PETRONAS

LEADING.
FUTURE FOCUSED

PETRONAS
CHEMICALS
GROUP
BERHAD
(459830-K)

AUDITED FINANCIAL
STATEMENTS
2018

Table of Contents

Inside This Report

Cover Rationale

LEADING. FUTURE FOCUSED

As the leading integrated chemicals producer in Malaysia and one of the largest in Southeast Asia, our vision is to be The Preferred Chemical Company Providing Innovative Customer Solutions, making a difference to the lives of millions of people around the world. With our **Leading** performance in 2018, we have delivered on our promises. We remain firmly **Future Focused** and are creating value for all our stakeholders through a fundamentally resilient and sustainable business, able to capitalise on opportunities and withstand the challenges presented by a dynamically shifting global business landscape.

The following icon is used throughout this Audited Financial Statements

Tells you where you can find more information online at www.petronaschemicals.com

1 About This Report

Page 01 to Page 04

We present our inaugural standalone Audited Financial Statements to be read in conjunction with our Integrated Report 2018.

2 Financial Statements

Page 05 to Page 87

The purpose of our Audited Financial Statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders.

Integrated Reporting Approach

We are proud to present PETRONAS Chemicals Group Berhad's (PCG) inaugural standalone Audited Financial Statements (AFS), to be read in conjunction with our Integrated Report 2018 (IR).

The AFS is a standalone report consisting of Directors' Report, Financial Statements, Notes to the Financial Statements and our Independent Auditors' Report. This report provides detailed information to our shareholders, investors, analysts and other interested parties.

For more information, please log on to our website: www.petronaschemicals.com

Reporting Framework

Our AFS had been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards, Main Market Listing Requirements by Bursa Malaysia Securities Berhad and Companies Act 2016.

Scope and Boundary

Our reporting scope covers the period from 1 January 2018 to 31 December 2018. The boundary is limited to PCG and the principal activities of its subsidiaries, joint operation, joint ventures and associates.

Approaching Our Financial Statements

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of Profit or Loss and Other Comprehensive Income

This statement comprises (a) profit or loss and (b) other comprehensive income (OCI). The objective of this statement is to present all income or expenses (transactions with non-owners) in a performance statement. OCI represents certain income and expenses which are not recognised in profit or loss as required or permitted by the relevant accounting standard. Transactions with owners such as dividends are presented in the statement of changes in equity.

"Financial performance measured by recording the flow of resources over a period of time"

Statement of Financial Position

This statement sums up the Group's economic resources (total assets), obligations (debts and other liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2018. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

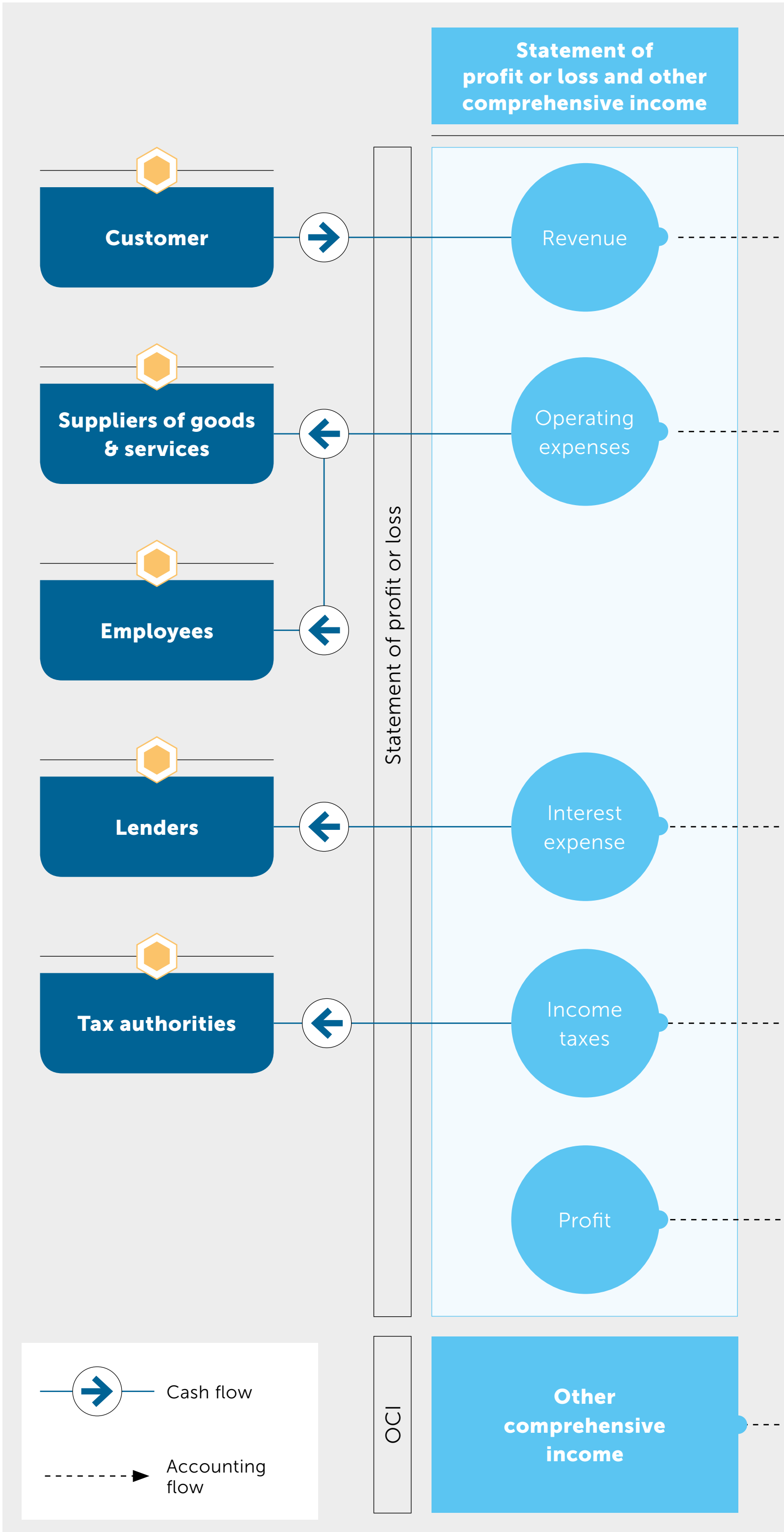
Statement of Cash Flows

This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation and amortisation, are adjusted for, thus the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between its shareholders and lenders.

"Where the company gets its cash and how it spends it"

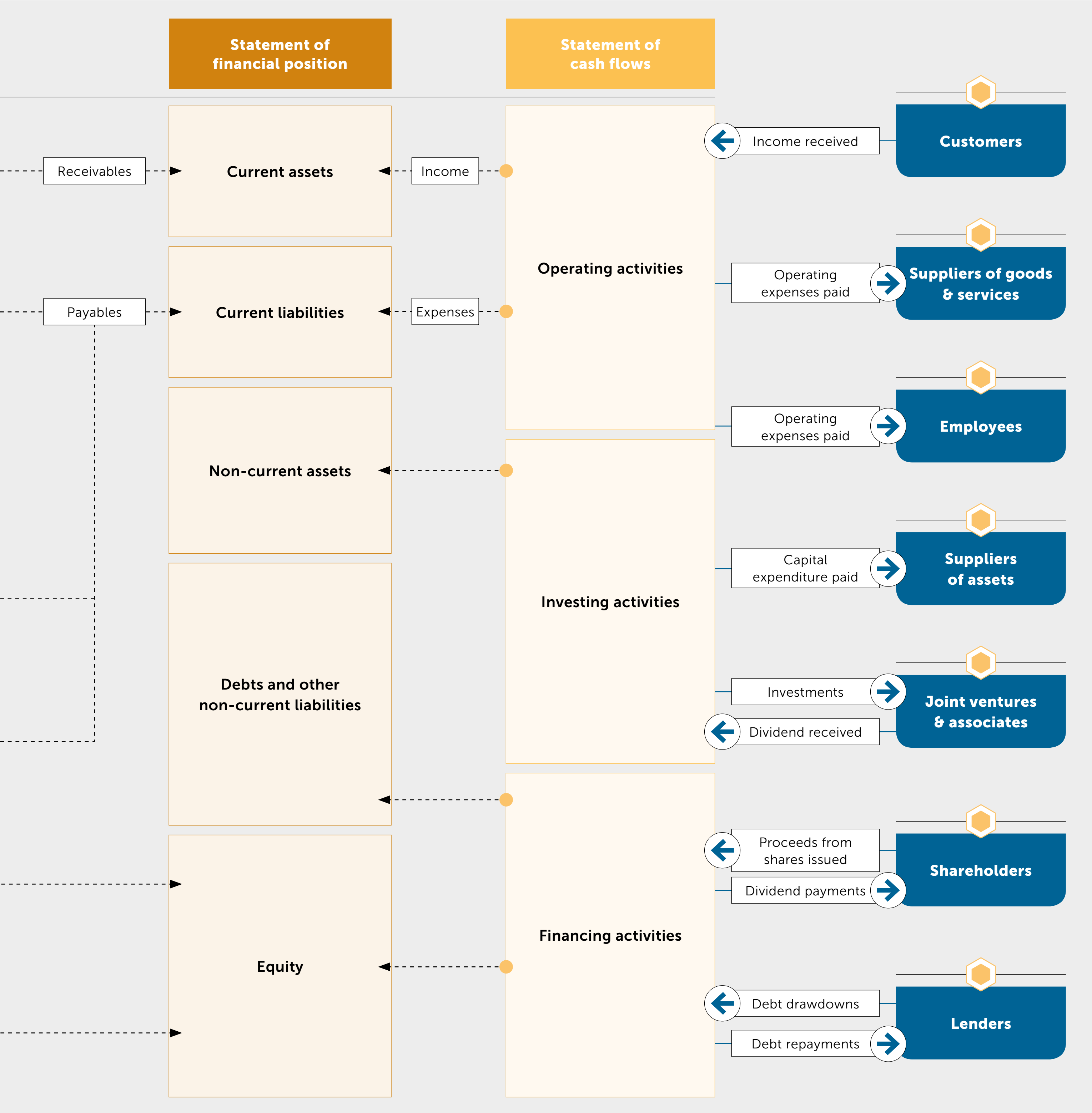
Financial Statements Illustrated

The diagram in the next page illustrates the relationships between the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows, as well as their links with the Group's stakeholders.



Approaching Our Financial Statements

On one hand, the Group earns revenue from customers through the deployment of assets. On the other hand, it pays operating expenses mainly relating to supply of goods and services, staff costs as well as invests in additional non-current assets. The net balance of revenue and operating expenses is the operating profit. After deducting payment to lenders, this profit is available for payment to tax authorities and for distribution to shareholders in return for their contribution of funds to the Group.



Statement of Directors' Responsibility

(in relation to the Financial Statements)

The financial statements of the Group and of the Company as set out on pages 11 to 84 are properly drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2018 and of the results of its operations and cash flows for the year ended on that date.

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

- appropriate accounting policies have been used and consistently applied;
- reasonable and prudent judgments and estimates have been made;
- all Malaysian Financial Reporting Standards and the Companies Act, 2016 in Malaysia have been followed; and
- prepared on a going concern basis.

The Directors are responsible for ensuring that the accounting and other records and registers required by the Companies Act, 2016 in Malaysia to be retained by the Group and the Company have been properly kept in accordance with the provisions of the said Act.

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

Directors' Report

For the year ended 31 December 2018

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 2018.

PRINCIPAL ACTIVITIES

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

In the preparation of the financial statements of the Company, as required by MFRS 11 *Joint Arrangements*, the Company recognises its share of assets held and liabilities incurred jointly in Pengerang Petrochemical Company Sdn. Bhd. (PPC), a joint operation of the Company as disclosed in Note 30 to the financial statements. The intended principal activity of PPC is sales of products within ethane and propane chains and ethane derivatives to the joint operators. PPC has not commenced operation during the financial year.

The principal activities of subsidiaries, and nature of relationship of joint ventures and associates are stated in Note 27, Note 28 and Note 29 to the financial statements respectively.

ULTIMATE HOLDING COMPANY

The ultimate holding company is Petroliam Nasional Berhad (PETRONAS), a company incorporated in Malaysia.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 27 to the financial statements.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	**5,058**	**2,029**
Attributable to:		
Shareholders of the Company	**4,979**	**2,029**
Non-controlling interests	**79**	**-**

DIVIDENDS

During the financial year, the amount of dividends paid by the Company were as follows:

(i) In respect of the financial year ended 31 December 2017 as reported in the Directors' Report of that year:
- a second interim dividend of 15 sen per ordinary share amounting to RM1,200 million declared on 20 February 2018 and paid on 21 March 2018; and

(ii) In respect of the financial year ended 31 December 2018:
- a first interim dividend of 14 sen per ordinary share amounting to RM1,120 million declared on 15 August 2018 and paid on 20 September 2018.

The Directors have declared a second interim dividend of 18 sen per ordinary share amounting to RM1,440 million in respect of the financial year ended 31 December 2018 which is payable on 27 March 2019. The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

Directors' Report

For the year ended 31 December 2018

RESERVES AND PROVISIONS

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

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

Datuk Md Arif bin Mahmood
Datuk Sazali bin Hamzah
Vimala a/p V.R. Menon
Datuk Toh Ah Wah
Ching Yew Chye
Zakaria bin Kasah
Freida binti Amat
Warren William Wilder (appointed on 1 July 2018)
Dr Zafar Abdulmajid Momin (appointed on 1 July 2018)
Dong Soo Kim (resigned on 16 August 2018)

In accordance with Article 93 of the Company's Constitution, Datuk Sazali bin Hamzah, Ching Yew Chye and Freida binti Amat are due for retirement by rotation at the forthcoming Annual General Meeting (AGM) of the Company. Datuk Sazali bin Hamzah and Freida binti Amat, being eligible for re-election have given their consent for re-election at the forthcoming AGM, whilst Ching Yew Chye do not wish to seek for re-election and has expressed his decision to retire at close of this AGM.

In accordance with Article 99 of the Company's Constitution, Warren William Wilder and Dr Zafar Abdulmajid Momin, who were appointed as Directors during the year and being eligible, offer themselves for re-election at the forthcoming AGM.

The names of Directors of subsidiaries are available on the Company's corporate website and the Board deems such information is included in the Company's Directors' Report by such reference and shall form part of the Company's Directors' Report.

The Company has been granted a relief order pursuant to Section 255(1) of the Companies Act, 2016 relieving the Company's Directors from full compliance to the requirements under Section 253(2) of the Companies Act, 2016.

DIRECTORS' INTERESTS

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

	Number of ordinary shares in the Company			
Name	Balance at 1.1.2018	Bought	Sold	Balance at 31.12.2018
Datuk Md Arif bin Mahmood	20,000	-	-	20,000
Vimala a/p V.R. Menon	20,000	-	-	20,000
Ching Yew Chye	20,000	-	-	20,000
Zakaria bin Kasah	6,000	-	-	6,000
Freida binti Amat	6,000	-	-	6,000

None of the other Directors holding office at 31 December 2018 had any interest in the shares of the Company and of its related corporations during the financial year.

Directors' Report

For the year ended 31 December 2018

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of the related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNITY AND INSURANCE COSTS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors and Officers Liability Insurance in accordance with Section 289 of the Companies Act, 2016. The total insured limit for the Directors and Officers Liability Insurance effected for the Directors and Officers of PETRONAS Group was RM1,290 million per occurrence and in the aggregate. The insurance premium for the Company is RM21,706.

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) necessary actions had been taken in relation to the writing off of bad debts and the provisioning of doubtful debt and satisfied themselves that all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group or in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

Directors' Report

For the year ended 31 December 2018

OTHER STATUTORY INFORMATION (CONTINUED)

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

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any material contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No material 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 2018 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.

In respect of the Directors or past Directors of the Company:

(i) the amount of fees and other benefits paid to or receivable by them from the Company or its subsidiaries as remuneration for their services to the Company or its subsidiaries, and

(ii) the estimated money value of any other benefits received or receivable by them otherwise than in cash from the Company or from any of its subsidiaries

are disclosed in Note 32 to the financial statements.

There were no amounts paid to or receivable by any third party in respect of the services provided to the Company or any of its subsidiaries by any Director or past Director of the Company.

SIGNIFICANT EVENTS

The significant events are as disclosed in Note 40 to the financial statements.

AUDITORS

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

The auditors' remuneration is disclosed in Note 21 to the financial statements.

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

Datuk Md Arif bin Mahmood
Director

Datuk Sazali bin Hamzah
Director

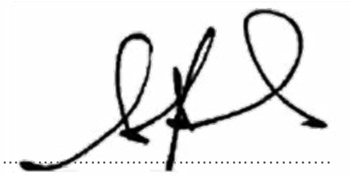
Kuala Lumpur,

Date: 25 February 2019

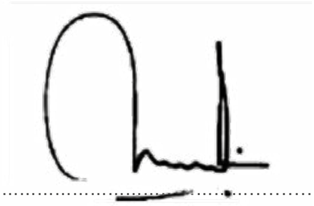
Statement by Directors

In the opinion of the Directors, the financial statements set out on pages 11 to 84, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2018 and of their financial performance and cash flows for the financial year ended on that date.

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



Datuk Md Arif bin Mahmood
Director



Datuk Sazali bin Hamzah
Director

Kuala Lumpur,

Date: 25 February 2019

Statutory Declaration

I, Rashidah binti Alias @ Ahmad, the officer primarily responsible for the financial management of PETRONAS Chemicals Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 11 to 84, 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 (MIA No. 40115), at **Kuala Lumpur**
in **Wilayah Persekutuan** on 25 February 2019

BEFORE ME:

Statements of Financial Position

As at 31 December 2018

	Note	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
ASSETS					
Property, plant and equipment	3	**19,080**	20,792	**4,459**	9
Prepaid lease payments	4	**28**	42	**-**	-
Investments in subsidiaries	5	**-**	-	**20,864**	22,063
Investments in joint ventures and associates	6	**1,232**	1,192	**1,204**	1,183
Intangible asset	7	**-**	1	**-**	-
Long term receivables	8	**29**	113	**-**	3,991
Deferred tax assets	9	**237**	300	**-**	-
TOTAL NON-CURRENT ASSETS		**20,606**	22,440	**26,527**	27,246
Trade and other inventories	10	**1,698**	1,723	**1**	-
Trade and other receivables	11	**2,668**	2,370	**280**	43
Tax recoverable		**64**	55	**2**	-
Cash and cash equivalents	13	**12,329**	6,674	**6,462**	3,629
TOTAL CURRENT ASSETS		**16,759**	10,822	**6,745**	3,672
TOTAL ASSETS		**37,365**	33,262	**33,272**	30,918
EQUITY					
Share capital	14	**8,871**	8,871	**8,871**	8,871
Reserves	15	**21,608**	18,994	**21,603**	21,925
Total equity attributable to shareholders of the Company		**30,479**	27,865	**30,474**	30,796
Non-controlling interests	16	**695**	1,003	**-**	-
TOTAL EQUITY		**31,174**	28,868	**30,474**	30,796
LIABILITIES					
Deferred tax liabilities	9	**919**	838	**1**	1
Other long term liabilities and provisions	17	**163**	212	**34**	34
TOTAL NON-CURRENT LIABILITIES		**1,082**	1,050	**35**	35
Borrowings	18	**2,072**	-	**2,072**	-
Trade and other payables	19	**2,896**	3,217	**691**	85
Current tax payables		**141**	127	**-**	2
TOTAL CURRENT LIABILITIES		**5,109**	3,344	**2,763**	87
TOTAL LIABILITIES		**6,191**	4,394	**2,798**	122
TOTAL EQUITY AND LIABILITIES		**37,365**	33,262	**33,272**	30,918

The notes set out on pages 18 to 84 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Revenue	20	**19,576**	17,407	**2,204**	6,972
Cost of revenue		**(12,702)**	(11,021)	**-**	-
Gross profit		**6,874**	6,386	**2,204**	6,972
Selling and distribution expenses		**(818)**	(764)	**-**	-
Administration expenses		**(694)**	(615)	**(245)**	(182)
Other expenses		**(200)**	(9)	**(471)**	(791)
Other income		**397**	242	**559**	262
Operating profit	21	**5,559**	5,240	**2,047**	6,261
Financing costs	22	**(17)**	(20)	**(6)**	(5)
Share of profit of equity-accounted joint ventures and associates, net of tax		**108**	16	**-**	-
Profit before taxation		**5,650**	5,236	**2,041**	6,256
Tax expense	23	**(592)**	(822)	**(12)**	(33)
Profit for the year		**5,058**	4,414	**2,029**	6,223
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		**166**	(1,321)	**42**	-
Share of other comprehensive income/(expenses) of equity-accounted joint ventures and associates		**36**	(113)	**-**	-
Total other comprehensive income/(expenses) for the year		**202**	(1,434)	**42**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,260**	2,980	**2,071**	6,223
Profit attributable to:					
Shareholders of the Company		**4,979**	4,177	**2,029**	6,223
Non-controlling interests		**79**	237	**-**	-
PROFIT FOR THE YEAR		**5,058**	4,414	**2,029**	6,223
Total comprehensive income attributable to:					
Shareholders of the Company		**5,182**	2,743	**2,071**	6,223
Non-controlling interests		**78**	237	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,260**	2,980	**2,071**	6,223
Basic earnings per ordinary share (sen)	24	**62.2**	52.2	**-**	-

The notes set out on pages 18 to 84 are an integral part of these financial statements.

Statements of Changes in Equity

For the year ended 31 December 2018

Group	Attributable to shareholders of the Company						Non-controlling interests RM Mil	Total equity RM Mil
	Non-distributable				Distributable			
	Share capital (Note 14) 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		
Balance at 1 January 2018	8,871	(244)	(204)	461	18,981	27,865	1,003	28,868
Foreign currency translation differences	-	167	-	-	-	167	(1)	166
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	36	-	36	-	36
Total other comprehensive income/ (expense) for the year	-	167	-	36	-	203	(1)	202
Profit for the year	-	-	-	-	4,979	4,979	79	5,058
Total comprehensive income for the year	-	167	-	36	4,979	5,182	78	5,260
Redemption of redeemable preference shares in subsidiaries	-	-	-	107	(107)	-	-	-
Additional equity interests in subsidiaries	-	-	-	-	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company (Note 25)	-	-	-	-	(2,320)	(2,320)	-	(2,320)
Total transactions with owners of the Group	-	-	-	107	(2,675)	(2,568)	(386)	(2,954)
Balance at 31 December 2018	8,871	(77)	(204)	604	21,285	30,479	695	31,174

The notes set out on pages 18 to 84 are an integral part of these financial statements.

Statements of Changes in Equity

For the year ended 31 December 2018

Group	Attributable to shareholders of the Company							Non-controlling interests RM Mil	Total equity RM Mil
	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		
Balance at 1 January 2017	800	8,071	1,077	(204)	550	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	-	(1,321)	-	-	-	(1,321)	-	(1,321)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(113)	-	(113)	-	(113)
Total other comprehensive expenses for the year	-	-	(1,321)	-	(113)	-	(1,434)	-	(1,434)
Profit for the year	-	-	-	-	-	4,177	4,177	237	4,414
Total comprehensive expenses for the year	-	-	(1,321)	-	(113)	4,177	2,743	237	2,980
Redemption of redeemable preference shares in a subsidiary	-	-	-	-	24	(24)	-	-	-
Additional shares issued to a non-controlling interest	-	-	-	-	-	-	-	7	7
Dividends to shareholders of the Company (Note 25)	-	-	-	-	-	(1,920)	(1,920)	-	(1,920)
Dividends to non-controlling interests	-	-	-	-	-	-	-	(512)	(512)
Total transactions with owners of the Group	-	-	-	-	24	(1,944)	(1,920)	(505)	(2,425)
Transfer in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime on 31 January 2017 (Note 14)	8,071	(8,071)	-	-	-	-	-	-	-
Balance at 31 December 2017	8,871	-	(244)	(204)	461	18,981	27,865	1,003	28,868

The notes set out on pages 18 to 84 are an integral part of these financial statements.

Statements of Changes in Equity

For the year ended 31 December 2018

Company	Share capital (Note 14) RM Mil	Merger relief (Note 15) RM Mil	Foreign currency translation reserve (Note 15) RM Mil	Retained profits RM Mil	Total equity RM Mil
	Attributable to shareholders of the Company				
	Non-distributable			*Distributable*	
Balance at 1 January 2018	8,871	7,176	-	14,749	30,796
Foreign currency translation differences	-	-	42	-	42
Profit for the year	-	-	-	2,029	2,029
Total comprehensive income for the year	-	-	42	2,029	2,071
Dividends to shareholders of the Company (Note 25)	-	-	-	(2,320)	(2,320)
Others	-	-	(32)	(41)	(73)
Balance at 31 December 2018	8,871	7,176	10	14,417	30,474

Company	Share capital (Note 14) RM Mil	Share premium RM Mil	Merger relief (Note 15) RM Mil	Retained profits RM Mil	Total equity RM Mil
	Attributable to shareholders of the Company				
	Non-distributable			*Distributable*	
Balance at 1 January 2017	800	8,071	7,176	10,446	26,493
Profit and total comprehensive income for the year	-	-	-	6,223	6,223
Dividends to shareholders of the Company (Note 25)	-	-	-	(1,920)	(1,920)
Transfer in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime on 31 January 2017 (Note 14)	8,071	(8,071)	-	-	-
Balance at 31 December 2017	8,871	-	7,176	14,749	30,796

The notes set out on pages 18 to 84 are an integral part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2018

	Note	Group		Company	
		2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**5,650**	5,236	**2,041**	6,256
Adjustment for:					
- depreciation and amortisation		**1,619**	1,589	**3**	3
- dividend income		**-**	-	**(2,204)**	(6,972)
- finance costs		**17**	20	**6**	5
- interest income		**(315)**	(211)	**(204)**	(189)
- loss on partial divestment of a subsidiary		**160**	-	**49**	-
- share of profit of equity-accounted joint ventures and associates, net of tax		**(108)**	(16)	**-**	-
- other non-cash items		**7**	(290)	**126**	785
Operating profit/(loss) before changes in working capital		**7,030**	6,328	**(183)**	(112)
Change in trade and other inventories		**(31)**	(359)	**(1)**	-
Change in trade and other receivables		**(292)**	203	**(14)**	216
Change in trade and other payables		**99**	(439)	**(79)**	(194)
Cash generated from/(used in) operations		**6,806**	5,733	**(277)**	(90)
Interest income received		**304**	195	**176**	55
Taxation paid		**(443)**	(617)	**(16)**	(39)
Net cash generated from/(used in) operating activities		**6,667**	5,311	**(117)**	(74)
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received from:					
- subsidiaries		**-**	-	**2,080**	7,171
- joint ventures and associates		**124**	98	**124**	96
Financial assistance to a subsidiary		**-**	-	**(19)**	(52)
Interest income from loans to a subsidiary		**-**	-	**28**	134
Investments in:					
- subsidiaries		**-**	-	**(1,356)**	(302)
- an associate		**(21)**	(24)	**(21)**	(24)
Loans to a subsidiary		**-**	-	**(1,714)**	(2,894)
Proceeds from disposal of property, plant and equipment		**2**	2	**-**	-
Proceeds from partial divestment, net of cash divested at Group/share of cash and cash equivalents retained as joint operation at Company	40	**969**	-	**1,671**	-
Purchase of property, plant and equipment	(i)	**(2,957)**	(3,446)	**(786)**	(3)
Redemption of preference shares in subsidiaries		**-**	-	**1,347**	243
Repayment of shareholders loans from a subsidiary		**-**	-	**3,885**	-
Net cash (used in)/generated from investing activities		**(1,883)**	(3,370)	**5,239**	4,369

The notes set out on pages 18 to 84 are an integral part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2018

	Note	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to:					
- PETRONAS		**(1,493)**	(1,236)	**(1,493)**	(1,236)
- others (third parties)		**(827)**	(684)	**(827)**	(684)
- non-controlling interests		**-**	(554)	**-**	-
Drawdown of term loan		**3,886**	-	**-**	-
Payment to a non-controlling interest on additional equity interest		**(634)**	-	**-**	-
Proceeds from shares issued to a non-controlling interest		**-**	7	**-**	-
Repayment of:					
- finance lease liabilities		**(56)**	(55)	**-**	-
- revolving credit		**-**	(23)	**-**	-
Net cash generated from/(used in) financing activities	26	**876**	(2,545)	**(2,320)**	(1,920)
Net cash flows from operating, investing and financing activities		**5,660**	(604)	**2,802**	2,375
Effect of foreign currency translation differences		**(17)**	(5)	**-**	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**5,643**	(609)	**2,802**	2,375
NET FOREIGN EXCHANGE DIFFERENCES ON CASH HELD		**12**	(120)	**31**	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**6,674**	7,403	**3,629**	1,254
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13	**12,329**	6,674	**6,462**	3,629

(i) Acquisition of property, plant and equipment

Group

During the financial year, the Group acquired property, plant and equipment with an aggregated cost of RM3,186 million (2017: RM5,006 million) of which RM1,338 million (2017: RM1,175 million) was included in accruals as at year end and RM66 million (2017: RM407 million) was utilised from prepayments brought forward from previous year.

Company

During the financial year, the Company acquired property, plant and equipment with an aggregated cost of RM932 million (2017: RM1 million) of which RM80 million (2017: Nil) was included in accruals as at year end and RM66 million (2017: Nil) was utilised from prepayments brought forward from previous year.

Notes to the 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, 2016 in Malaysia.

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

As of 1 January 2018, the Group and the Company have adopted new MFRS, amendments to MFRS and IC Interpretation (collectively referred to as "pronouncements") that have been issued by Malaysian Accounting Standards Board (MASB) as described fully in Note 35.

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 36. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 37.

These financial statements were approved and authorised for issue by the Board of Directors on 25 February 2019.

1.2 Basis of measurement

The financial statements of the Group and of the Company have been prepared on historical cost basis except for certain items which are measured at fair value as disclosed in accounting policies below.

1.3 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's and the Company's financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information have been rounded to the nearest million, unless otherwise stated.

1.4 Use of estimates and judgments

The preparation of financial statements in conformity with MFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimates are revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

(i) Note 9 : Deferred tax; and
(ii) Note 17 : Other long term liabilities and provisions.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group and the Company, unless otherwise stated.

Arising from the adoption of MFRS 9 *Financial Instruments* and MFRS 15 *Revenue from Contracts with Customers* there are changes to the accounting policies of:

(i) Financial instruments;
(ii) Revenue; and
(iii) Impairment

as compared to those adopted in the previous financial statements. The impact arising from the changes are disclosed in Note 38.

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 beginning of the earliest comparative period presented, or, if later, at the date that common control was established for this purpose comparatives are restated. 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Business combinations **(continued)**

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.

Non-controlling interests

Non-controlling interests at the end of reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statements of financial position and statements of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statements of profit or loss and other comprehensive income as an allocation of the profit or loss and total comprehensive income for the financial year between the non-controlling interests and shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid is adjusted to or against Group reserves.

Loss of control

Upon loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statements of financial position except when the retained interest is a joint operation where the Group's retained interest in the assets and liabilities of the former subsidiary are not derecognised. Any surplus or deficit arising on the loss of control is recognised as other income or other expense respectively 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 except when the retained interest is a joint operation where such interest is measured at its carrying amount. Subsequently, it is accounted for as an equity-accounted investee, joint operation or as financial instrument depending on the level of influence retained.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(ii) Joint arrangements

Joint arrangements are arrangements in which the Group or the Company has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

A joint arrangement is classified as either a joint operation or a joint venture. A joint arrangement is classified as joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation. A joint arrangement is classified as joint venture when the Group or the Company has rights only to the net assets of the arrangement. The Group accounts for its interest in the joint venture using the equity method as described in Note 2.1(iii).

(iii) Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profit or loss and other comprehensive income of the equity-accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statements of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Projects-in-progress is stated at cost less accumulated impairment losses, if any, and is not depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the assets and restoring the site on which they are located. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on financing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation for property, plant and equipment other than projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Buildings are depreciated over their useful lives or over the remaining land lease period, whichever is shorter.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years are as follows:

Leasehold land	20 - 99 years
Buildings	14 - 66 years
Plant and equipment	3 - 67 years
Office equipment, furniture and fittings	5 - 7 years
Computer software and hardware	5 years
Motor vehicles	3 - 5 years

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Leased assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy as stated below. When the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease in accordance with the accounting policy below although the arrangement does not take the legal form of a lease.

(i) Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group or the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statements of financial position as long term liabilities and other payables.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

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

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

(ii) Operating lease

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

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(iii) Prepaid lease payments

Prepaid rental and leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payments made on entering into a lease arrangement or acquiring a leasehold land are accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

2.4 Investments

Long term investments in subsidiaries, joint ventures and associates are stated at cost less impairment losses, if any, in the Company's financial statements, unless the investments are classified as held for sale or distribution. The cost of investments includes transaction costs.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (Note 2.6(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9 *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

A financial instrument is recognised in the statements of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

(i) Financial assets

Recognition and initial measurement

Previous financial year

Financial assets were classified as financial assets at fair value through profit or loss, or loans and receivables, as appropriate. The Group and the Company determined the classification of financial assets at initial recognition.

Financial assets were 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 were directly attributable to the acquisition of the financial instrument.

Purchases or sales under a contract which terms required delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") were recognised on the trade date i.e. the date that the Group or the Company committed to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, were added to the carrying value of investments in the Company's financial statements.

The Group's and the Company's financial assets included cash and cash equivalents, fund investments, trade and other receivables, loans and advances, and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(i) Financial assets (continued)

Recognition and initial measurement (continued)

Current financial year

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, any directly attributable transaction cost incurred at the acquisition of the financial asset. A trade receivable that does not contain a significant financing component is initially measured at the transaction price.

No change to the accounting policy in relation to regular way purchases or sales of financial assets (purchases or sales under a contract whose terms require delivery of financial assets within a time frame established by regulation or convention in the marketplace concerned) and fair value adjustments on shareholder's loans and advances.

Classification and subsequent measurement

Previous financial year

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

Financial assets at fair value through profit or loss

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

Financial assets categorised as fair value through profit or loss were 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 comprised debt instruments that were not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables were measured at amortised cost using the effective interest method (Note 2.6(vi)).

Current financial year

Upon adoption of MFRS 9 *Financial Instruments*, financial assets are classified as measured at fair value through profit or loss (FVTPL) and amortised cost, as appropriate.

The Group and the Company determine the classification of financial assets at initial recognition and are not subsequently reclassified unless the Group and the Company change its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(i) Financial assets (continued)

Classification and subsequent measurement (continued)

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost as described below are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a financial guarantee contract as per Note 2.6(iii)). On initial recognition, the Group may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortised cost, at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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.

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method (Note 2.6(vi)). Interest income and foreign exchange gains and losses are recognised in profit or loss.

Amortised cost financial assets are subject to impairment as per Note 2.8(i).

In making the contractual cash flows assessment, the Group considers terms that limit the Group's claim to cash flows from specified assets, contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable rate features, and prepayment and extension features.

(ii) Financial liabilities

Recognition and initial measurement

Previous financial year

Financial liabilities were 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 determined the classification of financial liabilities at initial recognition.

Financial liabilities were 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(ii) Financial liabilities (continued)

Recognition and initial measurement (continued)

Current financial year

Upon adoption of MFRS 9 *Financial Instruments* in the current financial year, financial liabilities are classified as measured at fair value through profit or loss or at amortised cost, as appropriate. Financial liabilities are recognised initially at fair value plus or minus, in the case of financial instrument not at fair value through profit or loss, any directly attributable transaction costs incurred at the acquisition or issuance of financial instrument.

The Group's and the Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Classification and subsequent measurement

Previous financial year

The subsequent measurement of financial liabilities were dependant on their classification as follows:

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprised financial liabilities that were derivatives financial instrument (except for a derivative that was a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that were specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss were 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, other financial liabilities were measured at amortised cost using the effective interest method (see Note 2.6(vi)).

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(ii) Financial liabilities (continued)

Classification and subsequent measurement (continued)

Current financial year

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 (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination 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.

Amortised cost

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method (see note 2.6(vi)).

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

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Previous financial year

Financial guarantee contracts were recognised initially as a liability at fair value, adjusted for transaction costs that were directly attributable to the issuance of the guarantee. Financial guarantee contracts were amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee did not have a specific period, the guarantee was recognised in the profit or loss upon discharge of the guarantee.

When settlement of a financial guarantee contract became probable, an estimate of the obligation was made. If the carrying value of the financial guarantee contract was lower than the obligation, the carrying value was adjusted to the obligation amount and accounted for as a provision.

Current financial year

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

- the amount of the loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15 *Revenue from Contracts with Customers*.

Liabilities arising from financial guarantees are presented together with other provisions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(iv) Derivative financial instruments

The Group uses derivative financial instruments such as forward rate contracts to manage certain exposures to fluctuations in foreign currency exchange rates.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives financial instruments during the financial year are recognised in the profit or loss.

Previous financial year

An embedded derivative was recognised separately from the host contract and accounted for as a derivative if, and only if, it was not closely related to the economic characteristics and risks of the host contract and the host contract was not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative was recognised separately, was accounted for in accordance with the policy applicable to the nature of the host contract.

Current financial year

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses recognised in the profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(vi) Amortised cost of financial instruments

Previous financial year

Amortised cost was 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.

Current financial year

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets where the effective interest rate is applied to the amortised cost.

(vii) Derecognition of financial instruments

Financial assets

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss. In the case of waiver of debt from owners, the gain is recognised in equity as other reserve.

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.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Fair value measurements (continued)

When measuring the fair value of an asset or a liability, the Group or the Company uses observable market data as far as possible. Fair 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

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9 *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss, and investments in subsidiaries, joint ventures and associates) were assessed at each reporting date to determine whether there was 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 existed, then the financial asset's recoverable amount was estimated. Losses expected as a result of future events, no matter how likely, were not recognised.

An impairment loss in respect of loans and receivables was recognised in profit or loss and was 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 was reduced through the use of an allowance account.

If, in a subsequent period, the fair value of a debt instrument increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed, to the extent that the asset's carrying amount did not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal was recognised in profit or loss.

An impairment loss in respect of financial assets measured at amortised cost was recognised in profit or loss and the carrying amount of asset is reduced through the use of an allowance account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment (continued)

(i) Financial assets (continued)

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost.

The Group and the Company measure loss allowances on debt securities at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date. Other debt securities for which credit risk has not increased significantly since initial recognition are measured as 12-month expected credit loss.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

The Group assumes that the credit risk on a financial asset has increased significantly if it is past due.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of asset is reduced through the use of an allowance account.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment (continued)

(ii) Other assets (continued)

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups.

An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in the subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the profit or loss in the financial year in which the reversals are recognised.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw material costs and production overheads and is determined on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of stores, spares and others consists of the invoiced value from suppliers and import duty charges and is determined on a weighted average basis.

2.10 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 financial year in which the associated services are rendered by employees of the Group and the Company.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (EPF).

Some of the Group's foreign subsidiaries make contributions to their respective countries statutory pension schemes and certain other independently-administered funds which are defined contributions plan.

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 for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Taxation (continued)

(ii) Deferred tax (continued)

Deferred tax is not recognised for the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax asset is reviewed at the end of each reporting date and is reduced to the extent that it is no longer probable that the future taxable profit will be available against which the related tax benefit can be realised.

2.14 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies which are measured at fair value are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated at the reporting date.

Gains and losses on exchange arising from retranslation are recognised in the profit or loss. On consolidation, the assets and liabilities of subsidiaries or at the separate financial statements of the Company, the assets and liabilities of joint operation with functional currencies other than Ringgit Malaysia are translated into Ringgit Malaysia at the exchange rates ruling at reporting date.

The income and expenses are translated at the exchange rates at the dates of the transactions or an average rate that approximates those rates. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to the Group's foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are reclassified to other comprehensive income and presented under foreign currency translation reserve in equity. Upon disposal of the investment, the cumulative exchange differences previously recorded in equity are reclassified to the consolidated profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Revenue

Previous financial year

Revenue from the sale of petrochemical products and their related products in the course of ordinary activities was measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue was recognised when persuasive evidence existed, usually in the form of an executed sales, that the significant risk and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods, and the amount of revenue could be measured reliably.

If it was probable that discounts would be granted and the amount could be measured reliably, then the discount was recognised as a reduction of revenue as the sales were recognised.

Current financial year

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group or the Company recognises revenue from sales of petrochemical products when or as it transfers control over a product or service to customer. Control of a product is transferred when it is delivered at an agreed delivery point, upon which revenue is recognised at a point in time.

Dividend income is recognised in the profit or loss on the date the right to receive payment is established.

Revenue from port 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 is 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issuance expenses

Costs directly attributable to the issuance 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 and loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the financial year.

2.20 Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses that relate to transactions with any of the components of the Group, and for which discrete financial information is available) whose operating results are reviewed regularly by the chief operating decision maker, which in this case is the Managing Director/Chief Executive Officer (MD/CEO), to make decisions about resources to be allocated to the segments and to assess the performance of the Group.

2.21 Government grants

Government grants related to assets are recognised by deducting the grant from the carrying amount of the assets when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT

Group 2018	At 1.1.2018 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2018 RM Mil
At cost:						
Leasehold land	291	-	-	-	-	291
Buildings	1,923	*(91)	-	15	-	1,847
Plant and equipment	28,731	112	(1,072)	826	-	28,597
Office equipment, furniture and fittings	344	1	(7)	10	-	348
Computer software and hardware	324	4	(7)	24	1	346
Motor vehicles	43	1	(4)	-	-	40
Projects-in-progress	6,709	3,159	(3,236)	(875)	(39)	5,718
	38,365	3,186	^(4,326)	-	#(38)	37,187

^ Included in the disposals/write-offs of property, plant and equipment is in relation to the divestment of 50% equity interest and shareholder loans in PPC as disclosed in Note 40.

Translation exchange difference in the previous year was mainly relating to the translation of property, plant and equipment at one of the subsidiaries from US Dollar to Ringgit Malaysia. During the year, the subsidiary has changed its functional currency from US Dollar to Ringgit Malaysia due to a change in the primary economic environment in which the subsidiary operates.

* This is in relation to a government grant received by a subsidiary.

Included in the projects-in-progress is borrowing costs capitalisation of RM48 million (2017: Nil) arising from drawdown of term loan by PPC. The capitalisation rate used to determine the amount of the borrowing cost eligible for capitalisation is 2.33%.

	At 1.1.2018 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Impairment loss RM Mil	At 31.12.2018 RM Mil
Accumulated depreciation and impairment losses:					
Leasehold land	86	4	-	-	90
Buildings	653	44	-	-	697
Plant and equipment	16,457	1,489	(1,069)	-	16,877
Office equipment, furniture and fittings	116	42	(7)	-	151
Computer software and hardware	230	36	(6)	-	260
Motor vehicles	31	3	(4)	-	30
Projects-in-progress	-	-	-	2	2
	17,573	1,618	(1,086)	2	18,107

Included in the accumulated depreciation and impairment losses of property, plant and equipment were impairment losses carried forward of RM268 million (2017: RM266 million).

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2017	At 1.1.2017 RM Mil	Additions RM Mil	Disposals/ write-offs RM Mil	Transfers RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
At cost:						
Leasehold land	291	-	-	-	-	291
Buildings	1,446	-	-	507	(30)	1,923
Plant and equipment	22,735	19	(171)	6,498	(350)	28,731
Office equipment, furniture and fittings	116	1	(2)	243	(14)	344
Computer software and hardware	308	2	(12)	30	(4)	324
Motor vehicles	44	2	(6)	4	(1)	43
Projects-in-progress	9,785	4,982	-	(7,282)	(776)	6,709
	34,725	5,006	(191)	-	(1,175)	38,365

	At 1.1.2017 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
Accumulated depreciation and impairment losses:					
Leasehold land	81	5	-	-	86
Buildings	612	42	-	(1)	653
Plant and equipment	15,161	1,470	(161)	(13)	16,457
Office equipment, furniture and fittings	85	34	(2)	(1)	116
Computer software and hardware	208	34	(11)	(1)	230
Motor vehicles	35	2	(6)	-	31
	16,182	1,587	(180)	(16)	17,573

Group	2018 RM Mil	2017 RM Mil
Carrying amount:		
Leasehold land	**201**	205
Buildings	**1,150**	1,270
Plant and equipment	**11,720**	12,274
Office equipment, furniture and fittings	**197**	228
Computer software and hardware	**86**	94
Motor vehicles	**10**	12
Projects-in-progress	**5,716**	6,709
	19,080	20,792

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2018	At 1.1.2018 RM 000	Interest in Joint Operation RM 000	Additions RM 000	Disposals/ write-offs RM 000	Transfers RM 000	Translation exchange difference RM 000	At 31.12.2018 RM 000
At cost:							
Office equipment, furniture and fittings	777	-	-	(28)	-	-	749
Computer software and hardware	14,266	118	-	(99)	3,639	9	17,933
Motor vehicles	677	-	-	-	-	-	677
Projects-in-progress	4,176	3,280,843	932,117	-	(3,659)	239,990	4,453,467
	19,896	3,280,961	932,117	(127)	^(20)	239,999	4,472,826

^ Relates to software programming cost being expensed off of RM19,895 during the year.

Included in the projects-in-progress is borrowing costs capitalisation of RM48 million (2017: Nil) arising from drawdown of term loan by PPC. The capitalisation rate used to determine the amount of the borrowing cost eligible for capitalisation is 2.33%.

	At 1.1.2018 RM 000	Interest in Joint Operation RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000	Translation exchange difference RM 000	At 31.12.2018 RM 000
Accumulated depreciation:						
Office equipment, furniture and fittings	315	-	156	(16)	-	455
Computer software and hardware	10,317	53	2,960	(86)	4	13,248
Motor vehicles	440	-	77	-	-	517
	11,072	53	3,193	(102)	4	14,220

Company 2017	At 1.1.2017 RM 000	Additions RM 000	Disposals/ write-offs RM 000	Transfers RM 000	At 31.12.2017 RM 000
At cost:					
Office equipment, furniture and fittings	1,068	-	(756)	465	777
Computer software and hardware	14,117	15	(370)	504	14,266
Motor vehicles	369	308	-	-	677
Projects-in-progress	4,262	965	-	(1,051)	4,176
	19,816	1,288	(1,126)	^(82)	19,896

^ Relates to office renovation being expensed off of RM81,550 during the year.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	At 1.1.2017 RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000	At 31.12.2017 RM 000
Accumulated depreciation:				
Office equipment, furniture and fittings	356	307	(348)	315
Computer software and hardware	7,584	2,883	(150)	10,317
Motor vehicles	369	71	-	440
	8,309	3,261	(498)	11,072

Company	2018 RM 000	2017 RM 000
Carrying amount:		
Office equipment, furniture and fittings	**294**	462
Computer software and hardware	**4,685**	3,949
Motor vehicles	**160**	237
Projects-in-progress	**4,453,467**	4,176
	4,458,606	8,824

4. PREPAID LEASE PAYMENTS

Group	At 1.1.2018 RM Mil	Charge for the year RM Mil	At 31.12.2018 RM Mil
Leasehold land	**42**	**(14)**	**28**

	At 1.1.2017 RM Mil	Transfers RM Mil	Charge for the year RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
Leasehold land	-	^50	(5)	(3)	42

^ Comprises transfers from long term receivables and trade and other receivables of RM46 million and RM4 million respectively.

5. INVESTMENTS IN SUBSIDIARIES

Company	2018 RM Mil	2017 RM Mil
Investments in unquoted shares, at cost	**21,456**	22,636
Less: Impairment losses	**(592)**	(573)
	20,864	22,063

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 27.

6. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	Group		Company	
	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Investments in unquoted shares, at cost	**1,073**	1,052	**1,204**	1,183
Share of post-acquisition profits and reserves	**159**	140	**-**	-
	1,232	1,192	**1,204**	1,183

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 28 and Note 29 respectively.

7. INTANGIBLE ASSET

Group	At 1.1.2017 RM Mil	Addition/ charge for the year RM Mil	At 31.12.2017/ 1.1.2018 RM Mil	Addition/ charge for the year RM Mil	At 31.12.2018 RM Mil
Licence					
- At cost	23	-	**23**	**-**	**23**
- Accumulated amortisation	20	2	**22**	**1**	**23**

	2018 RM Mil	2017 RM Mil
Carrying amount	**-**	1

8. LONG TERM RECEIVABLES

	Group		Company	
	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Prepayments	**29**	113	**-**	-
Loans due from a subsidiary	**-**	-	**-**	3,991
	29	113	**-**	3,991

The Company's loans due from a subsidiary in the previous financial year was related to the loans issued to PPC. Pursuant to the divestment of 50% equity interest and shareholder loans in PPC as disclosed in Note 40, in the current financial year, PPC is accounted for as a joint operation in accordance with MFRS 11 *Joint Arrangements*. Consequently, the Company recognised its share of assets held and liabilities incurred jointly. The outstanding loans as at 31 December 2018 is eliminated at the Company level.

9. DEFERRED TAX

Recognised deferred tax assets/liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Property, plant and equipment	**64**	69	**(1,984)**	(2,301)	**(1,920)**	(2,232)
Unused reinvestment allowances	**2**	6	**-**	-	**2**	6
Unused investment tax allowances	**581**	799	**-**	-	**581**	799
Unused tax losses	**25**	195	**-**	-	**25**	195
Unabsorbed capital allowances	**540**	483	**-**	-	**540**	483
Pre-commencement expenses	**-**	115	**-**	-	**-**	115
Others	**99**	100	**(9)**	(4)	**90**	96
Tax assets/(liabilities)	**1,311**	1,767	**(1,993)**	(2,305)	**(682)**	(538)
Set off tax	**(1,074)**	(1,467)	**1,074**	1,467	**-**	-
Net tax assets/(liabilities)	**237**	300	**(919)**	(838)	**(682)**	(538)

Notes to the Financial Statements

9. DEFERRED TAX (CONTINUED)

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

Group 2018	At 1.1.2018 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2018 RM Mil
Deferred tax liabilities			
Property, plant and equipment	**2,301**	**(317)**	**1,984**
Others	**4**	**5**	**9**
	2,305	**(312)**	**1,993**
Deferred tax assets			
Property, plant and equipment	**(69)**	**5**	**(64)**
Unused reinvestment allowances	**(6)**	**5**	**(1)**
Unused investment tax allowances	**(799)**	**218**	**(581)**
Unused tax losses	**(195)**	**170**	**(25)**
Unabsorbed capital allowances	**(483)**	**(57)**	**(540)**
Pre-commencement expenses	**(115)**	**115**	**-**
Others	**(100)**	**-**	**(100)**
	(1,767)	**456**	**(1,311)**
	538	**^144**	**682**

^ Included in charged/(credited) to profit or loss is impairment of unused tax losses and unused reinvestment allowances of RM40 million and RM5 million respectively, pursuant to Finance Act 2018, where period of utilisation of these incentives have been limited to seven years.

Group 2017	At 1.1.2017 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	Translation exchange difference RM Mil	At 31.12.2017 RM Mil
Deferred tax liabilities				
Property, plant and equipment	1,765	575	(39)	2,301
Others	1	3	-	4
	1,766	578	(39)	2,305
Deferred tax assets				
Property, plant and equipment	(63)	(6)	-	(69)
Unused reinvestment allowances	(7)	1	-	(6)
Unused investment tax allowances	(920)	121	-	(799)
Unused tax losses	(115)	(84)	4	(195)
Unabsorbed capital allowances	(6)	(506)	29	(483)
Pre-commencement expenses	(155)	26	14	(115)
Others	(88)	(12)	-	(100)
	(1,354)	(460)	47	(1,767)
	412	118	8	538

9. DEFERRED TAX (CONTINUED)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

Group	2018 RM Mil	2017 RM Mil
Unused tax losses	**1,350**	500
Unused reinvestment allowances	**21**	-
	1,371	500

In accordance with the provision of Finance Act 2018 requirement, the unused tax losses are available for utilisation in the next seven years, for which, any excess at the end of the seventh year, will be disregarded. 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 2018	At 1.1.2018 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2018 RM Mil
Deferred tax liabilities			
Others	**1**	**-**	**1**

Company 2017	At 1.1.2017 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2017 RM Mil
Deferred tax liabilities			
Others	1	-	1

10. TRADE AND OTHER INVENTORIES

	Group		Company	
	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Petrochemical products				
- Raw materials	**38**	27	**-**	-
- Finished goods	**752**	761	**-**	-
Stores, spares and others	**908**	935	**1**	-
	1,698	1,723	**1**	-

Notes to the Financial Statements

11. TRADE AND OTHER RECEIVABLES

	Note	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Trade receivables	11.1	**1,700**	1,539	**-**	-
Amount due from PETRONAS	11.2				
- Non-trade		**315**	355	**1**	2
Amount due from subsidiaries	11.3				
- Non-trade		**-**	-	**23**	23
Amount due from joint ventures and associates	11.3				
- Trade		**283**	261	**-**	-
- Non-trade		**2**	3	**2**	2
Amount due from related companies	11.3				
- Trade		**115**	99	**-**	-
- Non-trade		**16**	15	**9**	12
Other receivables, deposits and prepayments	11.4	**227**	79	**245**	4
Derivative assets	12	**10**	19	**-**	-
		2,668	2,370	**280**	43

11.1 Included in trade receivables is an amount due from a corporate shareholder of a subsidiary of RM116 million (2017: RM70 million).

11.2 Included in amount due from PETRONAS is GST recoverable of RM307 million (2017: RM337 million) for the Group and RM1 million (2017: RM1 million) for the Company.

11.3 Trade amount is unsecured and under normal trade terms. Non-trade amount is unsecured and repayable on demand.

11.4 Included in other receivables are expenses due from a joint operator amounting to RM60 million (2017: Nil).

There were no trade receivables and trade payables that were set off for presentation purposes.

12. DERIVATIVE ASSETS/(LIABILITIES)

Group	Note	2018 RM Mil	2017 RM Mil
Derivative assets			
Current			
Forward foreign exchange contracts		**10**	19
Included within:			
Trade and other receivables	11	**10**	19
Derivative liabilities			
Current			
Forward foreign exchange contracts		**(8)**	(15)
Included within:			
Trade and other payables	19	**(8)**	(15)

In the normal course of business, the Group and the Company enter into derivative financial instruments to manage its normal business exposures in relation to foreign currency exchange rates in accordance with the Group's and the Company's risk management policies and objectives.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Cash with PETRONAS Integrated Financial Shared Service Centre (IFSSC)				
- Conventional	**10,023**	6,480	**4,278**	3,629
- Islamic	**2,067**	-	**2,067**	-
Cash and bank balances	**239**	194	**117**	-
	12,329	6,674	**6,462**	3,629

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 RM12,314 million (2017: RM6,651 million) and RM6,462 million (2017: RM3,629 million) respectively.

14. SHARE CAPITAL

Group and Company	2018 RM Mil	2017 RM Mil
Issued and fully paid:		
8,000,000,000 ordinary shares		
At 1 January	**8,871**	800
Transfer of share premium in accordance with Section 618(2) of the Companies Act, 2016 to no-par value regime on 31 January 2017	-	8,071
At 31 December	**8,871**	8,871

In accordance with Section 618 of Companies Act, 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company had twenty-four months upon the commencement of Companies Act, 2016 on 31 January 2017 to utilise the credit in accordance with Section 618(3) of Companies Act, 2016. The period for utilisation has expired and the Company did not utilise the share premium amounting to RM8,071 million.

15. RESERVES

Merger reserve

Group

Merger reserve arose from differences between the nominal value and share premium of ordinary shares issued by the Company as consideration for the acquisition of companies that are accounted using the merger method of accounting and the nominal value of ordinary shares and share premium of the companies.

Company

Merger relief of the Company is premium arising from issuance of shares for the acquisition of wholly-owned subsidiaries.

Foreign currency translation reserve

Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries and joint operation whose functional currencies are not Ringgit Malaysia, and the Group's net investment in foreign operations.

Other reserves

Other reserves comprise primarily reserve created upon redemption of preference shares and the Group's share of its joint venture and associate companies' reserves.

16. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of equity and reserves of partly-owned subsidiaries.

17. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Note	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Finance lease liabilities	17.1	**42**	88	**-**	-
Provisions	17.2	**113**	116	**34**	34
Other payables		**8**	8	**-**	-
		163	212	**34**	34

17.1 Finance lease liabilities

Group	Note	2018 Minimum lease payments RM Mil	2018 Interest RM Mil	2018 Principal RM Mil	2017 Minimum lease payments RM Mil	2017 Interest RM Mil	2017 Principal RM Mil
Less than 1 year	19.1	**49**	**3**	**46**	56	7	49
Between 1 to 5 years		**45**	**3**	**42**	94	6	88
		94	**6**	**88**	150	13	137

17.2 Provisions

Group	Note	2018 RM Mil	2017 RM Mil
Non-current		**113**	116
Current	19	**22**	25
		135	141

The movements of provisions are as follows:

	RM Mil
At 1.1.2018	**141**
Provisions made	**5**
Provisions utilised	**(19)**
Unwinding of discount factor	**8**
At 31.12.2018	**135**

The Group's provisions comprise:

i. Provisions for decommissioning activities and onerous contracts in relation to the discontinuation of the Group's vinyl and polypropylene businesses.

   Provision for decommissioning activities includes dismantling/demolishing and removal of equipment, structures and foundation, as well as site remediation.

   Provision for onerous contracts is in relation to termination of contractual obligation with committed charges.

   The provisions have been made based on present value of estimated decommissioning amount and negotiated settlement amount payable over a period ranging from 1 to 5 years (2017: 1 to 4 years) using a discount rate of 8.6% (2017: 8.6%).

17. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

17.2 Provisions (continued)

ii. Provision for decommissioning of property, plant and equipment in relation to a subsidiary's obligation to decommission and remove all property, plant and equipment, and to restore land subleased to its original condition upon expiry in 2040. The corresponding asset of an amount equivalent to the provision is also created and will be depreciated over the term of the sublease.

The provision has been made based on present value of estimated decommissioning amount using a discount rate of 4.8% (2017: 4.8%).

Company	Note	2018 RM Mil	2017 RM Mil
Non-current		**34**	34
Current	19	**18**	22
		52	56

The movements of provisions are as follows:

	RM Mil
At 1.1.2018	**56**
Provisions made	**11**
Provisions utilised	**(19)**
Unwinding of discount factor	**4**
At 31.12.2018	**52**

The Company's provision comprises provision for financial assistance in relation to subscription of redeemable preference shares (RPS) in a subsidiary to meet the subsidiary's obligation in respect of decommissioning activities and other related expenses. The provision has been made based on present value of estimated funding requirements for decommissioning costs and settlement of onerous contracts over a period of 5 years (2017: 4 years) using a discount rate of 8.6% (2017: 8.6%).

18. BORROWINGS

	Group		Company	
	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Term loan - unsecured	**2,072**	-	**2,072**	-

The term loan relates to the procurement of a bridge loan by the Group via its subsidiary, PPC, on 19 March 2018 amounting to USD1,000 million from various local and international banks. The said proceeds is to fund part of the project costs for its petrochemicals projects within Pengerang Integrated Complex (PIC) in Pengerang, Johor including the reimbursement of project costs already incurred by the Company.

Upon divestment of 50% equity interest and shareholder loans in PPC, only 50% of the obligation arising from the term loan is recognised in the Group's and the Company's financial statements, being its share of the joint operation.

The bridge loan bears floating interest of LIBOR + 0.4% per annum and is due for repayment in March 2019.

19. TRADE AND OTHER PAYABLES

	Note	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Trade payables		**51**	142	**-**	-
Other payables	19.1	**1,523**	1,835	**437**	27
Amount due to PETRONAS	19.2				
- Trade		**303**	439	**-**	-
- Non-trade		**102**	68	**26**	22
Amount due to subsidiaries	19.2				
- Non-trade		**-**	-	**12**	13
Amount due to related companies	19.2				
- Trade		**604**	402	**-**	-
- Non-trade		**262**	291	**198**	1
Amount due to joint ventures and associates					
- Trade		**20**	-	**-**	-
- Non-trade		**1**	-	**-**	-
Provisions	17.2	**22**	25	**18**	22
Derivative liabilities	12	**8**	15	**-**	-
		2,896	3,217	**691**	85

19.1 Included in other payables for the Group is the current portion of finance lease liabilities amounting to RM46 million (2017: RM49 million).

19.2 Trade amount is unsecured and under normal trade terms. Non-trade amount is unsecured and repayable on demand.

20. REVENUE

	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Sales of petrochemical products, net	**19,521**	17,363	**-**	-
Dividend income	**-**	-	**2,204**	6,972
Others	**55**	44	**-**	-
	19,576	17,407	**2,204**	6,972

Disaggregation of revenue by geographical location and by segment is as disclosed in Note 33.

Nature of goods

Nature of goods	Timing of recognition or method used to recognise revenue	Significant payment terms
Petrochemical products	Revenue is recognised at a point in time upon transfer of control as per INCOTERM	Average credit term of 45 days

There are no variable element in consideration, obligation for returns or refunds nor warranty in substantially all of the contracts for the provision of goods by the Group.

20. REVENUE (CONTINUED)

Transaction price allocated to performance obligations

Most of the Group's contracts are based on master service agreement whereby the contracted volumes are agreed on annual basis. An insignificant amount of contracts have original contract period of more than one year, for which the remaining performance obligation is expected to be fulfilled in the next twelve months.

The future revenue of the Group is dependent on the market price movement of the products, the prevailing exchange rate on the transaction date as well as production volume which is dependent on feedstock availability and plant utilisation.

21. OPERATING PROFIT

		Group		Company	
	Note	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Included in operating profit are the following charges:					
Auditors' remuneration*		**2**	2	**-**	-
Amortisation of intangible asset	7	**1**	2	**-**	-
Depreciation of property, plant and equipment	3	**1,618**	1,587	**3**	3
Loss on partial divestment of a subsidiary		**160**	-	**49**	-
Net loss on foreign exchange		**-**	-	**123**	791
Net loss on disposal of property, plant and equipment		**-**	9	**-**	-
Staff costs					
- wages, salaries and others		**889**	713	**132**	85
- contributions to Employees Provident Fund		**121**	108	**18**	14
Impairment loss on property, plant and equipment		**2**	-	**-**	-
Inventories					
- written down to net realisable value		**20**	13	**-**	-
- written-off		**3**	6	**-**	-
and credits:					
Net gain on foreign exchange		**35**	2	**-**	-
Dividend income					
- subsidiaries		**-**	-	**2,080**	6,876
- joint ventures and associates		**-**	-	**124**	96
Interest income					
- others		**315**	211	**176**	55
- subsidiaries		**-**	-	**28**	134
Management fee		**-**	-	**65**	66

21. OPERATING PROFIT (CONTINUED)

* The auditors' remuneration includes the following:

	Group 2018 RM 000	Group 2017 RM 000	Company 2018 RM 000	Company 2017 RM 000
Statutory audit				
- KPMG PLT	**852**	816	**166**	150
- Other auditors	**713**	690	**-**	-
Non-audit fees				
- KPMG PLT	**181**	358	**181**	165
- Other auditors	**107**	281	**41**	40
	1,853	2,145	**388**	355

22. FINANCING COSTS

	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Unwinding of discount factor for other long term liabilities and provisions	**15**	20	**4**	5
Financial guarantee fee on term loan	**2**	-	**2**	-
	17	20	**6**	5

23. TAX EXPENSE

	Group 2018 RM Mil	Group 2017 RM Mil	Company 2018 RM Mil	Company 2017 RM Mil
Current tax expenses				
Current year	**456**	721	**13**	33
Over provision in prior year	**(8)**	(17)	**(1)**	-
	448	704	**12**	33
Deferred tax expenses				
Origination and reversal of temporary differences	**134**	119	**-**	-
Under/(Over) provision in prior year	**10**	(1)	**-**	-
	144	118	**-**	-
	592	822	**12**	33

Notes to the Financial Statements

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	%	2018 RM Mil	%	2017 RM Mil
Profit before taxation		**5,650**		5,236
Taxation at Malaysian statutory tax rate	**24**	**1,356**	24	1,257
(Non-assessable income)/Non-deductible expenses, net	**(1)**	**(31)**	1	62
Tax exempt income and incentives	**(1)**	**(73)**	(1)	(54)
Effect of lower tax rate under Global Incentive for Trading (GIFT)	**(13)**	**(722)**	(9)	(489)
Effect of net deferred tax benefits not recognised	**-**	**7**	-	14
Recognition of previously unrecognised tax losses	**-**	**-**	(1)	(57)
Derecognition of previously recognised tax losses and reinvestment allowance	**1**	**45**	-	-
Temporary difference arising from movement in exchange rate of tax base	**-**	**-**	2	104
Others	**-**	**8**	-	3
	10	**590**	16	840
Under/(Over) provision in prior year		**2**		(18)
Tax expense		**592**		822

Company	%	2018 RM Mil	%	2017 RM Mil
Profit before taxation		**2,041**		6,256
Taxation at Malaysian statutory tax rate	**24**	**490**	24	1,501
Non-deductible expenses	**4**	**85**	3	218
Tax exempt income	**(28)**	**(562)**	(27)	(1,686)
	-	**13**	-	33
Over provision in prior year		**(1)**		-
Tax expense		**12**		33

24. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for year ended 31 December 2018 was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

Group	2018	2017
In RM million		
Profit for the year attributable to shareholders of the Company	**4,979**	4,177
In millions of shares		
Number of shares issued at 31 December	**8,000**	8,000
In sen		
Basic earnings per ordinary share	**62.2**	52.2

Diluted earnings per ordinary share

No diluted earnings per share is disclosed in these financial statements as there is no dilutive potential ordinary share.

25. DIVIDENDS

Company	Sen per share	Total amount RM Mil	Date of payment
2018			
Second interim dividend for financial year ended 31 December 2017	**15**	**1,200**	**21 March 2018**
First interim dividend for financial year ended 31 December 2018	**14**	**1,120**	**20 September 2018**
		2,320	
2017			
Second interim dividend for financial year ended 31 December 2016	12	960	21 March 2017
First interim dividend for financial year ended 31 December 2017	12	960	8 September 2017
		1,920	

After the financial year end, the following dividend was approved by the Directors:

	Sen per share	Total amount RM Mil
Second interim dividend for financial year ended 31 December 2018	**18**	**1,440**

The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

Notes to the Financial Statements

26. NET CASH USED IN FINANCING ACTIVITIES

Reconciliation of movement of liabilities to cash flows arising from financing activities:

Group 2018	Borrowings RM Mil	Finance lease liabilities RM Mil	Dividend payable RM Mil
At 1.1.2018	-	137	-
Changes from financing cash flows			
Dividends paid to:			
- PETRONAS	-	-	(1,493)
- others (third parties)	-	-	(827)
Repayment of finance lease liabilities	-	(56)	-
Drawdown of term loan	3,886	-	-
Total changes from financing cash flows	3,886	(56)	(2,320)
Other changes			
Partial divestment of a subsidiary	(1,931)	-	-
Financing costs	-	7	-
Effect of foreign currency translation difference	117	-	-
Dividend declared	-	-	2,320
Total other changes	(1,814)	7	2,320
At 31.12.2018	2,072	88	-

Group 2017	Revolving credit RM Mil	Finance lease liabilities RM Mil	Dividend payable RM Mil
At 1.1.2017	23	183	42
Changes from financing cash flows			
Dividends paid to:			
- PETRONAS	-	-	(1,236)
- others (third parties)	-	-	(684)
- non-controlling interests	-	-	(554)
Repayment of finance lease liabilities	-	(55)	-
Repayment of revolving credit	(23)	-	-
Total changes from financing cash flows	(23)	(55)	(2,474)
Other changes			
Financing costs	-	9	-
Dividend declared	-	-	2,432
Total other changes	-	9	2,432
At 31.12.2017	-	137	-

26. NET CASH USED IN FINANCING ACTIVITIES (CONTINUED)

Reconciliation of movement of liabilities to cash flows arising from financing activities: (continued)

Company 2018	Dividend payable RM Mil
At 1.1.2018	**-**
Changes from financing cash flows	
Dividends paid to:	
- PETRONAS	**(1,493)**
- others (third parties)	**(827)**
Total changes from financing cash flows	**(2,320)**
Other changes	
Dividend declared	**2,320**
Total other changes	**2,320**
At 31.12.2018	**-**

Company 2017	Dividend payable RM Mil
At 1.1.2017	-
Changes from financing cash flows	
Dividends paid to:	
- PETRONAS	(1,236)
- others (third parties)	(684)
Total changes from financing cash flows	(1,920)
Other changes	
Dividend declared	1,920
Total other changes	1,920
At 31.12.2017	-

27. SUBSIDIARIES AND ACTIVITIES

The Group includes the following subsidiaries:

Name of company	Effective ownership interest (%) 2018	Effective ownership interest (%) 2017	Country of incorporation	Principal activities
PETRONAS Chemicals Ammonia Sdn. Bhd.*	**100**	100	Malaysia	Production and sale of ammonia, syngas and carbon monoxide.
PETRONAS Chemicals Derivatives Sdn. Bhd.*	**100**	100	Malaysia	Processing of feedstock into ethylene oxide derivatives, propylene derivatives products and related chemical product.
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.*	**100**	100	Malaysia	Production and sale of urea, ammonia and methanol.

27. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

Name of company	Effective ownership interest (%) 2018	Effective ownership interest (%) 2017	Country of incorporation	Principal activities
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	**100**	100	Malaysia	Production and sale of ammonia and urea. The company commenced operation during the financial year.
PETRONAS Chemicals Glycols Sdn. Bhd.*	**100**	100	Malaysia	Processing of feedstock into ethylene oxide, ethylene glycol and other related by-products.
PETRONAS Chemicals Isononanol Sdn. Bhd.	**100**	100	Malaysia	Production and sale of processed chemicals and all petrochemicals and chemicals products. The company has not commenced operation during the financial year.
PETRONAS Chemicals Marketing Sdn. Bhd.	**100**	100	Malaysia	Marketing of petrochemical products.
PETRONAS Chemicals Marketing (Labuan) Ltd.	**100**	100	Malaysia	Trading of petrochemical products.
PCM (China) Company Limited**	**100**	100	China	Marketing of petrochemical products.
PCM (Thailand) Company Limited*	**100**	100	Thailand	Marketing of petrochemical products.
PT PCM Kimia Indonesia*	**100**	100	Indonesia	Marketing of petrochemical products. The company has not commenced operation during the financial year.
PETRONAS Chemicals LDPE Sdn. Bhd.*	**100**	60	Malaysia	Processing of feedstock into low-density polyethylene.
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 Olefins Sdn. Bhd.*	**100**	88	Malaysia	Processing of feedstock into ethylene, propylene and other hydrocarbon by-products.

27. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

Name of company	Effective ownership interest (%)		Country of incorporation	Principal activities
	2018	2017		
PETRONAS Chemicals Polyethylene Sdn. Bhd.	**100**	100	Malaysia	Processing of ethylene into polyethylene.
PRPC Elastomers Sdn. Bhd.	**100**	100	Malaysia	The company has ceased operation and remained dormant thereafter.
Kertih Port Sdn. Bhd.*	**100**	100	Malaysia	Owning, operating and managing Kertih Marine Facilities.
Polypropylene Malaysia Sdn. Bhd.	**100**	100	Malaysia	Production and sale of polypropylene and its derivatives. The company has ceased production.
Vinyl Chloride (Malaysia) Sdn. Bhd.*	**100**	100	Malaysia	Production and sale of vinyl chloride monomer (VCM) and polyvinyl chloride (PVC). The company has ceased production.
PETRONAS Chemicals 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.
Pengerang Petrochemical Company Sdn. Bhd. (formerly known as PRPC Polymers Sdn. Bhd.)***	**50**	100	Malaysia	Production and sale of products within ethane, propane chains and ethane derivatives. The company has not commenced operation during the financial year.
PCM Chemical India Private Limited*	**0.01**	0.01	India	Marketing and business promotional services. The company has ceased operation and remained dormant thereafter.

* Audited by firms of auditors other than KPMG PLT.
** Audited by a member firm of KPMG International.
*** PPC ceased to be a subsidiary of the Group upon completion of the divestment of the 50% equity interest and shareholder loans as disclosed in Note 30.

28. JOINT VENTURES AND NATURE OF RELATIONSHIP

The Group includes the following joint ventures:

Name of company	Effective ownership interest (%) 2018	Effective ownership interest (%) 2017	Country of incorporation	Nature of relationship
Kertih Terminals Sdn. Bhd.	**40**	40	Malaysia	Provides bulk chemical storage and handling services to the Group.
BP PETRONAS Acetyls Sdn. Bhd.	**30**	30	Malaysia	Purchases carbon monoxide feedstock from the Group for production and sale of acetic acid.

29. ASSOCIATES AND NATURE OF RELATIONSHIP

The Group includes the following associates:

Name of company	Effective ownership interest (%) 2018	Effective ownership interest (%) 2017	Country of incorporation	Nature of relationship
BASF PETRONAS Chemicals Sdn. Bhd.	**40**	40	Malaysia	Purchases propylene and n-butane feedstock from the Group for production, marketing and sale of acrylic, oxo and butanediol products.
Idemitsu SM (Malaysia) Sdn. Bhd.	**30**	30	Malaysia	Purchases ethylene feedstock from the Group for production, marketing and sale of styrene monomer.
Malaysian NPK Fertilizer Sdn. Bhd.	**20**	20	Malaysia	Purchases urea feedstock and utilities from the Group for production and sale of NPK fertiliser products.

30. INTEREST IN JOINT OPERATION

PPC ceased to be a subsidiary of the Group upon completion of the divestment of the 50% equity interest and shareholder loans to Aramco Overseas Holdings Coöperatief U.A (AOHC) on 28 March 2018 as disclosed in Note 40. The Group's investment in PPC is subsequently accounted for as a joint operation in accordance with MFRS 11 *Joint Arrangements*.

PPC's principal place of business is in Malaysia. The intended principal activity of PPC is sales of products within ethane and propane chains and ethane derivatives to the joint operators. PPC has not commenced operation during the financial year.

31. CAPITAL COMMITMENTS

Outstanding commitments in respect of capital expenditure not provided for in the consolidated financial statements at the end of the financial year are:

Group	2018 RM Mil	2017 RM Mil
Property, plant and equipment		
Approved and contracted for	**1,028**	3,695
Approved but not contracted for	**1,438**	3,257
	2,466	6,952

32. 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 holding company, PETRONAS and its related entities. The Group's related parties also include the Government of Malaysia and its related entities as the holding company is wholly-owned by the Government of Malaysia.

(a) Key management personnel compensation

Group and Company	2018 RM 000	2017 RM 000
Directors remuneration:		
- Fees	**1,042**	790
- Benefit-in-kind	**21**	-

The Company paid management fees to the holding company in relation to services of key management personnel of the Company as well as fees for Directors who are appointees of the holding company as disclosed in Note 32(b).

Notes to the Financial Statements

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties

In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the financial year:

Group	Note	2018 RM Mil	2017 RM Mil
PETRONAS:			
Purchase of processed gas and natural gas		**(4,503)**	(4,153)
Management fees	32.1	**(9)**	(7)
Centralised management services		**(68)**	(69)
Information, communication and technology charges		**(62)**	(73)
Rental of office space		**(22)**	(21)
Interest income from PETRONAS IFSSC		**286**	208
Subsidiaries of PETRONAS:			
MISC Berhad			
Purchase of warehouse and transportation services		**-**	(34)
MISC Tanker Holdings Sdn. Bhd.			
Purchase of warehouse and transportation services		**(21)**	(7)
PETRONAS Carigali Sdn. Bhd.			
Purchase of processed gas and natural gas		**(111)**	(164)
Provision of operating and maintenance services		**-**	2
PETRONAS Gas Berhad			
Purchase of utilities and materials and supplies		**(911)**	(781)
PETRONAS Management Training Sdn. Bhd.			
Training and development related costs		**(4)**	(3)
PETRONAS Technical Services Sdn. Bhd.			
Technical retainer fee		**(39)**	(48)
PETRONAS Technical Training Sdn. Bhd.			
Training and development related costs		**(8)**	(12)
PETCO Trading Labuan Company Ltd.			
Sale of petrochemical products		**1,001**	926
Purchase of heavy naphtha		**(2,352)**	(2,095)
Purchase of marine diesel		**(11)**	(9)
Joint ventures and associates of the Group:			
BASF PETRONAS Chemicals Sdn. Bhd.			
Sale of petrochemical products		**1,523**	1,165
BP PETRONAS Acetyls Sdn. Bhd.			
Sale of petrochemical products		**508**	247
Purchase of petrochemical products		**(54)**	(29)
Rendering of port services		**18**	14
Idemitsu SM (Malaysia) Sdn. Bhd.			
Sale of petrochemical products		**498**	421
Kertih Terminals Sdn. Bhd.			
Purchase of warehouse and transportation services		**(165)**	(164)
Malaysian NPK Fertilizer Sdn. Bhd.			
Sale of petrochemical products		**20**	33

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Group	2018 RM Mil	2017 RM Mil
Corporate shareholder of the Group:		
MJPX Co. Ltd.		
Sale of petrochemical products	**816**	738
Government related entities:		
Pertubuhan Peladang Kebangsaan		
Sale of petrochemical products	**199**	172
Sabah Electricity Sdn. Bhd.		
Purchase of electricity	**(2)**	(1)
Sarawak Energy Berhad		
Purchase of electricity	**(8)**	(8)
Tenaga Nasional Berhad		
Purchase of electricity	**(102)**	(99)

32.1 Management fees paid to holding company relate to payment for services of certain key management personnel of the Group.

Company	Note	2018 RM 000	2017 RM 000
PETRONAS:			
Fees for representation on the Board of Directors	32.2	**(643)**	(226)
Management fees	32.3	**(1,013)**	(1,013)
Centralised management services		**(8,031)**	(3,789)
Information, communication and technology charges		**(8,267)**	(8,353)
Rental of office space		**(15,458)**	(14,765)
Interest income from PETRONAS IFSSC		**173,850**	54,156
Subsidiaries of PETRONAS:			
PETRONAS Management Training Sdn. Bhd.			
Training and development related costs		**(1,027)**	(622)
PETRONAS Technical Services Sdn. Bhd.			
Technical retainer fee		**(3,978)**	(2,365)
PETRONAS Technical Training Sdn. Bhd.			
Training and development related costs		**(364)**	(360)
Subsidiaries:			
PETRONAS Chemicals Ammonia Sdn. Bhd.			
Dividend income		**10,000**	-
Management fee income		**2,258**	4,203
PETRONAS Chemicals Derivatives Sdn. Bhd.			
Management fee income		**4,254**	3,438

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Company	2018 RM 000	2017 RM 000
Subsidiaries:		
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.		
Dividend income	66,601	164,164
Management fee income	3,629	2,314
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.		
Interest income	-	75,513
Management fee income	3,342	5,204
Loan and advance	-	(95,032)
PETRONAS Chemicals Glycols Sdn. Bhd.		
Management fee income	2,505	2,269
PETRONAS Chemicals Marketing Sdn. Bhd.		
Dividend income	195,775	2,883,140
Management fee income	4,924	5,766
PETRONAS Chemicals Marketing (Labuan) Ltd.		
Management fee income	12,977	12,232
PCM (China) Company Limited		
Management fee income	262	161
PCM (Thailand) Company Limited		
Management fee income	196	124
PETRONAS Chemicals Methanol Sdn. Bhd.		
Dividend income	148,000	840,000
Management fee income	6,096	4,587
PETRONAS Chemicals MTBE Sdn. Bhd.		
Dividend income	182,000	80,000
Management fee income	5,351	7,247
PETRONAS Chemicals Polyethylene Sdn. Bhd.		
Management fee income	2,757	2,613
Kertih Port Sdn. Bhd.		
Dividend income	58,000	64,000
Management fee income	1,058	1,395
PETRONAS Chemicals Olefins Sdn. Bhd.		
Dividend income	884,569	2,376,388
Management fee income	3,398	3,312
PETRONAS Chemicals Ethylene Sdn. Bhd.		
Dividend income	-	102,287
Management fee income	4,660	4,138
PETRONAS Chemicals Aromatics Sdn. Bhd.		
Dividend income	-	251,300
Management fee income	208	154
ASEAN Bintulu Fertilizer Sdn. Bhd.		
Dividend income	-	114,240
Management fee income	3,893	2,502
PETRONAS Chemicals LDPE Sdn. Bhd.		
Management fee income	2,679	1,379

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Company	2018 RM 000	2017 RM 000
Joint ventures and associates:		
Kertih Terminals Sdn. Bhd.		
Dividend income	**52,000**	64,000
BP PETRONAS Acetyls Sdn. Bhd.		
Dividend income	**47,240**	12,750
Idemitsu SM (Malaysia) Sdn. Bhd.		
Dividend income	**25,240**	19,541
Government related entities:		
Malayan Banking Berhad		
Interest income	**449**	478

32.2 Fees for representation on the Board of Directors paid directly to holding company relate to payment of fees for Directors who are appointees of the holding company.

32.3 Management fees paid to holding company relate to payment for services of certain key management personnel of the Company.

Information regarding outstanding balances arising from related party transactions as at 31 December 2018 is disclosed in Notes 11, 13, 17 and 19.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis.

Other related party transactions have not been included as the transactions are not significant to the Group and the Company.

33. 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.

33. OPERATING SEGMENTS (CONTINUED)

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 0.3% (2017: 0.3%) of the Group's revenue and represents 30.6% (2017: 19.6%) 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.

Group 2018	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,829	2,261	(32)	-	5,058
Included in the measure of segment profit are:					
Revenue from external customers	12,280	7,241	55	-	19,576
Inter-segment revenue	17	128	47	(192)	-
Depreciation and amortisation	(812)	(785)	(22)	-	(1,619)
Property, plant and equipment written off	(2)	(2)	-	-	(4)
Interest income	78	62	240	(65)	315
Financing costs	(9)	(6)	(2)	-	(17)
Share of (loss)/profit of equity-accounted joint ventures and associates	(34)	96	46	-	108
Tax expense	(436)	(128)	(28)	-	(592)
Segment assets	13,890	12,046	11,443	(14)	37,365
Included in the measure of segment assets are:					
Investments in joint ventures and associates	1,000	165	67	-	1,232
Additions to non-current assets other than financial instruments and deferred tax assets	2,885	292	7	-	3,184

33. OPERATING SEGMENTS (CONTINUED)

Group 2017	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,771	1,609	34	-	4,414
Included in the measure of segment profit are:					
Revenue from external customers	11,350	6,013	44	-	17,407
Inter-segment revenue	12	155	41	(208)	-
Depreciation and amortisation	(817)	(750)	(22)	-	(1,589)
Interest income	122	33	190	(134)	211
Financing (costs)/income	(14)	(56)	-	50	(20)
Share of (loss)/profit of equity-accounted joint ventures and associates	(45)	16	45	-	16
Tax expense	(574)	(205)	(43)	-	(822)
Segment assets	15,040	11,724	6,526	(28)	33,262
Included in the measure of segment assets are:					
Investments in joint ventures and associates	1,008	111	73	-	1,192
Additions to non-current assets other than financial instruments and deferred tax assets	4,820	272	(86)	-	5,006

Geographical information

Geographical revenue is determined based on location of customers. The amounts presented for non-current assets are based on the geographical location of the assets and do not include financial instruments (including long term receivables, investments in joint ventures and associates) and deferred tax assets.

Group 2018	Revenue RM Mil	Non-current assets RM Mil
Malaysia	**6,972**	**19,105**
Asia:		
- China	**4,126**	**1**
- Indonesia	**2,015**	**1**
- Thailand	**1,655**	**1**
- Others	**4,149**	**-**
Rest of the world	**659**	**-**
	19,576	**19,108**

33. OPERATING SEGMENTS (CONTINUED)

Geographical information (continued)

Group 2017	Revenue RM Mil	Non-current assets RM Mil
Malaysia	5,767	20,832
Asia:		
- China	3,538	-
- Indonesia	2,384	1
- Thailand	1,806	1
- Others	3,468	1
Rest of the world	444	-
	17,407	20,835

Major customers

None of the customers individually contributes to more than 10% of the Group's revenue.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

The following tables provide an analysis of financial instruments categorised as follows:

2018

(i) Financial assets at amortised cost (AC);
(ii) Fair value through profit or loss (FVTPL)
  - Mandatorily required by MFRS 9; and
(iii) Financial liabilities at amortised cost (FL).

2017

(i) Loans and receivables (L&R);
(ii) Fair value through profit or loss (FVTPL)
  - Held for trading (HFT); and
(iii) Financial liabilities measured at amortised cost (FL).

Group 2018	Note	AC/(FL) RM Mil	FVTPL RM Mil	Total carrying amount RM Mil
Financial assets				
Trade and other receivables*	11	**2,184**	**10**	**2,194**
Cash and cash equivalents	13	**12,329**	**-**	**12,329**
		14,513	**10**	**14,523**
Financial liabilities				
Other long term liabilities*	17	**(73)**	**-**	**(73)**
Borrowings	18	**(2,072)**	**-**	**(2,072)**
Trade and other payables*	19	**(2,872)**	**(8)**	**(2,880)**
		(5,017)	**(8)**	**(5,025)**

34. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Group 2017	Note	L&R/(FL) RM Mil	FVTPL -HFT RM Mil	Total carrying amount RM Mil
Financial assets				
Trade and other receivables*	11	2,090	19	2,109
Cash and cash equivalents	13	6,674	-	6,674
		8,764	19	8,783
Financial liabilities				
Other long term liabilities*	17	(126)	-	(126)
Trade and other payables*	19	(3,191)	(15)	(3,206)
		(3,317)	(15)	(3,332)

* These balances exclude balances which are not within the scope of MFRS 9 *Financial Instruments* (2017: MFRS 139 *Financial Instruments: Recognition and Measurement*).

Company 2018	Note	AC/(FL) RM Mil	Total carrying amount RM Mil
Financial assets			
Trade and other receivables*	11	**110**	**110**
Cash and cash equivalents	13	**6,462**	**6,462**
		6,572	**6,572**
Financial liabilities			
Borrowings	18	**(2,072)**	**(2,072)**
Trade and other payables*	19	**(673)**	**(673)**
		(2,745)	**(2,745)**

Company 2017	Note	L&R/(FL) RM Mil	Total carrying amount RM Mil
Financial assets			
Long term receivables	8	3,991	3,991
Trade and other receivables*	11	43	43
Cash and cash equivalents	13	3,629	3,629
		7,663	7,663
Financial liabilities			
Trade and other payables*	19	(60)	(60)

* These balances exclude balances which are not within the scope of MFRS 9 *Financial Instruments* (2017: MFRS 139 *Financial Instruments: Recognition and Measurement*).

34. 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 has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial 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 managed by individual subsidiaries in line with PETRONAS' policies and guidelines.

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 arising from intercompany loans and advances is represented by their carrying amounts in the statements of financial position.

Receivables

The Group minimises credit risk by ensuring that all potential third party counterparties are subject to credit assessment and approval prior to any transaction being concluded. Existing third party 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.

34. 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	2018 RM Mil	2017 RM Mil
Olefins and Derivatives	**1,301**	997
Fertilisers and Methanol	**336**	172
Others	**547**	921
	2,184	2,090

The Group uses ageing analysis to monitor the credit quality of trade receivables.

The Group performs credit rating assessment of all its counterparties in order to measure ECLs of trade receivables for all segments using the PETRONAS Credit Risk Rating System. This credit rating assessment considers quantitative assessment using the counterparties' customer's financial statements or a qualitative assessment of the counterparties customer, which includes but is not limited to their customer's reputation, competitive position, industry and geopolitical outlook.

In determining the ECL, the Group considers the loss given default and the probability of default assigned to each counterparty customer. The probability of default is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

Loss given default is the assumption of the proportion of financial asset that cannot be recovered by conversion of collateral to cash or by legal process, and is assessed based on the Company's historical experience.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
(i) significant financial difficulty of the customer;
(ii) a breach of contract such as a default; and
(iii) it is probable that the customer will enter bankruptcy or other financial reorganisation.

In managing credit risk of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Receivables (continued)

The ageing of trade receivables and amount due from PETRONAS, related companies and associates which are trade in nature as at the end of the financial year is analysed below:

Group	2018 RM Mil	2017 RM Mil
At net		
Current	**2,027**	1,884
Past due 1 to 30 days	**66**	15
Past due 31 to 60 days	**5**	-
	2,098	1,899

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.

Financial guarantee

The Company provides unsecured financial guarantee to bank in respect of banking facility granted to an associate. The Company monitors on an ongoing basis, the results of the associate and repayments made by the associate.

The maximum exposure to credit risk is amounting to RM539 million (2017: RM390 million) which represents the outstanding banking facility of the associate as at reporting date. As at reporting date, there was no indication that the associate would default on repayment.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial 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.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the Group's and the Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

Group 2018	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
Financial liabilities						
Borrowings	2,072	2.75	2,087	2,087	-	-
Finance lease liabilities	88	5.00	94	49	37	8
Other long term liabilities	31	-	42	14	28	-
Trade and other payables	2,826	-	2,826	2,826	-	-
Derivative liabilities	8	-	8	8	-	-
Financial guarantee	-	-	539	539	-	-
	5,025		5,596	5,523	65	8

Group 2017	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
Financial liabilities						
Finance lease liabilities	137	5.00	150	56	50	44
Other long term liabilities	38	-	42	-	28	14
Trade and other payables	3,142	-	3,142	3,142	-	-
Derivative liabilities	15	-	15	15	-	-
Financial guarantee	-	-	390	390	-	-
	3,332		3,739	3,603	78	58

34. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

Company 2018	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Financial liabilities				
Borrowings	**2,072**	**2.75**	**2,087**	**2,087**
Trade and other payables	**673**	**-**	**673**	**673**
Financial guarantee	**-**	**-**	**539**	**539**
	2,745		**3,299**	**3,299**

Company 2017	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil
Financial liabilities				
Trade and other payables	60	-	60	60
Financial guarantee	-	-	390	390
	60		450	450

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 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.

All interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines. The Group enters into hedging transactions with respect to interest rate on certain long term borrowings and other debts where necessary and appropriate, in accordance with policies and guidelines.

34. 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	
	2018 RM Mil	2017 RM Mil	2018 RM Mil	2017 RM Mil
Fixed rate instruments				
Financial assets	**4,370**	171	**4,264**	-
Financial liabilities	**(88)**	(137)	**-**	-
	4,282	34	**4,264**	-
Floating rate instruments				
Financial assets	**7,944**	6,480	**2,198**	7,620
Financial liabilities	**(2,072)**	-	**(2,072)**	-
	5,872	6,480	**126**	7,620

The Group's and the Company's financial assets and liabilities are measured at amortised cost, any reasonable possible change in interest rate is not expected to have material impact on the Group's and the Company's profit or loss.

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's and the Company's cash flows are Ringgit Malaysia and US Dollar.

The Group's and the Company's foreign exchange management policies are to minimise economic and significant transactional exposures arising from currency movements. The Group mainly relies on the natural hedge arising from most of its revenue and expenses being denominated in US Dollar. In addition, the Group, where applicable, hedges using derivative instruments in respect of current and forecasted transactions.

34. 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	2018 Denominated in USD RM Mil	2018 Denominated in THB RM Mil	2018 Denominated in EURO RM Mil	2017 Denominated in USD RM Mil	2017 Denominated in EURO RM Mil	2017 Denominated in JPY RM Mil
Financial assets						
Trade and other receivables*	**389**	**89**	**-**	487	5	3
Cash and cash equivalents	**-**	**79**	**-**	-	-	-
Financial liabilities						
Trade and other payables*	**(32)**	**(3)**	**(20)**	(95)	(1)	(1)
Derivative assets/liabilities at nominal value	**(231)**	**(87)**	**-**	(393)	-	-
Net exposure	**126**	**78**	**(20)**	(1)	4	2

* These amounts include foreign currency risk exposure arising from intra-group balances.

Most of the Group's foreign currency financial instruments are denominated in US Dollar and since the net exposure is not material, any reasonable possible change in the exchange rate is not expected to have a material impact on the Group's profit or loss.

Company	Denominated in USD 2018 RM Mil	Denominated in USD 2017 RM Mil
Financial assets		
Long term receivables	**-**	3,991
Trade and other receivables	**62**	2
Net exposure	**62**	3,993

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:

	Appreciation in foreign currency rate %	Profit/(Loss) 2018 RM Mil	Profit/(Loss) 2017 RM Mil
USD	10	**6**	399

A depreciation in currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Price risk

The Group is exposed to price risks that include feedstock and product price risk and basis risk which may affect the value of the Group's assets, liabilities or expected future cash flows. Price risk is the risk of financial loss due to fluctuation and volatility of feedstock prices on purchases and product prices on trades. Basis risk, on the other hand, is the risk of financial loss as a result of different pricing term of trades.

The Group is guided by industry practices and minimises its price risk exposure by proactively and continuously identifying, measuring, monitoring, mitigating and reporting price risk within the context of a comprehensive risk management framework.

Fair value information

The carrying amounts of cash and cash equivalents, and short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position:

	Fair value of financial instruments carried at fair value		Fair value of financial instruments not carried at fair value		Carrying amount
Group 2018	**Level 2 RM Mil**	**Total RM Mil**	**Level 3 RM Mil**	**Total RM Mil**	**Total RM Mil**
Financial assets					
Forward foreign exchange contracts	**10**	**10**	**-**	**-**	**10**
Financial liabilities					
Forward foreign exchange contracts	**(8)**	**(8)**	**-**	**-**	**(8)**
Finance lease liabilities	**-**	**-**	**(42)**	**(42)**	**(42)**
	(8)	**(8)**	**(42)**	**(42)**	**(50)**

	Fair value of financial instruments carried at fair value		Fair value of financial instruments not carried at fair value		Carrying amount
Group 2017	**Level 2 RM Mil**	**Total RM Mil**	**Level 3 RM Mil**	**Total RM Mil**	**Total RM Mil**
Financial assets					
Forward foreign exchange contracts	19	19	-	-	19
Financial liabilities					
Forward foreign exchange contracts	(15)	(15)	-	-	(15)
Finance lease liabilities	-	-	(88)	(88)	(88)
	(15)	(15)	(88)	(88)	(103)

Notes to the Financial Statements

34. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company 2018	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
Financial assets					
Long term receivables	-	-	-	-	-

Company 2017	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
Financial assets					
Long term receivables	-	-	3,621	3,621	3,991

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.

Income/(expense), net gains and losses arising from financial instruments

Group 2018	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Financial assets measured at amortised cost	315	-	58	373
Financial instruments at fair value through profit or loss				
- Mandatorily required by MFRS 9	-	-	(14)	(14)
Financial liabilities measured at amortised cost	-	(99)	(9)	(108)
	315	(99)	35	251

34. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments (continued)

Group 2017	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Loans and receivables	211	-	(59)	152
Financial instruments at fair value through profit or loss				
- Held for trading	-	-	96	96
Financial liabilities measured at amortised cost	-	(14)	(35)	(49)
	211	(14)	2	199

Company 2018	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Financial assets measured at amortised cost				
- Mandatorily required by MFRS 9	**204**	**-**	**(123)**	**81**
Financial liabilities measured at amortised cost	**-**	**(92)**	**-**	**(92)**
	204	**(92)**	**(123)**	**(11)**

Company 2017	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Loans and receivables	189	-	(791)	(602)
Financial liabilities measured at amortised cost	-	(5)	1	(4)
	189	(5)	(790)	(606)

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.

35. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2018, 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 2018

MFRS 9	*Financial Instruments (2014)*
MFRS 15	*Revenue from Contracts with Customers*
Amendments to MFRS 15	*Revenue from Contracts with Customers*
IC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to MFRS 128	*Investment in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)*

35. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTINUED)

The principal changes in accounting policies and their effects are set out 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 and financial liabilities, impairment of financial assets, and on hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principal classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) and eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model. Under MFRS 9, loss allowances are measured on either 12-month ECLs or lifetime ECLs.

The Group and the Company have applied the requirements of MFRS 9 retrospectively with practical expedients and transitional exemptions as allowed by the standard, as follows:

- The Group has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

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*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The initial application of the abovementioned pronouncements do not have any material impact to the financial statements of the Group and the Company, other than that disclosed in Note 38.

36. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by MASB will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	*Leases*
Amendments to MFRS 3	*Business Combinations (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 11	*Joint Arrangements (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 112	*Income Taxes (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 119	*Employee Benefits: Plan Amendment, Curtailment or Settlement*
Amendments to MFRS 123	*Borrowing Costs (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 128	*Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
IC Interpretation 23	*Uncertainty over Income Tax Treatments*

36. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT (CONTINUED)

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3	*Business Combinations (Definition of a Business)*
Amendments to MFRS 101	*Presentation of Financial Statements (Definition of Material)*
Amendments to MFRS 108	*Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*

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.

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*.

MFRS 16 introduces a single, on balance sheet lease accounting for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance lease or operating lease.

Based on the assessment, the Group and the Company do not expect the initial application of MFRS 16 to have a significant impact on its consolidated financial statements.

37. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 9	*Financial Instruments: Prepayment Features with Negative Compensation*

Effective for annual periods beginning on or after 1 January 2021

MFRS 17	*Insurance Contracts*

Effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10 and MFRS 128	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Notes to the Financial Statements

38. IMPACT OF THE ADOPTION OF PRONOUNCEMENT

Effect of adoption of MFRS 9 is set out below:

Classification and measurement of financial assets and financial liabilities on the date of initial application of MFRS 9

The following tables and the accompanying notes below show the initial measurement under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Group and Company's financial assets and financial liabilities as at 1 January 2018 based on the assessment of business model.

There is no impact on the carrying amounts of financial assets as at 1 January 2018 as shown below:

		1 January 2018		
		Reclassification to new MFRS 9 category		
Group	31 December 2017 RM Mil	Remeasurement RM Mil	Amortised cost RM Mil	FVTPL RM Mil
Category under MFRS 139				
Financial assets				
Loans and receivables				
Trade and other receivables*	2,090	-	**2,090**	-
Cash and cash equivalent	6,674	-	**6,674**	-
	8,764	-	**8,764**	-
Fair value through profit or loss – HFT				
Forward foreign exchange contracts	19	-	-	**19**
	19	-	-	**19**
Financial liabilities				
Financial liabilities measured at amortised cost				
Other long term liabilities	(126)	-	**(126)**	-
Trade and other payables*	(3,191)	-	**(3,191)**	-
	(3,317)	-	**(3,317)**	-
Fair value through profit or loss – HFT				
Forward foreign exchange contracts	(15)	-	-	**(15)**
	(15)	-	-	**(15)**

* These balances exclude balances which are not within the scope of MFRS 9 *Financial Instruments* (2017: MFRS 139 *Financial Instruments: Recognition and Measurement*).

38. IMPACT OF THE ADOPTION OF PRONOUNCEMENT (CONTINUED)

Classification and measurement of financial assets and financial liabilities on the date of initial application of MFRS 9 (continued)

		1 January 2018		
		Reclassification to new MFRS 9 category		
Company	31 December 2017 RM Mil	Remeasurement RM Mil	Amortised cost RM Mil	FVTPL RM Mil
Category under MFRS 139				
Financial assets				
Loans and receivables				
Long term receivables	3,991	-	3,991	-
Trade and other receivables*	43	-	43	-
Cash and cash equivalent	3,629	-	3,629	-
	7,663	-	7,663	-
Financial liabilities				
Financial liabilities measured at amortised cost				
Trade and other payables*	(60)	-	(60)	-
	(60)	-	(60)	-

* These balances exclude balances which are not within the scope of MFRS 9 *Financial Instruments* (2017: MFRS 139 *Financial Instruments: Recognition and Measurement*).

39. CAPITAL MANAGEMENT

The Group defines capital as the total equity and debt of the Group. The objective of the Group's and the Company's capital management is to maintain an optimal capital structure and ensuring availability of funds in order to support its business and related shareholders value. As a subsidiary of PETRONAS, the Group adopts PETRONAS Group Corporate Financial Policy in managing its capital.

The Group monitors and maintains a prudent level of total debt to total assets ratio to optimise shareholders value and to ensure compliance with covenants.

There were no changes in the Group's and the Company's approach to capital management during the financial year.

40. SIGNIFICANT EVENTS

(i) On 28 March 2018, the Company completed the divestment of its 50% equity interest and shareholder loans held by the Company in one of its subsidiaries, PPC in accordance with the Share Purchase Agreement entered between the Company and AOHC dated 29 September 2017. Pursuant to this, PPC ceased to be a subsidiary of the Company and has since been accounted for as a joint operation in accordance with MFRS 11 *Joint Arrangements*.

Effects of the above transaction are as below:

	Note	Effect of partial divestment at Group RM Mil	Effect of initial accounting of joint operation at Company RM Mil
Effect on financial position:			
Property, plant and equipment	3	3,236	3,281
Current assets		508	508
Current liabilities		(503)	(503)
Borrowings		(1,931)	(1,931)
Others		170	14
Net assets divested at Group/initially accounted as joint operation at Company		1,480	1,369
Effect on cash flows:			
Proceeds received from partial divestment		1,320	1,320
(Cash and cash equivalents divested at Group)/Share of cash and cash equivalents retained as joint operation at Company		(351)	351
		969	1,671

(ii) On 29 March 2018, the Company completed the acquisition of a non-controlling interest held in two of its subsidiaries, PETRONAS Chemicals Olefins Sdn. Bhd. (PC Olefins) and PETRONAS Chemicals LDPE Sdn. Bhd. (PC LDPE). As a result of the acquisition, PC Olefins and PC LDPE have become wholly-owned subsidiaries of the Company.

Independent Auditors' Report

To the members of PETRONAS Chemicals Group Berhad (Company No. 459830-K) (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PETRONAS Chemicals Group Berhad ("PCG"), which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 84.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Interest in joint operation

Refer to note 2.1(i)(ii) (accounting policy), note 30 and note 40 of the financial statements.

During the year, the Group and the Company disposed 50% equity interest in a subsidiary, Pengerang Petrochemical Company Sdn. Bhd. (PPC), and retained the remaining interest in PPC as a joint operation. This is a key audit matter because:

- assessment of whether an investment is a joint operation requires careful considerations of numerous facts;
- accounting for the disposal of a subsidiary where the retained interest is a joint operation is complex; and
- it has a material impact on the financial statements of the Group and of the Company.

We performed the following, among others, audit procedures:

- read and obtained understanding of the shareholders' agreement;
- challenged management's joint operation assessment of PPC by considering whether the assessment considered relevant facts; and
- determined whether the accounting treatment on the disposal of 50% equity interest in PPC represent the transaction by comparing the treatment with the requirements of accounting standards and other reputable accounting literature.

Independent Auditors' Report

To the members of PETRONAS Chemicals Group Berhad (Company No. 459830-K) (Incorporated in Malaysia)

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report and Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the Annual Report, which are expected to be made available to us after the auditors' report date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Independent Auditors' Report

To the members of PETRONAS Chemicals Group Berhad (Company No. 459830-K) (Incorporated in Malaysia)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in note 27 to the financial statements.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Thong Foo Vung
Approval Number: 02867/08/2020 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 25 February 2019

This page has been intentionally left blank.

PETRONAS

www.petronaschemicals.com

PETRONAS Chemicals Group Berhad
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur Malaysia

Tel : +603 2051 5000
Fax : +603 2051 3888