



**PETRONAS**

# LEADING. FUTURE FOCUSED



**PETRONAS  
CHEMICALS  
GROUP  
BERHAD**

(459830-K)

A COMMITMENT TO  
GOVERNANCE  
**2018**

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### 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 icons are used throughout this Standalone Governance Publication



Tells you where you can find more information online at [www.petronaschemicals.com](http://www.petronaschemicals.com)



Tells you where you can find more information in the Integrated Report

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We lay out the scope and boundary of our Governance Report, and the reporting framework we are reporting against.

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# Integrated Reporting Approach

We are proud to present PETRONAS Chemicals Group Berhad’s (PCG) inaugural standalone governance publication, A Commitment to Governance (ACG) to be read in conjunction with our Integrated Report 2018 (IR) and the Corporate Governance Report 2018, which is accessible online at [www.petronaschemicals.com](http://www.petronaschemicals.com).

The ACG presents a detailed report of how we apply the principles of the Malaysian Code on Corporate Governance 2017 (MCCG 2017). It includes expanded information of our Corporate Governance (CG) Overview Statement, Nomination and Remuneration Committee Report, Board Audit Committee Report and Statement on Risk Management and Internal Control.



For more information, please log on to our website: [www.petronaschemicals.com](http://www.petronaschemicals.com)



## Scope and Boundary

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

## Reporting Framework

This ACG has been prepared in accordance with the relevant requirements, guidelines and practices of the Main Market Listing Requirements (MMLR) by Bursa Malaysia Securities Berhad (Bursa Malaysia), MCCG 2017, Companies Act 2016 (CA 2016) and Corporate Governance Guide (3<sup>rd</sup> Edition) by Bursa Malaysia Berhad, in addition to being benchmarked against the Asean Corporate Governance Scorecard.

# CHAIRMAN'S CORPORATE GOVERNANCE OVERVIEW

— As a Board, we have an established commitment to maintain a well defined and effective system of governance which supports our corporate strategy to deliver sustainable growth. —



## Creating and Maintaining the Right Culture for Growth

Integrity and trust in our Group's behaviour are more important than ever in today's business world. One of my key responsibilities as Chairman is to set the tone for the Company and ensure good governance and in this, I have been extremely well supported by the members of the Board. They bring balance and a wealth of skills and experiences to our organisation which complements the talents of our executive team. I thank them all for their valuable contribution as we continue to uphold the high standards expected of us, to maintain oversight of the strategic, operational and compliance risks across the Group and to define our path to success.

It has been another year of progress and development in the Group's governance agenda. Throughout this and other parts of the Integrated Report, we aim to provide investors and other stakeholders with an insight into the governance activities and ethical practices which have supported our corporate performance during the year.

On behalf of the Board, I am pleased to present this publication - ACG, prepared based on the three principles of:

- Leadership & Effectiveness
- Accountability
- Communication with stakeholders

## Board Composition and Changes

As announced on 16 August 2018, Dong Soo Kim resigned from the Board after numerous years of dedicated service. We thank him for all his invaluable input and wish him well. Following his departure, we were delighted to welcome two distinguished international business leaders, Warren William Wilder and Dr. Zafar Abdulmajid Momin to the Board as Independent Non-Executive Directors.

The decision to appoint Warren William Wilder and Dr. Zafar Abdulmajid Momin was made after a rigorous selection process undertaken by the Nomination and Remuneration Committee.

Ching Yew Chye, who is due for re-election at the next annual general meeting, has chosen to call time on his tenure and opted not to submit himself for re-election. We thank him for his services to the Group and invaluable inputs throughout his tenure in PCG.

## Understanding our Risks

A strong system of governance, with effective and prudent controls to assess and manage risk, is central to helping any organisation to anticipate and adapt to changing external circumstances. In order to allow our Board Audit Committee to be more focused with internal control and financial reporting functions, the Board has established a Board Risk Committee (BRC) on 25 February 2019 to focus on risk management. The role of the BRC is to review the policy and plans for risk management and its effectiveness.

## Culture and Governance

Our corporate culture defines who we are, what we stand for and how we do business and it is integral to the success of the Group. Our good reputation has been built on the solid foundation of an ethical culture, underpinned by a well defined and effective system of governance. It has assisted in the creation and protection of long term value of the Group and supported our ongoing corporate strategy to deliver sustainable growth.

The Board defines the purpose of the Group and identifies the values that guide it. We remain committed to upholding the highest ethical standards, operating on the principle that the tone at the top sets the standard for the rest of the business.

Over the years, we have carefully developed a common set of expected behaviours based on our corporate values and an effective system of governance, both of which have been essential in shaping and embedding a strong ethical and governance culture across the Group.

While the Board is responsible for changes to corporate governance and culture, from a practical perspective, the Executive Director and Senior Management are responsible for implementing behavioural and governance changes and for clearly articulating to colleagues in the wider business the reasons for change, its benefits or the consequences of not changing.

We continuously strive to create an environment where our corporate values are not just words, but are put into practice, promoting positive and productive behaviour every day. The Managing Director/Chief Executive Officer (MD/CEO) and other members of the Management team take an active lead, provide encouragement and support to colleagues to ensure that ethical standards are maintained and good governance is put into practice. Key functions such as legal, finance, human resources and internal audit have also been empowered to promote, embed and integrate good standards of ethical behaviour and corporate governance across the Group. The success of our business is dependent upon a strategy which benefits our investors, employees, clients, suppliers and the wider stakeholder community. We have invested time and resources in communicating with employees and designed training and development programmes to educate and encourage high standards of conduct that reflect our vision to be a world-class provider of petrochemicals, renowned for our great people, great service, and great results. These efforts are underpinned by our Code of Conduct and Business Ethics (CoBE).

## The Year Ahead

We are committed to doing things in the right way and will continue to strengthen our governance processes to ensure that we are aligned with best practices and that our approach to disclosure remains timely and transparent.

**Datuk Md Arif Mahmood**  
Chairman

LEADERSHIP



**Datuk Md Arif Mahmood**

*Chairman, Non-Independent Non-Executive Director*

**Nationality:** Malaysian      **Age:** 56  
**Gender:** Male

**DATE APPOINTED TO BOARD**

1 May 2015

**LENGTH OF SERVICE**

3 years and 10 months

**BOARD COMMITTEE**

Nil

**PRESENT DIRECTORSHIPS**

**Listed Entities:**

- PETRONAS Chemicals Group Berhad
- PETRONAS Dagangan Berhad

**Other Public Company:**

- Nil

**ACADEMIC/PROFESSIONAL QUALIFICATIONS**

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

**WORKING EXPERIENCE**

**Present Appointments:**

- Chairman of PETRONAS Chemicals Group Berhad
- Chairman of PETRONAS Dagangan Berhad
- Executive Vice President and Chief Executive Officer, Downstream Business, PETRONAS
- Member of Executive Leadership Team, PETRONAS
- Member of People Development Committee, PETRONAS
- Member of Talent Council, PETRONAS
- Member of Industry Advisory Panel, Universiti Teknologi PETRONAS
- Director, Johor Petroleum Development Corporation
- Chairman/Director of various companies within PETRONAS

**Past Experiences:**

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

**BOARD SKILLS MATRIX:**

- Engineering
- Corporate Planning and Development
- Operations
- Commercial/Marketing

**INDUSTRY EXPERIENCE:**

- Oil and Gas
- Shipping/Logistics
- Regional/International



**Datuk Sazali Hamzah**

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

**Nationality:** Malaysian      **Age:** 52  
**Gender:** Male

**DATE APPOINTED TO BOARD**

8 May 2014

**LENGTH OF SERVICE**

4 years and 2 months

**BOARD COMMITTEE**

Nil

**PRESENT DIRECTORSHIPS**

**Listed Entities:**

- PETRONAS Chemicals Group Berhad

**Other Public Company:**

- Nil

**ACADEMIC/PROFESSIONAL QUALIFICATIONS**

- Chartered Fellow of the Institution of Chemical Engineers (IChemE)
- Bachelor of Chemicals Engineering, Lamar University, USA
- Advanced Management Programme, The Wharton School, University of Pennsylvania, USA
- Senior Management Program, London Business School, London, United Kingdom (UK)

**WORKING EXPERIENCE**

**Present Appointments:**

- VP, Downstream Business, PETRONAS
- Board member of Institution of Chemical Engineers UK, Malaysian Branch
- Chairman/Director of various companies within PETRONAS

**Past Experiences:**

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

**BOARD SKILLS MATRIX:**

- Engineering
- Operations
- Commercial/Marketing

**INDUSTRY EXPERIENCE:**

- Oil and Gas
- Shipping/Logistics
- Regional/International

# Board Composition, Profiles, Structures

As at 25 February 2019

## LEADERSHIP



### Vimala V.R. Menon

Senior Independent Director

**Nationality:** Malaysian **Age:** 64  
**Gender:** Female

#### DATE APPOINTED TO BOARD

13 August 2010

#### LENGTH OF SERVICE

8 years and 6 months

#### BOARD COMMITTEE

- Chairman of Board Audit Committee (BAC)
- Member of Nomination & Remuneration Committee (NRC)
- Member of Board Risk Committee (BRC)

#### PRESENT DIRECTORSHIPS

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
  - PETRONAS Dagangan Berhad
  - DiGi.Com Berhad
- Other Public Company:**
- Nil

#### ACADEMIC/PROFESSIONAL QUALIFICATIONS

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

#### WORKING EXPERIENCE

##### Present Appointments:

- Chairman of BAC, PETRONAS Dagangan Berhad
- Member of NRC, PETRONAS Dagangan Berhad
- Member of Audit and Risk Committee, DiGi.Com Berhad
- Director, Jardine Cycle & Carriage, Singapore
- Chairman of Audit Committee, Jardine Cycle & Carriage, Singapore

##### Past Experiences:

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

#### BOARD SKILLS MATRIX:

- Finance/Audit
- Corporate Planning and Development
- Commercial/Marketing
- Information Technology

#### INDUSTRY EXPERIENCE:

- Banking and Finance
- Regional/International



### Datuk William Toh Ah Wah

Independent Non-Executive Director

**Nationality:** Malaysian **Age:** 61  
**Gender:** Male

#### DATE APPOINTED TO BOARD

13 June 2014

#### LENGTH OF SERVICE

4 years and 8 months

#### BOARD COMMITTEE

- Chairman of NRC
- Member of BAC

#### PRESENT DIRECTORSHIPS

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
  - Carlsberg Brewery Malaysia Berhad (Carlsberg Malaysia)
- Other Public Company:**
- Nil

#### ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Bachelor of Commerce, Concordia University, Canada

#### WORKING EXPERIENCE

##### Present Appointments:

- Chairman of Carlsberg Malaysia
- Member of Board Audit & Risk Management Committee, Carlsberg Malaysia
- Chairman of Board Nomination Committee, Carlsberg Malaysia
- Chairman of Board Remuneration Committee, Carlsberg Malaysia
- Trustee of CHOICE Foundation
- Director, CTBAT International Company Limited (Hong Kong)

##### Past Experiences:

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

#### BOARD SKILLS MATRIX:

- Commercial/Marketing
- Corporate Planning and Development
- Finance/Audit
- Economics

#### INDUSTRY EXPERIENCE:

- Regional/International

LEADERSHIP



**Warren William Wilder**

Independent Non-Executive Director

**Nationality:** United States of America      **Age:** 61  
**Gender:** Male

**DATE APPOINTED TO BOARD**

1 July 2018

**LENGTH OF SERVICE**

7 months

**BOARD COMMITTEE**

- Chairman of BRC

**PRESENT DIRECTORSHIPS**

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
- Other Public Company:**
- Nil

**ACADEMIC/PROFESSIONAL QUALIFICATIONS**

- Masters of Business Administration (MBA) Finance, University of Chicago, USA
- Bachelors of Chemical Engineering (Honours), University of Washington, Seattle, USA

**WORKING EXPERIENCE**

**Present Appointments:**

- Nil

**Past Experiences:**

- VP of Chemicals, Saudi Aramco Shell Refinery Company
- President and CEO, Polymer, Crackers of Reliance Industries Ltd
- MD/CEO of Titan Chemicals
- Senior Vice President of Olefins, Polyethylene of Westlake Chemical
- VP of Koch Industries
- Manager of Planning and Analysis of Union Pacific Corporation
- Refinery Process Engineer, Marine Fuels and Marine Lubricant Sales Coordination, Ship Chartering, Crude Oil Coordinator in Exxon Corporation

**BOARD SKILLS MATRIX:**

- Global Petrochemical Consultancy
- Corporate Planning and Development
- Operations
- Commercial/Marketing
- Engineering

**INDUSTRY EXPERIENCE:**

- Oil and Gas
- Banking and Finance
- Regional/International



**Ching Yew Chye**

Independent Non-Executive Director

**Nationality:** Malaysian      **Age:** 65  
**Gender:** Male

**DATE APPOINTED TO BOARD**

13 August 2010

**LENGTH OF SERVICE**

8 years and 6 months

**BOARD COMMITTEE**

- Member of NRC
- Member of BAC

**PRESENT DIRECTORSHIPS**

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
  - Genting Plantations Berhad
- Other Public Company:**
- AIA Berhad
  - United Overseas Bank (Malaysia) Berhad
  - AIA General Berhad

**ACADEMIC/PROFESSIONAL QUALIFICATIONS**

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

**WORKING EXPERIENCE**

**Present Appointments:**

- Director, YTL Starhill Global REIT Management Limited
- Chairman, AIA Berhad
- Chairman, AIA General Berhad

**Past Experiences:**

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

**BOARD SKILLS MATRIX:**

- Information Technology
- Human Resource
- Corporate Planning and Development
- Commercial/Marketing
- Finance/Audit

**INDUSTRY EXPERIENCE:**

- Banking and Finance
- Regional/International

# Board Composition, Profiles, Structures

As at 25 February 2019

## LEADERSHIP



### Dr. Zafar Abdulmajid Momin

Independent Non-Executive Director

**Nationality:** Singaporean      **Age:** 60  
**Gender:** Male

#### DATE APPOINTED TO BOARD

1 July 2018

#### LENGTH OF SERVICE

7 months

#### BOARD COMMITTEE

- Member of BRC

#### PRESENT DIRECTORSHIPS

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
- Other Public Company:**
- Nil

#### ACADEMIC/PROFESSIONAL QUALIFICATIONS

- Doctor of Philosophy in Business (General Management), Singapore Management University, Singapore
- Master of Business Administration, Kellogg School of Management, Northwestern University, Chicago, USA
- Master of Science in Mechanical Engineering, Purdue University, USA
- Bachelor of Mechanical Engineering, College of Engineering, Pune University, India

#### WORKING EXPERIENCE

##### Present Appointments:

- Adjunct Associate Professor, College of Business, Nanyang Technological University (Singapore)

##### Past Experiences:

- Independent Non-Executive Director, Mapletree Logistics Trust Management (Singapore)
- Board Director, Center for Non-Profit Leadership (Singapore)
- Senior Partner & MD of L.E.K Consulting (Singapore); Head of Southeast Asia
- Executive Vice-President, Alghanim Industries (Kuwait); Several CXO roles
- Partner and MD of The Boston Consulting Group (Singapore, Dubai); Head of Asia Pacific Industrial Goods Practice, pioneering Partner of Dubai/Abu Dhabi offices
- Partner & MD, A.T. Kearney (Singapore); Head of Asia Pacific Automotive Practice
- Various general management positions in United Technologies Corporation, Otis Southeast Asia and Asia Pacific (Singapore)
- Various roles with General Motors (United States of America)

##### BOARD SKILLS MATRIX:

- Information Technology
- Human Resource
- Corporate Planning and Development
- Operations
- Commercial/Marketing

- Engineering
- Economics
- Finance/Audit

##### INDUSTRY EXPERIENCE:

- Shipping/Logistics
- Regional/International



### Zakaria Kasah

Non-Independent Non-Executive Director

**Nationality:** Malaysian      **Age:** 54  
**Gender:** Male

#### DATE APPOINTED TO BOARD

31 July 2015

#### LENGTH OF SERVICE

3 years and 7 months

#### BOARD COMMITTEE

- Member of BRC

#### PRESENT DIRECTORSHIPS

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
- Other Public Company:**
- Nil

#### ACADEMIC/PROFESSIONAL QUALIFICATIONS

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

#### WORKING EXPERIENCE

##### Present Appointments:

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

##### Past Experiences:

- VP of PETRONAS Technology & Engineering, Downstream Business
- VP of PETRONAS Upstream Business
- CEO of Malaysia LNG Group of Companies
- Various senior management positions in PETRONAS Gas Berhad, Egyptian LNG and Malaysia LNG Group of Companies

##### BOARD SKILLS MATRIX:

- Engineering
- Operations
- Corporate Planning and Development
- Commercial/Marketing

##### INDUSTRY EXPERIENCE:

- Oil and Gas
- Regional/International



### Freida Amat

Non-Independent Non-Executive Director

**Nationality:** Malaysian **Age:** 50  
**Gender:** Female

#### DATE APPOINTED TO BOARD

31 July 2015

#### LENGTH OF SERVICE

3 years and 7 months

#### BOARD COMMITTEE

- Member of BAC

#### PRESENT DIRECTORSHIPS

- Listed Entities:**
- PETRONAS Chemicals Group Berhad
- Other Public Company:**
- Nil

#### ACADEMIC/PROFESSIONAL QUALIFICATIONS

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

#### WORKING EXPERIENCE

##### Present Appointments:

- Head of Finance Group and Corporate Services Department, PETRONAS
- Director, various companies within PETRONAS

##### Past Experiences:

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

#### BOARD SKILLS MATRIX:

- Finance/Audit
- Commercial/Marketing
- Economics
- Corporate Planning and Development

#### INDUSTRY EXPERIENCE:

- Oil and Gas
- Regional/International

### Company Secretaries:



### Hasnizaini Mohd Zain

Company Secretary



Further details about Hasnizaini Mohd Zain, can be found on page 10



### Kang Shew Meng

Company Secretary

**Nationality:** Malaysian **Age:** 58  
**Gender:** Male

#### QUALIFICATIONS

- Fellow of the Institute of Chartered Secretaries and Administrators (ICSA)
- Masters in Law (International Business Law) from Staffordshire University (UIC)
- Diploma in Commerce (Business Management)

#### Additional Information of the Board of Directors:

- Family Relationship :** Save as disclosed, none of the Directors has any family relationship with any Director and/or major shareholder of PCG.
- Conflict of Interests :** Save as disclosed, none of the Directors has any conflict of interests with PCG.
- Conviction for Offences :** None of the Directors has any conviction for offences, other than traffic offences, if any, for the past 5 years.
- Public Sanction or Penalty :** None of the Directors has any sanction or penalty imposed on them by any regulatory bodies during the financial year ended 31 December 2018.

# Management Committee

**LEADERSHIP**



## Datuk Sazali Hamzah

**Age:** 52

**Nationality:** Malaysian

**Gender:** Male

**Qualification:**

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

*Managing Director/Chief Executive Officer*

**Description of roles:**

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

**Experience Matrix:**

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

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

**2010:** Led a highly specialised team, providing technical services and support to all operating plants in PETRONAS, subsequently heading Project Management Delivery Division and overseeing PETRONAS downstream projects of high capital value.

**2012:** Appointed as PETRONAS Penapisan (Melaka) Sdn Bhd – MD/CEO

**2014:** Appointed as President/CEO of PCG

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

**2016:** Appointed as PETRONAS VP and remained as MD/CEO PCG



## Rashidah Alias

**Age:** 46

**Nationality:** Malaysian

**Gender:** Female

**Qualification:**

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

*Chief Financial Officer*

**Description of roles:**

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

**Experience Matrix:**

**1994:** Arthur Andersen – Audit & advisory

**1998:** PETRONAS – Various posts in areas of corporate planning, accounting and shared services; and managing specialised assignments involving initial public offerings, corporate bond issuance, corporate strategy implementation and groupwide process transformation

**2010:** PETRONAS – Senior General Manager, Finance & Accounts Services

**2013:** PETRONAS – Senior General Manager, Group Treasury

**2015:** Appointed as PCG Chief Financial Officer

LEADERSHIP



**Shamsairi Mohd Ibrahim**

**Age:** 52  
**Nationality:** Malaysian  
**Gender:** Male

**Qualification:**

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

*Head of Commercial*

**Description of roles:**

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

**Experience Matrix:**

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



**Mahadzir Rani**

**Age:** 51  
**Nationality:** Malaysian  
**Gender:** Male

**Qualification:**

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

*Head of Manufacturing*

**Description of roles:**

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

**Experience Matrix:**

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



**Akbar Md Thayoob**

**Age:** 55  
**Nationality:** Malaysian  
**Gender:** Male

**Qualification:**

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

*Head of Strategic Planning & Ventures*

**Description of roles:**

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

**Experience Matrix:**

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

# Management Committee

**LEADERSHIP**



**Datin Zarina Zakaria @ Mohamad**

**Age:** 51  
**Nationality:** Malaysian  
**Gender:** Female

**Qualification:**

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

*Head of Human Resource Management*

**Description of roles:**

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

**Experience Matrix:**

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



**Ch'ng Guan How**

**Age:** 49  
**Nationality:** Malaysian  
**Gender:** Male

**Qualification:**

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

*Chief Innovation & Technology Officer*

**Description of roles:**

- Responsible for PCG’s product development, customer application co-development, technical support, product stewardship functions to deliver innovative customer solutions

**Experience Matrix:**

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



**Hasnizaini Mohd Zain**

**Age:** 44  
**Nationality:** Malaysian  
**Gender:** Female

**Qualification:**

- Bachelor of Laws, University of Leeds, UK
- Certificate of Legal Practice, Malaysia
- Masters of Comparative Laws, International Islamic University, Malaysia

*Head of Legal and Corporate Secretariat*

**Description of roles:**

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

**Experience Matrix:**

- |  |  |
|--|--|
| <b>2000:</b> Messrs. Badri Kuhan Yeoh & Ghani – Advocate & Solicitor               | <b>2011:</b> PETRONAS Group Legal – Legal Counsel, Downstream Marketing & Special Project            |
| <b>2000:</b> Bank Islam – Deputy Manager, Industrial Relations                     | <b>2013:</b> PETRONAS Group Legal – Senior Legal Counsel, Refining & Trading                         |
| <b>2006:</b> PETRONAS Group Legal – Legal Officer, Corporate Services & Technology | <b>2014:</b> PETRONAS Group Legal – Head, Legal & Corporate Secretariat for PETRONAS Dagangan Berhad |
| <b>2010:</b> PETRONAS Group Legal – Legal Counsel, Corporate Services & Technology | <b>2018:</b> PETRONAS Group Legal – Head, Legal & Corporate Secretariat for PCG                      |

LEADERSHIP



**Ahmad Zaki Daud**

**Age:** 46  
**Nationality:** Malaysian  
**Gender:** Male

**Qualification:**

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

Head of Health, Safety & Environment

**Description of roles:**

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

**Experience Matrix:**

- |   |  |
|---|--|
| <b>1997:</b> PETRONAS Second Ethylene Cracker Project – Electrical Maintenance Engineer | <b>2012:</b> PETRONAS Chemicals Glycols Sdn Bhd – Head of Ethylene Oxide Glycols |
| <b>2001:</b> PETRONAS Chemicals Derivatives Sdn Bhd – Electrical Production Engineer    | <b>2014:</b> PCG – Head of Operation Work Process                                |
| <b>2009:</b> PETRONAS Chemicals Derivatives Sdn Bhd – Utilities Manager                 | <b>2015:</b> PCG – Head of HSE   |



**Siti Azlina Abd Latif**

**Age:** 47  
**Nationality:** Malaysian  
**Gender:** Female

**Qualification:**

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

Head of Corporate Affairs & Administration

**Description of roles:**

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

**Experience Matrix:**

- |   |  |
|---|--|
| <b>1997:</b> PETRONAS Dagangan Berhad – Finance and accounts, complementary business, retail sales and brand communications | <b>2013:</b> PCG – Head of Corporate Communications & Administration |
| <b>2007:</b> PETRONAS Dagangan Berhad – Head of Brand Communications  | <b>2016:</b> PCG – Head of Corporate Affairs & Administration        |



**Mohd Zakir Jaafar**

**Age:** 48  
**Nationality:** Malaysian  
**Gender:** Male

**Qualification:**

- Bachelor Of Chemical & Bio Process Engineering, University Of Bath, UK

Head of Project Directorate

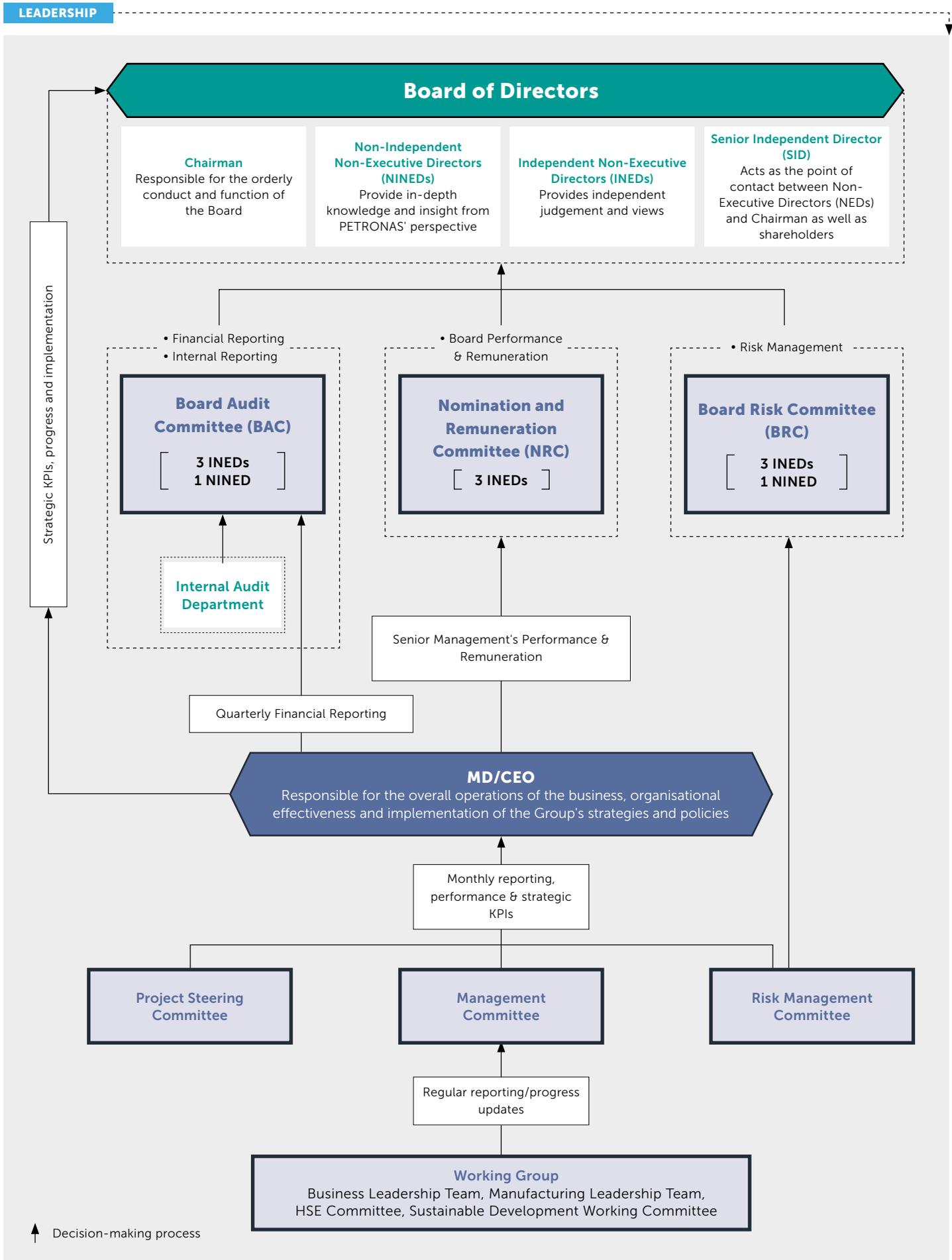
**Description of roles:**

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

**Experience Matrix:**

- |  |   |
|--|---|
| <b>1993:</b> PETRONAS Methanol (Labuan) Sdn Bhd – Shift Superintendent   | <b>2009:</b> PCG – Head of SAMUR Project  |
| <b>2000:</b> PETRONAS – Project Engineer, Second Ethylene Cracker Project  | <b>2012:</b> PETRONAS Chemicals Fertiliser Sabah Sdn Bhd – Head of Project Management   |
| <b>2003:</b> OPTIMAL Group of Companies – Held various positions including EOG Utilities Specialist and Improvement Leader | <b>2014:</b> PCG – Held various positions in Project Directorate including Head of Project Services and Head of Front-End Engineering |
| <b>2006:</b> PETRONAS Methanol (Labuan) Sdn Bhd – Head of Project Management and Senior Manager of Technical Services      | <b>2019:</b> PCG – Head of Project Directorate  |

# Our Governance Structure



LEADERSHIP

The Board Charter assigns responsibility for strategic direction and control of the Group to the Board.

The Board exercises this control by way of the Group's governance framework, which includes detailed reporting to the Board and its Committees, and a system of assurances on internal controls.

**The Board's Responsibilities and Duties**

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

**The Board Charter**

The Board Charter sets out the practices and processes adopted to enable the Board to discharge its responsibilities. The Board Charter is available on the Company's official corporate website, [www.petronaschemicals.com](http://www.petronaschemicals.com) together with the Terms of References (TOR) of all its Committees. The Board is satisfied that it fulfilled these duties and obligations during the year under review.

**Board Balance and Composition**

The Board comprises nine Directors as at the date of this report, of whom one is an Executive Director and eight are NEDs. 22% of the directors are women. The Board has determined that five of the INEDs are independent in accordance with the MMLR of Bursa Malaysia. The Board is also of the view that all INEDs exercise independent judgement at all times.

During the year, the Board saw changes to its composition, where Warren William Wilder and Dr. Zafar Abdulmajid Momin were appointed as INEDs in July 2018, while Dong Soo Kim resigned in August 2018.

In considering new appointments to the Board, the Board through NRC, takes into account corporate leadership skills, experience and expertise required to advance the strategic direction of the Company. The NRC ensures that it has the right balance of skills, experience, independence and business knowledge necessary to discharge its responsibilities in keeping with the highest standards of governance. In the Board's assessment, all Directors have the knowledge, skills and experience to make a meaningful contribution to the business of the Company. None of the Independent Directors have appointed alternate directors.

**Separate roles of Chairman and MD/CEO**

The positions of Chairman and MD/CEO are held separately by Datuk Md Arif Mahmood and Datuk Sazali Hamzah respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the MD/CEO's responsibility to manage the Company's business. The respective roles and responsibilities of the Chairman and MD/CEO can be viewed under the Board Charter in the Company's official corporate website, [www.petronaschemicals.com](http://www.petronaschemicals.com). The MD/CEO is assisted by the Management Committee in managing the business on a day-to-day basis, which he consults regularly. The Management Committee ensures effective systems, controls and resources are in place to execute business strategies and decisions taken by the Board and/or the MD/CEO.

**BOARD OF DIRECTORS**

**NINEDs**

- Datuk Md Arif Mahmood
- Zakaria Kasah
- Freida Amat

**Executive Director**

- Datuk Sazali Hamzah

**INEDs**

- Vimala V.R. Menon (SID)
- Datuk William Toh Ah Wah
- Warren William Wilder
- Ching Yew Chye
- Dr. Zafar Abdulmajid Momin

**Right balance of skills and experience to make a meaningful contribution to the business of the Company**

**Board Skills and Diversity**

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

**Skills**

- Industry Experience
- Finance/Audit
- Economics
- Engineering
- Commercial/Marketing
- Operations
- Corporate Planning and Development
- Human Resource
- Information Technology
- Global Petrochemical Consultancy

**Tenure**

<b>0 to 2 YEARS</b> 2 Directors	<b>2 to 4 YEARS</b> 3 Directors	<b>4 to 7 YEARS</b> 2 Directors	<b>7 to 9 YEARS</b> 2 Directors
------------------------------------	------------------------------------	------------------------------------	------------------------------------

## Our Governance Structure

### LEADERSHIP

#### Independence

Our Board recognises the important contributions that INEDs make to good corporate governance. All Directors, regardless of their independent status, are required to act in the best interests of the Company and to exercise unfettered and independent judgment. To date, all five INEDs satisfy the following criteria:

- a) independent from Management and free from any business or other relationship which could interfere with independent judgement or the ability to act in the best interests of the Company.
- b) not involved in the day-to-day operations of the Company other than when collective Board approval is required. This mitigates the risk of undue influence from third parties and allows INEDs to exercise fair judgement.
- c) declare their interest or any possible conflict of interest in any matter tabled prior to the commencement of Board meetings. Directors are able to ascertain their involvement in any proposal as the papers are disseminated to them at least five days before each meeting. In the case of conflict of interest, Directors are required to recuse themselves and abstain from deliberation to allow unbiased and free discussion and decision making. This also holds true for NINEDs.

In line with the exemplary practice as recommended by the MCG2017, the Company has adopted a tenure policy whereby the INED's total tenure is capped at nine years.

#### Board Diversity

PCG has a diversity policy to ensure that the mix and profiles of our Board members, in terms of age, ethnicity and gender, provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management. We believe that a truly diverse and inclusive Board will leverage differences in thought,

perspective, knowledge, skill, regional and industry experience, cultural and gender in order to ensure that the Company retains its competitive advantage. The Board also supports the country's aspirational target of 30% representation of women directors.

In this regard, the NRC is empowered to review and evaluate the composition and performance of the Board annually, as well as assessing qualified candidates to occupy Board positions.

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

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

A copy of the Board Diversity policy is available at the Company's official corporate website, [www.petronaschemicals.com](http://www.petronaschemicals.com).

#### Board Meetings and Attendance

The meetings of the Board and its Committees for the financial year 2018 were pre-scheduled in November 2017 to facilitate the Directors in planning ahead and incorporate the meeting dates into their respective schedules. This also serves to provide the members with ample notice of the meetings.

The Board has a formal schedule of matters reserved at Board meetings which includes corporate plans, annual budgets, operational

and financial performance reviews, major investments and financial decisions, management performance assessment, changes to the Management and control structure within the Group, including key policies & procedures and limits of authority.

A total of seven Board meetings were held during the year. In addition to that, the Company conducted Board Strategic Conversation with the Management Committee of PCG on 24 - 25 September 2018. The purpose of the conversation is to provide the Board with updates on market outlook, external environment analysis and the Group's strategic and growth plans. Aside from Board meetings, urgent matters were also decided via Directors' Circular Resolutions.

In discharging their responsibilities, during each Board and Committee meeting, the INEDs were inquisitive in the quest for better understanding of items being discussed, vocal during discussions and judicious in the decision-making process. They were impartial in their views, with the Company's and stakeholders' best interest at the forefront of every major decision.

The respective Chairmen of the BAC and NRC also update the Board on the proceedings of their respective Committee meetings. The minutes of each Board meeting are circulated in a timely manner. All proceedings of Board meetings are duly recorded in the minutes of each meeting and signed minutes of each board meeting are properly kept by the Company Secretary. Minutes of the Board meeting are tabled for confirmation at the next Board meeting.

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

## LEADERSHIP

Details of attendance of each Director on the Board, Board Committees and 20<sup>th</sup> Annual General Meeting for the financial year ended 31 December 2018 are as follows:

Name of Directors	Meeting Attended/Held			
	BOARD	BAC	NRC	AGM
<b>Non-Independent Non-Executive Director (Chairman)</b>				
Datuk Md Arif Mahmood	5/7	-	-	1/1
<b>Executive Director</b>				
Datuk Sazali Hamzah	7/7	-	-	1/1
<b>Independent Non-Executive Directors</b>				
Vimala V.R. Menon (SID)	7/7	5/5	3/3	1/1
Datuk William Toh Ah Wah	7/7	5/5	3/3	1/1
Warren William Wilder	3/3	-	-	-
Ching Yew Chye	7/7	5/5	3/3	1/1
Dr Zafar Abdulmajid Momin	3/3	-	-	-
<b>Non-Independent Non-Executive Directors</b>				
Zakaria Kasah	7/7	-	-	1/1
Freida Amat	7/7	5/5	-	1/1
<b>Independent Non-Executive Director who has resigned since the last report</b>				
Dong Soo Kim (resigned on 16 August 2018)	4/4	5/5	2/2	1/1

The average meeting attendance is calculated based on the attendance from the date of appointment to the date of resignation. Warren William Wilder and Dr Zafar Abdulmajid Momin were appointed as directors on 1 July 2018.

### Board Committees

To assist the Board in discharging its duties, the Board has established three Board Committees, namely, the NRC, the BAC and a newly established committee i.e the BRC which was established on 25 February 2019. The BRC consists of 3 INEDs and 1 NINED namely Warren William Wilder (Chairman), Vimala V.R. Menon, Dr Zafar Abdulmajid Momin and Zakaria Kasah. The reports of the NRC and BAC are set out on pages 19 – 28 of this ACG.

### Supply and Access to Information

Prior to each board meeting, the agenda and a set of Board papers encompassing qualitative and quantitative information relevant to the business of the meeting are circulated to all Directors five days prior to the meeting dates. This enables the Directors to have sufficient time to peruse the Board papers and seek clarification or further details from the Management or the Company Secretary before each meeting to ensure preparedness for the meeting. Any Director may request any matters to be included in the agenda. Urgent papers may be presented and tabled at a meeting under the item "Any Other Business", upon endorsement by the MD/CEO and approval by the Chairman. The content of the Board papers prepared are comprehensive and include objectives, background, critical issues, implications, risks, strategic fit, recommendations and other pertinent information to enable informed decision making by the Board.

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

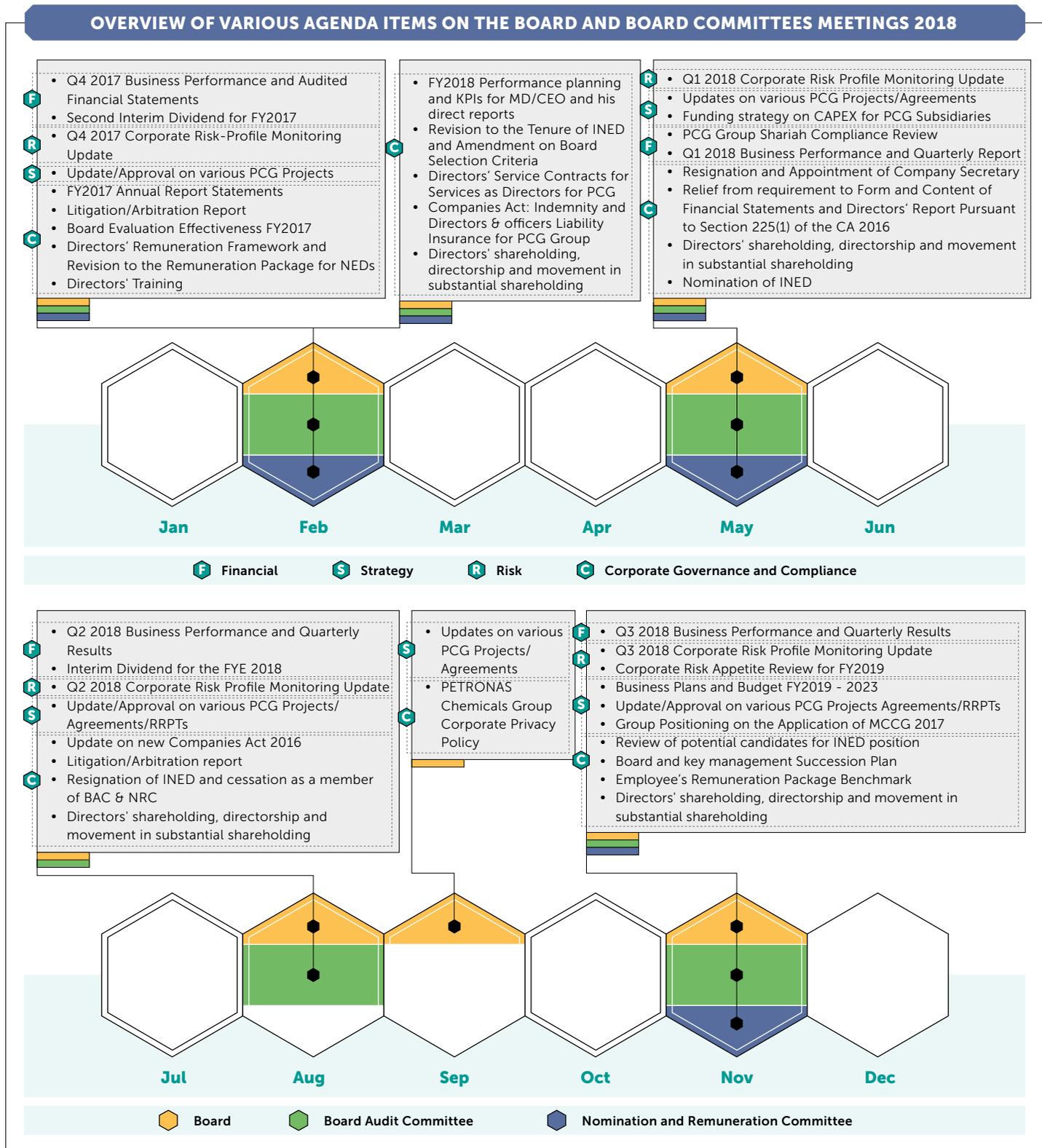
The Directors can access the Board papers online through a secured collaborative software and collaborate with other Board members and the Company Secretary electronically. The online accessibility facilitates the Directors to read and review documents or communicate with other Board members at any time.

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

# The Board 2018 Activities & Priorities

## LEADERSHIP

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



### Directors’ Indemnity

PCG maintained a Directors’ and Officers’ Liability Insurance throughout the financial year. Directors and Officers are indemnified against any liability incurred by them in the discharge of their duties while holding office as Directors and Officers of the Company.

**Board Induction**

All new Directors appointed to the Board receive a comprehensive induction programme. This includes briefings from members of the Management Committee covering key areas of the business, an overview of the Group's financial risk management processes, the internal audit function, innovation and technology, and the corporate governance framework within the Group. The induction programme helps the new Directors to familiarise themselves with the Group's businesses. In addition, Directors were also updated on ongoing and potential projects.

**Continuing Development Programme for Directors**

The two newly appointed Directors have attended the Mandatory Accreditation Programme as required under the MMLR of Bursa Malaysia.

In line with Paragraph 15.08 of the MMLR, the Directors recognise the importance and value of attending conferences, training programmes and seminars in order to keep themselves abreast with the development and changes in the industry in which the Group operates, as well as to update themselves on new statutory and regulatory requirements. During the year under review, the Directors have attended and participated in programmes, conferences and forums that covered the areas of corporate governance, financial, relevant industry updates and global business developments which they considered as useful in contributing to the effective discharge of their duties as Directors. In addition, the Directors also participated in the plant visit at the Pengerang Integrated Complex in Johor.

The Directors' participation in seminars and training programmes in various capacities such as delegates and/or speakers are specified in more detailed below:

No.	Director	Programmes attended in 2018
1.	<b>Datuk Md Arif Mahmood</b>	<ul style="list-style-type: none"> <li>World Economic Forum, Davos</li> <li>3<sup>rd</sup> Offshore Technology Conference (OTC) Asia 2018, Kuala Lumpur</li> <li>As speaker at the Asia Petrochemical Industry Conference (APIC) 2018, Kuala Lumpur</li> <li>As speaker at the Abu Dhabi International Petroleum Exhibition &amp; Conference (ADIPEC) 2018, Abu Dhabi</li> </ul>
2.	<b>Datuk Sazali Hamzah</b>	<ul style="list-style-type: none"> <li>As speaker at Invest Malaysia 2018</li> <li>As Keynote Speaker at Platts 7<sup>th</sup> Asian Petrochemicals Market 2018, Singapore</li> <li>Asia Petrochemical Industry Conference (APIC) 2018, Kuala Lumpur</li> <li>World Economic Forum – Annual Meeting of the Champion, Tianjin, China</li> <li>As speaker at the Abu Dhabi International Petroleum Exhibition &amp; Conference (ADIPEC) 2018</li> </ul>
3.	<b>Vimala V.R. Menon</b>	<ul style="list-style-type: none"> <li>Understanding Fintech and Its Implication for Banks</li> <li>Asia Petrochemical Industry Conference (APIC) 2018</li> <li>Introduction to Corporate Liability Provision</li> <li>Malaysian Financial Reporting Standards (MFRS 9, 15 &amp; 16) updates by KPMG</li> <li>Plant visit to Pengerang Integrated Complex, Johor</li> </ul>
4.	<b>Ching Yew Chye</b>	<ul style="list-style-type: none"> <li>Singapore Institute of Directors Master Class – Anticipating Risk and Precaution at Board Level</li> <li>Asia Petrochemical Industry Conference (APIC) 2018, Kuala Lumpur</li> <li>Malaysian Financial Reporting Standards (MFRS 9, 15 &amp; 16) updates by KPMG</li> <li>MFRS 17 updates by AIA</li> <li>Plant visit to Pengerang Integrated Complex, Johor</li> <li>Financial Institutions Directors' Education (FIDE) Programme – Briefing on Differential Levy System Framework to Board of Directors</li> <li>Financial Institutions Directors' Education (FIDE) Programme – Fintech Disruption to be Embraced</li> <li>Financial Institutions Directors' Education (FIDE) Programme – Board Conversations: Dialogues with Senior Officials of Bank Negara Malaysia (Insurance Companies &amp; Takaful Operators)</li> </ul>
5.	<b>Datuk William Toh Ah Wah</b>	<ul style="list-style-type: none"> <li>Audit Committee Conference 2018 by Malaysian Institute of Accountants</li> <li>Advocacy Programme on Corporate Governance (CG) Assessment using the revised ASEAN CG Scorecard methodology</li> <li>Asia Petrochemical Industry Conference (APIC) 2018</li> <li>Malaysian Financial Reporting Standards (MFRS 9, 15 &amp; 16) updates by KPMG</li> <li>Plant visit to Pengerang Integrated Complex, Johor</li> <li>Independent Directors' Programme: The Essence of Independence – The Iclif Leadership and Governance Centre</li> </ul>

## The Board 2018 Activities & Priorities

### LEADERSHIP

No.	Director	Programmes attended in 2018
6.	<b>Warren William Wilder</b>	<ul style="list-style-type: none"> <li>Plant visit to Pengerang Integrated Complex, Johor</li> <li>Mandatory Accreditation Programme (MAP) – The Iclif Leadership and Governance Centre</li> </ul>
7.	<b>Dr Zafar Abdulmajid Momin</b>	<ul style="list-style-type: none"> <li>Asia Petrochemical Industry Conference (APIC) 2018</li> <li>Plant visit to Pengerang Integrated Complex, Johor</li> <li>Mandatory Accreditation Programme (MAP) – The Iclif Leadership and Governance Centre</li> <li>The 8<sup>th</sup> Asian Surfactants Conference &amp; Surfactants Business Essentials Training Course</li> </ul>
8.	<b>Zakaria Kasah</b>	<ul style="list-style-type: none"> <li>As panelist at PETRONAS Tactical Excellence C4 W3</li> <li>3<sup>rd</sup> Offshore Technology Conference (OTC) Asia 2018</li> <li>HSE SPE (Abu Dhabi) Panel Session No. 5 – Leadership and Collaboration/Governance/HSE across the value chain</li> <li>Corporate Integrity Advocacy Program (CIAP)</li> <li>Asia Petrochemical Industry Conference (APIC) 2018</li> <li>Malaysian Financial Reporting Standards (MFRS 9, 15 &amp; 16) updates by KPMG</li> <li>Plant visit to Pengerang Integrated Complex, Johor</li> <li>PETRONAS Top Leaders Dialogue</li> <li>As a speaker and participant at Upstream Industry Benchmarking (UIBC) 2018</li> </ul>
9.	<b>Freida Amat</b>	<ul style="list-style-type: none"> <li>Audit Committee Conference 2018 by Malaysian Institute of Accountants</li> <li>Asia Petrochemical Industry Conference (APIC) 2018, Kuala Lumpur</li> <li>Malaysian Financial Reporting Standards Updates for CFOs by KPMG</li> <li>Ernst &amp; Young C-Suite Forum 2018</li> </ul>

### Qualified and Competent Company Secretaries

The Company has two company secretaries who are qualified to act as company secretary in accordance with Section 235 of the Companies Act 2016. During the year under review, Noor Lily Zuriati Abdullah vacated her position as company secretary effective 22 May 2018 and was replaced by Hasnizaini Mohd Zain, a lawyer by profession. With this appointment, the secretaries of the company are Hasnizaini Mohd Zain and Kang Shew Meng. Both act as advisors to the Board, particularly with regard to the Company's Constitution, policies and procedures and its compliance with regulatory requirements, codes, guideline and legislations. The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented and subsequently communicated to the relevant Management for appropriate actions.

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

- Related Party Transaction Workshop
- Advocacy Programme on CG Assessment Using the Revised ASEAN Corporate Governance Scorecard Methodology
- Asia Petrochemical Industry Conference (APIC) 2018
- Legally Speaking: Risk Management and Protection Against Officer and Director Liability
- Legally Speaking: The Malaysian Anti-Corruption Commission (Amendment) Act 2018 – The Corporate Liability Provision
- PETRONAS' Inaugural Company Secretaries Conference 2018
- Duke Leadership Program at Duke University Fuqua School of Business, North Carolina, USA

Whilst Kang Shew Meng is a Company Secretarial practitioner and he is often invited as a speaker at company secretarial conferences. In this regard, both the Company Secretaries are qualified and competent in their roles.

# Nomination and Remuneration Committee Report



**Datuk William Toh Ah Wah**  
Chairman

## Terms of Reference

The Nomination and Remuneration Committee (NRC) is governed by its Terms of Reference (TOR), which are consistent with the requirements of the MMLR and MCCG 2017. The TOR of the NRC is accessible to the public on PCG’s official corporate website at [www.petronaschemicals.com](http://www.petronaschemicals.com).

## Composition

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

During the year, the NRC’s composition was reduced to three members due to the resignation of Dong Soo Kim as Director on 16 August 2018.

The NRC was established to enhance the efficiency and transparency of the Company’s governance process and to assist the Board in matters regarding, among others, the nomination and appointment of Directors and key management personnel. In view of the same composition of members, PCG opts to combine its NRC for practical purposes.

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

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

## Role and Philosophy

The NRC is responsible for regularly reviewing and making recommendations to the Board on the structure, size and composition of the Board. The Committee furthermore ensures that an appropriate balance exists between Executive, Non-Executive and Independent Directors. It assists with the identification and nomination of new directors and appointment by the Board and/or shareholders and oversees the training of directors.

## Members and their attendance

→	<b>Datuk William Toh Ah Wah</b> <i>Chairman, Independent Non-Executive Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>3/3</b>
→	<b>Vimala V.R. Menon</b> <i>Senior Independent Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>3/3</b>
→	<b>Ching Yew Chye</b> <i>Independent Non-Executive Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>3/3</b>
→	<b>Dong Soo Kim</b> <i>Independent Non-Executive Director (resigned as director on 16 August 2018 and ceased as a member of NRC on the same date)</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>2/2</b>

# Nomination and Remuneration Committee Report

## EFFECTIVENESS

### Meetings and Attendance

NRC convened three meetings during the financial year 2018. In addition, urgent decisions were approved via two NRC Circular Resolutions. The attendance of the members are depicted on pages 15 and 19 of this ACG. MD/CEO, Company Secretary, Head of Human Resource Management Division and any other persons deemed necessary by the NRC are invited to attend and present for deliberations which require their input or advice. The Company Secretary acts as Secretary to the NRC.

The NRC meetings for the financial year 2018 were pre-scheduled in November 2017, to facilitate the members in planning ahead and incorporating the NRC meeting dates into their respective schedules. This also serves to provide the members with ample notice of the meetings.

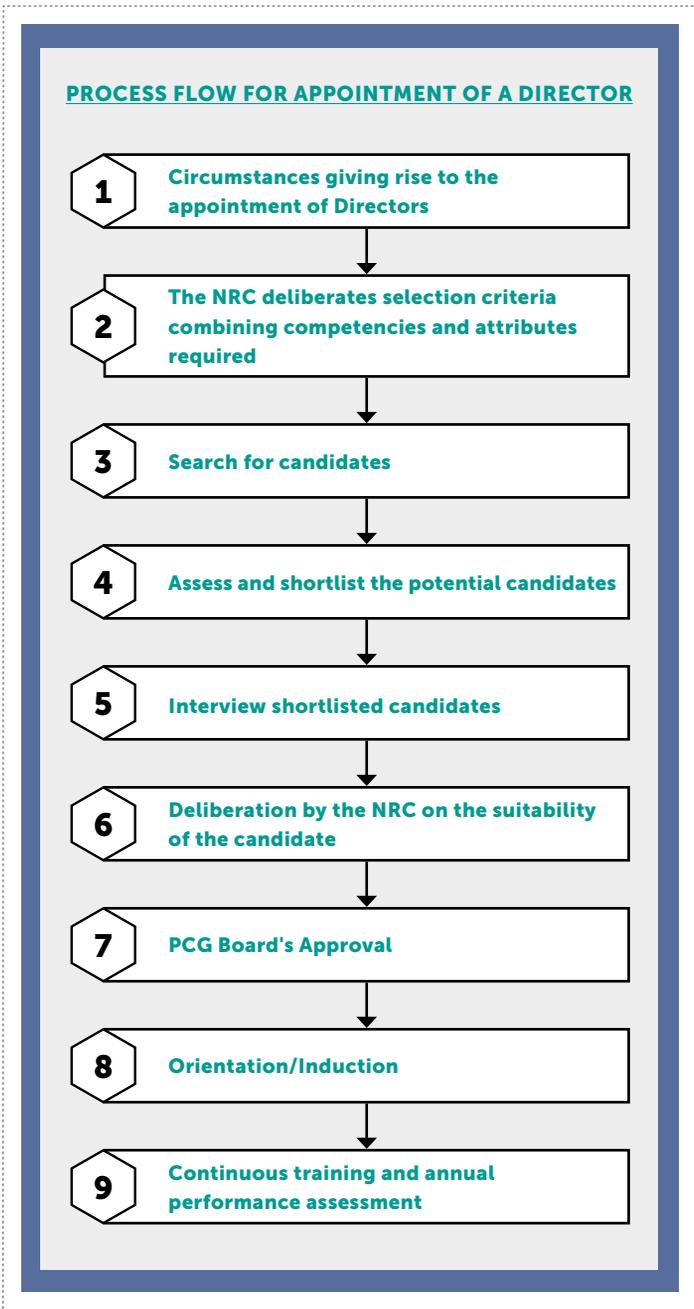
The agenda and a set of meeting papers encompassing information relevant to the business of the meeting are distributed to the NRC Members no less than five days from the meeting date via a secured collaborative software for deliberation at the respective NRC meetings. The online accessibility facilitates the NRC members to read and review documents or communicate with other NRC members at any time. The NRC’s Circular Resolutions were also circulated via the secured collaborative software to the members of NRC for approval.

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

### Board Appointment Process

The Company maintains a formal and transparent procedure for the appointment of new directors. Nomination of NINEDs is made by PETRONAS, being the majority shareholder of the Company. Search for potentials INEDs is made through engagement of a professional recruitment firm or recommendations from existing Board members in identifying suitable qualified candidates to fill the vacant positions.

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



### Directors’ Re-Election and Re-Appointment

The NRC is responsible for recommending to the Board, directors who are standing for re-election at the AGM pursuant to Article 93 and Article 99 of PCG’s Constitution.

Directors’ rotation list was presented to NRC for endorsement prior to recommendation to the Board and thereafter to the shareholders for approval. In assessing the candidates, the NRC takes into consideration their contribution and performance based on the Board Effectiveness Evaluation (BEE).

# Nomination and Remuneration Committee Report

**EFFECTIVENESS**

Article 93 of the Company's Constitution provides that one-third of the Directors of the Company for the time being shall retire by rotation at an AGM at least once in three years but shall be eligible for re-election at the AGM. At the forthcoming 21<sup>st</sup> AGM, three directors will be retiring in accordance with Article 93, namely Datuk Sazali Hamzah, Freida Amat and Ching Yew Chye. Datuk Sazali Hamzah and Freida Amat, being eligible for re-election, have given their consent for re-election at the AGM whilst Ching Yew Chye has expressed his decision to retire at close of the AGM. In view thereof, Ching Yew Chye will retire from office upon the conclusion of the 21<sup>st</sup> AGM of the Company.

The Board at its meeting held on 25 February 2019, approved the NRC's recommendation for the following directors who are due for re-election at the forthcoming 21<sup>st</sup> AGM, be considered for re-election pursuant to Article 93 of the Company's Constitution:

- i) Datuk Sazali Hamzah
- ii) Freida Amat

There were two new appointments of Directors during the year under review, whom shall be retiring and considered for

re-election at the forthcoming 21<sup>st</sup> AGM, pursuant to Article 99 of the Company's Constitution:

- i) Warren William Wilder
- ii) Dr Zafar Abdulmajid Momin

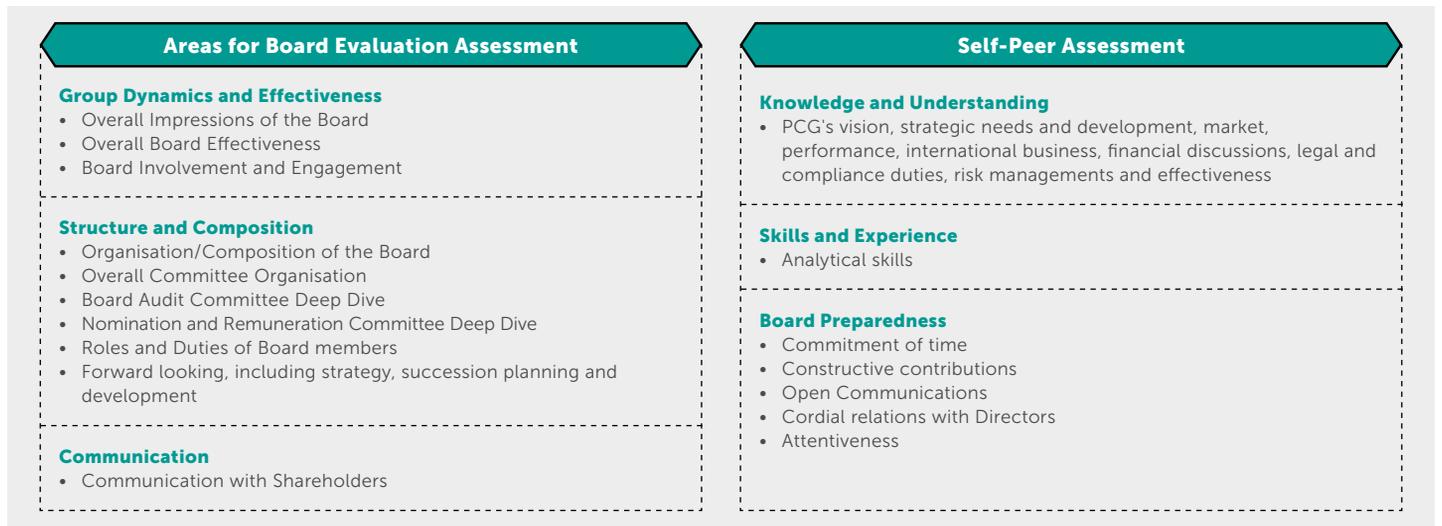
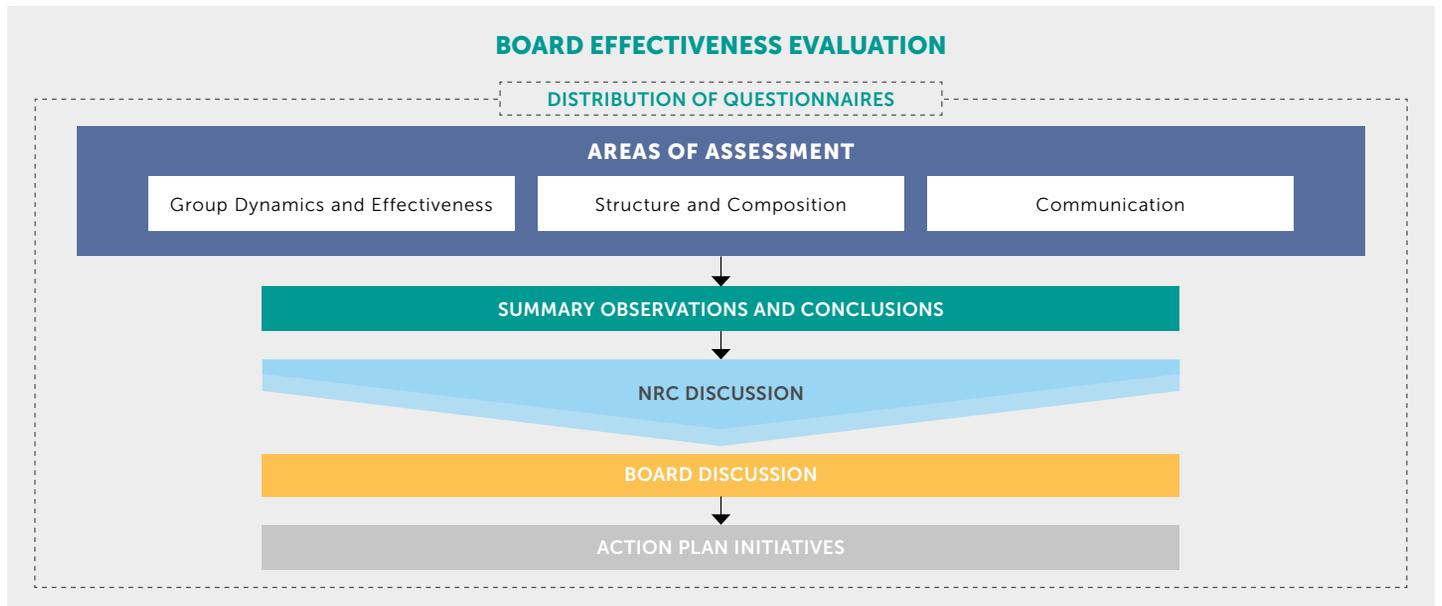
**Board Effectiveness Evaluation**

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

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

For the year under review, the BEE process was internally conducted.

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



# Nomination and Remuneration Committee Report

## EFFECTIVENESS

### Board Effectiveness Evaluation 2018

NRC reviewed the outcome of the 2018 BEE and noted that the Board is committed to the highest standards of good governance and continues to be seen as an excellent Board with outstanding support from the Management. Key take-aways included the need to focus more on growth strategies implemented by the Group.

The BEE 2018 revealed that the current composition of the Board is well-balanced, effective and is equipped with the relevant skills and areas of expertise to steer PCG especially in its growth strategy.

### NRC's Effectiveness Review and Performance

Based on the 2018 BEE findings, the Board believes that the current NRC's composition provides the appropriate balance in terms of skills, knowledge and experience to promote the interests of all stakeholders and to meet the needs of the Group. The Board is satisfied with the performance and effectiveness of the NRC in providing sound advice and recommendations to the Board, particularly on succession planning and directors' development.

### Succession Plan

The Board has established a Board Succession Plan Framework in November 2018. The Framework assists the Board in particular, the NRC, in ensuring the orderly identification and selection of new Non-Executive Directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, an unanticipated departure, the expansion of the size of the Board, or otherwise. Such structured succession plan addressed the composition and effectiveness of the Board.

In addition to the Succession Plan for Directors, the NRC also reviewed the succession plan for the Senior Management of the Company.

### Remuneration

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

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

At the 20<sup>th</sup> AGM held on 2 May 2018, the shareholders approved the revised Directors' remuneration to reflect the increase in responsibilities of the Chairman and NEDs, which include the directors' fees and allowances for the Non-Executive Chairman of RM288,000, Non-Executive Directors of RM144,000 and Fuel Allowance of RM6,000 for Independent Directors.

### Directors' Fees

The approach to Directors' fees which is aligned to our strategic objectives, allows us to attract, motivate and retain high caliber talent. The design of our fees architecture complies with regulatory requirements, embraces market practices and trends, and provides attractive and balanced rewards.

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

	Director's Fee (per annum) (RM)	Attendance Fee (per meeting)		Fuel (per annum) (RM)
		BOD (RM)	Committee (RM)	
Chairman	288,000	3,500	3,500	n/a
NINED	144,000	3,500	3,500	n/a
INED	144,000	3,500	3,500	6,000
INED (Special Skill)	144,000	3,500 + [Special Fee = Between 1 to 5 times multiple of meeting attendance fee]	3,500	6,000

Notes: Only Malaysia and Singapore Residents INEDs are entitled to fuel allowance.

The fees and allowances for NEDs will remain until further review by the Board and are subject to the approval of the shareholders of PCG.

The Director's fees and meeting allowances for NINEDs who are also employees of PETRONAS are paid directly to PETRONAS.

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

The breakdown of the detailed Directors' remuneration is disclosed in the Corporate Governance Report 2018 which is accessible to the public at PCG's official corporate website, [www.petronaschemicals.com](http://www.petronaschemicals.com).

# Nomination and Remuneration Committee Report

**EFFECTIVENESS**

Datuk Sazali Hamzah, the MD/CEO and Executive Director of the Company is not entitled to receive directors’ fee or meeting allowances. He is an employee of PETRONAS, who is seconded to the Company. The Company pays PETRONAS the payroll cost and benefits of RM1,013,352.

**Management Team’s Remuneration**

The remuneration philosophy reflects the Group’s commitment to be compliant with best practices in the areas of remuneration, retention and reward to ensure that the Group attracts and retains exceptional talent. The remuneration packages and incentives are regularly evaluated against market-related surveys. The interests of shareholders and the financial and commercial well-being of the group are taken into account by the Committee.

**PETRONAS Remuneration Philosophy and Guiding Principles**

Competitive and differentiated remuneration to attract & retain talents to drive business needs

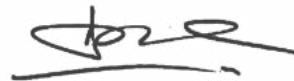
- PAY FOR JOB & PERFORMANCE**
- COMPETITIVE WITHIN THE RELEVANT INDUSTRY**
- INTERNAL EQUITY**
- CONFORMANCE TO STATUTORY REQUIREMENTS**
- AFFORDABILITY OF THE COMPANY**

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

**Summary of Activities of the NRC**

The following activities were carried out in 2018:

- a) Reviewed the Performance Planning and Key Performance Indicators for MD/CEO and his direct reports;
- b) Reviewed Directors’ Remuneration Framework and Proposed Revision to the Remuneration Package for Non-Executive Directors;
- c) Reviewed the tenure of INEDs;
- d) Reviewed the Directors’ Service Contracts for Services as Directors;
- e) Reviewed the NRC Report for inclusion in the 2017 Annual Report;
- f) Assessment on the effectiveness of the Board as a whole, the Committees of the Board, as well as the contribution of each individual Director through a BEE exercise;
- g) Reviewed the Directors’ Training requirements;
- h) Reviewed the Board Selection Criteria;
- i) Reviewed the Board’s Skills and Experience Matrix;
- j) Reviewed the succession planning for INEDs;
- k) Recommend the appointment of Warren William Wilder and Dr Zafar Abdulmajid Momin as Directors of the Company;
- l) Reviewed the performance planning and Key Performance Indicators and development plans for PCG’s Senior Management;
- m) Endorsed the Board Succession Plan Framework;
- n) Reviewed the BEE Questionnaires;
- o) Reviewed potential candidates for INED; and
- p) Reviewed Performance of MD/CEO and Senior Management.



**Datuk William Toh Ah Wah**

Chairman,  
Nomination and Remuneration Committee

## Board Audit Committee Report

ACCOUNTABILITY

# Board Audit Committee Report



**Vimala V.R. Menon**  
Chairman

### Members and their attendance

→	<b>Vimala V.R. Menon</b> <i>Chairman, Senior Independent Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>5/5</b>
→	<b>Datuk William Toh Ah Wah</b> <i>Independent Non-Executive Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>5/5</b>
→	<b>Ching Yew Chye</b> <i>Independent Non-Executive Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>5/5</b>
→	<b>Freida Amat</b> <i>Non-Independent Non-Executive Director</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>5/5</b>
→	<b>Dong Soo Kim</b> <i>Independent Non-Executive Director (resigned as director on 16 August 2018 and ceased as a member of BAC on the same date)</i>	<div style="width: 100%; height: 10px; background-color: #ccc;"></div>	No. of Meetings Attended: <b>2/2</b>

### Terms of Reference

The TOR of the Board Audit Committee (BAC) sets out the authority, duties and responsibilities of the BAC and are accessible on PCG’s official corporate website at [www.petronaschemicals.com](http://www.petronaschemicals.com).

Pursuant to Practice 8.2 of the MCCG 2017, the Board in February 2018 has agreed to include in the BAC Selection Criteria on the requirement for any former key audit partner to observe a two-year cooling-off period before being appointed as a member of the BAC.

### Composition

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

During the year, the BAC’s composition was reduced to four members due to the resignation of Dong Soo Kim as Director on 16 August 2018. However, the composition remain in compliance with the MMLR and the MCCG 2017, where all four BAC members are Non-Executive Directors including three Independent Directors, who fulfil the criteria of independence as defined in the MMLR.

### Meetings and Attendance

BAC conducted five meetings during the financial year 2018. Aside from the said meetings, urgent decisions were also approved via three BAC circular resolutions.

The BAC meetings for the financial year 2018 were pre-scheduled in November 2017 to allow the Directors to plan ahead and incorporate the meeting dates into their respective schedules. This also serves to provide the members ample notice of the meetings. The BAC meets at least quarterly with additional meetings convened as and when necessary. During the year, attendance at all BAC meetings met the requisite quorum as stipulated in the BAC TOR.

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

**ACCOUNTABILITY**

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

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

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

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

**COMMITTEE'S ACTIVITIES IN 2018**

**Financial Reporting**

- a) Reviewed the quarterly results for announcements to Bursa Malaysia before recommending the same for approval by the Board upon being satisfied that it had complied with applicable approved MFRS issued by the Malaysian Accounting Standards Board (MASB), MMLR and other relevant regulatory requirements.
- b) Reviewed the Company's annual and quarterly management accounts.
- c) Reviewed the audited financial statements of the Company prior to submission to the Board for the Board's consideration and approval, upon the BAC being satisfied that, inter alia, the audited financial statements were drawn up in accordance with the provisions of the Companies Act 2016 and the applicable approved MFRS issued by the MASB.
- d) Reviewed specific key areas affecting the Group's financial results, and endorsed recommendations made by the Management. The key areas deliberated include assessments on the following areas:
  - Impairment indicators on property, plant and equipment and detailed impairment testing
  - Recognition of deferred tax assets and the probability of future utilisation
  - Implementation of new MFRS and its impact
  - Foreign exchange exposures management
  - Compliance with Shariah requirements of Security Commissions
  - Carrying value of inventories and any write-off thereon
  - Revenue and expenses recognition
  - Divestment of 50% equity and shareholder loans by the Company in a subsidiary
  - Acquisition of Non-Controlling Interest in two subsidiaries
  - Financing requirements for a joint-operation company
  - New legislations and regulations impact

**Internal Control**

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

**Corporate Governance**

- a) Reviewed the Finance COE revised Service Agreement.
- b) Reviewed and approved the proposed changes to PCG Group LOA in relation to outsourcing of transactional finance function to Finance COE.
- c) Reviewed 2017 Annual Report Statements.

**Risk Management**

- a) Reviewed the corporate risk profile for the Group.
- b) Reviewed the progress of ongoing risk management activities to identify, evaluate, monitor and manage critical risks.
- c) Reviewed emerging risks and their mitigations.
- d) Reviewed risk appetite for the financial year 2019.

## Board Audit Committee Report

### ACCOUNTABILITY

#### Internal Audit

- Reviewed and deliberated on reports of audits, recommendations and the relevant action plans to strengthen PCG's overall system of governance, risks and internal controls. The BAC also put forward some suggestions for improvement to reinforce the oversight role and to ensure that Management holds individuals accountable for their internal control, risks and governance responsibilities.
- Monitored the implementation of Agreed Corrective Actions on audit findings until duly resolved on quarterly basis.
- Reviewed and approved the risk-based FY2019 Annual Audit Plan and budget to ensure comprehensiveness of audit coverage, resource and competencies to execute the internal audit functions effectively.
- Assessed the performance of IAD with regard to their ability to provide independent and objective assurance on the effectiveness of governance, risk and controls and to be in conformance with the recognised international standards.
- Reviewed the Internal Audit Charter.

#### Related Party Transactions and Conflict of Interest

The BAC reviewed all RPTs/RRPTs in accordance with the PCG Policies and Procedures on RPT/RRPT, to ensure the transactions are at all times carried out at arms-length basis and are not to the detriment of minority shareholders.

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

- The status of the Company's RPTs and RRPTs.
- The Independent Advisor Report for RRPT Phase 1 and Phase 2 in respect of the Company's project in Pengerang Integrated Complex.
- The performance of RPT/RRPT vendors.

#### External Audit

- Reviewed with the external auditors, audit strategies and scope for the statutory audit of the Company and Group's financial statements for the financial year ended 31 December 2018.
- Reviewed with the external auditors the results of the statutory audit and the audit report.
- Reviewed the proposed fees for the statutory audits.
- Reviewed certain non-audit engagements provided by the external auditors and monitored the fees of total non-audit work carried out by the external auditors with the main objective of ensuring no impairment of independency or objectivity. In relation to this, the BAC noted the assurance provided by the external auditors confirming their independence throughout the financial year under review.
- During the year, PCG engaged the external auditors for certain non-audit services. Total fees paid to the external auditors are as follows:

Particulars	2018		2017	
	Group RM'000	Company RM'000	Group RM'000	Company RM'000
<b>Audit Fees</b>				
• Statutory audit	1,565	*166	1,506	150
<b>Total Statutory Audit</b>	1,565	166	1,506	150
<b>Non-audit Fees</b>				
• Half-yearly Limited Review	181	181	180	180
• Review of the quarterly Consolidated Results Report for announcement to Bursa Malaysia	15	15	-	-
• Tax Services	66	-	45	-
• Review of Statement on Risk Management and Internal Control	26	26	25	25
• Review of MFRS 15	-	-	304	-
• Review of Transfer Pricing	-	-	85	-
<b>Total Non-audit Fees</b>	288	222	639	205
Percentage of Non-audit Fees over Statutory Audit	18%	>100%	42%	>100%

\* The statutory audit fee for the Company includes the audit fees for Pengerang Petrochemical Company Sdn Bhd (PPC) of RM10,000.

# Board Audit Committee Report

**ACCOUNTABILITY**

## Annual Reporting

The BAC reviewed its report and the Statement on Risk Management and Internal Control for the financial year ended 31 December 2018 to ensure that they were prepared in compliance with the relevant regulatory requirements and guidelines.

## Internal Audit Function

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

During the year under review, the internal audit function was headed by Mohd Effendi Mohd Nawji; who reports to the BAC. Mohd Effendi is a qualified chartered accountant, who is a member of Chartered Accountant Australia and New Zealand (CA ANZ) and MIA. He holds a Bachelor of Commerce from the University of New South Wales, Australia.

The BAC approves the internal audit plan and the key performance indicators of the Head of IAD and reviews IAD’s annual budget and resource requirements. The Head of IAD communicates the results of internal audit engagements

performed to the BAC as well as reports on IAD’s performance against the approved internal audit plan on a quarterly basis.

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

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

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

No.	Audits conducted in 2018
1.	Audit on PC Methanol plant turnaround activities
2.	Audit on ASEAN Bintulu Fertilizer Sdn Bhd
3.	Audit on capital expenditure management
4.	Audit on related party transactions/recurrent related party transactions
5.	Shareholder’s audit on management of selected projects and overall Project Management at BASF PETRONAS Chemicals Sdn Bhd
6.	Audit on PCG overseas subsidiaries and representative offices
7.	Audit on operational excellence and health safety environment
8.	Audit on PCG Commercial Division, in relation to Commercial Excellence and Business Development Activities
9.	Audit on Joint Venture Management Department of PCG
10.	Audit on Transition of PCG’s engineering centralised service function to PETRONAS
11.	Follow up review on 2017 audit on supply and distribution activities & Kertih Terminals Sdn Bhd
12.	Audit on operations readiness of Pengerang Refinery and Petrochemical Complex (PRPC)
13.	Audit on project execution and interfacing of PRPC

# Board Audit Committee Report

## ACCOUNTABILITY

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

Subsequent to the BAC review, the internal audit reports are forwarded to the Management for the implementation of Agreed Corrective Actions within stipulated time frame. The status of implementation was tracked on monthly basis until duly resolved. All agreed corrective actions status were assessed and verified by IAD prior to submission and presentation to BAC on quarterly basis.

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

Annually, internal auditors will be assessed via individual competency assessment to determine the learning and development needs to further enhance their competencies. The functional competencies assessment is part of PETRONAS capability development programme for internal auditors, which takes into considerations of the core competencies as stipulated by Internal Audit Competency Framework issued by The Institute of Internal Auditors (IIA). The core competencies include:



There are a total of 18 internal auditors across the Group as at 31 December 2018. The internal auditors have sufficient mix of knowledge, skills and competencies to execute the audit plan. The composition of the internal auditors and the corresponding professional status are as follows:

Professional Status	Percentage(%)	No. of staff
Professional accounting (MICPA, CA ANZ, ACCA) or Certified Internal Auditor (CIA)	33	6
Professional technical certification from regulatory bodies (DOSH, DOE)	17	3
Graduate pursuing professional accounting or CIA	33	6
Graduate (Bachelor’s Degree)	17	3
<b>Total no. of staff</b>	100	18

The total costs incurred by the internal audit function of the Company and the Group for the financial year was RM7,100,988.

### BAC Effectiveness Review and Performance

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

### Reporting to The Exchange

For the financial year under review, the BAC is of the view that the Company is in compliance with the MMLR and as such, the reporting to Bursa Malaysia under Paragraph 15.16 of the MMLR is not required.

**Vimala V.R. Menon**  
 Chairman  
 Board Audit Committee

The Board is committed to a corporate culture that encompasses and embraces ethical conduct within the Group. The Board adopts numerous policies which serve to achieve this commitment.

#### Code of Conduct and Business Ethics

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

#### Whistleblowing Policy

The Company has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group's employees and members of the public to disclose any improper conduct in accordance with the procedures as provided under the policy. The policy and procedures are accessible to the public on the Company's official corporate website at [www.petronaschemicals.com](http://www.petronaschemicals.com). Further details on the Whistleblowing Policy can be found on page 40.

#### Corporate Disclosure Guide

The Company has in place an internal corporate disclosure guide to facilitate the disclosure and conduct on the dissemination of information. This guide is based on the requirements as set out in the MMLR and the Corporate Disclosure Guide [3<sup>rd</sup> Edition] by Bursa Malaysia which promotes transparency and accountability in the communication and dissemination of material information to the public.

#### Trading on Insider Information

The Board and principal officers of PCG are prohibited from trading in securities based on price sensitive information and knowledge acquired by virtue of their positions, which has not been publicly announced. Notices on the closed period for trading in PCG's shares are sent to the Directors and principal officers on a quarterly basis as a reminder on the prohibition to trade during the identified timeframe. Directors and principal officers are also reminded not to deal in the Company's shares when price sensitive information is shared with them in proposal papers.

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

#### Selection of Vendors

The Group has adopted the PETRONAS Tendering process and governing principles that are embedded in the PETRONAS Tenders & Contracts Administrative Manual for vendors' selection. Generally, the main selection criteria is based on technically acceptable and commercially attractive bid.

Tender Committees have been established to carry out independent review on evaluation of bidders' proposals and to ensure tendering activities are carried out in accordance with the established guidelines and procedures. Only with the endorsement of the Tender Committee will the award recommendation be forwarded to the Approving Authority for consideration and approval.

### Financial Reporting

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

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements is set out on page 31 of this ACG and page 4 of the standalone Audited Financial Statements.

# Communication with Stakeholders

## ACCOUNTABILITY

### Related Party Transactions and Conflict of Interest Situations

All RPTs including RRPTs entered into by the Company or its subsidiaries are reviewed by the BAC.

The Statement on Risk Management and Internal Control provides a comprehensive overview of the Group's policies and procedures on RPTs and RRPTs. Further details can be found on pages 40 – 41.

### Risk Management and Internal Control

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

The Statement on Risk Management and Internal Control provides an overview of the risk management and internal controls within the Group and further details can be found on pages 32 – 42.

## COMMUNICATION WITH STAKEHOLDERS

### Communicating Effectively with Stakeholders and Investors

The Board recognises the importance of effective dialogue with shareholders and investors. We believe that communication with our shareholders is a two-way process. We take into consideration views and feedback that we received from all of our shareholders. In the past year, the MD/CEO, Chief Financial Officer and other members of Senior Management together with the Company's Investor Relations Unit, conducted regular dialogues with both its local and foreign shareholders and analysts. This resulted in better understanding of the Group's financial performance and operations. Visits to the Group's facilities or plants are also organised periodically to facilitate better appreciation of the Group's businesses and operations.

The Board believes its practices in this area are consistent with both the MCCG 2017's provisions concerning dialogue with shareholders and with good governance.

### Investor Relations Calendar 2018

Reporting events

Investment Conferences and Roadshows	Analyst Briefings
<ul style="list-style-type: none"> <li>• CIMB Corporate Day 2018, Kuala Lumpur ▶ 4 January</li> <li>• Invest Malaysia Kuala Lumpur, Kuala Lumpur ▶ 23 January</li> <li>• CLSA PETRO/CHEMS Day, Kuala Lumpur ▶ 30 January</li> <li>• Nomura Investment Forum 2018, Singapore ▶ 4–7 June</li> <li>• CITI ASEAN Investor Conference 2018, Singapore ▶ 26–27 June</li> <li>• Malaysia Corporate Day, HK 2018 - Bursa Malaysia, Hong Kong ▶ 10 July</li> <li>• JP Morgan Asian Yield, Japan ▶ 11–12 October</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly Financial Results: 4<sup>th</sup> Quarter 2017 ▶ 20 February</li> <li>• Quarterly Financial Results: 1<sup>st</sup> Quarter 2018 ▶ 21 May</li> <li>• Quarterly Financial Results: 2<sup>nd</sup> Quarter 2018 ▶ 15 August</li> <li>• Quarterly Financial Results: 3<sup>rd</sup> Quarter 2018 ▶ 16 November</li> </ul>
Retail Shareholders Visit to Our Plant	Institutional Shareholders Visit to Our Plants
<ul style="list-style-type: none"> <li>• PETRONAS Chemicals MTBE Sdn Bhd, Gebeng, Kuantan ▶ 19 September</li> </ul>	<ul style="list-style-type: none"> <li>• PETRONAS Chemicals Fertiliser Sabah Sdn Bhd, Sipitang, Sabah ▶ 15 March</li> <li>• Pengerang Integrated Complex, Pengerang, Johor ▶ 11 July</li> <li>• Pengerang Integrated Complex, Pengerang, Johor ▶ 10 October</li> <li>• PETRONAS Chemicals Methanol Sdn Bhd, W.P. Labuan ▶ 16 October</li> </ul>

During the year under review, the Investor Relations (IR) department was headed by Zaida Alia Shaari, who joined the group in July 2017. She started her career in IR in 2012 when she headed the IR function for FGV Holding Berhad during its Initial Public Offering exercise. Prior to joining PCG, she was the Head of IR for Malakoff Corporation Berhad. The IR department provides the communication channel through which the management team and the investment community interact. The Head of IR is the focal person for analysts, fund managers, potential investors as well as other stakeholders refer to when seeking information and updates on PCG.

In addition, the Company actively updates its official corporate website, [www.petronaschemicals.com](http://www.petronaschemicals.com) with the latest information on the corporate and business aspects of the Group. Press releases, announcements to Bursa Malaysia, media conference post AGM, analyst briefings and quarterly results of the Group are also made available on the website and this serves to promote accessibility of information to the

## COMMUNICATION WITH STAKEHOLDERS

Company's shareholders and all other market participants. Communication and feedback from investors can also be directed to email address [petronaschemicals\\_ir@petronas.com](mailto:petronaschemicals_ir@petronas.com) or alternatively, it can be addressed to:

**ZAIDA ALIA SHAARI***Head of Investor Relations*Tel : 03-2392 3699 Email : [zaidaaliashaari@petronas.com](mailto:zaidaaliashaari@petronas.com)**PETRONAS CHEMICALS GROUP BERHAD**

Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur

In addition, matters of concern to the Group from shareholders or other stakeholders can be addressed to Senior Independent Director, who is also the Chairman of the BAC directly to the following address:

**VIMALA V.R. MENON***Senior Independent Director*Email : [vimala.menon@petronas.com](mailto:vimala.menon@petronas.com)**PETRONAS CHEMICALS GROUP BERHAD**

Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur

**Annual General Meeting (AGM)**

The AGM is the principal forum of open dialogue with shareholders. The notice and agenda of AGM together with Forms of Proxy are given to shareholders at least 28 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxies to attend and vote on their behalf. Each item of special business included in the notice of the AGM will be accompanied by an explanatory statement on the effects of the proposed resolution.

During the AGM, the MD/CEO presents a comprehensive review of the Group's performance initiatives and value created for shareholders. This review is supported by a visual and graphical presentation of the key points and financial figures.

At each AGM, shareholders are encouraged and given sufficient opportunity as well as time by the Board to raise questions pertaining to the Annual Report, resolutions being proposed and the business of the Company or the Group in general prior to seeking approval from members and proxies on the resolutions. The Board, Senior Management, external auditors and other advisors, are present at the AGM to provide answers and clarification to shareholders. Pursuant to Paragraph 8.29A of the MMLR, each resolution to be tabled at an AGM is to be voted by poll. Since 2017, PCG has engaged an independent scrutineer to validate the voting at the AGM for each proposal presented to shareholders. The Board encourages active participation by the shareholders and investors during the AGM. Attendance at the Company's AGM continues to be high as evidenced by the registration of 2,519 shareholders at the 20<sup>th</sup> AGM of the Company held on 2 May 2018, representing an increase of 10.0% from the attendance at the 19<sup>th</sup> AGM in 2017.

The minutes of the AGM are accessible to the public on PCG's official corporate website at [www.petronaschemicals.com](http://www.petronaschemicals.com).

**Relationship with External Auditors**

Through the BAC, the Company maintains a professional and transparent relationship with its external auditors, KPMG PLT. The BAC met the external auditors twice during the financial year to review the scope and adequacy of the Group's audit process, financial results, annual financial statements and audit findings. The BAC also met the external auditors

twice during the financial year under review without the presence of the Management. At the meeting, the external auditors highlighted to both the BAC and the Board on matters that warrant their attention.

**Directors' Responsibility Statement**

The Directors have provided assurance that the financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company and the Group as at the end of financial year and of the results and cash flow of the Group for the financial year as required by the CA2016. The Statement of Responsibility by Directors for the audited financial statements of the Company and Group is as outlined on page 4 of the standalone Audited Financial Statements. Details of the Company and the Group's financial statements for the financial year ended 31 December 2018 can be found in our standalone Audited Financial Statements online at [www.petronaschemicals.com](http://www.petronaschemicals.com).

**Statement by the Board on Compliance**

The Board has deliberated, reviewed and approved this Statement and is satisfied that the Group has fulfilled its obligations under the relevant paragraphs of the MMLR of Bursa Malaysia, MCCG 2017, Corporate Governance Guide - 3<sup>rd</sup> edition issued by Bursa Malaysia Berhad and other applicable laws and regulations throughout the financial year ended 31 December 2018.

**Additional Compliance Information - Material Contracts**

There were no material contracts or loans entered into by the Company or its subsidiaries involving Directors' or major shareholders' interests, either still subsisting at the end of the year ended 31 December 2018 or entered into since the end of the previous period, except as disclosed in the audited financial statements.

This statement is made in accordance with the resolution of the Board of Directors dated 25 February 2019.



**Datuk Md Arif Mahmood**  
Chairman

Proactive Approach to Risk Management and Internal Control

# Statement on Risk Management and Internal Control

**PCG has a risk management framework and internal control systems in place to ensure the smooth running of our business.**

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

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

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

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

**Board Accountability**

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

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

**Management Responsibility**

The Management is accountable to the Board to ensure effective implementation of the risk management and controls. Its responsibilities in respect of risk management include:

- Formulate and endorse the risk management policy, frameworks and guidelines including their implementation across the Group;
- Review of PCG’s risks and recommend additional course of action to mitigate the identified risks;
- Assign accountabilities and responsibilities at appropriate levels within PCG as well as to ensure all the necessary resources are efficiently allocated to manage risks.

**Risk Management**

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

We continue to strengthen our risk management approach to safeguard our business and ensure the ability to respond to a crisis.

PCG has adopted the PETRONAS Resiliency Model in managing risk with three key focus areas namely, Enterprise Risk Management (ERM), Crisis Management (CM) and Business Continuity Management (BCM).



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

**PCG Risk Policy**

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

PETRONAS Chemicals Group shall adopt and implement risk management best practices by identifying, assessing, treating and monitoring risks as well as effectively responding to crises. In the event of prolonged disruption, business continuity practices shall be adopted to restore and ensure continuity of PETRONAS Chemicals Group’s key business activities.

**Risk Governance and Oversight**

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

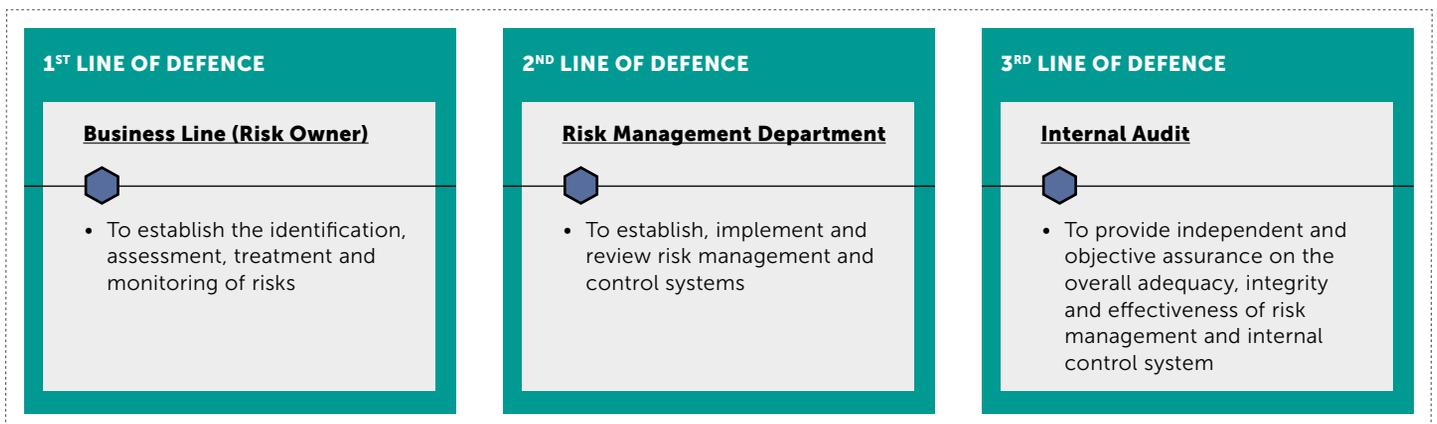


Risk Oversight deliberation conducted regularly to ensure risk management is integrated into key business activities. Management committees of the Group’s subsidiaries are responsible for risk management and internal control at the respective companies.

independent directors, with greater emphasis to deliberate on risk and opportunities for high impact business decision papers such as Merger and Acquisition, divestment and capital project.

In line with PCG growth strategy, PCG has established a dedicated Board Risk Committee on 25 February 2019 comprising majority of

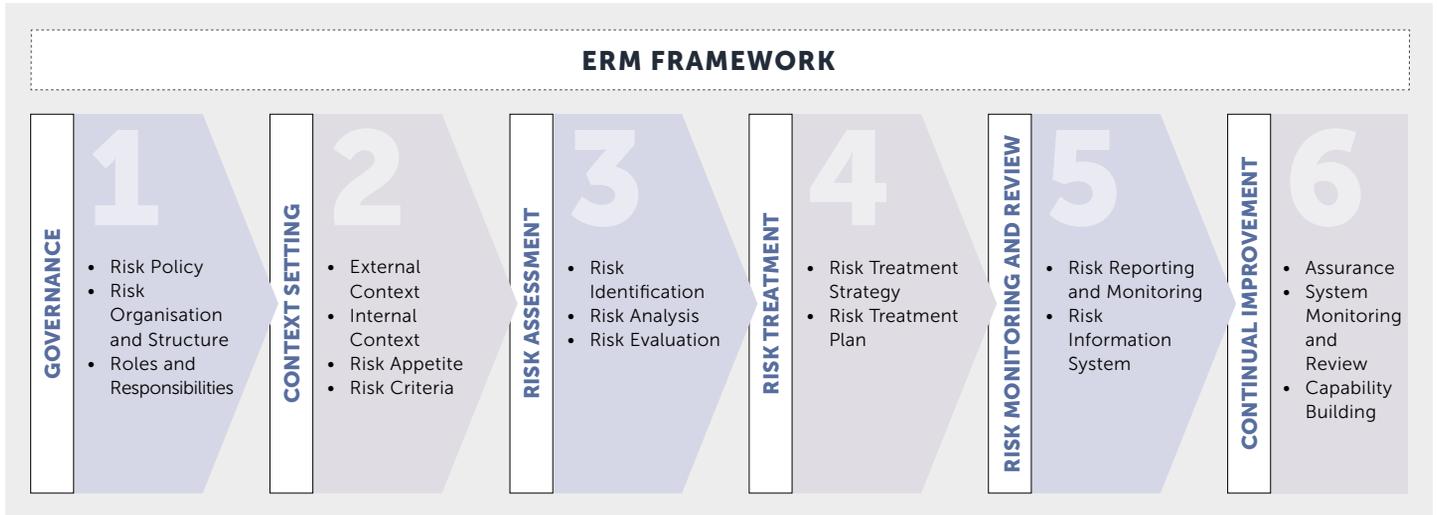
In addition to our risk governance and oversight structure, our risk management is supported by Three Lines of Defence model that distinguishes the three groups which are involved in effective risk management.



# Proactive Approach to Risk Management and Internal Control

## Risk Management Framework

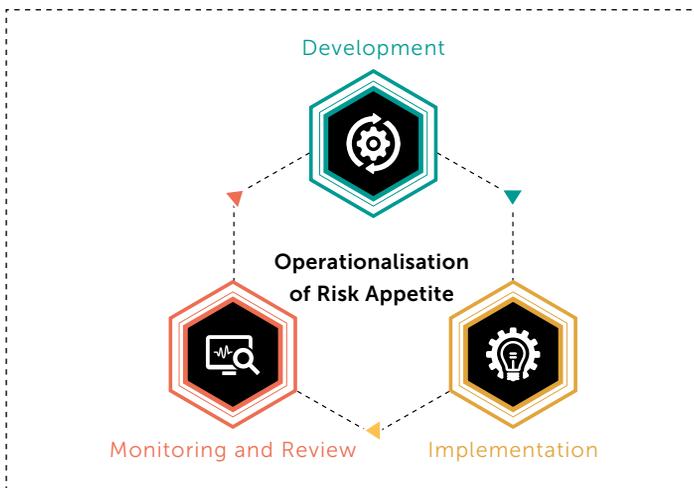
Our ERM framework and relevant guidelines are generally aligned with ISO 31000:2009, and standardised throughout PCG.



## Risk Appetite

The Group also establishes risk appetite which is defined as the amount and type of risk that PCG is willing to take or retain in pursuing its business objectives.

PCG Risk Appetite is guided and operationalised as follows:



### Development

PCG Risk Appetite was developed by aligning to PCG business strategies, with four Risk Appetite Focus Areas to be closely controlled and monitored.

<b>Operational</b>	Controlling on operational risks such as Health, Safety, Security and Environment (HSSE), Operational Excellence (OE) and Project Delivery to maintain good HSSE performance, optimise operation reliability and production capacity as well as explore opportunity for growth.
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<b>Financial Sustainability</b>	Sustaining PCG's strong profitability, liquidity and capital including monitoring minimum cash balance, maximum indebtedness level, profit after tax and minimum credit rating.
<b>Reputation</b>	Maintaining good reputation will distinguish PCG from competitors and created opportunities for growth and business survival in the long run.
<b>Compliance</b>	Adhering to relevant laws of the land where PCG operates and does not tolerate any breach of laws and regulations governing the conduct of the business in the pursuit of PCG's business objective.

To support the PCG Risk Appetite Focus Areas, Risk Appetite Statement, Risk Tolerance and Risk Threshold were established to ensure risks undertaken in pursuit of business objectives are consistently within acceptable level.

Element	Definition
<b>Risk Appetite Statement</b>	The statement articulates acceptable and unacceptable risks related to the stakeholder expectations
<b>Risk Tolerance</b>	Risk boundaries that the organization is willing to take for each relevant risk exposure
<b>Risk Threshold</b>	Structured monitoring to translate risk appetite tolerance into a measurable threshold to trigger actions to be undertaken

# Proactive Approach to Risk Management and Internal Control

## Implementation

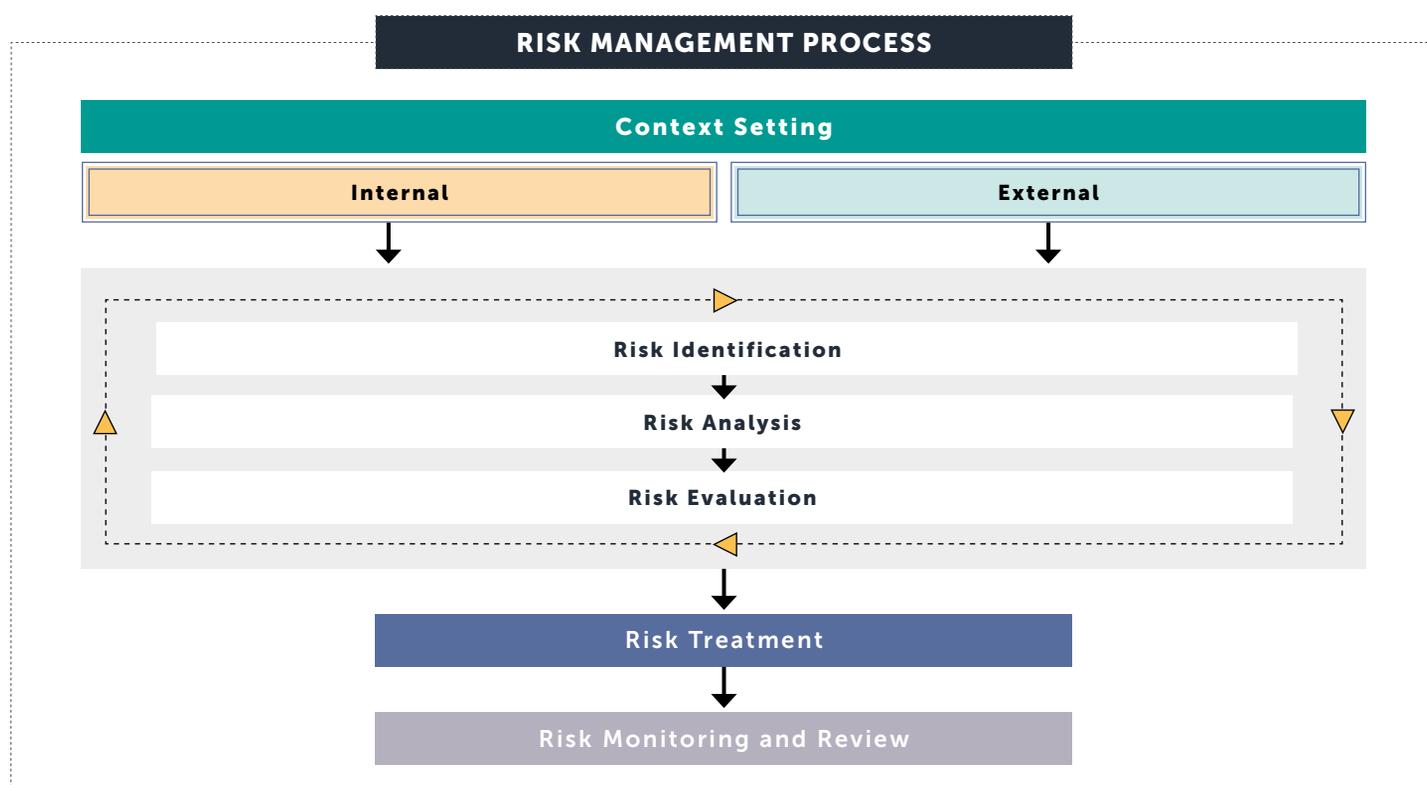
Clear roles and responsibilities of relevant parties in implementing risk appetite was established to ensure clear accountability. The risk appetite shall be communicated to the respective risk owners to ensure strong understanding and strict adherence. In addition, risk appetite will be integrated in the discussion on risk assessment for decision making.

## Monitoring and Review

Monitoring and review are pivotal to ensure that PCG does not breach the established risk appetite. Regular monitoring and reporting shall be conducted in 2019 to ensure any breach of the Risk Threshold is escalated to risk owner, management and Board, if required, on timely basis to trigger deliberation for specific action or decision.

## Risk Management Process

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



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

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

## Proactive Approach to Risk Management and Internal Control

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

To support the implementation of risk management at operational level, we apply the following PETRONAS structured risk management assessment approach and tools:

<p><b>PETRONAS Health Safety Environment Management System (HSEMS)</b></p> <p>To manage HSE risks and ensure our operations are in tandem with HSE regulatory requirements and industry best practices</p>	<p><b>Counterparty Risk Assessment</b></p> <p>To ensure the systematic identification, assessment and mitigation of risks associated with credit and performance, in line with PETRONAS Corporate Financial Policy and PETRONAS Credit Guidelines. Each counterparty is assigned credit ratings which eventually facilitate the business decision-making</p>	<p><b>Project Risk Assessment (PRA)</b></p> <p>To ensure the systematic identification, assessment and mitigation of risks associated with projects, in line with PETRONAS Project Management System (PPMS) requirements</p>	<p><b>Contractor Risk Assessment (CoRA)</b></p> <p>To ensure the systematic identification, assessment and mitigation of risks critical to contractors' performance. CoRA is undertaken as part of the procurement process prior to contractor selection</p>	<p><b>Turnaround Risk Assessment (TaRA)</b></p> <p>To ensure the systematic identification, assessment and mitigation of risks for turnaround activities</p>	<p><b>Supplier Risk Assessment</b></p> <p>To ensure the systematic identification, assessment and mitigation of risks associated with supplier performance with each supplier is assigned risk ratings to facilitate the business decision-making</p>
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### Risk in Strategic Planning and Decision Making

The Board's primary responsibilities are to embed risk management in all aspects of companies' activities, to approve risk appetite and review the effectiveness of risk management and internal controls.

Acknowledging risk and strategy are intertwined and do not exist in vacuum, we continued our focus to integrate risk management into our strategic planning and business decision makings. We conducted risk assessment during PCG Annual Plans and Budget to ensure that our key strategies are robust and any business assumptions made are better understood, with associated risks are well identified and managed.

We also mandated that all Board and Management decision papers are equipped with risk assessment to ensure that decision makers make fully informed decision making, considering the level of risks they want to take and implement necessary controls to achieve the desired business objectives.

As we strive on to grow our capacity and diversify our product portfolio, risk assessments have become more critical than ever in the selection of business opportunities and project executions to ensure we achieve the targeted returns that we desired.

### Crisis Management

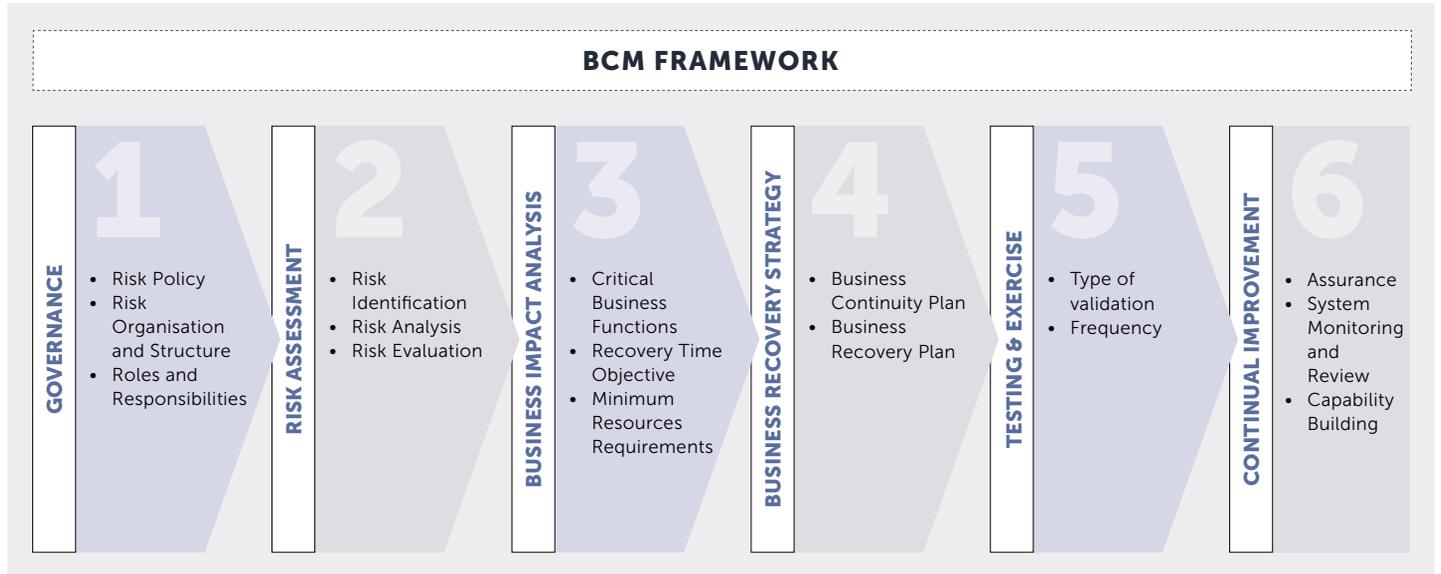
PCG is exposed to potential crisis events of varying severity due to the nature of its business operations. To respond to any crisis that may manifest, PCG has established a Crisis Management Plan (CMP) that prescribes the organisation of the Crisis Management Team (CMT), comprising key Management personnel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

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

 Further details on crisis management can be found on pages 37 – 38 of our standalone Sustainability Report, which is available online at [www.petronaschemicals.com](http://www.petronaschemicals.com).

## Business Continuity Management

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



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

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

BRPs for PCG plants and facilities and BCPs for overseas subsidiaries were also tested and the reports presented to management for tracking and monitoring. Findings and feedback gathered post-testing were analysed for continual improvement. The reports were also presented to the respective risk oversight committees.

Tests and drills are regularly conducted to ensure readiness of PCG and our Management team in managing crisis and business continuity, as well as the robustness of our plans.

## Compliance Under Our Risk Management Framework

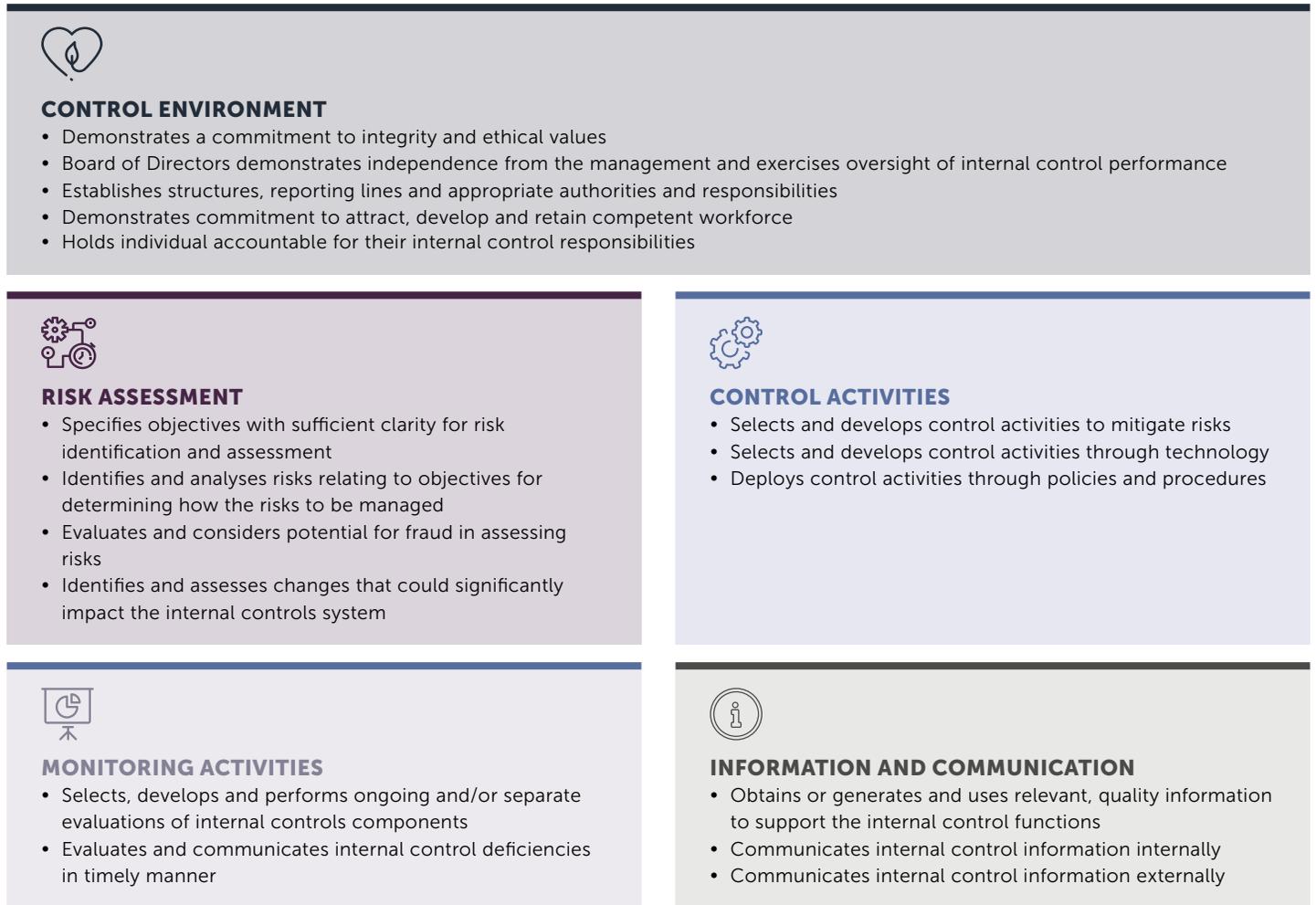
The inculcation of a compliance culture is key aspect of an effective risk management. In supporting a risk compliance culture, PCG acknowledges the importance of risk assurance programmes to provide assurance to stakeholders that the systems of risk management and internal controls are implemented and complied with. For the year under review, PCG established its risk assurance programmes based on an annual risk assurance plan that was endorsed by our RMC.

PCG conducted two self-assessments (Tier 1) per year whereby all subsidiaries are required to perform self-assessment and validation on their compliance to the requirement stipulated under ERM Framework and proposes gap closure actions, if any. PCG Risk Management Department also performed Tier 2 risk assurance to validate the ERM systems and effectiveness of agreed risk mitigations at PCG subsidiaries. The RMC reviewed the risk assurance reports and monitors the appropriate corrective actions for timely closure. In addition, the status of our risk assurance progress and gap closures are reported to the Risk Management Committee on quarterly basis.

# Proactive Approach to Risk Management and Internal Control

## Internal Control

Management is primarily responsible for the design, implementation and maintenance of internal controls, while the Board and the Board Audit Committee oversee the actions of management and monitor the effectiveness of the controls that have put in place. The Group refers to the 17 principles of Committee of Sponsoring Organisations of The Treadway Commission (COSO) Internal Control Integrated Framework, as a guide for effective internal control as illustrated below:



Assessment on the adequacy, efficiency and effectiveness of joint ventures, joint operation and associate companies' internal control are performed under the preview of their respective established governing procedures. The interests of the Group are safeguarded through Group representatives to the respective Boards of joint venture and associate companies, in addition to the regular review of management accounts and joint shareholders' audit.

## Internal Audit

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

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

The internal audit processes and activities are guided by the approved Internal Audit Charter and aligned with internal audit industry standards (i.e. The International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA) and COSO Internal Control Integrated Framework principles.

# Proactive Approach to Risk Management and Internal Control

## Audit Competencies

In 2018, all internal audit activities were performed by a team of 18 internal audit personnel from diverse work experiences and competencies, as follows:

Main Work Experience and Competency	No. of Internal Audit Personnel	%
Accounting & Finance	11	61
Plant Operations	3	16
Sales & Marketing	2	11
Supply Distribution Operations	1	6
Procurement	1	6

To date, 9 of our internal audit personnel have received professional certification from various professional bodies, such as accounting professional bodies, Institute of Internal Auditors and Malaysian Department of Safety and Health (DOSH).

## Other Key Elements of Internal Control Systems

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

- Board of Directors**  
 The Board meets at least quarterly and has set a schedule of matters, which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The MD/CEO leads the Management in the presentation of Board papers and ensures Management provides detailed explanation of pertinent issues. In arriving at any decision requiring Board’s approval, as set out in the Limits of Authority manual, thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group’s activities and its operations on a regular basis.
- Board Audit Committee**  
 The Board has delegated the duty of reviewing and monitoring the effectiveness of the Group’s system of internal controls to the BAC.

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

The BAC meets at least quarterly and has full and unimpeded access to the internal and external auditors as well as all employees of the Group.



Further details on the BAC activities can be found on pages 25 – 26.

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

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

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

- Financial Control Framework**  
 The Group has implemented a Financial Control Framework to ensure key internal control systems are adequate and effective at all times. The framework mandates strict processes to be adhered to ensure the reliability of financial reporting and disclosure so as to protect stakeholders from the possibility of inaccurate accounting. Key components of the Financial Control Framework requirements are:

**REASONABLE ASSURANCE ON THE RELIABILITY OF THE REPORTED FINANCIAL STATEMENT BY SENIOR MANAGEMENT.**

**ESTABLISHMENT OF ADEQUATE INTERNAL CONTROLS AND REPORTING METHODS AS WELL AS PROPER DOCUMENTATION OF ALL PROCESSES.**

**MANDATORY SELF AND INTERDEPARTMENTAL TEST OF CONTROLS.**

**IDENTIFICATION OF THE CONTROL GAPS AND THE REQUIRED MITIGATION ACTION.**

# Proactive Approach to Risk Management and Internal Control

- Limits of Authority**

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

- Group Policies**

The Group has in place policies which govern the day-to-day workings of the business such as HSE, plant operations and human resource management. The Group has also adopted PETRONAS Corporate Financial Policy which sets forth the policy for financial management activities embedding the principles of financial risk management. The Corporate Financial Policy governs financial risk management practices across the Group. It prescribes a framework in which financial risk exposure is identified and managed.

- Operating Procedures and Guidelines**

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

- Business Plan and Budget**

The Group undertakes an annual budgeting and forecasting exercise which includes development of business strategies for the next five years and the establishment of KPIs against which the overall performance of the Group, including the respective performance of business segments and companies within the Group, can be measured and evaluated. Detailed operating and

capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the Management Committee. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods. The Group's strategic direction is also reviewed through a rigorous assessment process taking into account changes in market conditions and significant business risks.

- Information and Communications Technology**

Information and communications technology is extensively deployed in the Group to automate work processes, where possible and to efficiently collect key business information. The Group continues to enhance its information and communication systems in ensuring that it can act as an enabler to improve business processes including adherence to the Group's business objectives, policies and procedures whilst enhancing work productivity and decision making throughout the Group.

- Tender Committee**

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

- Employees Performance Management**

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

- Whistleblowing Policy**

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

Under the Whistleblowing Policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who whistleblows internally will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts, rules and procedures involved. The process is undertaken by PETRONAS' Whistleblowing Committee. The policy and procedures are accessible to the public for reference on the Company's official corporate website at [www.petronaschemicals.com](http://www.petronaschemicals.com).

### Related Party Transactions (RPTs)/ Recurrent Related Party Transactions (RRPTs) and Conflict of Interest (COI)

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

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

- Directors and officers of the Company and its Group shall not enter into transactions with related parties unless these transactions are carried out on normal commercial terms and are not to the detriment of the Group's minority shareholders.
- All sourcing and sales of PCG's products, general merchandise shared facilities shall be based on market negotiated pricing terms and conditions and/or pricing formulas quoted against international price benchmarks.

Proactive Approach to Risk Management and Internal Control

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3 ▼

Whenever practicable, at least two other quotations should be sought, with organisations of similar standing.

4 ▼

All RPTs/RRPTs will be reviewed by the Board Audit Committee prior to the approval by either the Board or the shareholders.

5 ▼

The BAC is responsible to ensure that the policies and procedures relating to RPTs/RRPTs and COI situations are sufficient to ensure that RPTs/RRPTs are carried out on normal commercial terms and not to the detriment of the Group's minority shareholders.

6 ▼

On an annual basis, all Directors and any related party of the Group will declare in writing an annual declaration form, designed to elicit information about potential relationships and/or COI situations, involving their interest, either directly or indirectly. All Directors and any related party of the Group shall also notify in writing of any interest in RPT/RRPT or COI situation when it becomes known to them.

7 ▼

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

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

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

Recurrent Related Party Transactions that were waived by Bursa Malaysia from complying with the requirement of Paragraph 10.09 of the MMLR are as follows:

Transacting Parties	Nature of transactions	For Year Ended 31 December 2018 RM '000
<b>INTEGRATED OPERATIONS OF OUR GROUP</b>		
<b>PCG Group and PETRONAS and its subsidiaries (PETRONAS Group)</b>	(i) Supply of fuel and feedstock (such as ethane, propane, butane, dry gas, naphtha, natural gas) by PETRONAS Group	7,298,231
	(ii) Supply of utilities, electricity and water by PETRONAS Group	869,147
	(iii) Upgrading and pipeline works on the Labuan Gas Terminal by PETRONAS Chemicals Methanol (Labuan) Sdn Bhd	Nil
	(iv) Grant to PETRONAS Group for the right of usage of facilities and passage of commodities to facilitate the receipt and distribution of petrochemicals and related products	539
	(v) Provision of operating and maintenance services by PETRONAS Group	5,968
	(vi) Purchase of marine diesel oil from PETRONAS Group	10,926
<b>SERVICES RENDERED WITHIN THE PETRONAS GROUP</b>		
(vii) Provision of vessel screening services by PETRONAS Maritime Sdn Bhd		45
(viii) Provision of freight, transportation and warehousing services by MISC Berhad and its subsidiaries (MISC Group)		20,773
<b>OTHERS</b>		
(ix) Sales of petrochemical products and other related products to PETRONAS Group		1,017,175

## Proactive Approach to Risk Management and Internal Control

### Management's Accountability

Management is accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control as prescribed above. The MD/CEO and CFO have provided the Board with assurance that the Group risk management and internal control system is operating adequately and effectively, in all material aspects, to ensure achievement of corporate objectives. In providing the above assurance by MD/CEO and CFO, similar assurances have also been obtained from Management Committee members confirming the adequacy and effectiveness of risk management practice and internal control system within their respective areas.

### Conclusion

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

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

### Review of the Statement by External Auditors

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide (AAPG 3), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the integrated report of the Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the integrated report of the Group, in all material respects:

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

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 25 February 2019.



**Vimala V.R. Menon**

Chairman

Board Audit Committee

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