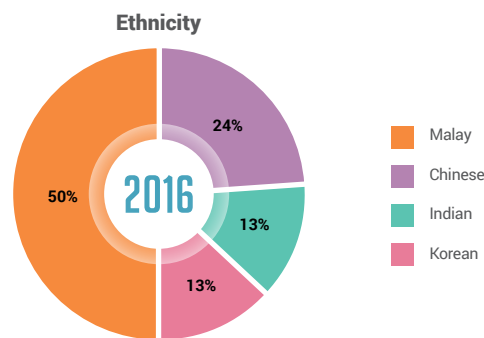
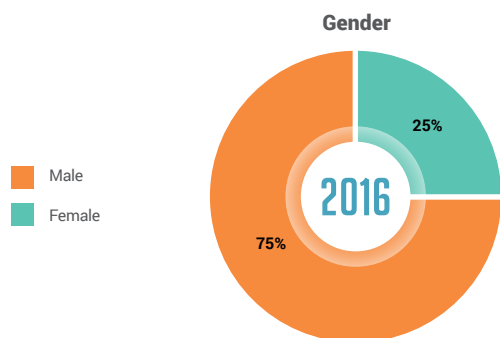
Management staff of the Company are seconded from PETRONAS. Their training and succession planning are aligned to PETRONAS' Human Resource Policies and Strategies. The Board ensures that only appropriate personnel with the relevant skills and experience are appointed to management positions of the Company.



Refer to pages 26 to 33 for the profiles of the Directors.



Attendance of Board and Board Committee meetings are provided on page 103.



BOARD DIVERSITY POLICY

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 assess the composition and performance of the Board annually, as well as identifying 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 recommending 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.

RE-ELECTION OF DIRECTORS

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

As per Recommendations 3.2 and 3.3 of MCCG 2012, the tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the directors' re-designation as a non-independent director. The board must justify and seek shareholders' approval in the event it retains the director as an independent director.

Currently, none of the Independent Non-Executive Directors of the Company has served the Board for more than nine years.

DIRECTORS' CONTINUING DEVELOPMENT PROGRAMME

All the Directors have attended the Mandatory Accreditation Programme as required under the MMLR of Bursa Malaysia.

The Directors are regularly updated on the Group's businesses and the competitive and regulatory environment in which the Group operates. As an integral part of the orientation programme for new Directors, the Company provides comprehensive briefings on the Group's operations and financial performance as well as site visits to the Group's facilities.

The Directors observe Principle 4 of MCCG 2012 and recognise the importance and value of attending conferences, training programmes and seminars in order to keep themselves abreast with the development and changes in the industries in which the Group operates, as well as to update themselves on new statutory and regulatory requirements. During the year under review, the Directors have attended and participated in programmes, conferences and forums that covered the areas of corporate governance, financial, relevant industry updates and global business developments which they considered as useful in contributing to the effective discharge of their duties as Directors. The Directors also participated in 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 per details below:

Directors	Training/Conferences	Date
MD ARIF MAHMOOD	<ul style="list-style-type: none"> PETRONAS Downstream Digital Workshop PETRONAS Downstream Commercial Excellence Bain Southeast Asia Transformation Leaders Forum PETRONAS Cultural Beliefs Workshop Offshore Technology Conference Asia 2016 Vopak Global Minds Conference Downstream Operational Excellence Forum and Award 	19-20 January 2016 5 February 2016 2 March 2016 8 March 2016 22 March 2016 5 October 2016 17 October 2016

Directors	Training/Conferences	Date
DATUK SAZALI HAMZAH	<ul style="list-style-type: none"> • Strategic Conversation Workshop • Downstream Commercial Excellence Transformation • PCG Townhall 2016 • Asia Refining Technology Conference (ARTC) 2016 • 9th Reliability, Asset Management and Safety Asia 2016 • Visit to PIC Project Site, Pengerang 	12 January 2016 27 January 2016 11 March 2016 20 April 2016 25 April 2016 8 August 2016
VIMALA V.R. MENON	<ul style="list-style-type: none"> • New Auditor's Report - Sharing the UK Experience • Corporate Governance Breakfast Series - Improving Board Risk Oversight Effectiveness • Ensuring Organisation's Sustainability through Integrated Strategic Corporate Risk Management Programs • Site visit to PIC Project Site, Pengerang, Johor • Business Sustainability • General and Detailed Sustainability Statements in Annual Report 2017 • Best Practices for Board Excellence • 5th PETRONAS Board Audit Committee Forum 	13 January 2016 26 February 2016 11 July 2016 23 July 2016 15 July 2016 25 July 2016 3 August 2016 16 August 2016
CHING YEW CHYE	<ul style="list-style-type: none"> • Bursa Malaysia/MIA-MICPA - Future of Auditor Reporting: The Game Changer for Boardroom • McKinsey & Company Leading the Digital and Analytics Revolution • Review of Securities Commission Draft Malaysian Code of Corporate Governance 2016 • Visit to PIC Project Site, Pengerang • MAICSA & Bursa Malaysia: How to Leverage on AGMs for Better Engagement with Shareholders 	9 March 2016 2 June 2016 6 June 2016 8 August 2016 21 November 2016
DONG SOO KIM	<ul style="list-style-type: none"> • What Does It Take to Win in Global Environment? • Leaders Make It Happen Through People • Climate Change is Real: What is the Role of a Leader? • Leadership in the Global Business and Impact to the Competitiveness • Visit to PIC Project Site, Pengerang 	6 March 2016 9 April 2016 5 June 2016 14 July 2016 8 August 2016
DATUK TOH AH WAH	<ul style="list-style-type: none"> • Visit to PIC Project Site, Pengerang • Embracing the Board's Role in Corporate Transformation 	8 August 2016 12 October 2016
ZAKARIA KASAH	<ul style="list-style-type: none"> • Best Practices for Board Excellence 	3 August 2016
FREIDA AMAT	<ul style="list-style-type: none"> • The AGM - The Practical Insight and Managing Shareholders' Expectation • Visit to PIC Project Site, Pengerang • 5th PETRONAS BAC Forum • The Inside Story of the Annual Report: What Directors Must Know 	21 June 2016 8 August 2016 16 August 2016 23 September 2016

Aside from the attendance of training and conferences, during the year under review, the PCG Board had an independent session with the commercial team, to further understand commercial excellence initiatives and commercial key operational activities.

Overview of various agenda items on the Board and Board Committees meetings 2016



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.

Non-Executive Directors

Our fees structure for Non-Executive Directors are designed to attract and retain high caliber Board members who are appropriately paid for their time and effort. The fees structure of Non-Executive Directors of the Company is as follows:

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

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

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

Annual Fees

Board	<ul style="list-style-type: none"> - RM108,000 (Chairman) - RM432,000 (Non-Executive Independent Directors) - RM144,000 (Non-Executive Non-Independent Directors)
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Meeting Allowances (Board and all Board Committees)

Board	<ul style="list-style-type: none"> - RM24,000 (Chairman) - RM98,000 (Non-Executive Independent Directors) - RM39,000 (Non-Executive Non-Independent Directors)
Board Audit Committee	<ul style="list-style-type: none"> - RM17,500 (Chairman) - RM52,500 (Non-Executive Independent Directors) - RM10,000 (Non-Executive Non-Independent Directors)
Nomination and Remuneration Committee	<ul style="list-style-type: none"> - RM17,500 (Chairman) - RM35,000 (Non-Executive Independent Directors)
Annual General Meeting	<ul style="list-style-type: none"> - RM4,000 (Chairman) - RM14,000 (Non-Executive Independent Directors) - RM6,000 (Non-Executive Non-Independent Directors)

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

Executive Director

The remuneration package for the Executive Director of the Company is balanced between fixed and performance-linked elements. A portion of the Executive Director's compensation package is variable in nature and is KPI-based, which includes the Group's performance. As an Executive Director, he is not entitled to receive directors' fees or meeting allowances.

Datuk Sazali Hamzah, Managing Director/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 RM1,164,000 for his services as Managing Director/CEO of the Company.

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

Name of Directors	Directors' Fee (RM)	Board Meeting Allowance [^] (RM)	Board Audit Committee Meeting Allowance* (RM)	Nomination and Remuneration Committee Meeting Allowance* (RM)	Total (RM)
Executive Director					
Datuk Sazali Hamzah	Nil	Nil	Nil	Nil	Nil
Non-Executive Directors					
Md Arif Mahmood	108,000	28,000	-	-	136,000**
Vimala V.R. Menon	72,000	28,000	17,500	17,500	135,000
Ching Yew Chye	72,000	28,000	17,500	17,500	135,000
Dong Soo Kim	216,000	28,000	17,500	17,500	279,000
Datuk Toh Ah Wah	72,000	28,000	17,500	-	117,500
Zakaria Kasah	72,000	21,000	-	-	93,000**
Freida Amat	72,000	24,000	10,000	-	106,000
Total	684,000	185,000	80,000	52,500	1,001,500

[^] Including AGM's attendance

* Meeting allowances paid are based on the number of meetings attended by the Directors

** Fees paid 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 and above	1 [^]	-

[^] Executive Director's payroll related costs and benefits paid to PETRONAS

OUR GOVERNANCE PROCESSES

Board and Board Committee Attendance

PCG Board meets in person at least quarterly per annum and on other occasions when a Board decision is required on major issues. Details of Directors' attendance at the General Meetings, Board and Board Committee meetings held in 2016 are set out in the following table. The overall attendance rate of Directors at Board meetings was 96% (2015: 95%).

Directors	Meetings Attended/Held			
Name of Directors	Board	Board Audit Committee	Nomination & Remuneration Committee	AGM
Executive Director				
Datuk Sazali Hamzah	7/7	-	-	1/1
Non-Executive Directors				
Md Arif Mahmood	6/7	-	-	1/1
Zakaria Kasah	6/7	-	-	1/1
Freida Amat	7/7	5/5	-	1/1
Independent Non-Executive Directors				
Vimala V.R. Menon	7/7	5/5	5/5	1/1
Ching Yew Chye	7/7	5/5	5/5	1/1
Dong Soo Kim	7/7	5/5	5/5	1/1
Datuk Toh Ah Wah	7/7	5/5	-	1/1

KEEPING THE BOARD INFORMED

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 not less than five business days before the meeting dates. This enables the Directors to have sufficient time to peruse the Board papers and seek clarifications or further details from the management or the Company Secretary before each meeting to ensure preparedness for the meeting. Any Director may request matters to be included in the agenda. Urgent papers may be presented and tabled at meetings under supplemental agenda. Board papers prepared are comprehensive and includes objectives, background, critical issues, implications, risks, strategic fit (applicable only for investment decision papers), recommendations and other pertinent information to enable informed decision making by the Board.

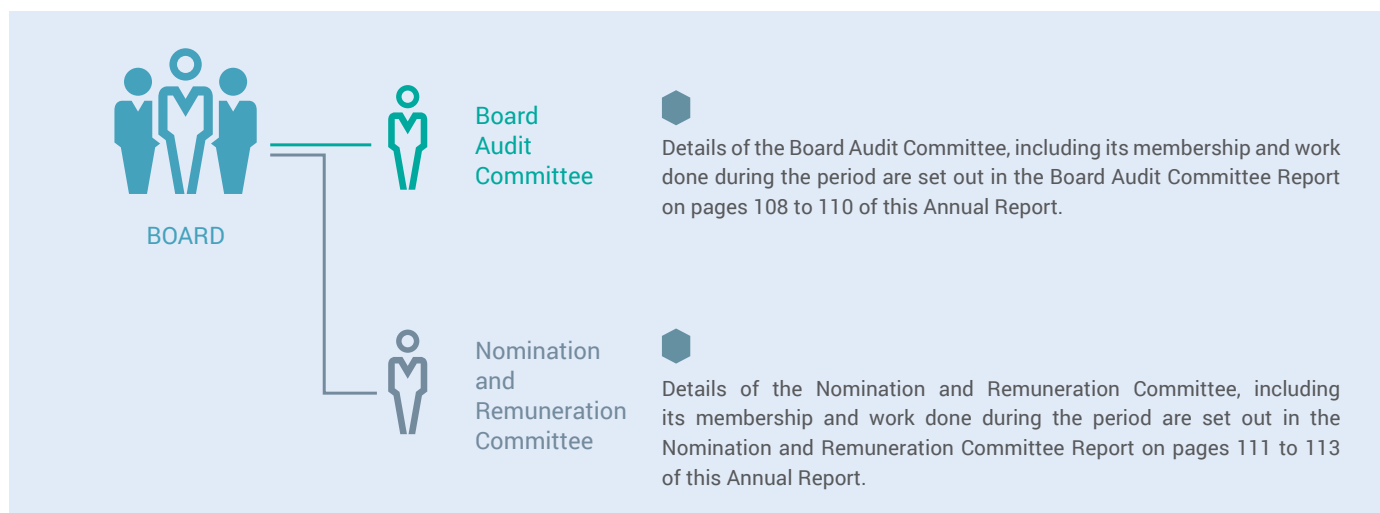
Presentations and briefings by the management and relevant external consultants, where applicable, are also held at Board meetings to advise the Board and furnish relevant information and clarification for the Board to arrive at a considered decision.

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

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

THE BOARD AND ITS COMMITTEES

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board in 2016 up to the date of this report (the period). The terms of reference and membership of all Board Committees are disclosed in full on the websites of PCG and Bursa Malaysia. They are also available in writing upon request to the Company Secretary.

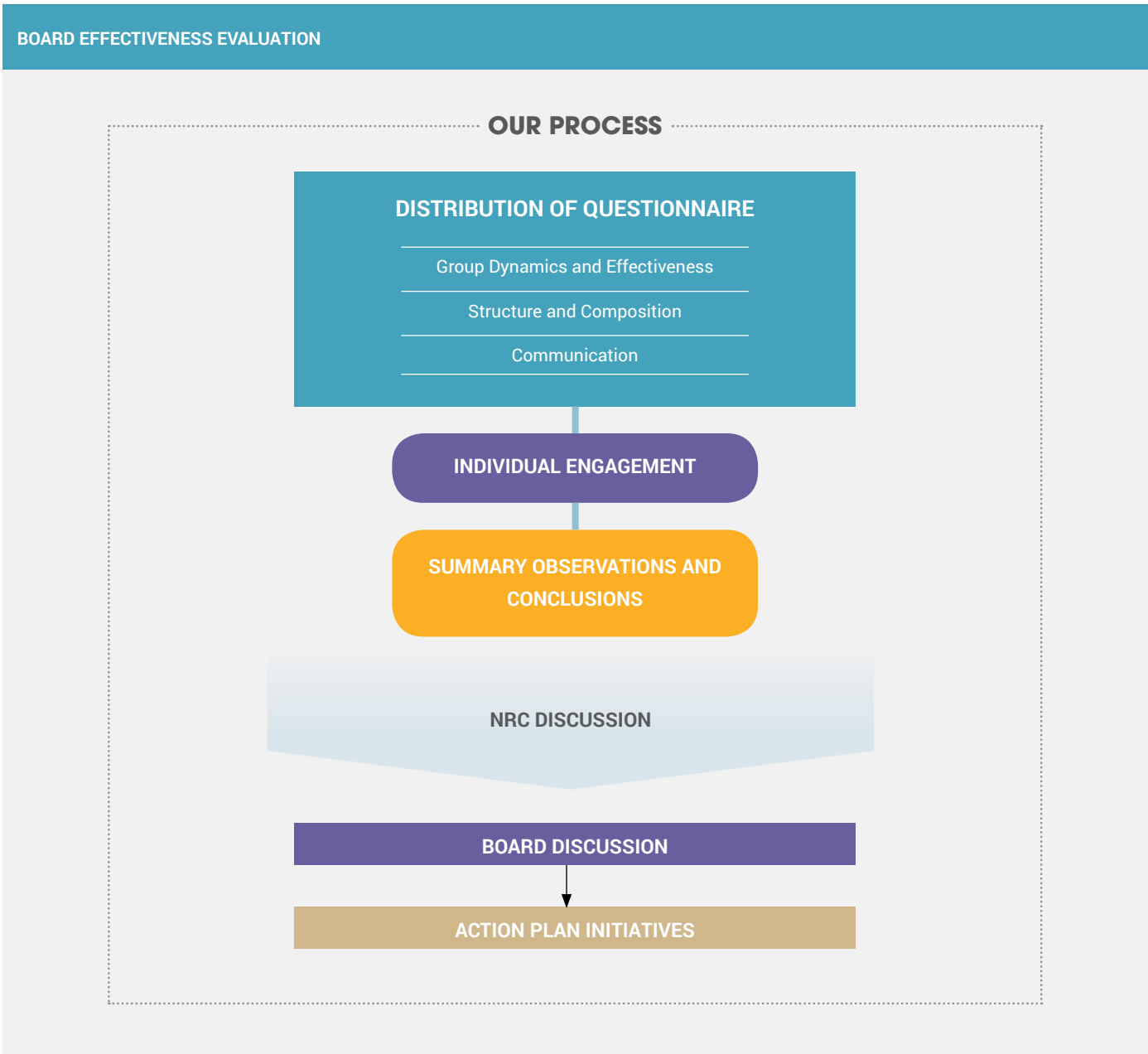
**BOARD EFFECTIVENESS EVALUATION (BEE)**

The NRC is responsible to assist the Board to assess the effectiveness of individual Directors, the Board as a whole and its committees and the contribution of each individual Directors. This is undertaken upon the completion of every financial year.

Since December 2010, PCG has been conducting effectiveness evaluations for its Board and Sub-Committees. In 2016, PCG appointed a consultant to assist in the BEE. The evaluations comprise a Board Evaluation, a Committee Evaluation, Board Skills and Experience Matrix and Individual Director Self and Peer Evaluation. The purpose of these evaluations are to measure the effectiveness and performance of the Board and Sub-Committees as well as address the areas for improvement in discharging their role as Directors of the Company.

The questionnaire on the BEE are prepared incorporating applicable best practices. The indicators for the performance of the Board include among others the Board’s composition, planning, process, conduct, communication with the management and stakeholders as well as strategy and planning for the Company. The performance indicators for individual Directors include the Directors’ roles, leadership and contribution to the Company.

The Chairman of the NRC is actively involved throughout the BEE process. The Chairman of the NRC has the liberty to hold discussions with appointed consultant and the Chairman of the Board.



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

COMMUNICATING EFFECTIVELY WITH SHAREHOLDERS/INVESTORS

The Board understands the importance of effective dialogue with shareholders and investors. We believe that communication with our shareholders is a two-way process. We listen carefully to the views and feedback we receive from all of our shareholders. In the past year, the Managing Director/CEO together with the Chief Financial Officer and the Company's Investor Relations Unit conducted regular dialogues with its institutional shareholders and analysts, and held quarterly analyst briefings to further explain the Group's quarterly financial results. The effect of 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 and insight into 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, 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.my or alternatively, it can be addressed to:

SAFARAH ZEBBA M SALIM

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 Board Audit Committee, Vimala V.R. Menon at vimala.menon@petronas.com.my 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

THE ANNUAL GENERAL MEETING (AGM)

The AGM is the principal forum of open dialogue with shareholders. The notice and agenda of AGM together with Forms of Proxy are given to shareholders at least 21 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 on issues pertaining to the Annual Report, resolutions being proposed and the business of the Company or the Group in general prior to seeking approval from members and proxies on the resolutions. The Board, senior management, external auditors and other advisors, as applicable are present at the AGM to provide answers and clarifications to shareholders. The Chairman informs on the availability of poll voting by shareholders on matters raised during the AGM. An independent scrutineer is appointed to oversee the AGM process. Starting from 2017, all general meetings' resolutions will be decided via an e-polling platform.

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 132 of this Annual Report.

Related Party Transactions and Conflict of Interest Situations

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

All related party transactions, except for recurrent related party transactions which are waived by Bursa Malaysia from complying with the requirement of Paragraph 10.09 of the MMLR, are reviewed by the Board Audit Committee and approved by the Board.

The Statement on Risk Management and Internal Control includes an overview of the Group's policies and procedures on related party transactions, including recurrent related party transactions, as set out on page 124 of this Annual Report.

Whistleblowing Policy

The Company 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.

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 which provides an overview of the state of risk management and internal controls within the Group is set out on pages 116 to 126 of this Annual Report.

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.

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

Selection of Vendors

PCG 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. PCG has established Tender Committees to carry out independent assessment on bidders' proposals and to ensure tendering activities are carried out as per the Tender Committees' Terms of Reference.

The tendering process is as follows:





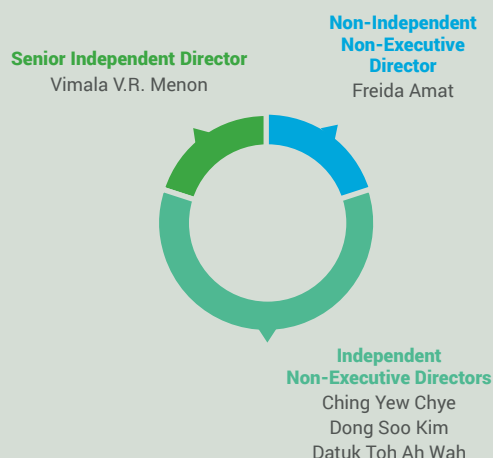
VIMALA V.R. MENON
CHAIRMAN

BOARD AUDIT COMMITTEE REPORT

OUR WORK CONTINUED TO FOCUS ON THE INTEGRITY OF THE GROUP'S FINANCIAL REPORTING, THE RIGOUR OF THE EXTERNAL AND INTERNAL AUDIT PROCESSES AS WELL AS THE EFFECTIVENESS OF THE GROUP'S MANAGEMENT OF RISK AND INTERNAL CONTROLS.

Composition

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



Terms of Reference

The terms of reference sets out the authority, duties and responsibilities of the Board Audit Committee. The terms of reference, which can be found on www.petronaschemicals.com, are consistent with the MMLR of Bursa Malaysia and the MCGG 2012. All the requirements under the terms of reference are fully complied with.

The Committee and its Work

We are pleased to present our report for the financial year ended 31 December 2016 in compliance with Paragraph 15.15 of the MMLR of Bursa Malaysia.

The membership of the Committee has been selected with the aim of providing the wide range of financial and commercial expertise necessary to meet its responsibilities. Additionally, in compliance with Paragraph 15.09 (1)(b) of the MMLR of Bursa Malaysia and the MCGG 2012 all five Board Audit Committee members are Non-Executive Directors including four Independent Directors who fulfil the criteria of independence as defined in the MMLR of Bursa Malaysia. None of the Independent Directors have appointed alternate directors.

The Chairman of the Board Audit Committee, Vimala V.R. Menon and Freida Amat are both qualified accountants. Vimala V.R. Menon is a Member of the Malaysian Institute of Accountants and also a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) whilst Freida Amat is a Fellow of the Association of Chartered Certified Accountants (ACCA). In this regard, the Company is in compliance with Paragraph 15.09 (c)(i) under the MMLR of Bursa Malaysia which requires at least one member of the Board Audit Committee to be a qualified accountant.

Vimala V.R. Menon, who satisfies the prescribed criteria of a Senior Independent Director (SID), has been appointed as the SID to act as the representative of the Board to whom any concerns pertaining to the Group may be conveyed by shareholders and other stakeholders. Since 2011, she has been the focal channel between the Independent Directors and the Chairman on matters that may be deemed to be sensitive as well as a channel for the shareholders and stakeholders to convey their issues and concerns, if any.

Under Paragraph 15.20 of the MMLR of Bursa Malaysia, the performance of the Board Audit Committee is assessed through an annual Board Committee Effectiveness Evaluation.

Meetings

The Board Audit Committee met five times during the year ended 31 December 2016. Details of attendance of the Board Audit Committee members are as follows:

Name of Members	No. of meetings attended
Vimala V.R. Menon	5/5
Ching Yew Chye	5/5
Dong Soo Kim	5/5
Datuk Toh Ah Wah	5/5
Freida Amat	5/5

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

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

The Board Audit Committee meets at least quarterly with additional meetings convened as and when necessary. Board Audit Committee meetings for 2016 were scheduled in November 2015 to allow the Directors to plan ahead and fit the meetings into their respective schedules.

The agenda and a set of meeting papers encompassing qualitative and quantitative information relevant to the business of the meeting are distributed via electronic application to the Board Audit Committee members not less than five business days from the meeting dates.

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

During the year under review, the Board Audit Committee had two private sessions with the external auditors without the presence of the management.

SUMMARY OF ACTIVITIES OF THE BOARD AUDIT COMMITTEE

During the year ended 31 December 2016, the Board Audit Committee carried out the following activities in discharging its functions and duties:

External Audit

- » Reviewed and recommended the terms of engagement and fees of external auditors for the Board's approval.
- » Reviewed and approved the external auditors' audit plan and scope for the year under review.
- » Reviewed the external audit report.
- » Reviewed the independence and objectivity of the external auditors and the effectiveness of services provided.

During the financial year under review, PCG engaged KPMG PLT, the external auditors, for non-audit services. Total fees paid to the external auditors are as follows:

Particulars	RM Million
Total statutory audit fees 2016	775
Total non-audit fees for 2016	582
Percentage of non-audit fees over statutory audit fees	75%

Non-audit fees paid to the external auditors mainly relate to limited reviews on the Group's quarterly financial results.

Internal Audit

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

Financial Results

- » Reviewed the quarterly financial results prior to the approval by the Board, to ensure compliance to the MMLR of Bursa Malaysia, the applicable financial reporting standards as well as other relevant legal and regulatory requirements. The review and discussion were conducted with the Managing Director/CEO and the Chief Financial Officer of the Company.
- » Reviewed the audited financial statements for the year under review prior to the approval by the Board, to ensure that they were prepared in accordance with the provisions of the Companies Act, 1965 in Malaysia and the applicable financial reporting standards. The review and discussion were conducted with the Managing Director/CEO and the Chief Financial Officer of the Company.
- » Reviewed and deliberated specific key areas affecting the Group's financial results, and endorsed recommendations made by Management. The key areas deliberated include assessments on the following areas:
 - a) Impairment indicators on property, plant and equipment and detailed impairment testing.
 - b) Recognition of deferred tax assets and the probability of future utilisation.
 - c) Recognition of provisions including provisions for decommissioning and restoration costs.
 - d) Carrying value of inventories and any write-offs thereon.
 - e) Revenue and expenses recognition.

Corporate Governance

- » Reviewed the impact of relevant regulatory changes and ensured compliance by the Company and the Group.

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

- » Reviewed RPTs/RRPTs for approval or endorsement by the Board to ensure compliance to the Company's policies and procedures.

The Statement on Risk Management and Internal Control includes an overview of the Group's policies and procedures on RPTs, including RRPTs, as set out on page 124 of the Annual Report.

Statement on Corporate Governance (Cont'd)

Board Audit Committee Report

PETRONAS
CHEMICALS
GROUP
BERHAD

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Section
five

Risk Management

- » Reviewed and endorsed all policies, frameworks, guidelines and other key components of risk management for implementation within the Company and throughout the Group.
- » 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 including the Company's Business Continuity Management Policy and Framework.

Annual Reporting

- » The Board Audit Committee reviewed the Board Audit Committee Report and Statement on Risk Management and Internal Control for the financial year ended 31 December 2016 to ensure that they were prepared in compliance with the relevant regulatory requirements and guidelines.

Internal Audit Function

The Board Audit Committee is supported by an in-house internal audit function, the Internal Audit Department (IAD), in discharging its governance responsibilities stated in the Board Audit Committee's Terms of Reference. The IAD undertakes a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes within the Group.

Zulaini Ahmad, the Head of IAD reports directly to the Board Audit Committee. The Board Audit Committee approves the internal audit plan and the KPIs of Head of IAD and reviews IAD's annual budget and resource requirements. Quarterly, the Head of IAD communicates the results of internal audit engagements performed to the Board Audit Committee, as well as reports on IAD's performance against the approved internal audit plan.

The IAD adopts the Institute of Internal Auditors' International Professional Practices Framework (IPPF) which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. In performing the audit engagements, the internal auditors adhere to IAD's established procedures and guidelines, as well as relevant policies and procedures adopted by the Group.

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, inputs are gathered from various sources including the risk profile of the Group, business plans and strategies, past audit issues and feedback from external auditors, Board Audit Committee and Management.

During 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:

- a) Audit on the operations of international subsidiaries and representative offices.
- b) Audit on sales and marketing activities of Commercial Division.
- c) Audit on plant operations and maintenance management at PC Fertiliser Kedah
- d) Audit on business continuity management for the Group.

- e) Audit on plant maintenance management at PC Olefins, PC Glycols and PC Derivatives.
- f) Audit on management of ecoCare Programme.
- g) Audit on legal and corporate secretariat activities for the Group.
- h) Audit on cash and bank management at PCG subsidiaries.
- i) Audit on information security of the process control network at PCG plants.
- j) Audit on Goods & Services Tax implementation for the Group.
- k) Audit on plant maintenance management at PC Aromatics.
- l) Audit on indirect and withholding taxes management for the Group.
- m) Audit on procurement, inventory and warehouse management at PCG subsidiaries.

Key control issues, positive observation, risks and relevant recommendations for improvement, along with the agreed corrective actions are highlighted to the Board Audit Committee in the internal audit reports. The IAD also monitors the progress of these corrective actions and reports the status to the Board Audit Committee on a quarterly basis.

Subsequent to the Board Audit Committee 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 progress and status of these corrective actions are reported to the Board Audit Committee 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 learning and development programmes necessary to further enhance their competencies. The functional competency assessment adopted by IAD is part of PETRONAS capability development programme for internal auditors. The assessment takes into consideration the Institute of Internal Auditors Global Internal Audit Competency Development Framework's core competencies including:

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

The total costs incurred by the internal audit function of the Company and the Group for the financial year was RM4,200,000.

REPORTING TO THE EXCHANGE

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



Vimala V.R. Menon
Chairman
Board Audit Committee



CHING YEW CHYE
CHAIRMAN

NOMINATION AND REMUNERATION COMMITTEE REPORT

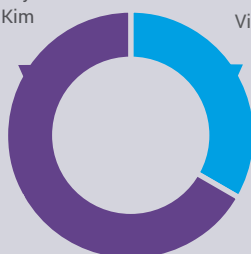
THE NOMINATION AND REMUNERATION COMMITTEE CONTINUES ITS WORK OF ENSURING THE BOARD COMPOSITION IS OPTIMUM AND THAT OUR GOVERNANCE IS EFFECTIVE.

Composition

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

Independent Non-Executive Director
Ching Yew Chye
Dong Soo Kim

Senior Independent Director
Vimala V.R. Menon



The composition of the Nomination and Remuneration Committee complies with the requirements of the MCGG 2012 where its members are exclusively non-executive directors. MCGG 2012 requires a majority to be independent. All members of the Nomination and Remuneration Committee are independent directors who fulfil the criteria of independence as defined in Paragraph 15.08A of the MMLR of Bursa Malaysia.

Terms of Reference

The summary terms of reference of the Nomination and Remuneration Committee as set out on www.petronaschemicals.com are consistent with the MMLR of Bursa Malaysia and the MCGG 2012. All the requirements under the terms of reference are fully complied with.

Meetings

The Nomination and Remuneration Committee met five times during the year ended 31 December 2016 and details of attendance of the members are as follows:

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

The Managing Director/CEO and Head of Human Resource Management are invited to attend the meetings to appropriately brief and furnish the members of the Nomination and Remuneration Committee with the necessary information and clarification to relevant items on the agenda.

At a meeting of the Nomination and Remuneration Committee held on 25 November 2016 where performance of the key management personnel were deliberated, Datuk Toh Ah Wah, an Independent Non-Executive Director who is not a member of the Nomination and Remuneration Committee was invited to provide his input and views on the performance of the key management personnel.

The Nomination and Remuneration Committee meetings for 2016 were scheduled in November 2015 to facilitate the Directors to plan ahead and fit the Nomination and Remuneration Committee meetings into their respective schedules. This is also to provide the members with ample notice of the meetings.

The agenda and a set of meeting papers relevant to the business of the meeting are distributed via electronic application to the Nomination and Remuneration Committee members not less than five business days from the meeting dates.

All proceedings of the Nomination and Remuneration Committee meetings are duly recorded in the minutes of each meeting. Signed minutes of each Nomination and Remuneration Committee meeting is properly kept by the Secretary who acts as the Nomination and Remuneration Committee's Secretary. The draft minutes of meetings are circulated to the Nomination and Remuneration Committee members subsequent to a Committee meeting but prior to Board meeting. This assists the Nomination and Remuneration Committee Chairman to effectively convey to the Board, matters deliberated at the Nomination and Remuneration Committee meeting. The minutes of the Nomination and Remuneration Committee meetings are also distributed to members of the Board of Directors for their notation.

Board Appointment Process

The Company practises a formal and transparent procedure for appointment of new directors. Nomination of directors to the Board is made either by PETRONAS being the majority shareholder or through engagement of a professional recruitment firm to find suitable candidates to fill the positions of the Independent Non-Executive Directors.

All nominees to the Board are first considered by the Nomination and Remuneration Committee, taking into consideration the mix of skills, competencies, experience, integrity, time commitment and other qualities required to effectively discharge his or her role as a director. Board diversity is important to facilitate optimal decision making by harnessing different insights and perspectives.

The process flow for Board appointment is depicted below:



Board Effectiveness Evaluation

Every year, under the purview of the Nomination and Remuneration Committee, a Board Effectiveness Evaluation is undertaken to assess the effectiveness of the following:

- » The Board as a whole and the various Board Committees.
- » Contribution of each individual director.
- » Independence of the independent directors.

Pursuant to Paragraph 15.20 of the MMLR of Bursa Malaysia, the Nomination and Remuneration Committee had at its meeting held on 25 November 2016, reviewed the performance of the Board Audit Committee and is satisfied that the Board Audit Committee and its members discharged their functions, duties and responsibilities in accordance with its terms of reference.

On 15 February 2017, the Nomination and Remuneration Committee reviewed the results of the latest Board Effectiveness Evaluation and noted on areas which necessitate further improvements.

Directors' Re-Election

The Nomination and Remuneration Committee is responsible for recommending to the Board, directors who are eligible to stand for re-election at the AGM of the Company. The recommendation is based on among others, the performance of the directors, contribution to the Board, skills, experience, qualities, level of independence and ability to act in the best interest of the Company.

The directors may seek re-election at the AGM of the Company pursuant to Article 93 and Article 99 of the Company's Constitution.

Article 93 of the Company's Constitution provides that one third of the directors of the Company shall retire by rotation at the AGM and being eligible may offer themselves for re-election. With the current composition of eight directors, two directors are to retire at the next AGM pursuant to this Article.

The Nomination and Remuneration Committee at its meeting held on 25 November 2016, recommended the re-elections of the following Directors who had expressed their intention to seek for re-election at the forthcoming AGM for approval of the Board:

- » Ching Yew Chye
- » Datuk Toh Ah Wah

There is 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.

SUMMARY OF ACTIVITIES OF THE NOMINATION AND REMUNERATION COMMITTEE

During the year ended 31 December 2016, the Nomination and Remuneration Committee carried out the following activities in discharging its functions and duties:

» **Board Effectiveness Evaluation**

- Assessed the performance of the Board as a whole, its sub-committees and its members through the Board Effectiveness Evaluation exercise.

» **Board Membership**

- Reviewed the Board Skills Matrix and competency of the Board members.
- Recommended Board members standing for re-election at the AGM.
- Recommended the Board selection process.
- Reviewed Board Selection Criteria.

» **Performance Management**

- Reviewed 2016 Performance Planning and Key Performance Indicators for Managing Director/CEO.
- Reviewed 2016 Performance Planning, Key Performance Indicators and Development Plans for Key Personnel.
- Reviewed the Directors' professional development.



Ching Yew Chye

Chairman

Nomination and Remuneration Committee

**THE DIVISION OF ROLES BETWEEN THE CHAIRMAN AND THE
MANAGING DIRECTOR/CEO**

There is a clear division of responsibilities between the Chairman and Managing Director/CEO.

Roles of the Chairman

The Chairman is primarily responsible for the orderly conduct and function of the Board and ensures its effectiveness on all aspects of its roles.

- i) Leading the Board in setting the values and ethical standards of PCG.
- ii) Chairing the Board meetings and stimulating debates on issues and encouraging positive contributions from each Director.
- iii) Consulting with the Company Secretary in setting the agenda for Board meetings and ensuring that all relevant issues are on the agenda.
- iv) Maintaining a relationship of trust with and between the Managing Director/CEO and Non-Executive Directors.
- v) Ensuring the provision of accurate, timely and clear information to Directors.
- vi) Ensuring effective communication with shareholders and relevant stakeholders.
- vii) Conducting performance assessment of Board members, its Committees and individual Directors, including assessment of the independence of Independent Directors.
- viii) Facilitating effective contribution of Non-Executive Directors and ensuring constructive discussions at Board meetings.
- ix) Ensuring that all Directors are properly briefed on issues arising at Board meetings and there is sufficient time allowed for discussion on complex or contentious issues and where appropriate, arranging for informal meetings beforehand to enable thorough preparations.
- x) Allowing every Board resolution to be voted on and ensuring the will of the majority prevails.
- xi) Casting his/her votes in accordance with the prescribed Company's Constitution.
- xii) Ensuring that all Board members, upon taking up their office, are fully-briefed on the terms of their appointment, time commitment, duties and responsibilities, and the business of PCG.
- xiii) Acting as liaison between the Board and Management, and between the Board and the Managing Director/CEO.

Roles of the Senior Independent Director

The Senior Independent Director acts as the point of contact between the Independent Directors and Chairman on sensitive issues and has been identified as a designated contact to whom shareholders' concerns or queries may be raised, as an alternative to the formal channel of communication with shareholders.

Roles of the Managing Director/CEO

The Managing Director/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group's strategies and policies. He is assisted by the Management Committee in managing the business on day-to-day basis, which he consults regularly and shall be supported by the Board members in undertaking the following responsibilities:

- i) To develop and recommend to the Board the long-term strategy and vision for PCG that leads to the creation of long-term prosperity and stakeholder value.
- ii) To develop and recommend to the Board the operational plan and budget that support PCG's long-term strategy.
- iii) To foster a corporate culture that promotes ethical practices, encourages individual integrity and the fulfillment of PCG's corporate social responsibilities.
- iv) To maintain a positive and ethical working environment that is conducive to attracting, retaining and motivating a diverse workforce at all levels.
- v) To recommend suitable management structure and operating authority levels which include delegations of responsibilities to the Management.
- vi) To ensure an effective Management team and to develop an appropriate succession plan.
- vii) To formulate and oversee implementation of major corporate policies.
- viii) To be accountable to the Board for the financial management and reporting, including forecasts and budgets of PCG.
- ix) To make reports to the Board periodically on financial position, KPIs, market conditions and business development.
- x) To serve as spokesperson for PCG.
- xi) To refer to the Board Committees on matters as requested.

COMPANY SECRETARY

Both Company Secretaries of PCG are qualified to act as company secretary under Section 235 of the Companies Act, 2016. One of them has a legal qualification and the other is a Fellow of the Malaysian Institute of Chartered Secretaries and Administrators. Both act as advisors to the Board, particularly with regard to the Company's Constitution, Board policies and procedures, and its compliance with regulatory requirements, legislations, guidelines and codes.

The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented, and subsequently communicated to the Management Committee for appropriate actions. The Company Secretaries update the Board on the follow-up of its decisions and recommendations by the Management Committee.

The Company Secretaries constantly keep abreast with the evolving regulatory changes and developments in corporate governance through continuous training. The Board is satisfied with the performance and support rendered by the Company Secretaries in discharging their functions.

Relationship with External Auditors

The Company maintains a professional and transparent relationship with its external auditors, KPMG PLT. The Board Audit Committee met the external auditors every quarter to review the scope and adequacy of the Group's audit process, quarterly results, annual financial statements and audit findings. In addition to regular quarterly meetings, the Board Audit Committee held two separate meetings with external auditors without the presence of the Management. At the meeting, the external auditors highlighted to the Board Audit Committee on matters that warrant the Committee's attention.

The role of the Board Audit Committee in relation to the external auditors is described in the Board Audit Committee Report on page 109 of this Annual Report.

Statement by the Board on Compliance

The Board has deliberated, reviewed and approved this Statement. The Board considers and is satisfied that the Group has fulfilled its obligations under the relevant chapters of the MMLR of Bursa Malaysia and the MCCG 2012 on corporate governance and applicable laws and regulations throughout the year ended 31 December 2016.

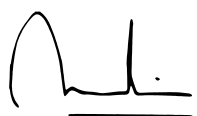
This statement is made in accordance with the resolution of the Board dated 20 February 2017.

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 2016 or entered into since the end of the previous period, except as disclosed in the audited financial statements.



Md Arif Mahmood
Chairman



Datuk Sazali Hamzah
Managing Director/CEO

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

PETRONAS
CHEMICALS
GROUP
BERHAD

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Section
five

PCG HAS INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT FRAMEWORK IN PLACE TO ENSURE THE SMOOTH RUNNING OF THE BUSINESS. IT IS PCG'S AIM TO MANAGE RISK AND TO CONTROL ITS BUSINESS AND FINANCIAL AFFAIRS ECONOMICALLY, EFFICIENTLY AND EFFECTIVELY SO AS TO BE ABLE TO SEIZE PROFITABLE BUSINESS OPPORTUNITIES IN A DISCIPLINED WAY TO AVOID OR MITIGATE RISKS THAT CAN CAUSE LOSS, REPUTATIONAL DAMAGE OR BUSINESS FAILURE AND ENHANCE RESILIENCE TO EXTERNAL EVENTS.

THE STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL IS MADE PURSUANT TO PARAGRAPH 15.26(B) OF THE MMLR OF BURSA MALAYSIA WHEREBY THE BOARD OF DIRECTORS OF PUBLIC COMPANIES ARE REQUIRED TO PUBLISH A STATEMENT ABOUT THE STATE OF THE INTERNAL CONTROL OF THE LISTED ISSUER AS A GROUP.

PCG considers these control systems are appropriate for the size, diversity and complexity of the Group's operations, and their adequacy and integrity are being reviewed and monitored by the Board Audit Committee to ensure their compliance with applicable laws, regulations and guidelines.

The 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. The key elements of the process by which the systems of internal control and risk management are monitored 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. The Board affirms its overall responsibility for reviewing the adequacy and the integrity of the Group's risk management and internal control system which ensures compliance with applicable laws, regulations and guidelines.

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

RISK MANAGEMENT

As part of PCG's journey to become proactive and responsive in managing risks, the PETRONAS Resiliency Model was adopted to focus on three key focus areas; namely Enterprise Risk Management, Crisis Management and Business Continuity Management to strengthen our approach in managing risks to ensure that PCG can effectively safeguard its business and respond to a crisis, regardless of its magnitude.

KEY FOCUS AREAS

Enterprise Risk Management (ERM)	A structured and holistic approach to identify, assess, treat and monitor risks. The aim is to REDUCE the likelihood and impact of all identified risks to enhance the organisation's ability to achieve its strategic objectives.
Crisis Management (CM)	A comprehensive set of processes that aims to prepare the organisation to RESPOND and manage crises in the risk areas to protect and save people, environment, asset and reputation.
Business Continuity Management (BCM)	A holistic management process that aims to build the capability of an organisation to RECOVER and continue delivery of products or services at acceptable predefined levels following a prolonged disruptive incident.

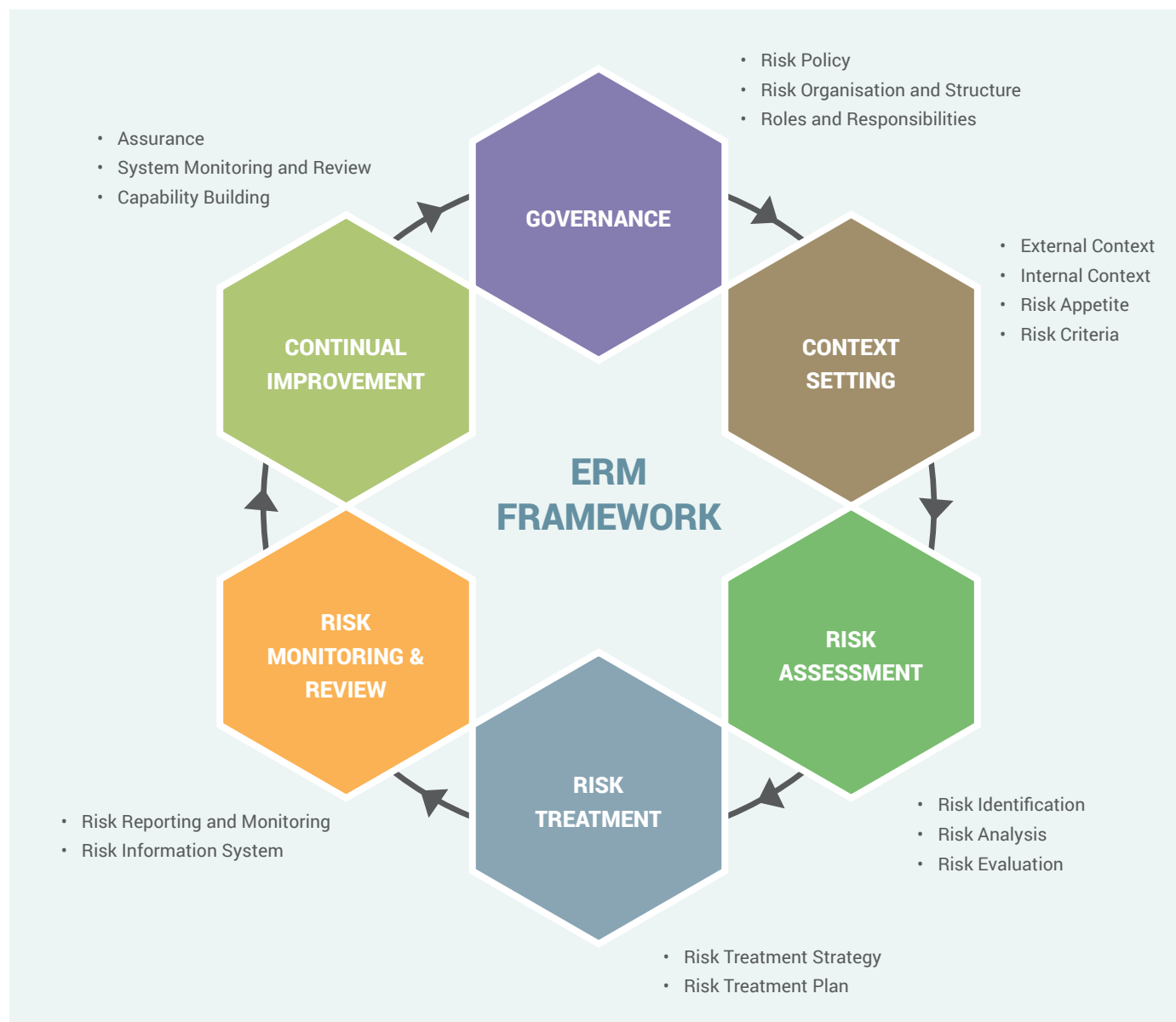
OUR RISK MANAGEMENT PHILOSOPHY

Risk is inherent in our business and the markets in which we operate. The challenge is to identify risks and then manage these so that they can be minimised, accepted, transferred or avoided. This demands a proactive approach to risk management and an effective group-wide risk management framework.

Our overall risk management process is overseen by the Board as an element of solid corporate governance. We recognise that risk management is the responsibility of everyone within PCG. Rather than being a separate and standalone process, risk management is integrated into business processes including strategy development, business planning, capital allocation, investment decisions, internal control and day-to-day operations.

RISK MANAGEMENT FRAMEWORK

Our enhanced 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 the different layers of roles and responsibilities as explained below:

PCG RISK OVERSIGHT STRUCTURE		
BOARD OF DIRECTORS		
Review and approve annual corporate plan, which includes overall corporate strategy, operational plan, marketing plan, human resources plan, financial plan and budget, risk management plan and information technology plan.		
Identify principal risks and ensure the implementation of appropriate systems to manage these risks.		
BOARD COMMITTEE LEVEL	BOARD AUDIT COMMITTEE	
	To review the adequacy and effectiveness of risk management practices and procedures.	
	To review risk profile of the Group on a quarterly basis.	
MANAGEMENT LEVEL	RISK MANAGEMENT COMMITTEE	
	Responsible for the overall oversight of the Group risk management activities.	
OPERATIONAL LEVEL	MANUFACTURING	COMMERCIAL
	<p>Responsible for the plant and facilities risk management.</p> <p>Share best practices and lessons learned with PCG plants and facilities risk fraternities.</p>	<p>Responsible for the commercial risk management.</p> <p>Review and endorse credit terms for PCG's customers and suppliers.</p> <p>Share best practices and lessons learned on commercial risks.</p>

In addition to our risk governance structures, our risk management is backed up by a 3-line Defence Model that distinguishes the three groups which are involved in effective risk management.

1 st LINE OF DEFENCE	2 nd LINE OF DEFENCE	3 rd LINE OF DEFENCE
Business Line (Risk Owner)	Risk Management Unit or Functions	Internal Audit
To establish the identification, assessment, treatment and monitoring of risks	To establish, implement and review risk management and control systems	To provide for independent and objective assurance on the overall adequacy, integrity and effectiveness of risk management and internal control systems

RISK MANAGEMENT PROCESS

The risk profile of the Group has been established based on ERM concept. The critical risks identified are regularly reviewed whereby the status of key risk indicators and risk mitigations of critical risks are deliberated at the Risk Management Committee and presented to the Board Audit Committee on a quarterly basis. Each critical risk has a dedicated owner who is responsible for the effective implementation of control measures, monitoring and tracking of key risk indicators performance, identifying additional risk mitigations and implementing these mitigations. The risks and mitigations are communicated to the line on a timely basis to ensure awareness at all levels.

PCG subscribes to the following structured risk management systems and processes which are in line with PETRONAS to show rigorous practices of risk management are being applied in various areas:

PETRONAS Health Safety Environment Management System (HSEMS) to manage HSE risk and ensure that operations are in tandem with HSE regulatory requirements and industry best practices.

Project Risk Assessment (PRA) to ensure systematic identification, assessment and mitigation to manage risk associated with projects which is in line with PETRONAS Project Management System requirements.

Counterparty Risk Assessment to ensure systematic identification, assessment and mitigation to manage risk associated with credit and performance which is in line with PETRONAS Corporate Financial Policy and PETRONAS Credit Guidelines. Each counterparties are assigned with credit ratings which eventually facilitate the business decision making.

Contractor Risk Assessment (CoRA) to ensure systematic identification, assessment and mitigation of contractors' related risks which are critical to their performance. CoRA is undertaken as part of the procurement process prior to selection of contractor.

Turnaround Risk Assessment (TaRA) to ensure systematic identification, assessment and mitigation of risks for turnaround activities which are critical for smooth execution.

COMPLIANCE UNDER OUR RISK MANAGEMENT FRAMEWORK

The inculcation of compliance culture is a key aspect of an effective risk management. In supporting compliance culture, the Group 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, the Group established its risk assurance programmes based on an annual risk assurance plan that was presented to PCG Risk Management Committee.

The Group conducted two Tier 1 self-assessments per year whereby all subsidiaries are required to perform self-assessment and validation on their compliance to the requirements stipulated under ERM Framework and proposes gap closure actions, if any. The Group also undertook Tier 2 risk assurance programmes in which PCG Risk Management Department validates the implementation of ERM systems and effectiveness of agreed risk mitigations at PCG subsidiaries. The risk Management Committee reviews the risk assurance report and monitors the appropriate corrective actions to be closed timely. In addition, the status of risk assurance progress and gap closures are reported to Risk Management Committee on quarterly basis.

To mitigate any risk manifesting and resulting in prolonged business disruption, the Group has established BCM Framework that provides a systematic approach to continue delivery of products or services to the customers. The activities have been detailed out into a Business Continuity Plan (BCP) and Business Recovery Plan (BRP) that describe the organisation structure, roles and responsibilities of each parties, required resources and the specific recovery strategies. The Group has established BCP for Product Supply to address abrupt and prolonged outage of product supply, that could affect product 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.

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 been put in place. The Group endeavours to achieve the 17 principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework on effective internal controls as illustrated below:

Operations, Reporting & Compliance**CONTROL
ENVIRONMENT**

- Demonstrates a commitment to integrity and ethical values
- The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives
- Demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives
- Holds individuals accountable for their internal control responsibilities in the pursuit of objectives

**RISK
ASSESSMENT**

- Specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives
- Identifies risks to the achievement of its objectives across the entity and analyses risks as a basis for determining how the risks should be managed
- Considers the potential for fraud in assessing risks to the achievement of objectives
- Identifies and assesses changes that could significantly impact the system of internal control

**CONTROL
ACTIVITIES**

- Selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels
- Selects and develops general control activities over technology to support the achievement of objectives
- Deploys control activities through policies that establish what is expected and procedures that put policies into action

**MONITORING
ACTIVITIES**

- Selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning
- Evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate

**INFORMATION
AND
COMMUNICATION**

- Obtains or generates and uses relevant, quality information to support the functioning of internal control
- Internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control
- Communicates with external parties regarding matters affecting the functioning of internal control

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.

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 Board Audit Committee.

The Group's internal audit function adopts the Institute of Internal Auditors' International Professional Practices Framework (IPPF) which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

The internal audit function reviews the internal controls of selected key activities of the Group's businesses based upon an annual internal audit plan which is presented to the Board Audit Committee for approval. The annual audit plan is established primarily on a risk based approach. The Board Audit Committee 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 Board Audit Committee on a quarterly basis.

AUDIT COMPETENCIES

In 2016, all internal audit activities were performed internally by a team of 18 internal audit personnel from selected backgrounds and competencies, as follows:

DISCIPLINE	NO. OF INTERNAL AUDIT PERSONNEL	%
Accounting & Finance	14	78
Plant Operations	3	16
Supply Distribution Operations	1	6

To date, five of our internal audit personnel have received professional certification from various recognised 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 Managing Director/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 Board Audit Committee.

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

The Board Audit Committee 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 Board Audit Committee is set out in the Board Audit Committee's report as presented on pages 108 to 110 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, work productivity and decision making throughout the Group. System reviews are conducted periodically to confirm adequate controls are in place to ensure adherence to the Group's business objectives, policies and procedures.

» **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) AND CONFLICT OF INTEREST (COI)

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

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

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 except for RRPTs which are waived by Bursa Malaysia from complying with the requirement of Paragraph 10.09 of the MMLR 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 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 126 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 Managing Director/CEO has 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 Managing Director/CEO, 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 2016, 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:

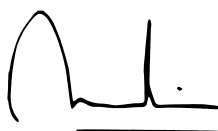
- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- (b) is factually inaccurate.

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 20 February 2017.



Md Arif Mahmood
Chairman



Datuk Sazali Hamzah
Managing Director/CEO

Statement on Risk Management and Internal Control (Cont'd)

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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 2016 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	4,758,556
	(ii) Supply of utilities, electricity and water by PETRONAS Group	755,382
	(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	1,594
	(vi) Purchase of marine diesel oil from PETRONAS Group	1,711
Services rendered within the PETRONAS Group		
	(vii) Provision of vessel screening services by PETRONAS Maritime Sdn Bhd	Nil
	(viii) Provision of freight, transportation and warehousing services by MISC Berhad and its subsidiaries (MISC Group)	80,021
Others		
	(ix) Sales of petrochemical products and other related products to PETRONAS Group	880,821

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OUR NUMBERS

The final proof of our performance lies in our financial results. In the following pages we will present to you a detailed account of how we have improved in all the key parameters that count from our revenue to our profit margins. We will also provide information on our assets, liabilities and cash flow.

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DIRECTORS' REPORT

for the year ended 31 December 2016

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The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

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.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	3,222	4,831
Attributable to:		
Shareholders of the Company	2,932	4,831
Non-controlling interests	290	-

DIVIDENDS

During the financial year, the Company paid:

- (i) a second interim dividend of 10 sen per ordinary share amounting to RM800 million in respect of the financial year ended 31 December 2015 on 23 March 2016; and
- (ii) a first interim dividend of 7 sen per ordinary share amounting to RM560 million in respect of the financial year ended 31 December 2016 on 7 September 2016.

The Directors have declared a second interim dividend of 12 sen per ordinary share amounting to RM960 million in respect of the financial year ended 31 December 2016 which is payable on 21 March 2017. The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

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

RESERVES AND PROVISIONS

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

DIRECTORS OF THE COMPANY

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

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, Ching Yew Chye and Datuk Toh Ah Wah 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 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:

Name	Number of ordinary shares of RM0.10 each in the Company			Balance at 31.12.2016
	Balance at 1.1.2016	Bought	Sold	
Direct interest				
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	-	-	20,000
Zakaria bin Kasah	6,000	-	-	6,000
Freida binti Amat	6,000	-	-	6,000

	Number of ordinary shares of RM1.00 each in PETRONAS Gas Berhad			Balance at 31.12.2016
	Balance at 1.1.2016	Bought	Sold	
Indirect interest				
Freida binti Amat	1,000 ¹	-	-	1,000

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

None of the other Directors holding office at 31 December 2016 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 amount of emoluments or benefits included in the aggregate amount received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of the related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

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

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

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

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

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 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

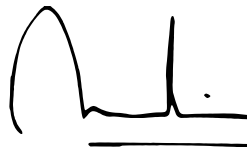
AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

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



MD ARIF BIN MAHMOOD
Director



DATUK SAZALI BIN HAMZAH
Director

Kuala Lumpur,
Date: 20 February 2017

STATEMENT BY DIRECTORS

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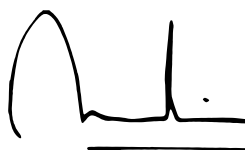
In the opinion of the Directors, the financial statements set out on pages 134 to 195, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the financial year ended on that date.

In the opinion of the Directors, the information set out in Note 38 on page 196 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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



MD ARIF BIN MAHMOOD
Director



DATUK SAZALI BIN HAMZAH
Director

Kuala Lumpur,
Date: 20 February 2017

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 134 to 196, 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 2017

Rashidah

BEFORE ME:



Lot 5.28, Tingkat 5
Wisma Central
Jalan Ampang
50450 Kuala Lumpur

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2016

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		Group		Company	
	Note	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
ASSETS					
Property, plant and equipment	3	18,543	16,597	12	13
Investments in subsidiaries	4	-	-	16,881	16,188
Investments in joint ventures and associates	5	1,363	1,280	1,159	1,075
Intangible assets	6	3	5	-	-
Long term receivables	7	83	8	7,011	-
Deferred tax assets	8	462	389	-	-
TOTAL NON-CURRENT ASSETS		20,454	18,279	25,063	17,276
Trade and other inventories	9	1,383	1,404	-	-
Trade and other receivables	10	2,639	1,692	553	4,381
Tax recoverable		69	129	-	7
Fund investments	12	-	622	-	622
Cash and cash equivalents	13	7,403	8,707	1,254	1,793
TOTAL CURRENT ASSETS		11,494	12,554	1,807	6,803
TOTAL ASSETS		31,948	30,833	26,870	24,079
EQUITY					
Share capital	14	800	800	800	800
Reserves	15	26,242	23,983	25,693	22,222
Total equity attributable to shareholders of the Company		27,042	24,783	26,493	23,022
Non-controlling interests	16	1,271	1,807	-	-
TOTAL EQUITY		28,313	26,590	26,493	23,022
LIABILITIES					
Deferred tax liabilities	8	874	814	1	2
Other long term liabilities and provisions	17	308	355	76	165
TOTAL NON-CURRENT LIABILITIES		1,182	1,169	77	167
Borrowings	18	23	30	-	-
Trade and other payables	19	2,208	2,902	292	890
Current tax payables		180	142	8	-
Dividend payable		42	-	-	-
TOTAL CURRENT LIABILITIES		2,453	3,074	300	890
TOTAL LIABILITIES		3,635	4,243	377	1,057
TOTAL EQUITY AND LIABILITIES		31,948	30,833	26,870	24,079

The notes set out on pages 141 to 196 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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for the year ended 31 December 2016

		Group		Company	
	Note	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Revenue	20	13,860	13,536	4,401	2,796
Cost of revenue		(8,536)	(8,989)	-	-
Gross profit		5,324	4,547	4,401	2,796
Selling and distribution expenses		(704)	(615)	-	-
Administration expenses		(667)	(582)	(173)	(194)
Other expenses		(196)	(391)	(267)	(6)
Other income		289	798	860	346
Operating profit	21	4,046	3,757	4,821	2,942
Net financing income/(costs)	22	47	(11)	60	2
Share of profit of equity-accounted joint ventures and associates, net of tax		17	87	-	-
Profit before taxation		4,110	3,833	4,881	2,944
Tax expense	23	(888)	(742)	(50)	(14)
Profit for the year		3,222	3,091	4,831	2,930
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation differences		641	362	-	-
Share of other comprehensive income of equity-accounted joint ventures and associates		46	197	-	-
Total other comprehensive income for the year		687	559	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,909	3,650	4,831	2,930
Profit attributable to:					
Shareholders of the Company		2,932	2,782	4,831	2,930
Non-controlling interests		290	309	-	-
PROFIT FOR THE YEAR		3,222	3,091	4,831	2,930
Total comprehensive income attributable to:					
Shareholders of the Company		3,619	3,341	4,831	2,930
Non-controlling interests		290	309	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,909	3,650	4,831	2,930
Basic earnings per ordinary share (sen)	24	36.7	34.8	-	-

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The notes set out on pages 141 to 196 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2016

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Group	Attributable to shareholders of the Company								
	Non-distributable					Distributable			
	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 2015	800	8,071	74	(204)	138	13,843	22,722	1,755	24,477
Foreign currency translation differences	-	-	362	-	-	-	362	-	362
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	-	197	-	197	-	197
Total other comprehensive income for the year	-	-	362	-	197	-	559	-	559
Profit for the year	-	-	-	-	-	2,782	2,782	309	3,091
Total comprehensive income for the year	-	-	362	-	197	2,782	3,341	309	3,650
Redemption of redeemable preference shares in subsidiaries	-	-	-	-	152	(152)	-	(111)	(111)
Dividends to shareholders of the Company (Note 25)	-	-	-	-	-	(1,280)	(1,280)	-	(1,280)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(146)	(146)
Total transactions with equity holders of the Group	-	-	-	-	152	(1,432)	(1,280)	(257)	(1,537)
Balance at 31 December 2015	800	8,071	436	(204)	487	15,193	24,783	1,807	26,590

The notes set out on pages 141 to 196 are an integral part of these financial statements.

Statements of Changes in Equity (Cont'd)

for the year ended 31 December 2016

AR16

	Attributable to shareholders of the Company								
	Non-distributable					Distributable			
	Share capital (Note 14)	Share premium	Foreign currency translation reserve (Note 15)	Merger reserve (Note 15)	Other reserves (Note 15)	Retained profits	Total	Non-controlling interests	Total equity
Group	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	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

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The notes set out on pages 141 to 196 are an integral part of these financial statements.

Statements of Changes in Equity (Cont'd)
for the year ended 31 December 2016

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Company	Attributable to shareholders of the Company				
	Non-distributable			Distributable	
	Share capital (Note 14) RM Mil	Share premium RM Mil	Merger relief (Note 15) RM Mil	Retained profits RM Mil	Total equity RM Mil
Balance at 1 January 2015	800	8,071	7,176	5,325	21,372
Profit and total comprehensive income for the year	-	-	-	2,930	2,930
Dividends to shareholders of the Company (Note 25)	-	-	-	(1,280)	(1,280)
Balance at 31 December 2015	800	8,071	7,176	6,975	23,022
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 141 to 196 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2016

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Note	Group		Company	
	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	13,443	13,591	90	140
Cash paid to suppliers and employees	(8,946)	(8,883)	(168)	(104)
	4,497	4,708	(78)	36
Interest income received	260	350	75	91
Taxation paid	(799)	(724)	(36)	(21)
Net cash generated from/(used in) operating activities	3,958	4,334	(39)	106
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in investments in subsidiaries	-	-	(1,398)	(662)
Increase in investments in an associate	(84)	(284)	(84)	(284)
Financial assistance to a subsidiary	-	-	(24)	(76)
Redemption of preference shares in subsidiaries	-	-	460	309
Dividends received from:				
- subsidiaries	-	-	4,043	2,642
- joint ventures and associates	64	154	62	154
Purchase of property, plant and equipment	(3,428)	(2,858)	(5)	(7)
Proceeds from disposal of property, plant and equipment	2	3	-	-
Withdrawal/(Placement) of Islamic deposits	622	(622)	622	(622)
Net cash (used in)/generated from investing activities	(2,824)	(3,607)	3,676	1,454
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to:				
- PETRONAS	(875)	(824)	(875)	(824)
- others (third parties)	(485)	(456)	(485)	(456)
- non-controlling interests	(773)	(146)	-	-
Payment to non-controlling interests on redemption of shares by a subsidiary	(11)	(111)	-	-
Drawdown of revolving credit facility	8	30	-	-
Balance carried forward	(2,136)	(1,507)	(1,360)	(1,280)

The notes set out on pages 141 to 196 are an integral part of these financial statements.

Statements of Cash Flows (Cont'd)

for the year ended 31 December 2016

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		Group		Company	
		2016	2015	2016	2015
	Note	RM Mil	RM Mil	RM Mil	RM Mil
CASH FLOWS FROM FINANCING ACTIVITIES					
(continued)					
Balance brought forward		(2,136)	(1,507)	(1,360)	(1,280)
Repayment of:					
- finance lease liabilities		(55)	(55)	-	-
- revolving credit facility		(16)	-	-	-
Loan to a subsidiary		-	-	(2,481)	(1,771)
Loan repayment by subsidiaries		-	-	-	7
Interest income from loans to subsidiaries		-	-	220	108
Payment for settlement of forward foreign exchange contract		(4,366)	-	(4,366)	-
Proceed from settlement of forward foreign exchange contract		3,811	-	3,811	-
Net cash used in financing activities		(2,762)	(1,562)	(4,176)	(2,936)
Net cash flows from operating, investing and financing activities		(1,628)	(835)	(539)	(1,376)
Effect of foreign currency translation differences		294	(383)	-	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,334)	(1,218)	(539)	(1,376)
NET FOREIGN EXCHANGE DIFFERENCES ON CASH HELD		30	118	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		8,707	9,807	1,793	3,169
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		7,403	8,707	1,254	1,793
CASH AND CASH EQUIVALENTS					
Cash and bank balances and deposits	13	7,403	8,707	1,254	1,793

The notes set out on pages 141 to 196 are an integral part of these financial statements.

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

As of 1 January 2016, the Group and the Company have adopted amendments to MFRS and IC Interpretations (collectively referred to as “pronouncements”) that have been issued by the Malaysian Accounting Standards Board (MASB) as described fully in Note 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 2017.

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 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 3 : Property, plant and equipment;
- (ii) Note 8 : Deferred tax; and
- (iii) 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.1 Basis of consolidation (continued)****(iii) Associates (continued)**

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.

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 borrowing 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.2 Property, plant and equipment and depreciation (continued)**

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.

The estimated useful lives of property, plant and equipment for the current and comparative years are as follows:

Leasehold land	30 - 99 years
Buildings	14 - 66 years
Plant and equipment	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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.3 Leased assets (continued)****(i) Finance lease (continued)**

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases, and the leased assets are not recognised on the Group'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.

2.4 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(ii)).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.6 Financial instruments (continued)****(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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

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

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.7.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest method (Note 2.6 (v)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.6 Financial instruments (continued)****(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:

Financial liabilities at fair value through profit or loss

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.

Financial liabilities measured at amortised cost

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method (see Note 2.6(v)).

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) 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 year are recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(iii) Derivative financial instruments (continued)

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.

(iv) 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.

(v) 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.

(vi) Derecognition of financial instruments

Financial assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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.

2.8 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.8 Impairment (continued)****(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 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.

2.10 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.13 Taxation (continued)****(ii) Deferred tax (continued)**

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.

2.15 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.15 Revenue (continued)**

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 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

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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	Transfers 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 are impairment losses carried forward of RM271 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2015	At 1.1.2015 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2015 RM Mil
At cost:						
Leasehold land	291	-	-	-	-	291
Buildings	1,396	1	(9)	8	-	1,396
Plant and equipment	21,445	121	(42)	635	-	22,159
Office equipment, furniture and fittings	91	2	(1)	10	-	102
Computer software and hardware	243	4	(5)	34	-	276
Motor vehicles	36	6	(1)	-	-	41
Projects-in-progress	4,376	2,760	(1)	(687)	745	7,193
	27,878	2,894	(59)	-	745	31,458

	At 1.1.2015 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2015 RM Mil
Accumulated depreciation and impairment losses:						
Leasehold land	73	4	-	-	-	77
Buildings	553	32	(3)	-	-	582
Plant and equipment	12,728	1,207	(29)	-	-	13,906
Office equipment, furniture and fittings	69	10	(1)	-	-	78
Computer software and hardware	165	23	(5)	-	-	183
Motor vehicles	35	1	(1)	-	-	35
	13,623	1,277	(39)	-	-	14,861

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 RM Mil	2015 RM Mil
Carrying amount:		
Leasehold land		
- with unexpired lease period of more than 50 years	77	78
- with unexpired lease period of less than 50 years	133	136
	210	214
Buildings	834	814
Plant and equipment	7,574	8,253
Office equipment, furniture and fittings	31	24
Computer software and hardware	100	93
Motor vehicles	9	6
Projects-in-progress	9,785	7,193
	18,543	16,597

Included in the property, plant and equipment of the Group are plant and equipment with carrying amount of RM128 million (2015: RM162 million) under finance lease arrangements.

Impairment review

During the year, due to the decline in sale prices of products, an impairment test was performed on one of the Group's methane value chain which comprises a plant currently under commissioning and classified as projects-in-progress with a carrying value amounting to RM6,893 million (2015: RM6,108 million). The recoverable value of this plant was arrived at using value-in-use method, determined by discounting future cash flows projected to be generated by the plant based on various assumptions. While the estimated recoverable value is higher than the carrying value of the plant, there are inherent uncertainties over the assumptions since the plant is currently at commissioning stage.

The assumptions include projected production and sales volume, and price which are particularly sensitive, uncertain or require significant judgment and hence, have significant risks which could result in an impairment loss to the carrying amount of the plant within the next financial year. In particular:

- i. A decline of more than 13% of the projected sales volume would trigger an impairment loss; and
- ii. A decline of more than 13% of the projected price would trigger an impairment loss.

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	Transfers 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

2015	At 1.1.2015 RM 000	Additions RM 000	Disposals/ write-offs RM 000	Transfers RM 000	At 31.12.2015 RM 000
At cost:					
Office equipment, furniture and fittings	27	59	-	910	996
Computer software and hardware	12,485	-	-	1,316	13,801
Motor vehicles	369	-	-	-	369
Projects-in-progress	3,518	12,098	(9,836)	(2,226)	3,554
	16,399	12,157	(9,836)	-	18,720

	At 1.1.2015 RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000	Transfers RM 000	At 31.12.2015 RM 000
Accumulated depreciation and impairment losses:					
Office equipment, furniture and fittings	1	147	-	-	148
Computer software and hardware	2,142	2,644	-	-	4,786
Motor vehicles	323	46	-	-	369
	2,466	2,837	-	-	5,303

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	2016 RM 000	2015 RM 000
Carrying amount:		
Office equipment, furniture and fittings	712	848
Computer software and hardware	6,533	9,015
Motor vehicles	-	-
Projects-in-progress	4,262	3,554
	11,507	13,417

4. INVESTMENTS IN SUBSIDIARIES

Company	2016 RM Mil	2015 RM Mil
Investments in unquoted shares, at cost	17,402	16,430
Less: Impairment losses	(521)	(242)
	16,881	16,188

During the 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 has 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.

5. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	Group		Company	
	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Investments in unquoted shares, at cost	1,028	944	1,159	1,075
Share of post-acquisition profits and reserves	335	336	-	-
	1,363	1,280	1,159	1,075

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.

6. INTANGIBLE ASSET

Group	At 1.1.2015 RM Mil	Addition/ charge for the year RM Mil	At 31.12.2015/ 1.1.2016 RM Mil	Addition/ charge for the year RM Mil	At 31.12.2016 RM Mil
Licence:					
- At cost	23	-	23	-	23
- Accumulated amortisation	16	2	18	2	20
				2016 RM Mil	2015 RM Mil
Carrying amount				3	5

7. LONG TERM RECEIVABLES

	Group		Company	
	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Prepayments	83	8	-	-
Loans due from subsidiaries	-	-	7,011	-
	83	8	7,011	-

Included in the Company's loans due from subsidiaries are loans amounting to RM7,011 million or USD1,563 million (2015: Nil), which bear interest rates ranging from 1.74% to 4.52% (2015: Nil) per annum. Settlement of the loans is not expected within the next twelve months.

8. DEFERRED TAX

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The amounts determined after appropriate offsetting are as follows:

Group	2016 RM Mil	2015 RM Mil
Deferred tax assets		
Deferred tax liabilities	456	408
Deferred tax assets	(918)	(797)
	(462)	(389)
Deferred tax liabilities		
Deferred tax liabilities	1,310	1,387
Deferred tax assets	(436)	(573)
	874	814

8. DEFERRED TAX (CONTINUED)

The components and movements of deferred tax liabilities and assets during the year prior to offsetting are as follows:

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

Included in the above net deferred tax asset is an amount of RM251 million (2015: RM252 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 which have been approved by the Ministry of Finance.

8. DEFERRED TAX (CONTINUED)

Group 2015	At 1.1.2015 RM Mil	Charged/(Credited) to profit or loss (Note 23) RM Mil	Translation exchange difference RM Mil	At 31.12.2015 RM Mil
Deferred tax liabilities				
Property, plant and equipment	1,867	(72)	-	1,795
Others	2	(2)	-	-
	1,869	(74)	-	1,795
Deferred tax assets				
Property, plant and equipment	(68)	1	-	(67)
Unused reinvestment allowances	(8)	-	-	(8)
Unused investment tax allowances	(1,078)	35	-	(1,043)
Unused tax losses	(160)	44	-	(116)
Unabsorbed capital allowances	(15)	15	-	-
Pre-commencement expenses	-	(41)	(4)	(45)
Others	(74)	(17)	-	(91)
	(1,403)	37	(4)	(1,370)
	466	(37)	(4)	425

Unrecognised deferred tax assets

No deferred tax has been recognised for the following items (stated at gross):

Group	2016 RM Mil	2015 RM Mil
Unused tax losses	603	492
Unused investment tax allowances	115	38
Unabsorbed capital allowance	21	-
	739	530

The unused tax losses, unused investment tax and capital allowances 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 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

2015	At 1.1.2015 RM Mil	Charged/(Credited) to profit or loss (Note 23) RM Mil	At 31.12.2015 RM Mil
Deferred tax liabilities			
Others	2	-	2

9. TRADE AND OTHER INVENTORIES

Group	2016 RM Mil	2015 RM Mil
Petrochemical products:		
Raw materials	19	14
Finished goods	574	530
Stores, spares and others	790	860
	1,383	1,404

10. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Trade receivables	10.1	1,475	1,220	-	-
Amount due from PETRONAS	10.2				
- Non-trade		40	108	3	1
Amount due from subsidiaries	10.3				
- Non-trade		-	-	140	81
- Loans and advances	11	-	-	-	4,215
- Dividend receivable		-	-	296	-
Amount due from joint ventures and associates	10.3				
- Trade		184	83	-	-
- Non-trade		2	2	-	1
Amount due from related companies	10.3				
- Trade		152	103	-	-
- Non-trade		106	6	99	1
Other receivables, deposits and prepayments		665	162	14	82
Derivative assets	11	15	9	1	-
		2,639	1,693	553	4,381
Less: Impairment losses					
- Other receivables, deposits and prepayments		-	(1)	-	-
		2,639	1,692	553	4,381

10.1 Included in trade receivables is an amount due from corporate shareholder of a subsidiary of RM61 million (2015: RM55 million).

10.2 Included in amount due from PETRONAS is GST recoverable of RM22 million (2015: RM61 million) for the Group and RM3 million (2015: RM1 million) for the Company.

10.3 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.

11. DERIVATIVE ASSETS/(LIABILITIES)

		Group		Company	
	Note	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Derivative assets					
Current					
Forward foreign exchange contracts		15	9	1	-
Included within:					
Trade and other receivables	10	15	9	1	-
Derivative liabilities					
Current					
Forward foreign exchange contracts		(17)	(720)	(1)	(715)
Included within:					
Trade and other payables	19	(17)	(720)	(1)	(715)

In the previous year, included in the Group's and the Company's derivative liabilities are forward foreign exchange contracts entered in relation to a loan due from a subsidiary amounting to RM4,215 million (Note 10).

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.

12. FUND INVESTMENTS

		Group		Company	
		2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Loans and receivables					
Islamic deposits with licensed financial institutions		-	622	-	622

In the previous year, fund investments arose from placements with government related financial institutions with original maturities of more than three months.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	2016	2015
	RM Mil	RM Mil	RM Mil	RM Mil
Islamic deposits with licensed financial institutions	-	309	-	309
Cash with PETRONAS Integrated Financial Shared Service Centre (IFSSC)	7,230	8,368	1,254	1,484
Cash and bank balances	173	30	-	-
	7,403	8,707	1,254	1,793

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 with PETRONAS IFSSC and cash and bank balances for the Group and the Company are interest-bearing balances amounting to RM7,331 million (2015: RM8,395 million) and RM1,254 million (2015: RM1,484 million) respectively.

14. SHARE CAPITAL

	Group and Company	
	2016	2015
	RM Mil	RM Mil
Authorised:		
15,000,000,000 ordinary shares of RM0.10 each	1,500	1,500
Issued and fully paid:		
8,000,000,000 ordinary shares of RM0.10 each	800	800

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 subsidiaries that fulfilled the conditions of Section 60(4) of the Companies Act, 1965 in Malaysia.

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.

15. RESERVES (CONTINUED)**Other reserves**

Other reserves comprise primarily capital redemption 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	2016	2015	2016	2015
		RM Mil	RM Mil	RM Mil	RM Mil
Finance lease liabilities	17.1	137	183	-	-
Provisions	17.2	162	162	76	165
Other payables		9	10	-	-
		308	355	76	165

17.1 Finance lease liabilities

		2016			2015		
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	55	9	46	55	11	44
Between 1 to 2 years		55	7	48	55	9	46
Between 2 to 5 years		95	6	89	142	13	129
More than 5 years		-	-	-	8	-	8
		205	22	183	260	33	227

17. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

17.2 Provisions

Group	Note	2016 RM Mil	2015 RM Mil
Non-current		162	162
Current	19	38	45
		200	207

The movement of provisions is as follows:

	RM Mil
At 1.1.2016	207
Provisions made	87
Provisions reversed	(63)
Provisions utilised	(41)
Unwinding of discount factor	10
At 31.12.2016	200

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 2 to 5 years (2015: 2 to 6 years) using a discount rate of 8.6% (2015: 8.6%).

- 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%.

Company	Note	2016 RM Mil	2015 RM Mil
Non-current		76	165
Current	19	32	32
		108	197

17. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)**17.2 Provisions (continued)**

The movement of provisions is as follows:

	RM Mil
At 1.1.2016	197
Provisions reversed	(74)
Provisions utilised	(24)
Unwinding of discount factor	9
At 31.12.2016	108

The Company's provision comprises provision for financial assistance in relation to issuance of redeemable preference shares (RPS) to meet a subsidiary's obligation in respect of decommissioning activities and other related expenses. The provision has been made based on present value of estimated funding requirements for decommissioning costs and settlement of onerous contracts over a period of 5 years (2015: 6 years) using a discount rate of 8.6% (2015: 8.6%).

18. BORROWINGS

	2016	2015
Group	RM Mil	RM Mil
Revolving credit facility - unsecured	23	30

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% (2015: 4.45%) per annum.

19. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
Trade payables		66	155	-	-
Other payables	19.1	1,112	956	128	43
Amount due to PETRONAS	19.2				
- Trade		345	288	-	-
- Non-trade		118	240	19	58
Amount due to subsidiaries	19.2				
- Non-trade		-	-	111	37
Amount due to related companies	19.2				
- Trade		329	258	-	-
- Non-trade		183	240	1	5
Provisions	17.2	38	45	32	32
Derivative liabilities	11	17	720	1	715
		2,208	2,902	292	890

19. TRADE AND OTHER PAYABLES (CONTINUED)

19.1 Included in other payables for the Group is the current portion of finance lease liabilities amounting to RM46 million (2015: RM44 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	
	2016	2015	2016	2015
	RM Mil	RM Mil	RM Mil	RM Mil
Sales of petrochemical products, net	13,808	13,490	-	-
Dividend income	-	-	4,401	2,796
Others	52	46	-	-
	13,860	13,536	4,401	2,796

21. OPERATING PROFIT

		Group		Company	
		2016	2015	2016	2015
	Note	RM Mil	RM Mil	RM Mil	RM Mil
<i>Included in operating profit are the following charges:</i>					
Auditors' remuneration*		2	3	1	1
Amortisation of intangible assets	6	2	2	-	-
Depreciation of property, plant and equipment	3	1,335	1,277	3	3
Loss on foreign exchange:					
- realised		-	374	3	6
- unrealised		2	67	-	-
Loss on disposal of property, plant and equipment		4	13	-	-
Rental of:					
- plant, machinery, equipment and motor vehicles		49	50	3	2
- land and buildings		43	49	15	15
Staff costs:					
- wages, salaries and others		758	714	84	109
- contributions to Employees Provident Fund		104	103	16	18
Impairment losses on:					
- property, plant and equipment	3	5	-	-	-
- investments in subsidiaries		-	-	255	-
Inventories written down to net realisable value		2	21	-	-
Property, plant and equipment written off	3	244	5	-	-
Provision for plant decommissioning	17	4	-	-	-

21. OPERATING PROFIT (CONTINUED)

		Group		Company	
	Note	2016 RM Mil	2015 RM Mil	2016 RM Mil	2015 RM Mil
and credits:					
Gain on foreign exchange:					
- realised		17	361	-	-
- unrealised		-	36	416	2
Dividend income:					
- subsidiaries		-	-	4,339	2,642
- joint ventures and associates		-	-	62	154
Interest income:					
- others		261	360	64	101
- subsidiaries		-	-	220	108
Management fee		-	-	77	66
Reversal of:					
- impairment losses on investment in a subsidiary		-	-	-	40
- provisions for plant decommissioning and onerous contracts	17	63	65	-	-
- provision for financial assistance to a subsidiary	17	-	-	74	29
Gain on disposal of property, plant and equipment		-	2	-	-
Gain on derivative financial instruments		-	5	-	-

* The auditors' remuneration includes the following:

		Group		Company	
		2016 RM 000	2015 RM 000	2016 RM 000	2015 RM 000
Statutory audit					
KPMG		775	761	150	150
Other auditors		616	497	-	-
Non-audit fees					
KPMG		582	650	540	650
Other auditors		140	1,000	118	103

22. NET FINANCING (INCOME)/COSTS

	Group		Company	
	2016	2015	2016	2015
	RM Mil	RM Mil	RM Mil	RM Mil
Unwinding of discount factor for other long term liabilities and provisions	21	29	9	16
Unrealised loss on forward foreign exchange contract	-	618	-	618
Net realised gain on forward foreign exchange contract	(160)	-	(160)	-
Unrealised foreign exchange gain on loan to a subsidiary	-	(636)	-	(636)
Realised foreign exchange loss on loan to a subsidiary	91	-	91	-
Interest on revolving credit facility	1	-	-	-
	(47)	11	(60)	(2)

Unrealised and realised gain or loss 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	
	2016	2015	2016	2015
	RM Mil	RM Mil	RM Mil	RM Mil
Current tax expenses				
Current year	913	841	52	28
Over provision in prior year	(22)	(62)	(1)	(14)
	891	779	51	14
Deferred tax expenses				
Origination and reversal of temporary differences	(64)	(74)	(1)	-
Under provision in prior year	61	37	-	-
	(3)	(37)	(1)	-
	888	742	50	14

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:

Group	2016		2015	
	%	RM Mil	%	RM Mil
Profit before taxation		4,110		3,833
Taxation at Malaysian statutory tax rate	24	986	25	958
Non-deductible expenses, net of non-assessable income	1	60	2	61
Tax exempt income and incentives	(1)	(61)	(2)	(83)
Effect of changes in tax rates*	-	-	-	(5)
Effect of lower tax rate under Global Incentive for Trading (GIFT)	(4)	(170)	(3)	(114)
Effect of net deferred tax benefits not recognised	1	50	-	3
Recognition of previously unrecognised tax losses	(1)	(60)	(1)	(27)
Others	1	44	(1)	(26)
	21	849	20	767
Under/(over) provision in prior years, net		39		(25)
Tax expense		888		742

* In the previous year, effect of changes in tax rates arose from the difference between corporate income tax rate of 25% and deferred tax rate of 24% being the rate substantively enacted by the Government in Budget 2014 announcement.

Company	2016		2015	
	%	RM Mil	%	RM Mil
Profit before taxation		4,881		2,944
Taxation at Malaysian statutory tax rate	24	1,171	25	736
Non-deductible expenses, net of non-assessable income	(2)	(122)	-	8
Tax exempt income	(20)	(998)	(24)	(716)
	2	51	1	28
Over provision in prior years		(1)		(14)
Tax expense		50		14

24. BASIC EARNINGS PER ORDINARY SHARE*Basic earnings per ordinary share*

The calculation of basic earnings per ordinary share for year ended 31 December 2016 was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

Group	2016	2015
In RM million		
Profit for the year attributable to shareholders of the Company	2,932	2,782
In millions of shares		
Number of shares issued at 31 December	8,000	8,000
In sen		
Basic earnings per ordinary share	36.7	34.8

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

Group and Company	Sen per share	Total amount RM Mil	Date of payment
2016			
Second interim ordinary for financial year ended 31 December 2015	10	800	23 March 2016
First interim ordinary for financial year ended 31 December 2016	7	560	7 September 2016
		1,360	
2015			
Second interim ordinary for financial year ended 31 December 2014	8	640	24 March 2015
First interim ordinary for financial year ended 31 December 2015	8	640	9 September 2015
		1,280	

After the financial year end, the following dividend was approved by the Directors:

	Sen per share	Total amount RM Mil
Second interim ordinary for financial year ended 31 December 2016	12	960

The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

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

26. SUBSIDIARIES AND ACTIVITIES

The Group includes the following subsidiaries:

Name of company	Effective ownership interest (%)		Country of incorporation	Principal activities
	2016	2015		
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 is currently commissioning its plant.
PETRONAS Chemicals Glycols Sdn. Bhd.*	100	100	Malaysia	Production and sale of ethylene oxide, ethylene glycol and other related by-products.
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 (Thailand) Company Limited*	100	100	Thailand	Marketing of petrochemical products.
PCM (China) Company Limited**	100	100	China	Marketing of petrochemical products.
PETRONAS Chemicals Methanol Sdn. Bhd.	100	100	Malaysia	Production and sale of methanol.
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.
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.

26. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

Name of company	Effective ownership interest (%)		Country of incorporation	Principal activities
	2016	2015		
PRPC Glycols Sdn. Bhd.	100	100	Malaysia	The company has transferred its assets and liabilities to a related company and remained dormant thereafter.
PRPC Polymers Sdn. Bhd.	100	100	Malaysia	Production and sale of products within ethane, propane chains and ethane derivatives. The company has yet to construct its plant.
PRPC Elastomers Sdn. Bhd.	100	100	Malaysia	The company has ceased operation and remained dormant thereafter.
PT PCM Kimia Indonesia	100	-	Indonesia	Marketing of petrochemical products. The company has not commenced operation during the year.
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.

* Audited by firms of auditors other than KPMG.

** Audited by a member firm of KPMG International.

During the year, the Company, via its wholly-owned subsidiary, PETRONAS Chemicals Marketing Sdn. Bhd., incorporated a wholly-owned subsidiary, PT PCM Kimia Indonesia (PCMI) in Indonesia.

During the year, PETRONAS Chemicals Ethylene Sdn. Bhd. and PETRONAS Chemicals Polyethylene Sdn. Bhd. changed their principal activities from production and sales of ethylene to processing of ethane into ethylene, and from production and sales of polyethylene to processing of ethylene into polyethylene respectively.

27. JOINT VENTURES AND ACTIVITIES

The Group includes the following joint ventures:

Name of company	Effective ownership interest (%)		Country of incorporation	Nature of relationship
	2016	2015		
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 (%)		Country of incorporation	Nature of relationship
	2016	2015		
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 reporting year are:

Group	2016 RM Mil	2015 RM Mil
Property, plant and equipment		
Approved and contracted for	6,216	7,843
Approved but not contracted for	4,719	9,401
	10,935	17,244

Included in the capital commitments are RM9,302 million (2015: RM14,666 million) relating to development of petrochemical plants which are part of the RAPID project in Pengerang, Johor and RM864 million (2015: RM1,458 million) for the new world scale fertiliser plant in Sipitang, Sabah.

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	2016 RM 000	2015 RM 000
Directors remuneration:		
- Fees	773	718

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 year:

Group	Note	2016 RM Mil	2015 RM Mil
PETRONAS:			
Purchase of processed gas and natural gas		(3,176)	(3,075)
Management fees	30.1	(9)	(10)
Centralised management services		(39)	(39)
Security charges		(17)	(16)
Information, communication and technology charges		(73)	(61)
Rental of office space		(21)	(22)
Interest income from PETRONAS IFSSC		250	328
Project expenses		(20)	(401)
Subsidiaries of PETRONAS:			
Sales of petrochemical products		881	1,037
Purchase of heavy naphtha		(1,458)	(1,706)
Purchase of processed gas and natural gas		(125)	(82)
Purchase of utilities and materials and supplies		(755)	(663)
Training and development related costs		(20)	(28)
Purchase of warehouse and transportation services		(80)	(76)
Provision of operating and maintenance services		2	3
Purchase of marine diesel		(2)	(5)
Technical retainer fee		(56)	(61)
Project expenses		(355)	(273)
Joint ventures and associates of the Group:			
Sales of petrochemical products		1,312	1,316
Rendering of services		17	14
Purchase of petrochemical products		(28)	(34)
Purchase of warehouse and transportation services		(161)	(144)
Corporate shareholder of the Group:			
	30.2		
Sales of petrochemical products		552	594
Purchase of petrochemical products		-	(10)
Management fees		(1)	(1)

30. RELATED PARTIES DISCLOSURES (CONTINUED)

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(b) Significant transactions with related parties (continued)

Group	Note	2016 RM Mil	2015 RM Mil
Government related entities:			
Sales of petrochemical products		94	104
Interest income		16	13
Purchase of electricity		(105)	(100)

30.1 Management fees paid to holding company relate to payment for services of certain key management personnel of the Group.

30.2 All the amounts outstanding are unsecured and expected to be settled with cash. The balances may also be subjected to interest rate at 8.15% (2015: 8.35%) per annum.

Company	Note	2016 RM 000	2015 RM 000
PETRONAS:			
Fees for representation on the Board of Directors	30.3	(229)	(229)
Management fees	30.4	(1,282)	(1,513)
Centralised management services		(2,495)	(753)
Information, communication and technology charges		(7,377)	(5,682)
Rental of office space		(14,847)	(14,307)
Interest income from PETRONAS IFSSC		55,151	68,168
Subsidiaries:			
Interest income		219,906	107,920
Dividend income		4,338,772	2,642,570
Management fee income		77,435	66,350
Loan and advances		(2,480,573)	(1,771,119)
Joint ventures and associates:			
Dividend income		62,081	153,699
Government related entities:			
Interest income		15,581	13,359

30. RELATED PARTIES DISCLOSURES (CONTINUED)**(b) Significant transactions with related parties (continued)**

30.3 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.

30.4 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 2016 is disclosed in Notes 10, 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 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 0.4% (2015: 0.3%) of the Group's revenue and represents 13.0% (2015: 9.0%) 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)

Group	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
2016					
Segment profit	2,159	999	64	-	3,222
<i>Included in the measure of segment profit are:</i>					
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
<i>Included in the measure of segment assets are:</i>					
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
2015					
Segment profit	1,993	1,059	39	-	3,091
<i>Included in the measure of segment profit are:</i>					
Revenue from external customers	9,495	3,995	46	-	13,536
Inter-segment revenue	12	192	40	(244)	-
Depreciation and amortisation	(800)	(459)	(20)	-	(1,279)
Property, plant and equipment written off	-	-	(5)	-	(5)
Interest income	158	98	212	(108)	360
Financing (costs)/income	(25)	(4)	18	-	(11)
Share of (loss)/profit of joint ventures and associates	32	13	42	-	87
Tax expense	(645)	(75)	(22)	-	(742)
Segment assets	14,808	13,279	2,780	(34)	30,833
<i>Included in the measure of segment assets are:</i>					
Investments in joint ventures and associates	1,072	110	98	-	1,280
Additions to non-current assets other than financial instruments and deferred tax assets	896	1,985	13	-	2,894

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, investment in joint ventures and associates) and deferred tax assets.

Group	Revenue RM Mil	Non-current assets RM Mil
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
2015		
Malaysia	4,989	16,599
Asia:		
- China	2,179	2
- Indonesia	1,599	-
- Thailand	1,261	1
- Others	3,111	-
Rest of the world	397	-
	13,536	16,602

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).

32. FINANCIAL INSTRUMENTS (CONTINUED)

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Categories of financial instruments (continued)

		2016			2015		
		L&R/ (FL)	FVTPL - HFT	Total carrying amount	L&R/ (FL)	FVTPL - HFT	Total carrying amount
Group	Note	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil
Financial assets							
Trade and other receivables*	10	2,092	15	2,107	1,576	9	1,585
Fund investments	12	-	-	-	622	-	622
Cash and cash equivalents	13	7,403	-	7,403	8,707	-	8,707
		9,495	15	9,510	10,905	9	10,914
Financial liabilities							
Other long term liabilities*	17	(216)	-	(216)	(345)	-	(345)
Borrowings	18	(23)	-	(23)	(30)	-	(30)
Trade and other payables*	19	(2,175)	(17)	(2,192)	(2,146)	(720)	(2,866)
Dividend payable		(42)	-	(42)	-	-	-
		(2,456)	(17)	(2,473)	(2,521)	(720)	(3,241)

* These balances exclude balances which are not within the scope of MFRS 139, *Financial Instruments: Recognition and Measurement*.

		2016			2015		
		L&R/ (FL)	FVTPL - HFT	Total carrying amount	L&R/ (FL)	FVTPL - HFT	Total carrying amount
Company	Note	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil	RM Mil
Financial assets							
Long term receivables	7	7,011	-	7,011	-	-	-
Trade and other receivables*	10	552	1	553	4,298	-	4,298
Fund investments	12	-	-	-	622	-	622
Cash and cash equivalents	13	1,254	-	1,254	1,793	-	1,793
		8,817	1	8,818	6,713	-	6,713
Financial liabilities							
Trade and other payables*	19	(259)	(1)	(260)	(143)	(715)	(858)

* These balances exclude balances which are not within the scope of MFRS 139, *Financial Instruments: Recognition and Measurement*.

32. FINANCIAL INSTRUMENTS (CONTINUED)**Financial risk management**

The Group and the Company are exposed to various financial risks that are particular to its core business of petrochemical. These risks, which arise in the normal course of the Group's and the Company's business, comprise credit risk, liquidity risk and market 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.

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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Receivables (continued)

The Group's significant concentration of credit risk for receivables at the end of the reporting date by segment is as follows:

Group	2016 RM Mil	2015 RM Mil
Olefins and Derivatives	1,525	1,133
Fertilisers and Methanol	522	349
Others	45	94
	2,092	1,576

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The Group uses ageing analysis to monitor the credit quality of 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 reporting year is analysed below:

Group	2016 RM Mil	2015 RM Mil
At net		
Current	1,809	1,406
Past due 1 to 30 days	2	-
	1,811	1,406

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, other than those that are impaired.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations 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.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Group's and Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

Group	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
2016							
<i>Financial liabilities</i>							
Finance lease liabilities	183	5.00	205	55	55	95	-
Provisions	117	-	132	37	67	28	-
Borrowings	23	4.36	23	23	-	-	-
Trade and other payables	2,091	-	2,091	2,091	-	-	-
Dividend payable	42	-	42	42	-	-	-
Derivative liabilities	17	-	17	17	-	-	-
	2,473		2,510	2,265	122	123	-
2015							
<i>Financial liabilities</i>							
Finance lease liabilities	227	5.00	260	55	55	142	8
Provisions	207	-	236	46	131	45	14
Borrowings	30	4.45	31	31	-	-	-
Trade and other payables	2,057	-	2,057	2,057	-	-	-
Derivative liabilities	720	-	720	720	-	-	-
	3,241		3,304	2,909	186	187	22

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
2016				
<i>Financial liabilities</i>				
Trade and other payables	259	-	259	259
Derivative liabilities	1	-	1	1
	260		260	260
2015				
<i>Financial liabilities</i>				
Trade and other payables	143	-	143	143
Derivative liabilities	715	-	715	715
	858		858	858

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	
	2016	2015	2016	2015
	RM Mil	RM Mil	RM Mil	RM Mil
Fixed rate instruments				
Financial assets	101	958	5,527	5,146
Financial liabilities	(183)	(227)	-	-
	(82)	731	5,527	5,146
Floating rate instruments				
Financial assets	7,230	8,368	2,738	1,484
Financial liabilities	(23)	(30)	-	-
	7,207	8,338	2,738	1,484

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 generated by the fact that some of their revenue and expenses are denominated in US Dollar. In addition, the Group, where applicable, hedge using derivative instruments in respect of current and forecasted transactions.

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:

Group	Denominated in		
	USD RM Mil	EURO RM Mil	JPY RM Mil
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)	-
2015			
Financial assets			
Trade and other receivables*	5,373	-	-
Cash and cash equivalents	5	-	-
	5,378	-	-
Financial liabilities			
Trade and other payables*	(558)	(7)	(4)
Derivative assets/liabilities at nominal value	(4,751)	-	-
Net exposure	69	(7)	(4)

* 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)*

Company	Denominated in USD	
	2016 RM Mil	2015 RM Mil
Financial assets		
Long term receivables	7,011	-
Trade and other receivables	9	4,215
	7,020	4,215
Financial liabilities		
Trade and other payables	(10)	-
Derivative liabilities at nominal value	-	(4,215)
Net exposure	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:

2016	Appreciation in foreign currency rate %	Profit/(Loss) RM Mil
USD	10	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.

Group	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
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)
2015					
Financial assets					
Forward foreign exchange contracts	9	9	-	-	9
Financial liabilities					
Forward foreign exchange contracts	(720)	(720)	-	-	(720)
Finance lease liabilities	-	-	(183)	(183)	(183)
	(720)	(720)	(183)	(183)	(903)

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
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)
2015					
Financial liabilities					
Forward foreign exchange contracts	(715)	(715)	-	-	(715)

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)

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Income/(expense), net gains and losses arising from financial instruments

Group	2016				2015			
	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Loans and receivables	261	-	(47)	214	360	-	707	1,067
Financial instruments at fair value through profit or loss								
- Held for trading	-	-	93	93	-	-	(608)	(608)
Financial liabilities measured at amortised cost	-	(1)	38	37	-	-	(120)	(120)
	261	(1)	84	344	360	-	(21)	339

Company	2016				2015			
	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Loans and receivables	284	-	325	609	209	-	636	845
Financial instruments at fair value through profit or loss								
- Held for trading	-	-	150	150	-	-	(618)	(618)
Financial liabilities measured at amortised cost	-	-	7	7	-	-	(4)	(4)
	284	-	482	766	209	-	14	223

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 2016, 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 2016

Amendments to MFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)</i>
Amendments to MFRS 11	<i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to MFRS 101	<i>Presentation of Financial Statements – Disclosure Initiative</i>
Amendments to MFRS 119	<i>Employee Benefits (Annual Improvements 2012-2014 Cycle)</i>
Amendments to MFRS 127	<i>Separate Financial Statements: Equity Method in Separate Financial Statements</i>
Amendments to MFRS 134	<i>Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)</i>

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 the MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12	<i>Disclosure of Interests in Other Entities (Annual Improvements 2014 – 2016 Cycle)</i>
Amendments to MFRS 107	<i>Statement of Cash Flows: Disclosure Initiative</i>
Amendments to MFRS 112	<i>Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses</i>

Effective for annual periods beginning on or after 1 January 2018

MFRS 9	<i>Financial Instruments (2014)</i>
MFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to MFRS 15	<i>Revenue from Contracts with Customers: Clarifications</i>
IC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	<i>Leases</i>
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The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements are not expected to have any material impact to the financial statements of the Group and the Company except as mentioned below:

i. MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets.

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 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*.

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 the above pronouncements.

35. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 1	<i>First-time Application of Malaysian Financial Reporting Standards (Annual Improvements 2014 – 2016 Cycle)</i>
Amendments to MFRS 2	<i>Share-based Payment: Classification and Measurement of Share-based Payment Transactions</i>
Amendments to MFRS 4	<i>Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>
Amendments to MFRS 128	<i>Investments in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)</i>
Amendments to MFRS 140	<i>Investment Property: Transfer of Investment Property</i>

Effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10 and MFRS 128	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
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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 year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Group is required to maintain consolidated shareholders' equity equal to or not less than 25% of the issued and paid-up capital and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

37. HOLDING COMPANY

The immediate and ultimate holding company is Petroliaam Nasional Berhad (PETRONAS), a company incorporated in Malaysia.

38. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2016 into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, is as follows:

	Group		Company	
	2016	2015	2016	2015
	RM Mil	RM Mil	RM Mil	RM Mil
Total retained profits/(losses) of the Company and its subsidiaries:				
- realised	20,774	19,348	10,031	6,977
- unrealised	(492)	(518)	415	(2)
	20,282	18,830	10,446	6,975
Total retained profits/(losses) from joint ventures and associates:				
- realised	155	199	-	-
- unrealised	(26)	(19)	-	-
	129	180	-	-
Total realised and unrealised	20,411	19,010	10,446	6,975
Less: Consolidation adjustments	(3,663)	(3,817)	-	-
Total Group retained profits as per consolidated accounts	16,748	15,193	10,446	6,975

The determination of realised and unrealised profits is based on the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

INDEPENDENT AUDITORS' REPORT

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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 2016 of the Group and the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and 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 141 to 196.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2016 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, 1965 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 this 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 judgment, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Property, plant and equipment

Refer to note 2.2 (accounting policy) and note 3 of the financial statements.

There is a risk of impairment of the Group's property, plant and equipment as a result of declining prices of several products, that, in turn reduces the profit margins. The recoverability of the carrying amounts of property, plant and equipment of the cash generating units are dependent upon the recoverable values (determined using the net cash flows) of the cash generating units of the affected plants. This is one of the areas that our audit focuses on because there are inherent uncertainties and significant management judgment involved in forecasting and discounting future cash flows of the affected cash generating units to arrive at the recoverable values. The inherent uncertainties amongst others include appropriateness of significant assumptions and discount rates.

In this area, our audit procedures included, amongst others:

- evaluated the impairment test model by comparing it with the requirements of financial reporting standards;
- assessed the appropriateness of the discount rates used by comparing these with our expectations based on our knowledge of the industry in which the Group operates;
- assessed those significant and highly sensitive assumptions, such as the long term outlook of prices for finished products and raw materials, to determine that these were appropriate and supportable by comparing them with internal and external sources;
- read the report of and interviewed a specialist engaged by the Group in validating the recoverable value of one of the cash generating units of the affected plant; and

Independent Auditors' Report (Cont'd)

to the members of PETRONAS Chemicals Group Berhad
(Company No. 459830-K)
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- considered the adequacy of the disclosures on the impairment assessment for the cash generating units of which the assumptions applied were particularly sensitive, uncertain or required significant judgment and hence, had a significant risk which could result in a material adjustment to the carrying amount of the plants within the next financial year.

Deferred tax assets

Refer to note 2.13(ii) (accounting policy) and note 8 of the financial statements.

Where deferred tax assets are recognised, 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.

In this area, the audit procedures included, amongst others:

- assessed the adequacy of the audit procedures performed by the component auditors 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 the appropriateness of the Group's assessment that it is probable that sufficient taxable income would be generated to utilise the deferred tax assets.

Provision for financial assistance

Refer to note 2.11 (accounting policy) and note 17 of the financial statements.

The Company made a provision to provide financial assistance to one of its subsidiaries. This is one of the areas that our audit focuses on because there are inherent uncertainties and significant judgment involved in forecasting and discounting future cash flows of the obligation to provide financial assistance to the said subsidiary.

In this area, the audit procedures included, amongst others:

- assessed those significant assumptions, the extent of the constructive and contractual obligation that is needed to be fulfilled by the subsidiary, to determine that these were appropriate and justified by comparing them with internal and external sources; and
- determined the adequacy of the provision by reading the financial statements of the subsidiary and assessed its solvency and financial standing.

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.

Independent Auditors' Report (Cont'd)

to the members of PETRONAS Chemicals Group Berhad

(Company No. 459830-K)

(Incorporated in Malaysia)

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Responsibilities of 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, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements 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.
- 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.

Independent Auditors' Report (Cont'd)

to the members of PETRONAS Chemicals Group Berhad
(Company No. 459830-K)
(Incorporated in Malaysia)

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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, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We have considered the accounts and the auditors' reports of the subsidiaries of which we have not acted as auditors, which are indicated in Note 26 to the financial statements, being accounts that have been included in the consolidated financial statements.
- c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note 38 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya, Selangor

Date: 20 February 2017



Thong Foo Vung
Approval number: 02867/08/2018J
Chartered Accountant

Name of registered owner/Beneficial owner:			Land area:	Age of Plant & building:	NBV as at 31/12/2016:
No.	Lot. no./Leasehold period	Acquisition date	Existing use	(sq metre unless otherwise stated)	(Years) (RM '000)
1	PETRONAS Chemicals Derivatives Sdn Bhd, PETRONAS Chemicals Olefins Sdn Bhd and PETRONAS Chemicals Glycols Sdn Bhd (each a 1/3 part owner)				299,432
	H.S.(D) 3385, PT No. 10535, Mukim Kertih, Kemaman, Terengganu Leasehold of 60 years, expiring on 29 August 2060	30.08.2000	Industrial land - TNB sub-station	3,886	16
	H.S.(D) 3316, PT No. 9015, Mukim Kertih, Kemaman, Terengganu Leasehold of 60 years, expiring on 29 August 2060	30.08.2000	Industrial land - Waste water and treatment substation	260,469	16
	Pajakan Negeri No. Hakmilik 7594, No. Lot 8068, Mukim Kertih, Kemaman, Terengganu Leasehold of 60 years, expiring on 29 August 2060	30.08.2000	Industrial land - Plant for production of ethylene derivatives	611,075	16
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	12 1,363,625
3	PETRONAS Chemicals Methanol Sdn Bhd				
	No. 206291590, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan Lease for 51 years, expiring on 30 December 2043	01.06.1992	Industrial land - Plant for production of methanol and administration office	34 acres	25 467,454
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	24 126,077

List of Properties (Cont'd)

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Name of registered owner/Beneficial owner:				Land area:	Age of Plant & building:	NBV as at 31/12/2016:
No.	Lot. no./Leasehold period	Acquisition date	Existing use	(sq metre unless otherwise stated)	(Years)	(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	16	493,594
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	16	6,632
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	24	10,426
8	PETRONAS Chemicals Fertiliser (Kedah) Sdn Bhd Pajakan Negeri No. Hakmilik 1010, No. Lot 10750 Bandar 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	17	282,384
9	PETRONAS 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	17	81,283

No.	Name of registered owner/Beneficial owner:	Acquisition date	Existing use	Land area:	Age of Plant & building:	NBV as at 31/12/2016:
	Lot. no./Leasehold period			(sq metre unless otherwise stated)	(Years)	(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	34	199,239
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	12	1,428
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	24	459,446
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	22	4,762
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	16	315,187
15	PETRONAS Chemicals Ammonia Sdn Bhd PT 15786, Lot 5276, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 08 January 2058	30.12.2011	Industrial land - KIPC Shared Facilities which includes the administrative, laboratory and workshop buildings	96,208	5	31,804

List of Properties (Cont'd)

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Name of registered owner/Beneficial owner:				Land area:	Age of Plant & building:	NBV as at 31/12/2016:
No.	Lot. no./Leasehold period	Acquisition date	Existing use	(sq metre unless otherwise stated)	(Years)	(RM '000)
16	PETRONAS Chemicals LDPE Sdn Bhd					
	Pajakan Negeri No. Hakmilik 7593, No. Lot 8073, Mukim Kertih, Kemaman, Terengganu	20.08.2000	Industrial land - Plant for production of LDPE	184,677	16	106,349
	Leasehold for 60 years, expiring on 19 August 2060					
17	Kertih Port Sdn Bhd					
	Pajakan Negeri No. Hakmilik 4695, No. Lot 7120, Mukim Kertih, Kemaman, Terengganu	02.08.2000	Industrial land - Operations of Kertih Port (Jetty and marine related facilities)	43,100	16	340,827
	Leasehold for 60 years, expiring on 5 March 2060					
18	Kertih Port Sdn Bhd					
	Pajakan Negeri No. Hakmilik 4696, No. Lot 7121, Mukim Kertih, Kemaman, Terengganu	02.08.2000	Industrial land - Gas and oil pipelines (Reclamation area land & Coastal Strip Land)	41,400	16	431
	Leasehold for 60 years, expiring on 5 March 2060					
19	Kertih Port Sdn Bhd					
	Pajakan Negeri No. Hakmilik 6280, No. Lot 8077, Mukim Kertih, Kemaman, Terengganu	31.03.1993	Industrial land - administration complex and other related facilities.	58,570	24	17,025
	Leasehold for 51 years, expiring on 16 June 2052					
20	Vinyl Chloride (Malaysia) Sdn Bhd					
	Pajakan Negeri No. Hakmilik 3331, No. Lot 5276, Mukim Kertih, Kemaman, Terengganu	01.09.1998	Industrial land - Integrated PVC manufacturing plant	187,958	18	3,911
	Leasehold for 60 years, expiring on 8 January 2055					
	Pajakan Negeri No. Hakmilik 7394, No. Lot 6058, Mukim Kertih, Kemaman, Terengganu	01.09.1998	Industrial land - Integrated PVC manufacturing plant	121,400	18	
	Leasehold for 60 years, expiring on 18 December 2056					

ANALYSIS OF SHAREHOLDINGS

as at 17 February 2017

AR16

Share Capital : RM800,000,000 comprising 8,000,000,000 shares

Class of Shares : Ordinary shares

Voting Rights : One vote per ordinary share (on a poll)

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Size of Holdings	No. of Shareholders	% of Total Shareholders	No. of Shares	% of Shareholdings
Less than 100	157	0.91	1,268	0.00
100 - 1,000	5,865	33.84	5,178,466	0.06
1,001 - 10,000	8,949	51.64	37,287,379	0.47
10,001 - 100,000	1,597	9.21	46,575,214	0.58
100,001 to less than 5% of issued shares	761	4.39	1,967,142,330	24.59
5% and above of issued shares	2	0.01	5,943,815,343	74.30
Total	17,331	100.00	8,000,000,000	100.00

LIST OF DIRECTORS' SHAREHOLDINGS

As at 17 February 2017

No.	Name	No. of Shares	% of Shareholdings
1	Md Arif Mahmood	20,000	0.00
2	Datuk Sazali Hamzah	-	-
3	Vimala VR Menon	20,000	0.00
4	Ching Yew Chye	20,000	0.00
5	Dong Soo Kim	10,000	0.00
6	Datuk Toh Ah Wah	-	-
7	Zakaria Kasah	6,000	0.00
8	Freida Amat	6,000	0.00

LIST OF MANAGEMENT'S SHAREHOLDINGS

As at 17 February 2017

No.	Name	No. of Shares	% of Shareholdings
1	Rashidah Alias	6,000	0.00
2	Mohd Yusri Mohamed Yusof	6,000	0.00
3	Akbar Md Thayoob	6,000	0.00
4	Abdul Aziz Othman	6,000	0.00
5	Mohamad Iskandar Bakeri	-	-
6	Noor Lily Zuriati Abdullah	-	-
7	Dr Ross Forrest Gilmour	-	-
8	Datin Zarina Zakaria	-	-
9	Siti Azlina Abd Latif	-	-
10	Ahmad Zaki Daud	-	-

Analysis of Shareholdings (Cont'd)

as at 17 February 2017

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Category of Shareholders	No. of Shareholders		% of Shareholders		No. of Shares		% of Shareholdings	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
Individual	13,755	128	79.37	0.74	59,587,565	1,119,041	0.75	0.01
Body Corporate								
- Bank/ Finance Companies	86	0	0.49	0	776,262,010	0	9.71	0
- Investment Trusts/ Foundation/ Charities	3	0	0.02	0	470,000	0	0.01	0
- Other types of companies	247	7	1.43	0.04	10,343,000	84,000	0.13	0
Government Agencies/ Institutions	4	0	0.02	0	1,250,000	0	0.02	0
Nominees	2,388	713	13.78	4.11	6,443,628,305	707,256,079	80.54	8.83
Others	0	0	0	0	0	0	0	0
Total	16,483	848	95.11	4.89	7,291,540,880	708,459,120	91.16	8.84

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	795,815,343	9.95
3	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM BUMIPUTERA	266,062,000	3.33
4	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	244,848,800	3.06
5	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	69,198,100	0.86
6	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	51,798,600	0.65
7	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM WAWASAN 2020	49,255,100	0.62
8	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	45,559,022	0.57
9	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A)	43,076,125	0.54
10	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND	38,000,000	0.48
11	AMSEC NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	33,251,500	0.42
12	CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	32,616,600	0.41
13	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	28,731,400	0.36
14	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	27,818,500	0.35

as at 17 February 2017

LIST OF TOP 30 HOLDERS (CONTINUED)

No.	Name	No. of shares	% of Shareholdings
15	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD	24,038,700	0.30
16	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND	23,993,200	0.30
17	CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	23,634,800	0.30
18	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N140119490100)	16,467,800	0.21
19	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	15,823,200	0.20
20	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	15,540,100	0.19
21	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	15,418,500	0.19
22	PERMODALAN NASIONAL BERHAD	14,980,200	0.19
23	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	14,821,000	0.19
24	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	14,616,400	0.18
25	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	14,004,900	0.18
26	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT FOR AN CITIBANK NEW YORK (NORGES BANK 9)	12,665,475	0.16
27	CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED (A/C 1125250001)	12,419,549	0.16
28	CITIGROUP NOMINEES (ASING) SDN BHD UBS AG	12,327,136	0.15
29	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (JPMELAB AIF APG)	12,182,100	0.15
30	HSBC NOMINEES (ASING) SDN BHD HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (TRANG)	11,186,800	0.14

Analysis of Shareholdings (Cont'd)

as at 17 February 2017

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LIST OF SUBSTANTIAL SHAREHOLDERS

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No.	Name	No. of Shares	% of Shareholdings
1	PETROLIAM NASIONAL BERHAD	5,148,000,000	64.35
	SHARE HELD UNDER CIMB GROUP NOMINEES (TEMPATAN) SDN BHD		
2	EMPLOYEES PROVIDENT FUND BOARD	795,815,343	9.95
	SHARE HELD UNDER CITIGROUP NOMINEES (TEMPATAN) SDN BHD:		
	EMPLOYEES PROVIDENT FUND BOARD	795,815,343	
	EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	27,818,500	
	EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	15,418,500	
	EMPLOYEES PROVIDENT FUND BOARD (AFFIN-HWG)	8,414,800	
	EMPLOYEES PROVIDENT FUND BOARD (F TEMPLETON)	7,451,300	
	EMPLOYEES PROVIDENT FUND BOARD (AM INV)	6,250,500	
	EMPLOYEES PROVIDENT FUND BOARD (AMUNDI)	4,408,000	
	EMPLOYEES PROVIDENT FUND BOARD (ABERDEEN)	3,205,000	
	EMPLOYEES PROVIDENT FUND BOARD (F.TEMISLAMIC)	1,870,600	
	EMPLOYEES PROVIDENT FUND BOARD (ASIANISLAMIC)	1,547,100	
	EMPLOYEES PROVIDENT FUND BOARD (ABERISLAMIC)	1,495,200	
	EMPLOYEES PROVIDENT FUND BOARD (ARIM)	1,050,000	

WHOLLY OWNED SUBSIDIARIES

1. **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
2. **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
3. **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
4. **PETRONAS Chemicals Fertiliser Sabah Sdn Bhd**
WDT32, PETRONAS Office
SAMUR Project
89857, Sipitang
Sabah
Tel : +608 781 3872
Fax : +608 781 3852
6. **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
7. **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
8. **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
9. **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
10. **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
11. **PETRONAS Chemicals Methanol Sdn Bhd**
Kawasan Perindustrian Rantau-Rantau
P.O. Box 80079
87010 Federal Territory Labuan
Tel : +6087 594 000
Fax : +6087 594 979
12. **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
13. **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
14. **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
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. 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

17. PRPC Polymers Sdn Bhd
PRPC Glycols Sdn Bhd
PRPC Elastomers 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
 Jl.TB Simatupang Kav 1
 Cilandak Timur
 Jakarta Selatan
 12560 Indonesia
 Tel : +6221 2940 6682
 Fax : +6221 2940 6683

PARTLY OWNED SUBSIDIARIES

19. 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

20. 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

21. 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

22. 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

23. 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

24. PCM Chemical India Pvt Ltd
 704, Tolstoy House
 14-15, Tolstoy Marg
 New Delhi-110001
 Tel : +9111 2373 8715
 Fax : +9111 2373 8712

JOINT VENTURES

25. 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

26. BP PETRONAS Acetyls Sdn Bhd
 Kompleks Pentadbiran
 Petrokimia PETRONAS
 24300 Kertih, Kemaman
 Terengganu Darul Iman
 Tel : +609 830 5300
 Fax : +609 830 5321

ASSOCIATES

27. 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

28. 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

29. 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 IS HEREBY GIVEN THAT the 19th Annual General Meeting of the Company will be held at Tamingsari Ballroom, The Royale Chulan Hotel Kuala Lumpur, 5 Jalan Conlay, 50450 Kuala Lumpur, Malaysia on Wednesday, 26th April 2017 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 2016 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, offers themselves for re-election:

- a) Ching Yew Chye
- b) Datuk Toh Ah Wah

(Resolution 1)
(Resolution 2)

Please refer to Explanatory Note B

3. To approve Directors' fees of up to RM1.5 million with effect from 1 January 2017 until the next Annual General Meeting of the Company payable to Non-Executive Directors.

(Resolution 3)

Please refer to Explanatory Note C.

4. To approve re-appointment of KPMG PLT, as Auditor of the Company for the ensuing year and to authorise the Directors to fix their remuneration.

(Resolution 4)

Please refer to Explanatory Note D.

5. To transact any other business of 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
28 March 2017

Notes:-

1. Only depositors whose names appear in the Record of Depositors as at Tuesday, 18 April 2017 shall be regarded as members and entitled to attend, speak and vote at the Meeting.
2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company, an advocate, an approved company auditor, or a person approved by the Registrar.

Where a member of the Company appoints two proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.

3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy but not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its common seal, or under the hand of its officer or its duly authorised attorney.
5. If the instrument appointing a proxy is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the instrument appointing a proxy is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the instrument appointing a proxy.
6. The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia at least 48 hours before the meeting, or if the meeting is adjourned at least 48 hours before the time fixed for the adjourned meeting.

7. Explanatory Notes

Note A

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.

Note B

Re-election of Directors who retire in accordance with Article 93 of the Company's Constitution

1. Articles 93 of the Company's Constitution provides that one-third of the Directors for the time being, or if their number is not a multiple of three, the number nearest to one-third with a minimum of one, shall retire from office and an election of Directors shall take place PROVIDED ALWAYS that each Director shall retire at least once in every three years but shall be eligible for re-election. 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, two Directors are to retire in accordance with Article 93 of the Company's Constitution.
2. The Nomination and Remuneration Committee (NRC) of the Company determines the eligibility of each director standing for re-election at the AGM based on the performance of the Directors, taking into account the results of their latest Board Evaluation, contribution to the Board through their skills, experience, strengths and qualities, level of independence and ability to act in the best interest of the Company in decision-making.

The profiles of the retiring Directors are set out in the Profile of the Board of Directors on pages 29 and 31, of the 2016 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.

Note C

Pursuant to Section 230(1) of the Companies Act 2016, the fees of the directors, and any benefits payable to the directors including any compensation for loss of employment of a director or former director of a public company or a listed company and its subsidiaries, shall be approved at a general meeting.

The fees structure of the Non-Executive Directors (NEDs) of the Company is as follows:

- Monthly fixed fees for duties as Director/Chairman;
- Meeting allowance for each Board/Board Committee attended; and
- Directors and Officers Liability insurance.

The Directors' fees and meeting allowance for Md Arif Mahmood and Zakaria Kasah being the Non-Independent Non-Executive Directors who are also employees of Petrolia Nasional Berhad (PETRONAS) and holding positions of Vice President and above are paid directly to PETRONAS.

The shareholders, at the 15th Annual General Meeting held on 22 May 2013, has approved the annual limit of the Directors' fees up to RM1.5 million from financial year commencing 1 January 2013. The actual Directors' fees amount paid to NEDs for the financial year ended 31 December 2016 is RM1,001,500.

The Directors' fees from 1 January 2017 until the conclusion of the next Annual General Meeting are estimated not to exceed RM1.5 million. The Board will seek shareholders' approval at the next AGM in the event the Directors' fees proposed are insufficient.

Details of the fees paid to the Directors for the financial year ended 31 December 2016 are disclosed on page 102 of the Statement on Corporate Governance in the 2016 Annual Report.

Note D

The Board at its meeting held on 20 February 2017 recommended the re-appointment of KPMG PLT as external Auditors of the Company for the financial year ending 31 December 2017 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.

KPMG had converted its legal entity status from Unlimited Liability Partnership pursuant to Partnership Act 1961 to Limited Liability Partnership pursuant to Section 29 of the Limited Liability Partnerships Act 2012 (LLP Act 2012) effective 27 December 2016. Accordingly, KPMG had been registered in the name of KPMG PLT. In this instance, PLT means "Perkongsian Liabiliti Terhad". There was no change to the Partners serving the Company.

In any event, pursuant to Section 36 of the LLP Act 2012 any agreements/engagements already made between the Company and its Group and KPMG will continue to be in force as if KPMG PLT were a party to the agreements. Accordingly, all engagement letters signed with KPMG continue to be in force until these are superseded.

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

19TH ANNUAL GENERAL MEETING

PETRONAS
CHEMICALS
GROUP
BERHAD

214

Section
six

Registration

- 1) Registration will start at 8.15 a.m. on 26 April 2017 in front of the Tamingsari Ballroom, The Royale Chulan Hotel Kuala Lumpur, Malaysia.
- 2) Please produce your original Identity Card (IC) to the registration staff for verification. Please make sure you collect your IC thereafter.
- 3) Upon verification, you are required to write your name and sign on the attendance list placed on the registration table.
- 4) You will also be given an identification tag. No person will be allowed to enter the meeting room without the identification tag. There will be no replacement in the event that you lose or misplace the identification tag.
- 5) No person will be allowed to register on behalf of another person, even with the original IC of that person.
- 6) The registration counter will handle only verification of identity and registration.

Help Desk

- 7) Please proceed to the Help Desk for any clarification or enquiry.
- 8) The Help Desk will handle revocation of proxy's appointment.

Parking

- 9) Please take note that transportation is at attendees' own cost.
- 10) There is no dedicated parking space for AGM attendees. However, you may park your vehicle at parking area located at the Royale Chulan Hotel Kuala Lumpur, 5 Jalan Conlay, 50450 Kuala Lumpur, Malaysia.

Annual Report

- 11) PCG's Annual Report for Financial Year 2016 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
(Full Name In Capital Letters)

of
(Full Address)

being a Member/Members* of PETRONAS CHEMICALS GROUP BERHAD, 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* and on my/our* behalf at the 19th Annual General Meeting of the Company to be held at **Tamingsari Ballroom, The Royale Chulan Hotel Kuala Lumpur, 5 Jalan Conlay, 50450 Kuala Lumpur, Malaysia** on Wednesday, 26 April 2017 at 10.30 a.m. and at any adjournment thereof.

Please indicate with an "X" in the space provided below whether you wish your votes to be cast for or against the Resolutions. In the absence of specific directions, your proxy will vote or abstain from voting as he/she thinks fit.

No.	Resolutions	For	Against
1.	Re-election of Ching Yew Chye as a Director.		
2.	Re-election of Datuk Toh Ah Wah as a Director.		
3.	Directors' fees of up to RM1.5 million with effect from 1 January 2017 until the next Annual General Meeting of the Company payable to Non-Executive Directors.		
4.	Re-appointment of KPMG PLT as Auditors.		

Please refer to the Notice of Annual General Meeting for full details of the proposed Resolutions.

As witness my/our hand this day..... 2017.

* delete whichever not applicable

.....
Signature/Common Seal of Shareholder(s)

Notes:-

1. Only depositors whose names appear in the Record of Depositors as at Tuesday, 18 April 2017 shall be regarded as members and entitled to attend, speak and vote at the Meeting.
2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy may but need not be a member of the Company, an advocate, an approved company auditor, or a person approved by the Registrar.

Where a member of the Company appoints two proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy but not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
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6. The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia at least 48 hours before the meeting, or if the meeting is adjourned at least 48 hours before the time fixed for the adjourned meeting.

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

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