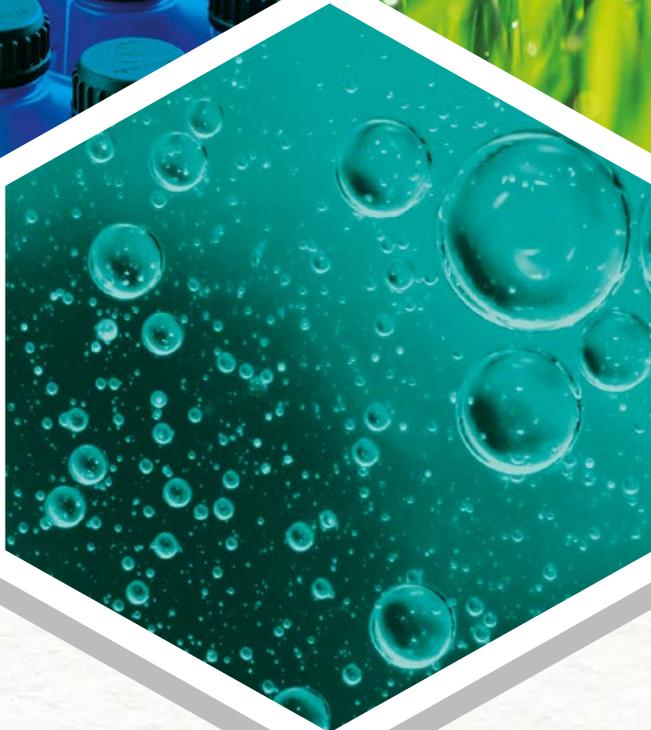
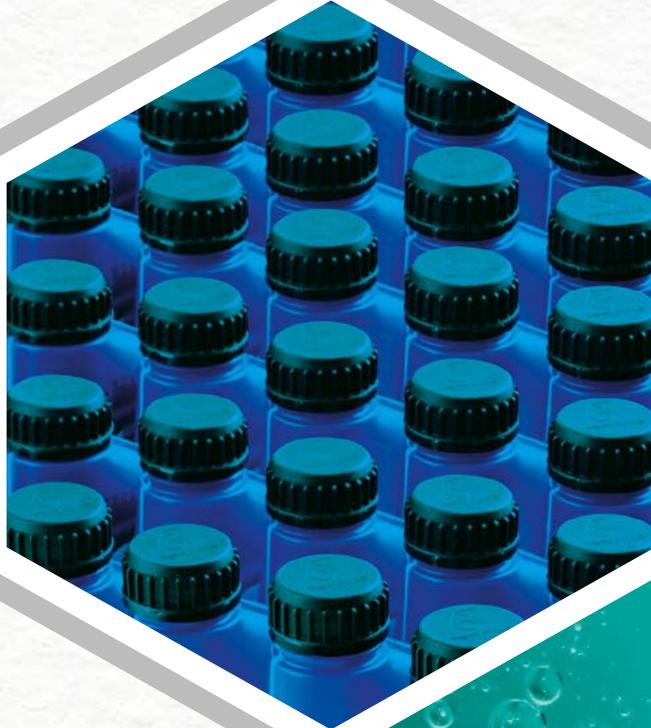




PETRONAS

LEADING. FUTURE FOCUSED



**PETRONAS
CHEMICALS
GROUP
BERHAD**

(459830-K)

**INTEGRATED REPORT
2018**

OPERATIONAL EXCELLENCE

COMMERCIAL EXCELLENCE

GROWTH DELIVERY EXCELLENCE

Table of Contents

Inside This Report



Cover Rationale

LEADING. FUTURE FOCUSED

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

Page 04 to Page 07

We set out our reporting scope boundary and the frameworks adhered to in the preparation of this Integrated Report.

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- Reporting Framework
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- Supporting the Global Initiatives
- Forward-looking Statements
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We highlight the strategy to drive business growth, taking into account the operating landscape and the risks we face, along with opportunities present.

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- Managing Material Issues

The following icons are used throughout this Integrated Report



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



Gives you information on photographs used throughout the report

The following navigation icons are used to link our strategy and resources to material matters, strategic risks, key performance indicators and performance:

Main Capitals



Natural



Financial



Manufactured



Intellectual



Human



Social and Relationship

Strategic Thrusts



Operational Excellence



Commercial Excellence



Growth Delivery Excellence

21st Annual General Meeting of PETRONAS Chemicals Group Berhad

Location:

Grand Ballroom, Level 2,
The Majestic Hotel Kuala Lumpur,
5, Jalan Sultan Hishamuddin,
50000 Kuala Lumpur.

Date:

Monday, 29 April 2019

Time:

10.30 a.m.

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We share our value creation journey over the past year using the six capitals.

78 How We Create Value

- Natural Capital
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 - Consolidated Statement of Profit or Loss
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 - 5-year Group Financial Analysis
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We disclose our Corporate Governance Overview Statement, to be read together with our standalone publication - A Commitment to Governance and Corporate Governance Report 2018.

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Proxy Form



ABOUT THIS REPORT

We set out our reporting scope boundary and the frameworks adhered to in the preparation of this Integrated Report.





Chapter 1

04 Corporate Information

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- Integrated Reporting Approach
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Strategic Thrusts



Operational Excellence

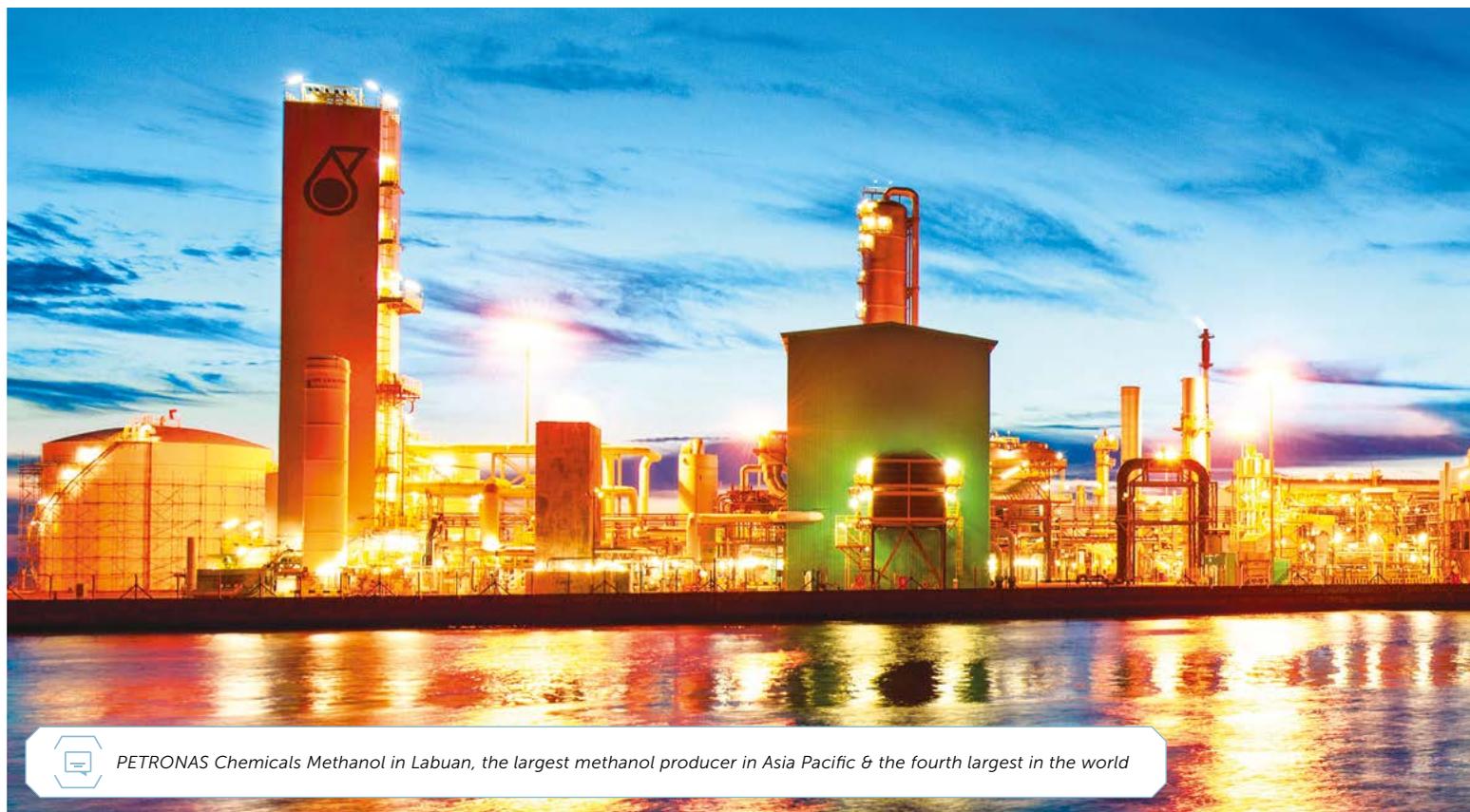


Commercial Excellence



Growth Delivery Excellence

Corporate Information



PETRONAS Chemicals Methanol in Labuan, the largest methanol producer in Asia Pacific & the fourth largest in the world

DIRECTORS

DATUK MD ARIF MAHMOOD

(Chairman)

Non-Independent Non-Executive Director

DATUK SAZALI HAMZAH

(Managing Director/Chief Executive Officer)

Non-Independent Executive Director

VIMALA V.R. MENON

Senior Independent Director

DATUK WILLIAM TOH AH WAH

Independent Non-Executive Director

WARREN WILLIAM WILDER

Independent Non-Executive Director

CHING YEW CHYE

Independent Non-Executive Director

DR. ZAFAR ABDULMAJID MOMIN

Independent Non-Executive Director

ZAKARIA KASAH

Non-Independent Non-Executive Director

FREIDA AMAT

Non-Independent Non-Executive Director

Senior Independent Director

Vimala V.R. Menon

Email : vimala.menon@petronas.com.my

Board Audit Committee

Vimala V.R. Menon (Chairman)

Datuk William Toh Ah Wah

Ching Yew Chye

Freida Amat

Nomination & Remuneration Committee

Datuk William Toh Ah Wah (Chairman)

Vimala V.R. Menon

Ching Yew Chye

Board Risk Committee

Warren William Wilder (Chairman)

Vimala V.R. Menon

Dr. Zafar Abdulmajid Momin

Zakaria Kasah

Company Secretaries

Hasnizaini Mohd Zain (LS0009780)

Kang Shew Meng (MAICSA 0778565)



Registered Office

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

Business Address

Tower 1, PETRONAS Twin Towers,
Kuala Lumpur City Centre,
50088 Kuala Lumpur, Malaysia
Tel : +603 2051 5000

Stock Exchange Listing

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

Registrar

Boardroom Share Registrars Sdn Bhd
(formerly known as Symphony Share
Registrars Sdn Bhd)
Level 6, Symphony House,
Pusat Dagangan Dana 1, Jalan PJU 1A/46,
47301 Petaling Jaya, Selangor, Malaysia
Tel : +603 7841 8000
Fax : +603 7841 8151
Website : www.symphony.com.my

Auditors

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

Investor Relations

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

Banking Services Provider

PETRONAS Integrated Financial Shared
Service Centre (IFSSC)*

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

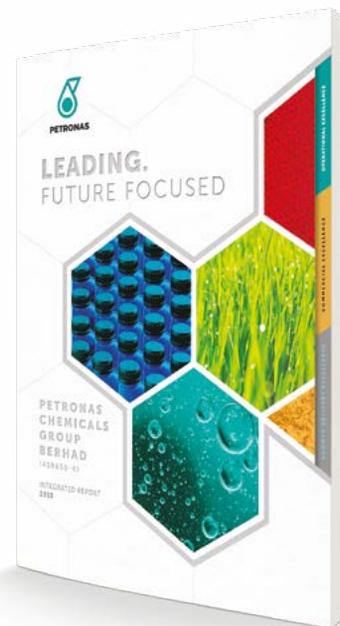
About This Report

Integrated Reporting Approach

We are proud to introduce PETRONAS Chemicals Group Berhad’s (PCG) inaugural Integrated Report 2018 (IR or Report), prepared in accordance with the International Integrated Reporting Framework (International <IR> Framework) by the International Integrated Reporting Council (IIRC).

This integrated report aims to deliver a transparent, concise and balanced overview of our financial and non-financial performances including operational and commercial highlights.

In this year’s IR, our report deliberates further on strategic thrust, approach to governance and risk, matters material to us as well as our focus on growth. The report also demonstrates how we create value using the six capitals and perform during the year.



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

OUR REPORTING SUITES

Our report consists of four standalone reports:



Integrated Report 2018

PCG’s IR has been produced with the primary objective of providing our shareholders and stakeholders a balanced and accessible assessment of our strategy, performance, governance and prospects. The IR is a concise overview of key elements of our strategic approach. It has been prepared in accordance with the International <IR> Framework by the IIRC, Main Market Listing Requirements (MMLR) by Bursa Malaysia Securities Berhad (Bursa Malaysia), Malaysian Code on Corporate Governance (MCCG) 2017, Companies Act 2016, Malaysian Financial Reporting Standards (MFRS) and International Financial Reporting Standards (IFRS).



Sustainability Report (SR)

Our first standalone SR has been prepared in accordance with the MMLR by Bursa Malaysia and guided by other globally recognised sustainability frameworks, including Oil and Gas Industry Guidance on Voluntary Sustainability Reporting by International Petroleum Industry Environmental Conservation Association (IPIECA) and FTSE4Good Bursa Malaysia Index. It is further expanded from the IR and provides detailed disclosure across Economic, Environment and Social (EES) areas, aimed at a broad range of stakeholders.



A Commitment to Governance (ACG)

The ACG presents a detailed reporting of Corporate Governance Statements, including expanded information of our Corporate Governance Overview Statement, Nomination and Remuneration Committee Report, Board Audit Committee Report and Statement on Risk Management and Internal Control, prepared in line with the MMLR by Bursa Malaysia, Companies Act 2016, MCCG 2017 and the Corporate Governance Guide (3rd Edition) issued by Bursa Malaysia.



Audited Financial Statements (AFS)

The AFS is a standalone report consisting of our Directors’ Report, Audited Financial Statements, Notes to the Financial Statements and our Independent Auditors’ Report. This report provides detailed information to our shareholders, investors, analysts and other interested parties. The report has been prepared in accordance with MFRS, IFRS, MMLR by Bursa Malaysia and Companies Act 2016.



The full report of SR, ACG and AFS can be found online at www.petronaschemicals.com

Scope and Boundary

PCG’s IR 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. Subsidiaries included are pursuant to MFRS 10 *Consolidated Financial Statements*.

Reporting Framework

This report applies the Content Elements and Guiding Principles of the International <IR> Framework by the IIRC. Other reporting requirements and frameworks applied are the MMLR by Bursa Malaysia, Companies Act 2016, MCCG 2017 and the Corporate Governance Guide (3rd Edition) issued by Bursa Malaysia.

Preparation of this Report

The Board is committed to the plan and journey in strengthening our development and compliance of the IR to the International <IR> Framework. The Management Committee and internal reporting team have applied their collective mind to the preparation and presentation of the Report. The Report development process is supported by our robust internal controls and good governance practices.

Application of Materiality



The IR applies the concept of materiality to promote conciseness and encourage a balanced disclosure that responds to current needs. Our material matters consider our key business risks and areas of interest to our stakeholders. It elaborates the focus areas of our strategy and drive the narration of our report. Guided by our vision and strategy, we apply the six capitals to perform our business processes and aligned them to the material matters in order to create sustainable value to our business and stakeholders.

Our Business Model can be found on pages 24 – 25 of this IR. Further elaborations on key activities and outputs/outcomes of our business model are captured and discussed throughout the report, with detailed focus and elaborations found in ‘How We Create Value’ section on pages 78 – 101.

Our material matters are as follows:

<p>1</p> <p>Health and Safety Safety is our first priority. We benchmark our performance against industry and global standards to cultivate the safety culture amongst our employees and to manage our asset integrity. As we grow as a business, we will not falter in emphasising health and safety as a workplace focus.</p>	<p>2</p> <p>Business Operations We focus on sustaining best in class performance of our business operations in delivering our vision to be The Preferred Chemical Company Providing Innovative Customer Solutions. In doing so, we capitalise on our efficient asset management, reliable feedstock supply and our highly skilled talents. Reinforced by our customer-centric value proposition of looking through our customers’ lens, we are responsive in meeting customers’ diverse needs.</p>	<p>3</p> <p>Growth Committed to delivering superior value, we leverage on our market leadership to continue sustainable business growth through portfolio expansion, strategic investments and collaboratively co-creating innovative product application and solutions. By forming enduring stakeholder relationships, we capture greater business opportunities, giving us an edge in the industry.</p>	<p>4</p> <p>Environment This year, we deploy our Sustainability Strategic Thrust within three Sustainability Focus Areas (SFA)– Business Sustenance, Resource Efficiency and Social Responsibility. We have always emphasised environmental management in our business with continuous improvement in resource efficiency and environmental footprint. Against heightened regulatory and societal scrutiny in recent years, action plans within our SFAs will support our response and pursuit towards sustainable business growth.</p>	<p>5</p> <p>Social and Governance As the largest integrated gas-based chemicals producer in Southeast Asia, we believe in maintaining the highest standards of responsible business practices. This is evident from the strong relationships of trust we share with our shareholders, customers, employees and communities. As a signatory of Responsible Care®, we conduct annual Product Stewardship programmes regionally and internationally. We believe in conducting our business ethically, by adhering to all applicable laws in areas we operate and contributing to the nation.</p>
<p>Our Strategic Response to the Material Matters:</p> <p>OE CE GE</p>	<p>Our Strategic Response to the Material Matters:</p> <p>OE CE</p>	<p>Our Strategic Response to the Material Matters:</p> <p>CE GE</p>	<p>Our Strategic Response to the Material Matters:</p> <p>OE</p>	<p>Our Strategic Response to the Material Matters:</p> <p>OE CE</p>
<p>Main Capitals Affected by the Matter:</p> <p>Human Capital, Financial Capital</p>	<p>Main Capitals Affected by the Matter:</p> <p>Human Capital, Financial Capital, Environmental Capital, Social Capital, Governance Capital</p>	<p>Main Capitals Affected by the Matter:</p> <p>Human Capital, Financial Capital, Environmental Capital, Social Capital, Governance Capital</p>	<p>Main Capitals Affected by the Matter:</p> <p>Human Capital, Financial Capital, Environmental Capital</p>	<p>Main Capitals Affected by the Matter:</p> <p>Human Capital, Financial Capital, Environmental Capital, Social Capital, Governance Capital</p>



Further details on the Materiality Assessment Process can be found on pages 74 – 75 under the Strategy section

Supporting the Global Initiatives

The United Nations has identified 17 Sustainable Development Goals (SDGs) as part of its Agenda for Sustainable Development to be achieved in 2030. The SDGs aim to achieve sustainable future for the planet, people and prosperity by addressing amongst others, global challenges related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. Our value creation of the six capitals are aligned with the SDGs. For more information, please refer to our standalone SR 2018.

Forward-looking Statements

This Report contains certain forward-looking statements, relating to information on future performance. These statements and forecasts involve uncertainty as they describe future events and depend on assumptions that may change in the future.

Information on Exclusions

Our disclosure appetite guides the limitation of information available in this Report, as we aim to inform users of this report. We seek to achieve a balance between positive and negative information, and information withheld to preserve our competitive advantage. Certain requirements of the International <IR> Framework have been excluded due to the unavailability of reliable information or specific legal prohibitions.

ABOUT PCG

We present an overview of our business and illustrate our group structure and business model, along with the products throughout our integrated value chain.





Chapter 2

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The following navigation icons are used to link our strategy and resources to material matters, strategic risks, key performance indicators and performance:

Main Capitals



Natural



Financial



Manufactured



Intellectual



Human



Social and
Relationship

Strategic Thrusts



Operational Excellence



Commercial Excellence



Growth Delivery Excellence

At A Glance

Who We Are

LARGEST METHANOL PRODUCER
IN ASIA PACIFIC &
4TH LARGEST IN THE WORLD*



**2ND LARGEST UREA,
AMMONIA & BuAC PRODUCER**
IN SOUTHEAST ASIA*



**3RD LARGEST MEG,
LDPE & ETHOXYLATES PRODUCER**
IN SOUTHEAST ASIA*



**LARGEST MTBE, BUTANOL,
BGE & EOA PRODUCER**
IN SOUTHEAST ASIA*



Workers conducting a plant walkabout at PC Glycols in Kertih, Terengganu, the 3rd largest MEG production unit in Southeast Asia

LARGEST INTEGRATED GAS-BASED CHEMICALS PRODUCER IN SOUTHEAST ASIA*

Methanol:
2.4 MILLION TONNES
 per annum

Urea:
2.6 MILLION TONNES
 per annum

Ammonia:
2.0 MILLION TONNES
 per annum

Butyl Acetate (BuAC)
50 KILOTONNES
 per annum

Monoethylene Glycol (MEG):
380 KILOTONNES
 per annum

Low Density Polyethylene (LDPE):
255 KILOTONNES
 per annum

Ethoxylates:
60 KILOTONNES
 per annum

Methyl Tert-Butyl Ether (MTBE):
300 KILOTONNES
 per annum

Butanol:
140 KILOTONNES
 per annum

Butyl Glycol Ether (BGE):
60 KILOTONNES
 per annum

Ethanolamines (EOA):
75 KILOTONNES
 per annum

* By capacity

What We Do

PCG is established as part of the PETRONAS Group, a Fortune 500 company, to maximise value from Malaysia's natural gas resources. PCG aspires to be The Preferred Chemical Company Providing Innovative Customer Solutions.

To chart our business direction, PCG has a two-pronged strategy of sustaining the strength of our basic petrochemicals portfolio and selectively diversifying into derivatives, specialty chemicals and solutions. PCG has over three decades of experience in the chemicals industry and is the largest integrated gas-based chemicals producer in Southeast Asia.

Our business is primarily in the manufacturing, marketing and selling of a diversified range of chemical products, including olefins, glycols, polymers, fertilisers, methanol and other derivative products. Today, the Group has a total combined production capacity of 12.8 million tonnes per annum (million tpa) with operations spanning across seven world class production sites in Malaysia, two of which are fully vertically integrated from feedstock to derivatives and specialty chemicals. Our products are exported across 29 countries, where 68% is sold to our key markets in Southeast Asia. We have marketing and sales subsidiaries and representative offices in Malaysia, Thailand, China, Indonesia, India, Vietnam, and the Philippines.

PCG was listed on Bursa Malaysia on 26 November 2010. Being one of the top 10 companies in the FTSE4Good Bursa Malaysia (FTSE4Good) Index, out of 200 largest companies ranked by market capitalisation, PCG is committed to ensure our business practices are in line with globally recognised standards for sustainable practices.



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

At A Glance

2018 Key Highlights

Business Highlights



Sustained World Class Safety Performance (LTIF)*

0.13

2017: 0.09



Higher Plant Utilisation

92%

2017: 91%



Pengerang Integrated Complex (PIC) Petrochemical Projects Progressing Well

96%



Reduced Greenhouse Gases (GHG) Emission Intensity

0.85 tonne CO₂e** per tonne of production

2017: 0.87 tonne CO₂e per tonne of production



Higher Production Volumes

10.4 million tpa

2017: 10.1 million tpa



Higher Sales Volumes

8.4 million tpa

2017: 8.1 million tpa



CSR Reached More Than **13,000 people**

Signature Corporate Social Responsibility (CSR) Programmes

ecoCare

A collaborative programme with the Malaysian Nature Society (MNS) which supports reforestation and rehabilitation of the mangrove habitat.

Be Green

An environmental conservation and plastics usage awareness programme conducted in collaboration with the Malaysian Plastic Manufacturers Association (MPMA), in line with the New Plastics Economy.

Back-To-School

A learning support programme which also provides school necessities assistance to underprivileged students in our areas of operation.

* Lost Time Injury Frequency based on Oil and Gas Industry benchmark of 0.27
 ** Carbon dioxide (CO₂) equivalent



PCG stellar performance was attributed to our highly-skilled talents



PCG Be Green programme promotes environment conservation including plastic usage awareness among students

Financial Highlights

Higher Revenue

RM19.6 billion

2017: RM17.4 billion

Higher Profit After Tax

RM5.1 billion

2017: RM4.4 billion

Higher EBITDA

RM7.0 billion

2017: RM6.6 billion

EBITDA Margin

35.6%

2017: 38.0%

Higher Total Dividend

RM2.6 billion

2017: RM2.2 billion

Higher Total Assets

RM37.4 billion

2017: RM33.3 billion

Vision and Shared Values

We are defined by our ability to create value across the EES spheres. Led by our Vision, we listen to market needs along a multi-national spectrum, and derive strategic responses. We anchor on our Shared Values to deliver results and respond to risks and opportunities.



Our Vision

The Preferred Chemical Company Providing Innovative Customer Solutions



Our Strategy

Two-Pronged Strategy

FIRST-PRONG

Sustain strength in basic petrochemicals

SECOND-PRONG

Selectively diversify into derivatives, specialty chemicals and solutions

Strategic Thrust

OPERATIONAL EXCELLENCE

Achieve sustainable world class plant performance

COMMERCIAL EXCELLENCE

Increase value by looking through customers' lens

GROWTH DELIVERY EXCELLENCE

Diversify petrochemicals into higher value-adding products



Our Shared Values

Our values are embedded in our culture as the backbone of our business conduct, reflecting our sense of duty and responsibility in upholding our commitment towards contributing to the well-being of the people and nations wherever we operate.

LOYALTY

Loyal to corporation

PROFESSIONALISM

Strive for excellence

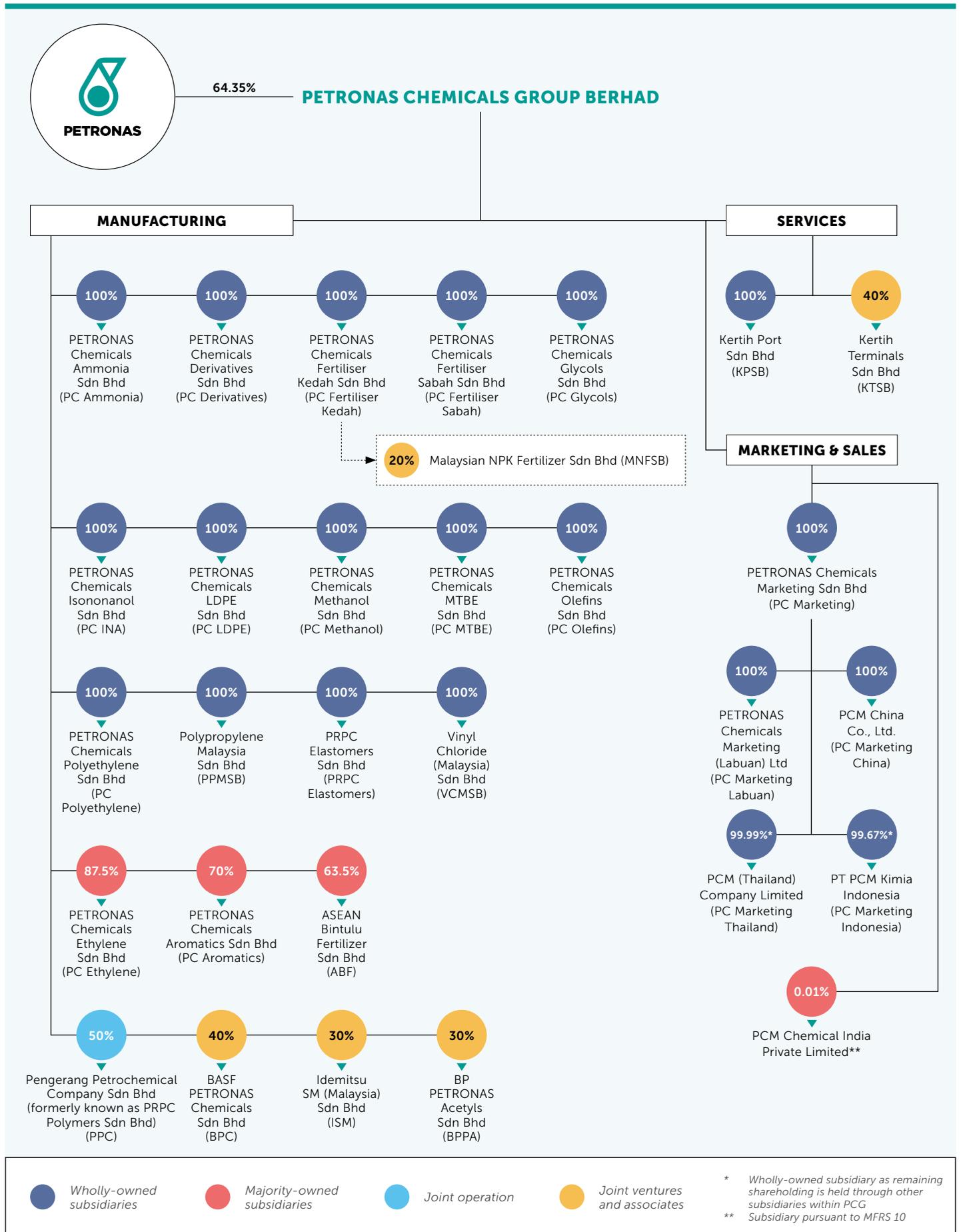
INTEGRITY

Honest and upright

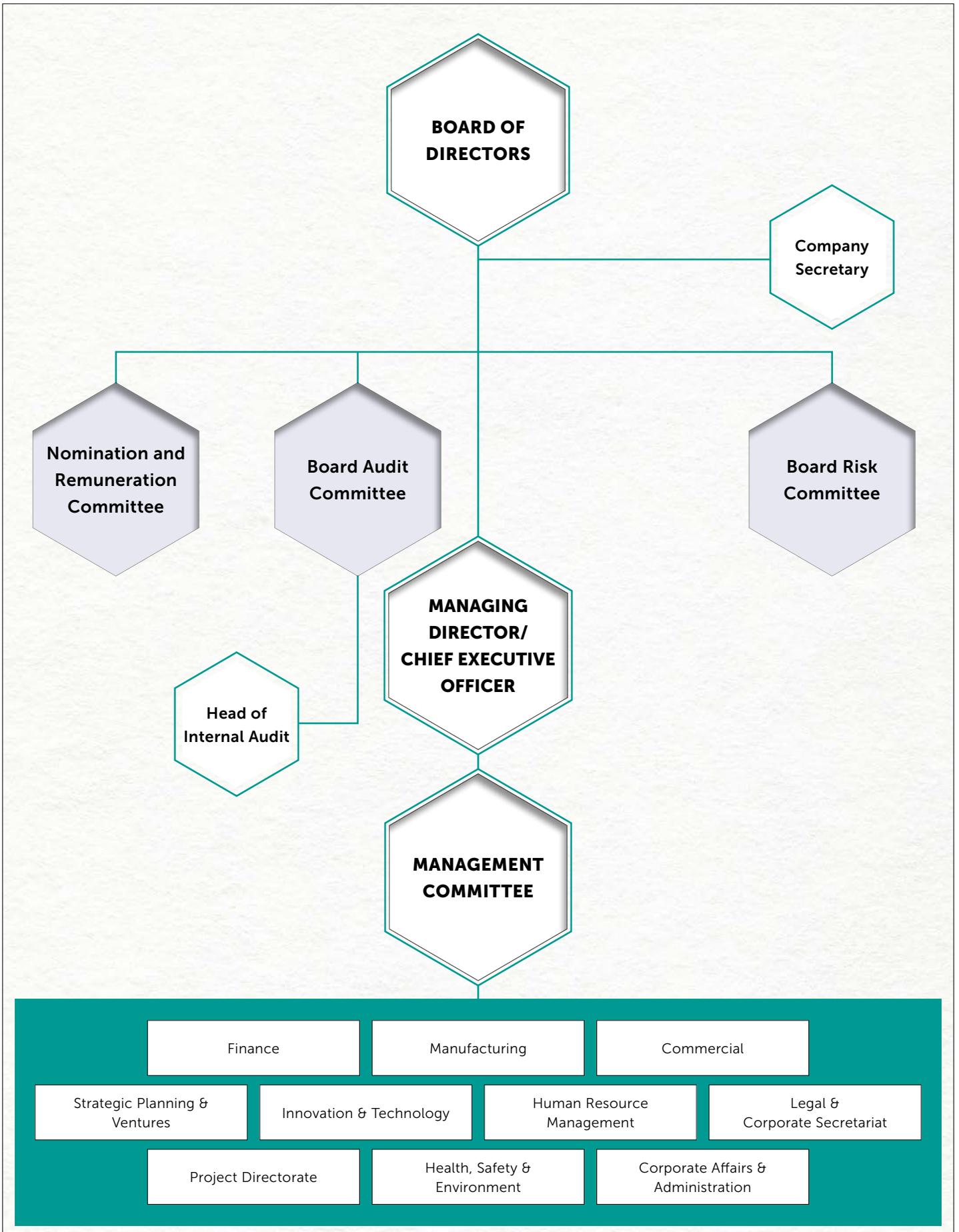
COHESIVENESS

United, trust and respect for each other

Group Structure



Organisational Structure



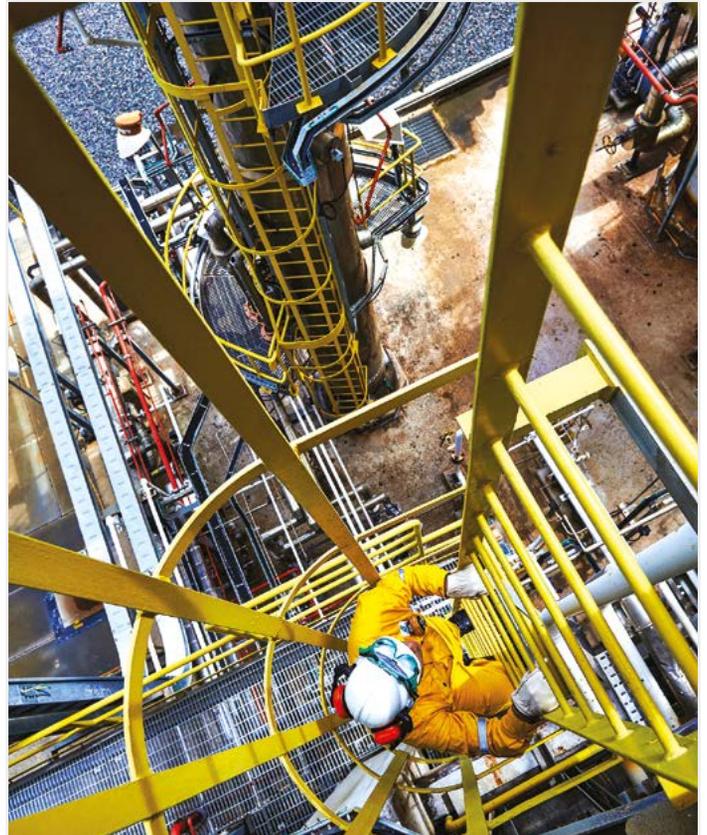
Our Milestones

PCG's Achievements

Since inception, PCG has sustained its focus on long-term value creation efforts to drive the growth of the business. Our consistent efforts and achievements have resulted in PCG becoming the largest integrated gas-based producer in Southeast Asia. Our milestones through the years reflect our commitment to continue with our value creation journey towards realising our vision to be The Preferred Chemical Company Providing Innovative Customer Solutions.



 ABF in Bintulu, Sarawak, our first investment in 1985



 A worker at PC Ethylene, our first gas cracker plant at KIPC in Kertih, Terengganu

1985

Commenced production of ammonia and urea in Bintulu, Sarawak

1992-1999

- Commenced production of propylene, polypropylene and MTBE at Gebeng Integrated Petrochemical Complex in Gebeng, Pahang
- Acquired methanol plant in Labuan
- Commenced production of ethylene and polyethylene at Kertih Integrated Petrochemical Complex (KIPC) in Kertih, Terengganu
- Commenced production of styrene monomer in Pasir Gudang, Johor
- Commenced production of ammonia, urea and methanol in Gurun, Kedah

2000-2002

- Commenced production of acrylic acid at BPC in Gebeng, Pahang
- Commenced production of benzene, paraxylene, ammonia, vinyl chloride monomer, polyvinyl chloride and acetic acid at KIPC in Kertih, Terengganu
- Commenced production of olefins, glycols and derivatives at KIPC in Kertih, Terengganu
- Commenced production of polyvinyl chloride in Baria-Vung Tau, Vietnam

2004-2009

- Expanded production capacities of ammonia and urea in Bintulu, Sarawak
- Expanded production capacities of ammonia and urea in Gurun, Kedah
- Commissioned mega methanol plant in Labuan
- Acquired additional interest in PC Olefins, PC Glycols and PC Derivatives from Dow Chemicals

2010-2014

- Acquired additional interest in PC Ethylene and PC Polyethylene from BP
- Listed on Main Market of Bursa Malaysia
- Divested Phu My Plastics & Chemicals Co Ltd pursuant to decision to discontinue vinyl business
- Secured license for PC Marketing Labuan as Labuan International Commodity Trading Company
- Incorporated overseas marketing subsidiaries, PC Marketing Thailand and PC Marketing China

2015-2016

- Acquired 100% equity in PPC and PRPC Elastomers to undertake petrochemical projects as part of PIC in Pengerang, Johor
- Commenced production of 2-EHAcid at BPC in Gebeng, Pahang
- Sanctioned development and construction of HDPE project at PPC in Pengerang, Johor
- Incorporated an overseas marketing subsidiary, PC Marketing Indonesia

2017

- Sanctioned development and construction of Isononanol project at PIC in Pengerang, Johor
- Commenced production of ammonia and urea at PC Fertiliser Sabah in Sipitang, Sabah

2018

- Commenced production of citral, citronellol, L-menthol and HR-PIB at BPC in Gebeng, Pahang
- Divested 50% equity in PPC to Aramco Overseas Holding Coöperatief U.A., a wholly-owned subsidiary of Saudi Arabian Oil Company (Saudi Aramco)
- Launched 10 new product brands
- Launched state-of-the-art Surfactant Laboratory in Bangi, Selangor



 Petrochemical projects site at PIC in Pengerang, Johor



 PCG's state-of-the-art Surfactant Laboratory in Bangi, Selangor

Our Operations

Our Production Facilities

TERENGGANU

Kertih Integrated Petrochemical Complex

- Ammonia
- Benzene
- Butanol
- Butyl Acetate
- Ethanolamines
- Ethoxylates
- Ethylene
- Butyl Glycol Ethers
- Polyethylene Glycols
- Monoethylene Glycols
- Diethylene Glycols
- Paraxylene
- Polyethylene
- Propylene
- Acetic Acid*

KEDAH

Gurun

- Ammonia
- Methanol
- Urea
- NPK Fertilisers*

KUALA LUMPUR

PETRONAS Chemicals Group is headquartered in the PETRONAS Twin Towers, Kuala Lumpur City Centre

PAHANG

Gebeng Integrated Petrochemical Complex

- Methyl Tert-Butyl Ether
- n-Butane
- Propylene
- Acrylics*
- Butanediol*
- Oxo-alcohols*
- 2-Ethylhexanoic Acid*
- Highly Reactive Polyisobutene*
- Citral*
- Citronellol*
- L-Menthol*

JOHOR

Pasir Gudang

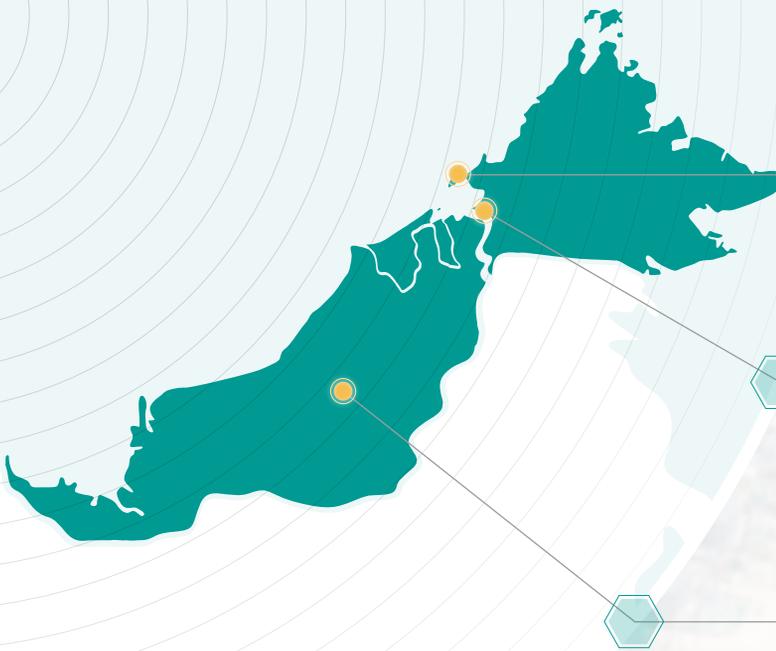
- Styrene Monomer*

* Produced by joint ventures and associates



Further details on Our Global Presence can be found on page 20

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



FEDERAL TERRITORY OF LABUAN

Federal Territory of Labuan

- Methanol

SABAH

Sipitang

- Ammonia
- Urea

SARAWAK

Bintulu

- Ammonia
- Urea

▶ **TOTAL PRODUCTION CAPACITY**

12.8 MILLION tpa

4.8 MILLION tpa

PRODUCTION OF OLEFINS & DERIVATIVES FROM **10 PLANTS**

- PC Aromatics
- PC Derivatives
- PC Ethylene
- PC Glycols
- PC LDPE
- PC MTBE
- PC Olefins
- PC Polyethylene
- BPC
- ISM

8.0 MILLION tpa

PRODUCTION OF FERTILISER & METHANOL FROM **7 PLANTS**

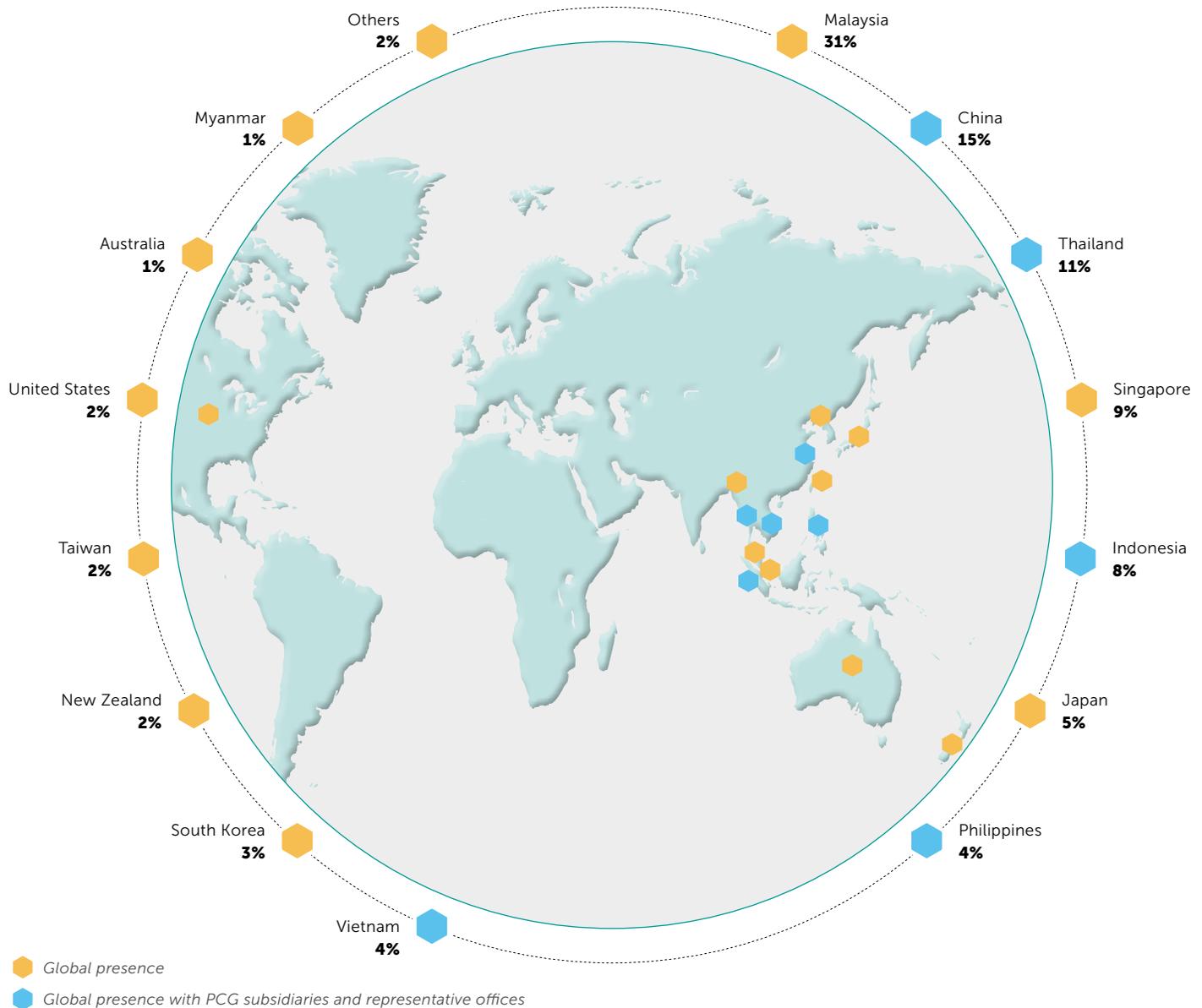
- PC Ammonia
- PC Fertiliser Kedah
- PC Fertiliser Sabah
- PC Methanol
- BPPA
- ABF
- MNFSB

Our Operations

Our Global Presence

Our products can be found throughout the Asia Pacific region as well as in the USA. We export to a total of 29 countries. Our principal markets include Thailand, China, Indonesia, Vietnam and the Philippines, where we have subsidiaries and representative offices.

About 31% of our products are consumed within Malaysia, and 37% marketed in Southeast Asia. The rest of our products are channelled to other markets such as China, Japan, South Korea, Taiwan, New Zealand and Australia where demand is strong.



31%

Consumed by the

Malaysian market

37%

Sold in

Southeast Asia market
 (excluding Malaysia)

25%

Sold in

Northeast Asia market

Our Products

Our products are all around you – from specialty chemicals to high-value polymers, fertilisers and superior quality methanol. Every day, our products make a difference to the lives of millions of people around the world.

We strive to continuously add value to the communities in which we operate, the environment which we all share, the technology and innovation that we aim to pioneer, and the high quality products we offer our customers.

OLEFINS, GLYCOLS & DERIVATIVES



POLYMERS



AROMATICS & MTBE



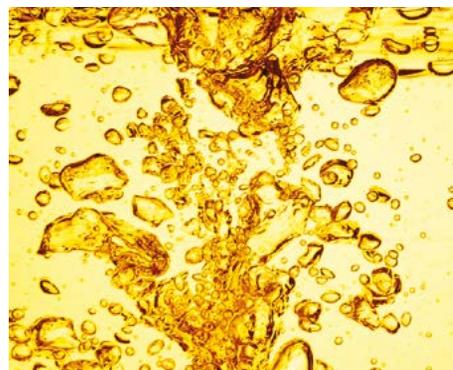
METHANOL



AMMONIA & FERTILISERS



JOINT VENTURE & ASSOCIATE PRODUCTS



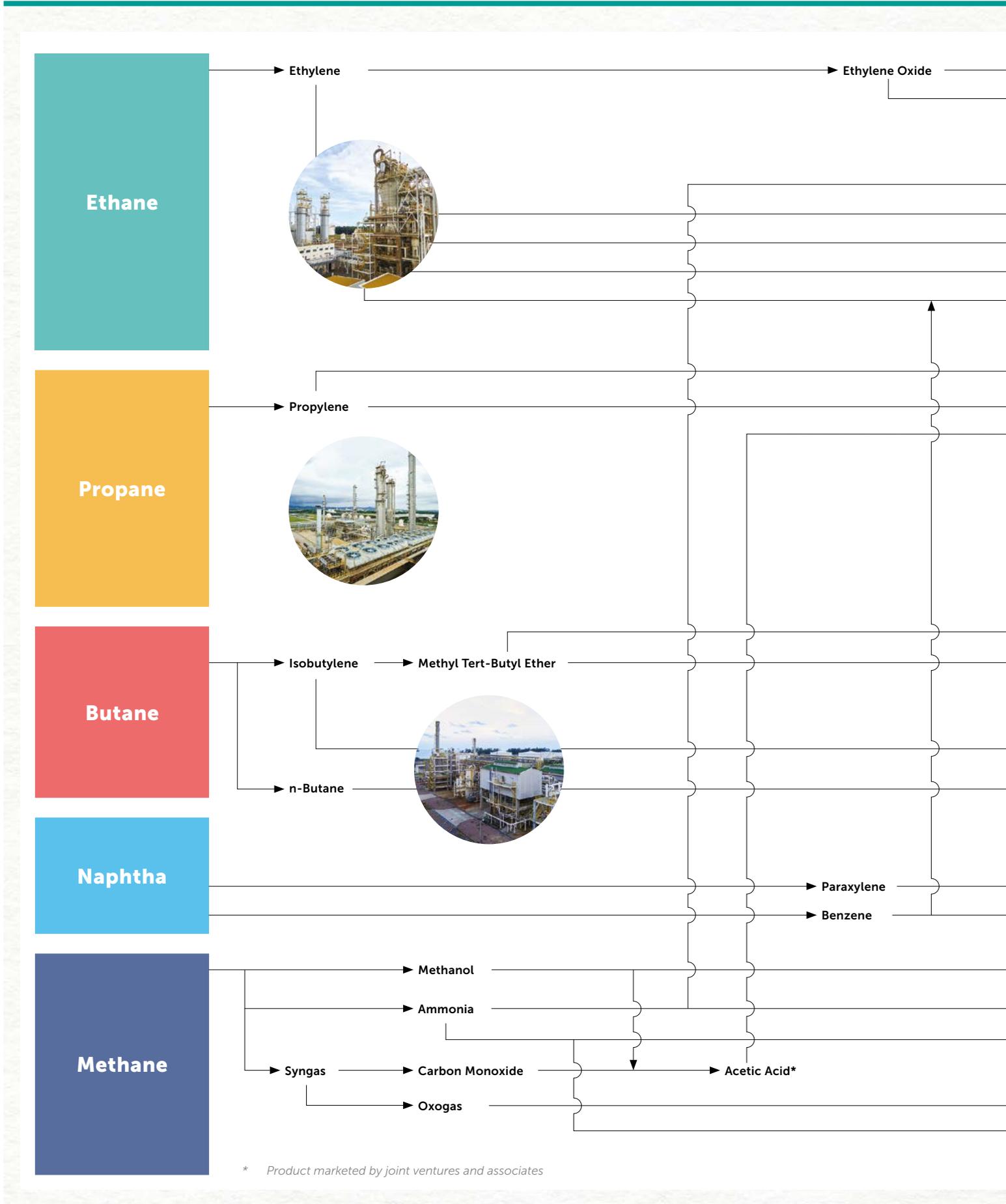
Check out our product portfolio inside



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

Further details on our products, can be found on www.petronaschemicals.com or scan the QR code

Integrated Product Value Chain

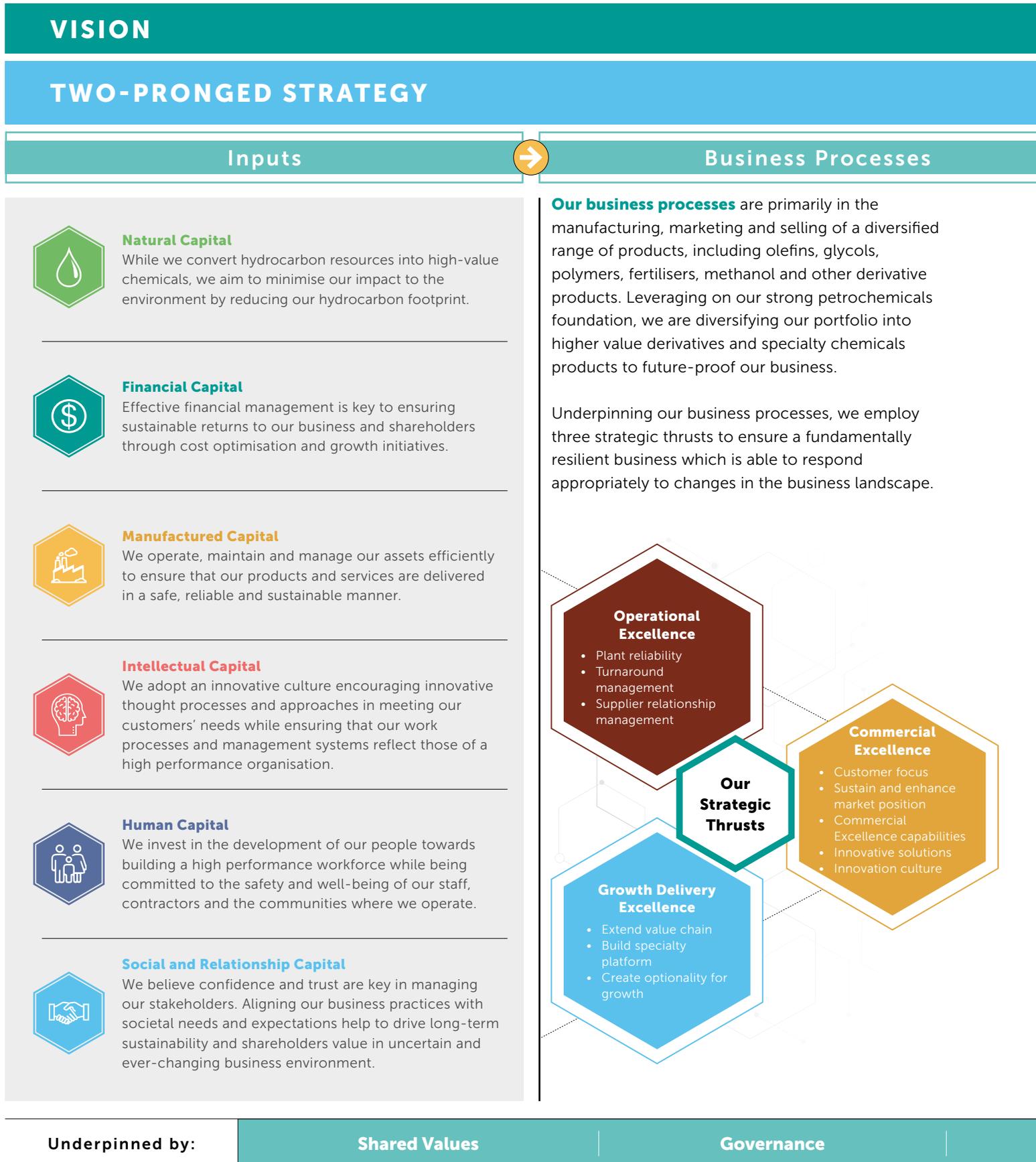


Integrated Product Value Chain



Our Business Model

The illustration below captures the various components of our business model and demonstrates the value we create for our stakeholders and how we ensure the sustainability of our business (outcomes). We rely on our resources (capitals) as our inputs to support the performance of our operations and key activities, as driven by our two-pronged strategy and strategic thrusts to produce a range of high-value



products and other business outputs. Our overall business model is guided by business outlook and underpinned by our shared values, governance practices, risk management, regulatory and compliance to ensure business sustainability.

The Preferred Chemical Company Providing Innovative Customer Solutions

First-prong ▶ Sustain strength in basic petrochemicals

Second-prong ▶ Selectively diversify into derivatives, specialty chemicals and solutions

Material Matters → Outputs

As our primary areas of opportunities and risks, our current material matters complement key elements of the strategic thrusts. We focus our initiatives and respond to stakeholders in addressing these material matters which could substantially affect our ability to create value.



Health and Safety



Business Operations



Growth



Environment



Social and Governance

Total production volumes of 10.4 million tpa

- i. **3.9 million tpa** for Olefins and Derivatives (O&D)
- ii. **6.5 million tpa** for Fertilisers and Methanol (F&M)

Total sales volumes of 8.4 million tpa

- i. **3.1 million tpa** for O&D
- ii. **5.3 million tpa** for F&M

Customer solutions

64 product and application solutions

Emission and discharge

- i. **0.85 tonne CO₂e** per tonne of production for GHG Intensity
- ii. **2.59 tonnes** air emission per kilotonne of production for Air Emission Intensity
- iii. **0.02 tonnes** Chemical Oxygen Demand (COD) per kilotonne of production for Wastewater Intensity

Outcomes

For PCG

- 1. Health, Safety and Environment (HSE)**
 - i. Sustain world class HSE performance with LTIF of **0.13**
 - ii. Environmental footprint
 - a. **2%** reduction in GHG Intensity
 - b. **1%** reduction in Air Emission Intensity
 - c. **33%** reduction in COD Intensity
 - d. **10%** increased 3R (Reduce, Reuse, Recycle) volume
- 2. Financial**
 - i. Revenue of **RM19.6 billion**
 - ii. PAT of **RM5.1 billion**
 - iii. EBITDA of **RM7.0 billion**
- 3. Talent**
 - i. **7.77** average training man-days per employee
 - ii. Staff progression:
 - a. **16** new Technical Professional developed
 - b. **34%** technical executive completed Accelerated Capability Development Assessment (ACD) within 7 years
 - c. **66%** non-technical executive achieved excellent result in Online Functional Assessment (OFA)
 - iii. Ratio of Ready Talent to Critical Positions **2.3 : 1**
 - iv. **96%** participation rate in 2017 PETRONAS Organisation Culture Survey (POCS)

For Stakeholders

- 1. Customers**
 - i. Order Fulfillment Reliability (OFR) at **93%**
 - ii. **6 Product Stewardship** training programmes conducted in Malaysia and international markets we served, aligned with our commitment as a signatory of Responsible Care®
- 2. Financial**
 - i. **RM2.6 billion** total dividends
 - ii. **RM443 million** in tax contributions
- 3. Community**
 - i. More than **13,000 people** benefitted from our CSR programmes
 - ii. **3,000 mangrove trees** replanted and seeded in an area of **11,000 square metres** along Kertih River

MANAGEMENT DISCUSSION & ANALYSIS

We provide an analysis of our business performance, covering both financial and non-financial highlights within this section.



Chapter 3

28 Message from MD/CEO

36 Message from Chief Financial Officer

44 Message from Head of Manufacturing

50 Message from Head of Commercial

54 Message from Head of Strategic
Planning & Ventures

The following navigation icons are used to link our strategy and resources to material matters, strategic risks, key performance indicators and performance:

Main Capitals



Natural



Financial



Manufactured



Intellectual



Human



Social and
Relationship

Strategic Thrusts



Operational Excellence



Commercial Excellence



Growth Delivery Excellence

Message from MD/CEO

OUR PASSION FOR PERFORMANCE

Performance Review

<p>Message from Chief Financial Officer: <i>Financial Performance</i></p> <p>Pages 36 – 43</p>	<p>Message from Head of Manufacturing: <i>Operational Excellence</i></p> <p>Pages 44 – 49</p>	<p>Message from Head of Commercial: <i>Commercial Excellence</i></p> <p>Pages 50 – 53</p>	<p>Message from Head of Strategic Planning & Ventures: <i>Growth Delivery Excellence</i></p> <p>Pages 54 – 57</p>
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Datuk Sazali Hamzah
(Managing Director/Chief Executive Officer)

Key Messages

- ▶ Sustained world class HSE Excellence
- ▶ Breakthrough achievements with highest production and sales volumes, revenue, EBITDA and PAT
- ▶ Creating value through growth projects

0.13

LTIF

Better than oil and gas industry benchmark

10.4 million tpa

Production volumes

2.8% higher than 2017

RM7.0 billion

EBITDA

5.2% higher than 2017



Dear Shareholders,

It gives me great pleasure to present to you PETRONAS Chemicals Group Berhad's Integrated Report for the year 2018. We recorded another year of breakthrough performance with highest production and sales volumes, revenue, EBITDA, as well as PAT since our listing in 2010, as we progressed with our growth aspiration in consistently delivering greater value to our shareholders.



Questions & Answers:



Our MD/CEO shares highlights of our value creation journey in 2018.

with the MD/CEO



To read more about our Question & Answer Section, please open here



Strategic Thrusts:



Main Capitals:



Strong Market Landscape

The global economy in 2018 started on a solid footing, with synchronised global growth upsurge of world Gross Domestic Product (GDP) at majority of advanced, emerging and developing economies. Although the momentum somewhat softened towards the end of the year due to US-China trade dispute uncertainty and concerns about China's outlook, the global economy expanded at 3.7%*, largely supported by the USA amidst its fiscal stimulus.

Crude oil price moved similarly with a marked improvement in Dated Brent price at an average of USD71/bbl**, compared to USD54/bbl*** in 2017, supported by healthy primary energy demand led by North America, Asia and Africa.

Closer to home, the buoyant economy of emerging and developing Asia at 6.5%* led to a steady regional petrochemicals demand growth of 6.4%**. The overall improvement of crude oil price and strong demand on the back of increasing supply deficit of our key products such as ethylene, methanol and urea led to higher product prices compared to 2017.



The first full year of commercial operations at PC Fertiliser Sabah in Sipitang, Sabah, enabled PCG to strengthen its market leadership

* Source: World Economic Outlook Update Jan 2019, International Monetary Fund
 ** Source: IHS Report, Dec 2018
 *** Source: IHS Report, Dec 2017

Message from MD/CEO

OUR PASSION FOR PERFORMANCE

Performance Review

Message from Chief Financial Officer:
Financial Performance

Pages **36 – 43**

Message from Head of Manufacturing:
Operational Excellence

Pages **44 – 49**



Datuk Sazali Hamzah
(Managing Director/Chief Executive Officer)



The PCG Management Team at The Edge Billion Ringgit Club Awards 2018

1 Over the last few years, we note that your plant utilisation rates have significantly improved to above 90%. What is your target for 2019?

Answer

Indeed, PCG has achieved best in class plant utilisation rate. We are pleased that our effort to rectify our plant reliability issues which we undertook four years ago has resulted in higher efficiencies and this is testament of our Operational Excellence programme. The utilisation rate of our production facilities is dependent on plant maintenance activities and sufficient availability of feedstock as well as utilities supply. The Group will continue with its Operational Excellence initiatives as well as our supplier relationship management to sustain plant utilisation rate at above industry benchmark.

2 One of the Commercial Excellence initiative is about "getting added value for your products". How is this achieved?

Answer

We have built a strong and resilient business model, to further capitalise on our strategic location, which has afforded us the dual benefits of maintaining our competitive cost and maximising value through collaborative efforts with our customers. By adopting the approach of looking through customers' lens, we have worked with our customers to co-create innovative products and solutions, which not only added value to their businesses but also contribute to their continuous growth.

Key Questions

In 2018, PCG had a year of breakthrough performance fuelled by our passion to create long-term value for all our stakeholders. Our MD/CEO shares insights on how we remained on course to deliver our promise to stakeholders.

3 ▶ **PETRONAS Chemicals has mentioned before that there are opportunities to expand business further down the value chain. What plans do you have on that front?**

Answer

PCG is ready to move forward with its strategy to future-proof the business. Our growth levers include extending the value chain by adding value to our existing basic chemicals through downstream investments. PCG is also targeting to build specialty platform by venturing into attractive segments to gain access to technology and market. Additionally, we aspire to create optionality for growth via our own Research and Development (R&D) and Corporate Venture Capital (CVC).

4 ▶ **How will PCG mitigate the uncertain market outlook?**

Answer

While we closely monitor the market for short term changes, our efforts are concentrated on sustainable value creation. With our strong operational performance, combined with new product offerings from PPC, PCG is well-positioned to address market challenges. The additional capacity and range of new products will complement our ability to serve our customers' diverse and growing requirements, hence enabling us to maintain our competitive position in the long run.

5 ▶ **What are the key risks to your business?**

Answer

PCG assesses risks along its value chain such as Supply, Manufacturing, Logistics and Distribution, Marketing and Customer Management as well as other external factors that may adversely impact PCG's performance.

These risks include major HSE incidents, disruption to plant operations, cyclicalities of the petrochemical industry and the possible inability to realise growth which may negatively impact shareholder value and our business sustainability.

Strategic Thrusts:



Main Capitals:



Strong Market Landscape

The global economy in 2018 started on a solid footing, with synchronised global growth upsurge of world Gross Domestic Product (GDP) at majority of advanced, emerging and developing economies. Although the momentum somewhat softened towards the end of the year due to US-China trade dispute uncertainty and concerns about China's outlook, the global economy expanded at 3.7%*, largely supported by the USA amidst its fiscal stimulus.

Crude oil price moved similarly with a marked improvement in Dated Brent price at an average of USD71/bbl**, compared to USD54/bbl*** in 2017, supported by healthy primary energy demand led by North America, Asia and Africa.

Closer to home, the buoyant economy of emerging and developing Asia at 6.5%* led to a steady regional petrochemicals demand growth of 6.4%**. The overall improvement of crude oil price and strong demand on the back of increasing supply deficit of our key products such as ethylene, methanol and urea led to higher product prices compared to 2017.



The first full year of commercial operations at PC Fertiliser Sabah in Sipitang, Sabah, enabled PCG to strengthen its market leadership

* Source: World Economic Outlook Update Jan 2019, International Monetary Fund
 ** Source: IHS Report, Dec 2018
 *** Source: IHS Report, Dec 2017

Message from MD/CEO

Sustained World Class HSE Excellence

We consistently inculcate a workplace culture that drives safe, reliable and efficient production at our plants.

In 2018, our commitment to world class HSE Excellence resulted in PCG sustaining our high level of safety performance for yet another year. Our LTIF rate of 0.13 was better than the oil and gas industry benchmark of 0.27, a testament of our commitment to a strong HSE culture. This was evident in our staunch practice of regular management presence at our plant worksites through Felt Leadership, unwavering compliance on a set of comprehensive safety Zero Tolerance (ZeTo) rules, a community that cares for each other via "Jom Patuh dan Tegur" (Let's Comply and Intervene), positive recognition of good safety behaviours through Behavioural Recognition Programme and enhancement of our competency as well as procedures in process safety.

It is unfortunate that during the year we recorded a fatality which involved an inland transport contractor on public roads. With HSE as our priority, we had a plan in place to deal with challenges arising from this incident and extended our assistance to the affected person and his family. We also conducted a safety stand down to reflect and learn from this experience. Concurrently, we identified areas of improvement to strengthen our safety culture in workplace especially in transportation safety. We also leverage on the latest technology application to elevate our HSE Excellence.



Breakthrough Achievements in 2018

The year 2018 proved to be an operationally challenging year for PCG as it was the heaviest year of plant turnaround since our listing in 2010.

Despite statutory shutdowns within heavyweights in our integrated chain, namely methanol plant which is one of our largest volume contributors, and ethylene plant which is one of our biggest margin contributors, we achieved highest production volumes at 10.4 million tpa. Alongside this, we exceeded best in class plant utilisation at 92%.

Enhancing Operational Excellence

Our outstanding achievements were the result of our sustained focus on enhanced reliability and plant turnaround strategies, coupled with collaborative efforts between PCG and its feedstock suppliers and utilities providers to ensure reliable supplies.

Drawing on our competitive strengths, I am proud to share that PCG achieved another year of breakthrough performance in 2018, with the highest revenue, EBITDA and PAT since our listing in 2010. Group revenue grew by 12.5% to RM19.6 billion and we attained record high EBITDA of RM7.0 billion, 5.2% higher than 2017. Group PAT stood at RM5.1 billion, outpacing last year's achievement by 14.6%.

Driving Commercial Excellence

For three successive years, PCG has upheld best in class plant utilisation, underpinned by our steadfast commitment to Operational Excellence. Despite another heavy year of plant turnaround, we achieved our highest sales volumes at 8.4 million tpa, which enabled us to leverage on favourable market conditions. Our commitment to increase value proposition by looking through customers' lens saw us focusing on being responsive and agile in meeting customers' requirements and continuously enhancing their experience with our superior product quality and efficient technical services to ensure timeliness of our deliveries and competitive cost-to-serve.

Furthermore, our local presence and deep understanding of customers' requirements in various markets that we served, are clear differentiators in the marketplace thus securing good reputation as a reliable supplier of choice. All these factors had played a large part in PCG recording our highest EBITDA for the year.

Performance in 2018

The **highest revenue, EBITDA and PAT** since our listing in 2010

New Product Brands Launched

The launch of **10** new product brands at the Asia Petrochemical Industry Conference (APIC) 2018

PIC Project

A key way we will drive our growth strategy is through **PIC**. As at January 2019, PIC Petrochemical projects are at **96%** completion, on track to commence production in the **second half of 2019**

Delivering Innovative Customer Solutions

Our customer-centric value efforts were further boosted with the launch of our state-of-the-art Surfactant Laboratory with a team of highly skilled application technologists on board to actively co-create product solutions and applications with customers. Among the outcomes of this strategic endeavour were specially-formulated chemicals we co-created with our customers in the latex processing, paper coating and automotive care industries. A moment of pride for us during the year was the launch of 10 new product brands at the Asia Petrochemical Industry Conference (APIC) 2018, thus augmenting our position as a regional market leader. It reflected our commitment to continuously innovate to add to the value proposition we offer our customers.

Creating Value Through Growth Delivery Excellence

Our future-focused efforts to ensure that we are able to sustain long-term growth and value creation were driven by efforts to bring into fruition our strategy of venturing into derivatives and speciality chemicals.

A key way we will drive this strategy is through Pengerang Integrated Complex (PIC). As at January 2019, PIC Petrochemical projects are at 96% completion, on track to commence production in the second half of 2019. Plans for PIC's operational and commercial readiness have been implemented as scheduled. Route-to-market readiness is at its final stage, and we are well-prepared to market the products.



PIC Petrochemical projects are progressing on track at 96% completion

Message from MD/CEO

During the year, we finalised the joint arrangement with Saudi Aramco, with both parties holding equal shareholdings in PPC.

With our superior performance in Operational and Commercial Excellence, as well as in project delivery, we are now well-positioned to aggressively pursue the second-prong of the strategy to diversify our portfolio through investments in derivatives and specialty chemicals. We are exploring several opportunities currently at various stages of evaluation, including opportunities in bio-based chemicals.

High Performing Pool of Talents

Underlying our solid achievements for the year were the dedicated efforts of our high-performing pool of talents. Talent is key to ensuring our best in class performance and we remain committed to develop and upskill our people’s capabilities as the cornerstone of our continuous efforts to create value for growth. Recognising the strategic growth trajectory we are on, PCG’s talent development platform and succession planning programme are geared to manage and retain our talent pool to ensure we achieve our strategic objectives.

Our talent development efforts are firmly focused on the future we envision for ourselves within the niche, specialty chemicals market. We have focused on upskilling our people within this space, so that they can contribute to our strategic ambitions in venturing into specialty chemicals. The robust foundation of our talents’ abilities to realise our organisational goals lies within the shared values that bind us together towards embracing a culture of accountability to be a high-performing company.



PCG’s highly-skilled talents are empowered through our talent development programmes

Talent Development

Underlying our solid achievements for the year were the dedicated efforts of our **high performing pool of talents**

Waste Management Plan

We focused our efforts to increase **3R (Reduce, Reuse and Recycle)** through an enhanced Waste Management Plan

Embedding Sustainability to Drive Our Growth

We have embedded our sustainability agenda at the heart of how we do business within our operations and processes as a critical driver for business growth.

Our sustainability commitments have been recognised with PCG as a Top 10 company in the FTSE4Good Index based on market capitalisation. In 2018, we advanced our commitment by aligning our sustainability efforts with the UN SDGs and further progressed in embracing the International <IR> Framework.

Our commitment to ensure safe and reliable plant operations extends to environmental management initiatives at our facilities to responsibly manage our environmental footprint even within heavy turnaround schedules. In 2018, we focused our efforts to increase 3R (Reduce, Reuse and Recycle) through an enhanced Waste Management Plan which identifies 3R opportunities within each waste generation stream.

The PCG CSR programme aims to strengthen our sustainable social commitment towards the well-being of the communities within our areas of operations, through three broadly-categorised pillars of Community Well-being and Development, Education and Environment. Besides reinforcing our social license to operate, our CSR programme is a testament of our sustainable social commitment towards contributing to the well-being of the communities living within the footprint of our operations.

In 2018, PCG's CSR contributions touched the lives of more than 13,000 school students, teachers and members of the community. Our community well-being and development initiatives focus on educating people on health and safety awareness. Initiatives within this sphere have imparted knowledge on safe chemical handling at schools for teachers and students, and first aid education for community members.

As a responsible corporate citizen, we have sustained our focus on environmental conservation and preservation efforts. As a signatory of the global chemicals industry's Responsible Care® initiative, we focus on continuously improving the environmental, health and safety of our facilities and products. Our commitments in these areas are driven through our CSR in Environment initiatives, as well as our Product Stewardship efforts. Since 2005, we have spearheaded environmental conservation through our ecoCare initiatives where we have replanted and seeded about 3,000 mangrove trees in an area of 11,000 square metres along Kertih River. The PCG Be Green programme focuses on plastic awareness and education in line with the objectives of the New Plastics Economy, by driving the 3R effort within Malaysian schools in collaboration with the MPMA and other regional plastic producers.

Recognitions of our Achievements

Within the industry, PCG continues to receive recognitions of our achievements in CSR, operations and governance excellence.



PCG MD/CEO at The Edge Billion Ringgit Club Awards 2018, where PCG was honoured with several awards

- 1 Our CSR efforts were recognised with the award of "Best Corporate Responsibility Initiative for Super Big Cap Companies with market capitalisation of over RM40 billion" by The Edge Billion Ringgit Club.
- 2 Our active and frequent engagement with investors received acknowledgement when PCG was awarded "The Most Organised Investor Relations (Malaysia)" and "Consistent Dividend Policy" by Alpha Southeast Asia's Institutional Award for Corporate 2018.
- 3 Our enhanced disclosures in the PCG Annual Report 2017 resulted in international recognition with the "Best of Asia Pacific" in the category of Non-Traditional Annual Reports at the 32nd Annual International ARC Awards.
- 4 PCG outpaced seven other Super Big Cap companies with market capitalisation above RM40 billion in terms of profit growth and shareholders' returns to obtain The Edge Billion Ringgit Club's "Highest Growth in Profit After Tax Over Three Years Award" and "Highest Returns To Shareholders Over Three Years Award".

Message from MD/CEO



(From left) PCG Chairman, Datuk Md Arif Mahmood, Deputy Minister of International Trade and Industry, YB Dr. Ong Kian Ming, PETRONAS President and Group Chief Executive Officer, Tan Sri Wan Zulkiflee Wan Ariffin and PCG MD/CEO, Datuk Sazali Hamzah at APIC 2018 where PCG launched 10 new product brands

2019 MARKET OUTLOOK AND FOCUS AREAS

As we steer forward with our value creation journey, we are mindful of the forthcoming uncertainties within the global economy. Although growth in 2019 is expected to fall slightly below the previous year, it is still above the 10-year historical average of 3.4%*.

Furthermore, the continued effort of Organisation of the Petroleum Exporting Countries (OPEC) and its allies to lower production will help to stabilise crude oil price. In addition, the robust fundamentals of supply and demand of petrochemicals industry, coupled with continuously strong Asia Pacific GDP growth, we forecast the industry to remain competitive.

As a key player in the Asia Pacific petrochemicals market, PCG will be ready to take advantage of opportunities that arise and weather any challenges which we may face, by focusing our efforts to maintain competitive position and continue to deliver on strategic priorities for sustainable value creation. We will continue to prioritise HSE Excellence as the foundation of Operational and Commercial Excellence, as we drive our productivity and efficiency Group-wide. The impending operationalisation of PIC presents us with opportunities to secure strategic markets, as well as to venture into derivatives and specialty chemicals for Growth Delivery Excellence. Our focused approach will propel the growth journey forward to continuously create value for our shareholders and stakeholders.

* Source: World Economic Outlook Update Jan 2019, International Monetary Fund.

Acknowledgements

Our ability to deliver an outstanding performance in 2018 would not have been possible without stellar contributions from a number of different individuals and groups. On behalf of management, I would like to express our gratitude to the Board of Directors for their exemplary stewardship of our company, according to the highest principles of governance, ethics and integrity.

We also recorded a number of movements within our Management Committee. During the year, Noor Lily Zuriati Abdullah, Head of Legal and Corporate Secretariat, retired. We thank her for the service and wish her the very best. Taking her place is Hasnizaini Mohd Zain who joined us on 1 May 2018.

In December 2018, Mohamad Iskandar Bakeri, Head of Project Directorate was promoted as Head of PETRONAS Downstream Business Excellence. We would like to express our utmost appreciation for his dedication in driving project delivery. His position and responsibility will now be carried out by Mohd Zakir Jaafar.

We would like to take this opportunity to thank our shareholders and stakeholders for their continuing support and trust in us. We also extend our gratitude to customers for allowing us to contribute to the growth of their businesses through our value-added offerings. As for our employees, we would like to thank each and every one of them for epitomising the PETRONAS shared values and beliefs in carrying out their roles and responsibilities, as well as their families for supporting them in their jobs.

As we forge ahead with our value creation journey, we remain committed to realising our vision to be The Preferred Chemical Company Providing Innovative Customer Solutions.

Our Six Focus Areas in 2019

In weathering uncertain market conditions and another year of heavy plant turnaround, PCG will focus on six focus areas to drive our sustainable business growth.

UPHOLD HSE AS A PRIORITY

- Strengthen operational and transportation HSE through Felt Leadership, "Jom Patuh dan Tegur" (Let's Comply and Intervene) and continuous improvements in our competency and procedures in process safety

SUSTAIN WORLD CLASS OPERATIONAL EXCELLENCE

- Enhance our plants' productivity and efficiency whilst executing flawless turnaround

DRIVE COMMERCIAL EXCELLENCE

- Secure strategic markets
- Optimise our value proposition to customers and deliver innovative product applications and solutions

OPERATIONALISE PIC

- Operate the complex in a stable manner as petrochemical plants come on stream in the second half of 2019
- Execute route-to-market plan

VENTURE INTO DERIVATIVES, SPECIALTY AND BIO-BASED CHEMICALS

- Evaluate various investment opportunities in derivatives, specialty and bio-based chemicals
- Continue to progress in R&D of selected projects

SUSTAIN OUR OUTSTANDING PERFORMANCE

- Leverage on a high-performance organisation culture and the right talent to drive outstanding performance delivery



Message from Chief Financial Officer

FINANCIAL PERFORMANCE

PCG registered a record financial performance primarily driven by higher production and sales volumes as well as higher average product prices.



Rashidah Alias
(Chief Financial Officer)

Key Messages

▶ **Revenue** increased by **12.5%** to RM19.6 billion

▶ **PAT** rose **14.6%** to RM5.1 billion

▶ **Earnings per share** higher by **19.2%** at 62.2 sen

//
Along with enhancements in our operational and sales efficiencies, as well as maintaining strict focus on cost optimisation, we achieved our highest revenue, PAT and EBITDA since our listing in 2010.



Strategic Thrusts:**Main Capital(s):**

The year 2018 has proven to be yet another year of PCG recording stellar financial results. Emerging and developing Asian economies recorded strong growth of 6.5%*, which led to steady regional petrochemicals demand growth of 6.4%** . Coupled with improvement in crude oil price which had risen to USD71/bbl** in 2018 from USD54/bbl***in the previous year, as well as increasing supply deficit of our key products of ethylene, methanol and urea, this led to higher product prices, which impacted positively on our business.

We were able to capitalise on opportunities available due to our sustained focus on Operational and Commercial Excellence, which led to our achievement of highest production volumes which in turn, led to highest sales volumes. Along with enhancements in our operational and sales efficiencies, as well as maintaining strict focus on cost optimisation, we achieved our highest revenue, PAT and EBITDA since our listing in 2010.

* Source: World Economic Outlook Update Jan 2019, International Monetary Fund

** Source: IHS Report, Dec 2018

*** Source: IHS Report, Dec 2017

Financial Review

RM million	2014	2015	2016	2017	2018	Increase 2017 vs. 2018
Revenue	14,597	13,536	13,860	17,407	19,576	12.5%
Cost of Revenue	10,150	8,989	8,536	11,021	12,702	15.3%
Profit Before Tax	3,551	3,833	4,110	5,236	5,650	7.9%
Profit After Tax	2,726	3,091	3,222	4,414	5,058	14.6%
EBITDA	4,644	4,660	5,291	6,618	6,965	5.2%

Overall Financial Performance Review

For the financial year ended 31 December 2018, PCG registered strong revenue growth of 12.5%, an increase of RM2.2 billion from RM17.4 billion to RM19.6 billion. Our record-breaking revenue was primarily driven by higher sales volumes which benefitted from higher production and increased average product prices which had improved in tandem with the higher crude oil price during the year, despite the strengthening of the Ringgit Malaysia against the US Dollar.

The Group achieved best in class plant utilisation at 92%, compared to 91% in the previous year, with PC Fertiliser Sabah leading as the largest production and sales contributor having commenced commercial operations in urea production in May 2017.

Our cost of revenue increased by RM1.7 billion or 15.3% to RM12.7 billion against RM11.0 billion in 2017, mainly due to higher feedstock costs as a result of

Revenue

For the financial year ended 31 December 2018, PCG registered strong revenue growth of **12.5%**, an increase of **RM2.2 billion** from **RM17.4 billion** to **RM19.6 billion**

Profit After Tax

PCG registered higher PAT by **RM644 million** or **14.6%** at **RM5.1 billion** for the year, on the back of higher spread and volumes as well as lower tax expense, partially negated by the strengthening of the Ringgit Malaysia against the US Dollar

higher crude oil price, particularly for naphtha, methane and propane. Feedstock costs remained the largest component of the Group's cost of revenue, comprising 52.2% of the total costs for the year.

Operating expenditure for the Group which comprised selling and distribution expenses, administration expenses and net other income, increased by 14.7% or RM169 million to RM1.3 billion. The higher expenditure was mainly related to foreign exchange loss of RM160 million on shareholder loans pursuant to the divestment of 50% equity interest in PPC, and under accrual of manpower-related expenses in respect of the previous year. Excluding the one-off adjustment, operating expenditure would have remained comparable with the previous year at RM1.2 billion.

We recorded higher share of profits of equity-accounted joint ventures and associates by RM92 million, mainly due to better plant performance as well as product spread.

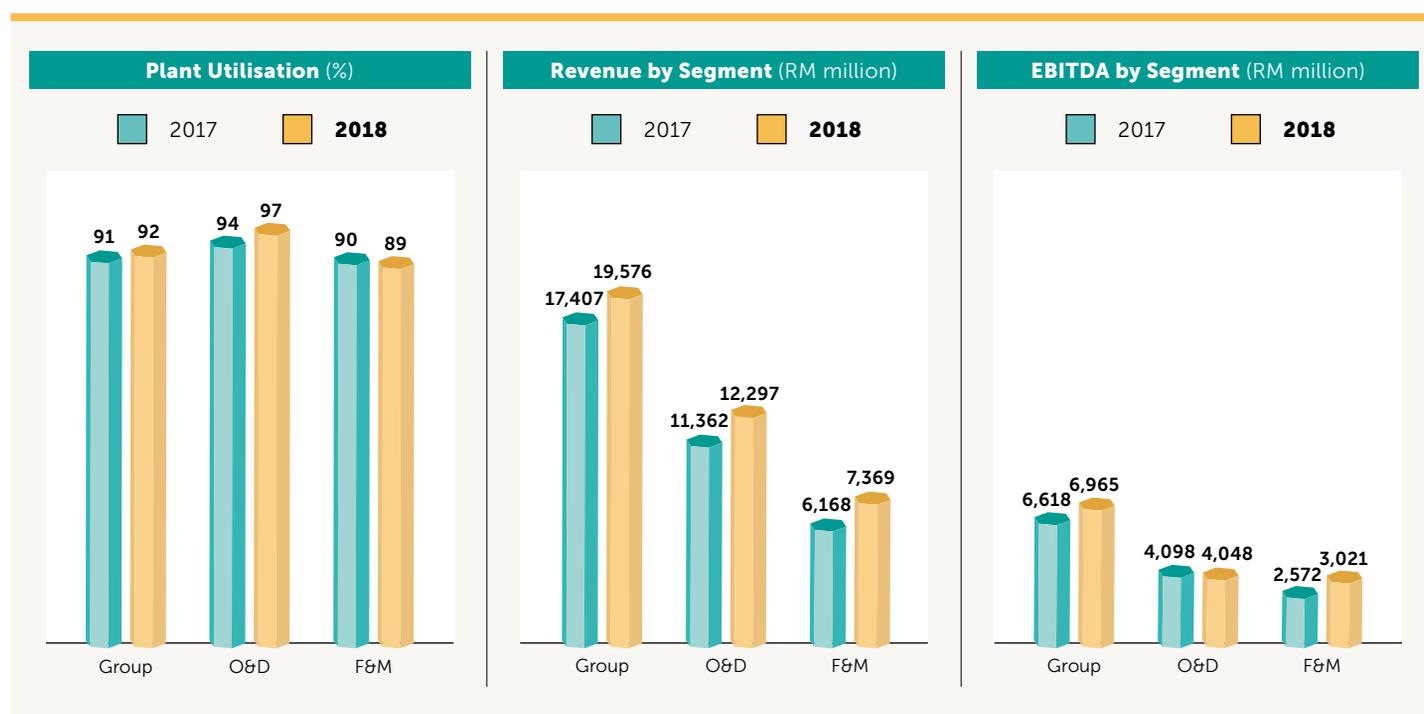
Message from Chief Financial Officer

PCG registered higher PAT by RM644 million or 14.6% to RM5.1 billion for the year, on the back of higher spread and volumes as well as lower tax expense, partially negated by the strengthening of the Ringgit Malaysia against the US Dollar. The Group recorded effective tax rate of 10.5% for the year, lower than both last year's rate of 15.7% and corporate tax rate of 24.0%.

Correspondingly, EBITDA was higher by RM347 million or 5.2% at RM7.0 billion with EBITDA margin standing at 35.6%.

%	2014	2015	2016	2017	2018
PAT margin	18.7	22.8	23.2	25.4	25.8
EBITDA margin	31.8	34.4	38.2	38.0	35.6
Dividend payout ratio	51.9	51.8	51.8	51.7	51.4
Return on equity	10.1	10.5	10.4	14.5	16.0

Segmental Analysis



Olefins and Derivatives (O&D)

The O&D segment delivered best in class plant utilisation at 97% as compared to 94% in 2017 which contributed to the increase in production and sales volumes. Higher plant utilisation was achieved as a result of lower level of maintenance activities relating to equipment identified under the Bad Actor Management (BAM) programme as part of our efforts to improve plant efficiency.

Higher sales volumes capitalised on the increase in average product prices for the year, which had increased in line with higher crude oil price. Consequently, revenue increased by RM935 million or 8.2% to RM12.3 billion, partially negated by the strengthening of the Ringgit Malaysia against the US Dollar. PAT improved by RM58 million or 2.1% to RM2.8 billion, mainly driven by higher sales volumes and increased cost efficiency. However, EBITDA slightly decreased by RM50 million or 1.2% to RM4.0 billion, largely impacted by the strengthening of the Ringgit Malaysia against the US Dollar.

Fertilisers and Methanol (F&M)

Plant utilisation within the F&M segment had declined slightly from the previous year, from 90% to 89% as a result of higher statutory plant turnaround activities. Nevertheless, production and sales volumes increased with contributions from a full year of urea production at PC Fertiliser Sabah.

Revenue increased by RM1.2 billion or 19.5% to RM7.4 billion on the back of higher sales volumes, and the increase of average product prices in tandem with firmer crude oil price. This was partially offset by the impact of the strengthening of the Ringgit Malaysia against the US Dollar. Correspondingly, PAT increased by RM652 million or 40.5% to RM2.3 billion contributed by higher spread, while EBITDA increased by RM449 million or 17.5% to RM3.0 billion.

Message from Chief Financial Officer

Financial Position and Liquidity

Strong operational performance in 2018, together with improved petrochemical market condition and proceeds from our divestment during the year resulted in PCG's financial position for 2018 remained robust and healthy, with a 12.3% increase in total assets at RM37.4 billion.

The increase in total assets is mainly contributed by higher cash and cash equivalents following record profit generated for the year. Also adding to our asset base were proceeds from the divestment of 50% equity interest in PPC. This was partially offset by the additional cost incurred relating to our investment in PIC Petrochemical projects, as well as dividends paid to shareholders during the year.

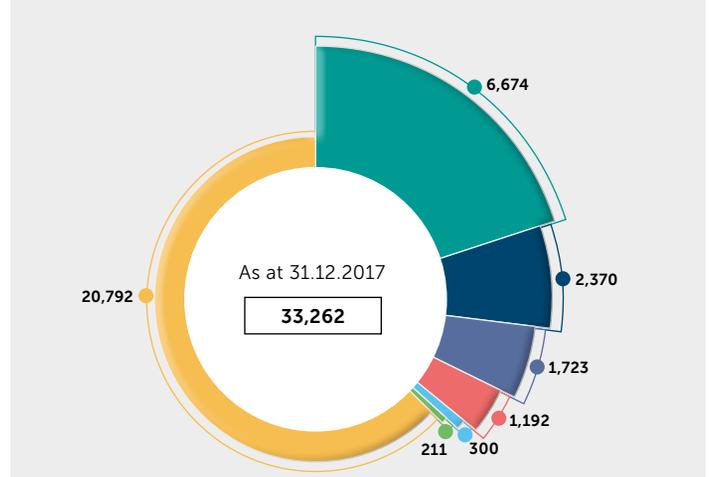
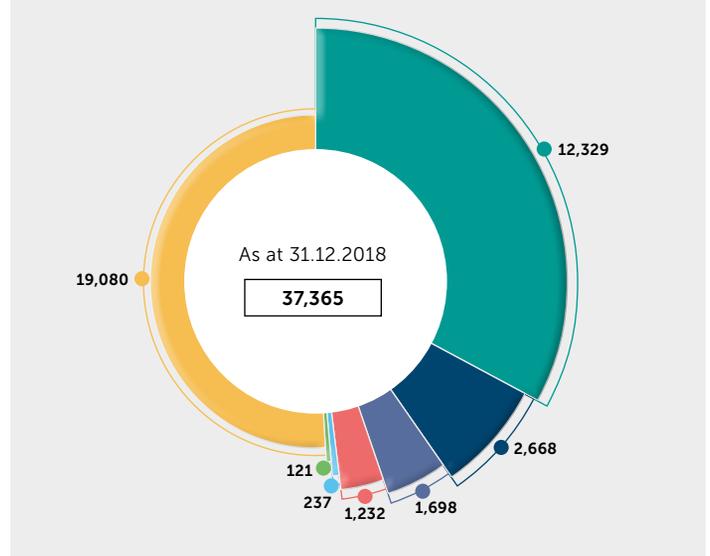
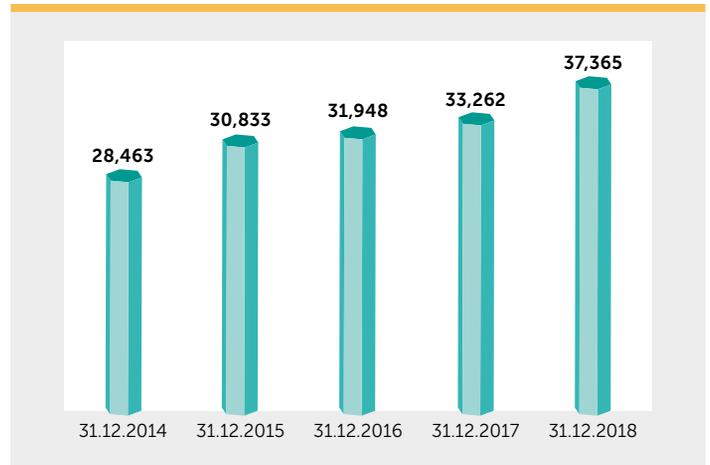
Our prudent management of capital expenditure (CAPEX) was conducted through close cost monitoring and prioritisation of our growth projects in line with our strategic growth aspirations, as well as activities to support stable, reliable and efficient production at our plants. The Group's CAPEX for 2018 stood at RM3.6 billion mainly attributed to ongoing developments in PIC petrochemical projects, as well as operational CAPEX requirements for replacement of equipment mainly under Equipment Reliability Strategy (ERS) and programmes to enhance our plant operations.

We fulfil our operational and capital expenditure requirements from cash generated from our operations as well as the drawdown of borrowing to fund PIC Petrochemical project in Pengerang, Johor.



PCG CFO, Rashidah Alias at the Invest Malaysia Kuala Lumpur 2018

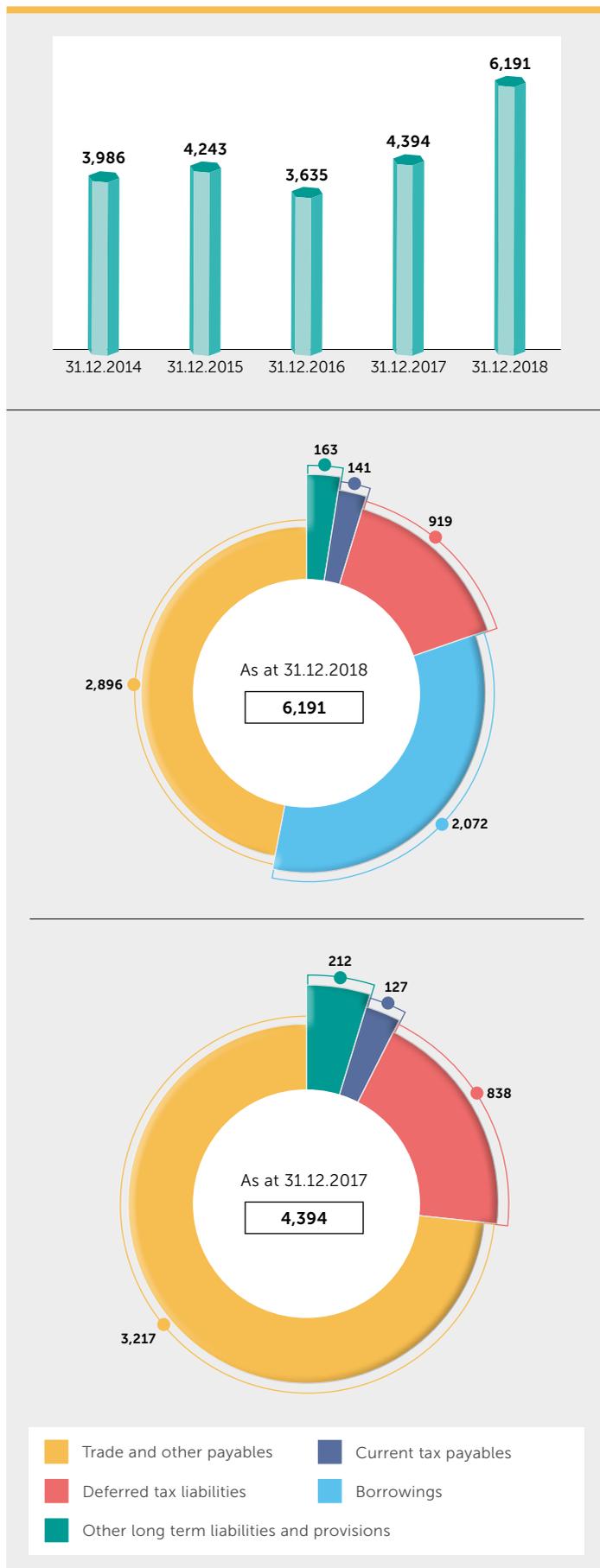
Total Assets (RM million)



- Property, plant and equipment
- Cash and cash equivalents
- Trade and other receivables
- Trade and other inventories
- Deferred tax assets
- Other assets
- Investments in joint ventures & associates

Message from Chief Financial Officer

Total Liabilities (RM million)



Strong Financial Results in 2018

The achievements were underpinned by various measures that support our business operations, as well as driving growth projects to deliver on the second-prong of our two-pronged strategy.

Cost Discipline and Optimisation

We sustained optimal business operations through continued focus on Commercial and Operational Excellence, as we maintained effective cost discipline and cost optimisation through a range of initiatives Group-wide. Commercial Excellence initiatives focusing on reducing cost-to-serve included co-loading of products leading to reduced transportation costs, and entering into contracts of affreightment to secure vessel supply. Operational Excellence cost optimisation focused on operational cost and energy management. We enforced tighter budget control by applying activity-based budgeting for routine maintenance to manage our operational cost and maintained strict control over budget spend through a progressive budget management strategy over the past three years. Energy efficiency initiatives focused on the application of Energy and Loss Management System (ELMS) to address energy waste issues by adopting better energy practice standards and implementing value improvement projects aimed at reducing energy consumption.

Within what was a heavy year of turnaround at our plants, PCG maintained sharp focus on monitoring turnaround cost and schedules. We achieved turnaround interval optimisation by obtaining the Special Scheme of Inspection (SSI) from the Malaysian Department of Occupational Safety and Health (DOSH) with regards to verifying the integrity of plant equipment. Turnaround schedules were aligned via a Turnaround Master Integrated Schedule which ensured optimisation across our value chain. Our rigorous cost optimisation and cost discipline efforts had helped to maintain low cost levels, whilst maximising shareholder value.

Message from Chief Financial Officer



Cost Discipline and Optimisation

We sustained optimal business operations through continued focus on **Commercial and Operational Excellence**, as we maintained effective cost discipline and **cost optimisation** through a range of initiatives Group-wide.

Efficient Management of Working Capital and Liquidity

Working capital constituted 37% of our net assets, making it imperative for us to manage it effectively to ensure we have sufficient cash to fund our operational requirements. During the year, our working capital management initiatives focused mainly on effective inventory management, trade receivables and liquidity management.

Effective inventory management was achieved through proper planning and monitoring of inventory levels to ensure availability of products to meet customers' demands, especially in anticipation of turnaround and planned shutdown activities at our plants. In order to meet customers' requirements, we also organised strategic sourcing where we purchased the products from third party during unplanned plant shutdowns.

To efficiently manage trade receivables, we have a robust credit risk policy in place, where the creditworthiness of potential and existing counterparties as well as customers are continuously assessed. New customers are subject to credit assessments and approvals, whilst existing customers undergo regular assessments, re-appraisals and approvals of granted credit limits. In addition, any overdue receivables are diligently tracked and monitored by our Credit Risk Management Committee (CRMC).

With regards to liquidity management, PCC's policy to ensure we have sufficient minimum cash balance in place puts us in a strong position. Daily cash flows movements as well as quarterly cash flow forecasts were prepared and examined to ensure the optimum working capital of the Group.

Both working capital management and CAPEX requirements were standardised across all our subsidiaries. A dividend policy was also implemented across all subsidiaries with continued regimented repatriation exercises.

Effective Foreign Exchange Management

As a global entity with business transactions taking place in many countries, one of the challenges we face is the exposure to foreign exchange fluctuations. We remain mindful on the movement impact of the Ringgit Malaysia against the US Dollar on our foreign currency transactions. Therefore, effective foreign exchange management is critical to our profitability. To mitigate this risk, we have taken appropriate measures, ranging from day-to-day sales transactions and project requirements, through a number of different measures.

Message from Chief Financial Officer



From left, MD/CEO Datuk Sazali Hamzah, Chairman Datuk Md Arif Mahmood and CFO Rashidah Alias at PCG's 20th AGM

We ensure the Group has sufficient Ringgit Malaysia to fund our growth projects by adhering to the Foreign Exchange Management Guidelines as encapsulated by PETRONAS' Corporate Financial Policy. In 2018, we further strengthened our adherence to these guidelines and established immediate and medium-term measures to manage our forex exposure. In the immediate term, PCG will continue to hedge our US Dollar exposure based on actual cash calls from our projects whilst in the medium-term, we will either build up and retain US Dollar proceeds in the Group for future obligations, or hedge to predetermine the conversion rate based on long-term cash commitments, depending on the market and the viability of these two options. This is to ensure effective balance sheet management and to protect cashflows required for our growth projects.

Rigorous Projects Evaluation

PCG has in place a rigorous stage gated process pertaining to project investment decisions which is to ensure we do not miss out on any opportunity when it arises.

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In our evaluation process, we rank potential projects according to what will offer us the best value on our investment. We also have in place appropriate funding plans for projects we select for further development. This approach ensures that we are able to effectively maximise shareholders value through short-term and long-term financial planning that supports the implementation of our strategic thrusts and growth projects.

In 2018, PCG was able to successfully conclude the Share Purchase Agreement (SPA) we had entered into with Aramco Overseas Holding Coöperatief U.A. (AOHC) in September 2017 in relation to the divestment of 50% of the equity interest and 50% of any shareholder loans held by PCG in PRPC Polymers Sdn Bhd. Through rigorous project evaluations and a series of smooth negotiations with our business partner, we successfully completed the transaction in March 2018.

Strengthen Risk Management and Governance

Effective risk management is key in ensuring sustainable returns to our business and shareholders. We are able to deliver this through a strong governance structure and processes, as well as effective financial risk management, which is crucial in providing us strong foundations to drive our sustainable growth.

In 2018, we strengthened our practices by integrating risk management into our annual strategic planning process to ensure our identified key strategies are robust with associated risks in each options are considered and mitigated. The growth phase of business exposes PCG to more complex and unfamiliar risks which necessitates greater attention at the Board oversight level. Therefore, we established a dedicated enterprise-wide Board Risk Committee (BRC) that comprised a majority of independent directors, focusing on high impact business decisions such as major capital project investments, merger and acquisitions, joint venture, project growth financing and foreign country investments.

Risk appetite does not exist in vacuum; rather, it forms an integral part of business strategy. During the year, we revised our risk appetite in response to changes in PCG operating environment, business competition and macroeconomic conditions in order to protect our six main capitals and optimise our business returns. As we intensely pursue our two-pronged growth strategy under the current tough environment, making a well-informed decision is crucial to ensure PCG remains relevant in the business. To achieve this objective and ensure pervasiveness of risk management as a culture, we mandated that all our decision papers are embedded with rigorous risk assessments for management and Board's deliberation.

Finance Centre of Excellence (COE)

In line with our transformation journey towards enhanced financial capacities focusing on business efficiency and decision making, PCG outsourced some finance operational and transactional functions during the year. This effectively enabled our transformation into COE. Having done so, we are able to fully focus on strategic and value focused activities. We work closely with our PETRONAS Group's business units to provide real time support in their daily management, as well as add value towards better decision making.

Dividend Payout

2018 was a landmark year for PCG, with our Earnings per Share (EPS) hitting an all-time high since our listing in 2010 at 62.2 sen, which was higher from the previous year by 19.2%. The Group has always strived to maintain a dividend policy with a dividend payout ratio at 50% of Group Profit After Tax and Non-Controlling Interests (PATANCI) to return value to shareholders whilst taking into account cash requirements to execute our growth projects as well as operational requirements. During the year, the Group declared two interim dividends of 14 sen and 18 sen per ordinary share, representing the highest dividend payout since listing of RM2.6 billion.

Interim Dividends

The Group declared two interim dividends of **14 sen and 18 sen** per ordinary share, representing the highest dividend payout since listing of **RM2.6 billion**

OUTLOOK

As we move into 2019, we remain focused in ensuring PCG's strategic thrusts to engender growth are achieved. In view of a challenging market and heavy statutory plant turnaround in the year ahead, we are committed to continue driving cost optimisation and cost discipline to remain competitive and resilient, while making the most of all opportunities that head our way to ensure sustainable value creation.

Having achieved our COE transformation, we will focus our efforts to shore up our business units in executing daily operations and supporting heavy plant turnaround activities by closely monitoring budget utilisation and the turnaround cost as well as schedule.

Ensuring a strong cash position and prudent CAPEX management remain central to our efforts to pursue our next phase of growth which focuses on opportunities within derivatives and specialty chemicals. In sustaining our financial robustness, we remain committed to maintaining a solid balance sheet and prudently managing our cash position to ensure that we are able to support our Operational, Commercial and Growth Delivery Excellence initiatives to progress the Group's sustainable value creation journey.

Message from Head of Manufacturing

OPERATIONAL EXCELLENCE

Our commitment towards Operational Excellence resulted in consistently high levels of plant utilisation, reliability and efficiency. During the year, we achieved our operational targets and delivered the business goals safely.



Mahadzir Rani
(Head of Manufacturing)

Key Messages

- ▶ Strengthen safety performance through Felt Leadership, “Jom Patuh & Tegur” and transportation safety
- ▶ Sustained best in class plant utilisation despite heaviest plant turnaround
- ▶ Breakthrough performance driven by effective execution of turnaround strategies, enhanced equipment reliability programmes and sustained feedstock & utilities supply reliability
- ▶ Operationalised PC Fertiliser Sabah at above 95% plant utilisation in its first full year

Message from Head of Manufacturing

Strategic Thrusts:



Main Capital(s):



2018 has been another great year for PCG, with breakthrough performance from our manufacturing plants. The Group recorded highest ever production volumes, surpassing 10.4 million tpa.

For three years in a row, we have achieved plant utilisation of above 90%, underpinned by Operational Excellence initiatives through effective plant turnaround strategies and execution, enhanced equipment reliability programmes and sustained feedstock and utilities supply reliability.

Throughout the year, we sustained our high levels of commitment towards HSE Excellence as the backdrop of our plants' best in class performance.

Sustained HSE Performance

We remained on course with strengthening HSE Excellence within our operations as demonstrated by the world class safety performance in 2018. During the year, there was no major Loss Primary Containment (LOPC) incident and we recorded LTIF of 0.13, against the oil and gas industry benchmark of 0.27. Our consistent monitoring of compliance with ZeTo Rules resulted in 60% reduction in ZeTo Rules violations.

Felt Leadership as demonstrated through visible leadership behaviours and showing concern for the well-being of people and surroundings, is an important aspect of how we drive the result. Plant Leadership Team (PLT) walkabouts and toolbox meetings as part



PCG's workers hold high levels of commitment towards HSE Excellence

Loss Time Injury Frequency (LTIF)

We recorded LTIF of **0.13**, against the oil and gas industry benchmark of **0.27**

of the programme promote dialogue between leaders and frontliners including contractors at sites. The conversations aligned the expectation across the organisation whilst gathering feedbacks for continuous improvements.

We believe that complying to safety principles which include ZeTo Rules are crucial in avoiding any major accidents. An approach called "Jom Patuh dan Tegur" (Let's Comply and Intervene) is an expression of our care for everyone's safety.

We practice Balance of Consequences at all PCG sites, where staff and contractors are equally responsible towards upholding HSE requirements, with recognitions and consequences applicable for both sides. Part of the behaviour safety initiatives, the Behavioural Recognition Programme emphasises and promotes positive safety behaviour while standardising consequences management across all sites. This programme affirms our commitment towards setting examples of non-tolerance towards non-compliance behaviours.

By continuously adhering to comprehensive HSE programmes, the performance at all plants during statutory turnarounds was improved. This was achieved by engaging various parties in a timely manner, ensuring both staff and contractors reached mutual commitment towards HSE Excellence. As a result, plant turnaround activities were completed in a safe manner.

Message from Head of Manufacturing

We have enhanced our commitment to occupational safety particularly in transportation safety. Considered equally important, both contractors and subcontractors are obliged to an informed HSE requirements. An effective driver, vehicles and journey management are becoming an important focus area. The Road Transport Operational Guidelines (RTOG) outlines road safety practices for the inland transports. Anchoring on a more comprehensive RTOG, we shall be able to ensure the safety of our drivers and safe product delivery to our customers.

Alongside this, our environmental initiatives to ensure sustainable plant operations also contributed towards overall HSE performance by ensuring high compliance towards regulatory requirements. These included natural resource efficiency initiatives such as reducing GHG emissions intensity and energy intensity through an ELMS, reducing our wastewater COD discharges intensity through PETRONAS' Guidelines on Water Practices and increasing our 3R efforts through an enhanced Waste Management Plan.

Within the marketplace, our high levels of sustained HSE commitment Group-wide has been recognised through industry and regulatory commendations and awards for several of our subsidiaries. Internally at PETRONAS, we were honoured with the "Promising OPU Award - Operational Excellence Incident Management and the HSE Award" at the Operational Excellence Forum and Awards (OEFA) 2018.

Within the industry, the Malaysian Society for Occupational Safety and Health (MSOSH) awarded our operations with the "Gold Merit Award" at the annual MSOSH OSH Awards 2018. We also obtained the highest achievement at Level 5 for the Systematic Occupational Health Enhancement Level Programme (SoHELP) conducted by the Malaysian DOSH.



PCG leaders and frontliners, during a Felt Leadership session at PC Ethylene in Kertih, Terengganu

The Malaysian Society for Occupational Safety and Health (MSOSH) awarded our operations with the "Gold Merit Award" at the annual MSOSH OSH Awards 2018

We were also awarded with the "Chemical Industries Council of Malaysia (CICM) Responsible Care® Awards 2018 Silver Award" and earn a nomination as a recipient for the "Royal Society for the Prevention of Accidents (RoSPA) Health and Safety Awards". These validations of our commitments strengthen our resolve to uplift HSE Excellence culture even further.

Ensuring Flawless Plant Turnaround

Group-wide across PCG, we have in place a centralised turnaround function, namely the Turnaround Centralised Service (TACS), which serves as a centre of excellence overlooking and governing our plant turnaround planning, and the overall coordination of turnaround activities within the Group.

TACS captures and retains best practices and lessons learnt Group-wide through a number of different means. One of them is the strategic collaborations that we have with our Turnaround Main Mechanical (TAMM) contractors, as part of a deliberate effort to cooperatively strategise towards achieving flawless plant turnaround execution. This value-adding relationship leverages on sharing ideas and initiatives relating to turnaround by both PETRONAS and contractors.

Message from Head of Manufacturing

Leveraging on PETRONAS' wider experience is the Turnaround Council, whose members comprise of PETRONAS Downstream Business Excellence (DBE), Project Delivery and Technology (PD&T) and Group Technology Solution (GTS). The council provides insights on turnaround execution and planning, and has produced the Turnaround Management Guidelines which outlines industrial practices for our plants to emulate during turnaround activities. These collaborations demonstrate stakeholder's commitment to work together to navigate through the turnaround challenges.

Achieving flawless plant turnaround would not be possible without integrated planning efforts which take into account the complexity and nature

Flawless Turnaround

Achieving flawless plant turnaround would not be possible without integrated planning efforts which take into account the complexity and nature of the turnaround

of the turnaround. At PCG, we maintain a 10-year Turnaround Master Integrated Schedule across the PETRONAS value chain which also factors in scheduled plant maintenance in the neighbouring countries, in order to better prepare for required resources through optimised turnaround planning.

Concurrently, we have in place the Systematic Turnaround Execution Planning Solution (STEPS), a digital system that allows cross reference towards best plant turnaround practices and lessons learnt in terms of planning norms and execution. This helps us improve and optimise planning and scheduling for turnaround activities and assists with better coordination of onsite activities.



PCG workers rely on comprehensive turnaround guidelines to ensure flawless turnaround at our plants

Message from Head of Manufacturing

Ensuring Plant Reliability

A key move we undertook to enhance Operational Excellence was to strengthen the effectiveness of our equipment maintenance strategy programmes, namely the ERS and BAM programme.

We proactively reviewed the effectiveness of our equipment maintenance strategy programme as part of the Plan-Do-Check-Act (PDCA) cycle to ensure the sustainability of our maintenance practices. We assessed the compliance of the critical equipment maintenance strategy against its performance. Correct and effective strategy will prevent interruption of critical equipment operations.

Our BAM provides effective management of repeated or high value unplanned failures, denoting our commitment to strive for reliability performance improvements. BAM is a thorough stage gated process which identifies root causes of failures systematically and monitors the closure of action items generated until completed. Through the implementation of these comprehensive physical asset management programmes, we are able to ensure sustainable plant reliability performance.

We proactively reviewed the effectiveness of our equipment maintenance strategy programme as part of the PDCA cycle to ensure the sustainability of our maintenance practices

BAM programme

BAM provides effective management of repeated or **high value unplanned failures**, denoting our commitment to strive for **reliability performance improvements**

Growth Project Operationalisation

The first full year of operations at **PC Fertiliser Sabah**, which had commenced start-up in May 2017, saw the plant achieving **world class performance** of above **95%**

Sharing Success Through Strong Collaborations with Suppliers

In order for PCG to sustain best in class plant utilisation, it is imperative for us to have strong collaborative relationships with our suppliers which leverages on sharing our success. Our collaborations with upstream suppliers resulted in PC Methanol achieving its highest production with better supply and improved feedstock quality, despite turnaround activities. Similarly, within the ethane (C₂) chain, we achieved comparable ethylene production volumes despite higher turnaround due to good collaborations with PETRONAS Gas Berhad (PGB) and upstream suppliers.

Delivering Timely Growth Project Operationalisation

The first full year of operations at PC Fertiliser Sabah, which had commenced start-up in May 2017, saw the plant achieving world class performance of above 95% plant utilisation. PC Fertiliser Sabah has become one of the key volume contributors among our assets, adding significant urea production volume capacities to the Group. Its successful and stable operational performance is testament of PCG's ability to deliver strategic growth for greater value creation through timely project execution and management.

We believe the success of PC Fertiliser Sabah is replicable to other growth projects, including those at PIC. In 2018, PCG delivered timely completion of the operational readiness programme for PIC Petrochemical projects, which included the full site deployment including experienced staff for commissioning and operations, and readiness of management system to support commercial operations.

Message from Head of Manufacturing

OUTLOOK

As we move into 2019, we have strategised a clear path forward to ensure that we continue to sustain Operational Excellence with HSE as the critical factor for our continued success. We will maintain a strong focus on elevating and sustaining HSE performance by enhancing our safety culture, strengthening compliance and uplifting competencies towards attaining exemplary HSE Excellence.

In elevating our safety culture, leadership roles and personal accountability will be emphasised through the shared values of our PETRONAS Cultural Beliefs. To enhance our compliance and competencies, we will focus on process safety and effective management of change.

The coming year will be another heavy statutory plant turnaround year for PCG. Nevertheless, we remain committed to deliver operations at best in class performance level.

A primary focus area is the continued deployment of OER2 into our organisation, which is key to sustain Operational Excellence. OER2 empowers our people to operate assets safely, reliably and efficiently through three enablers known as 3Play, namely Management Systems, Work Process and Empowerment. The table accompanying this message provides an elaboration of how OER2 puts us firmly on the path towards a world class organisation.

Venturing into digital applications will be our next area of focus, with the aim of managing our operations in a safe, efficient and reliable manner. Two crucial areas identified within this space are the deployment of HSE Advanced Analytics using existing big data and an integrated suite for managing our physical assets.

A milestone we are preparing is the commencement of PIC operations, which requires us to remain focused on the final lap of operational readiness activities. This sees us lending our expertise and training to the team onsite at PIC through our operational readiness programme, so that they are able to safely commission the plants, according to the high levels of HSE Excellence PCG has maintained through the years.

Moving forward, our journey will be defined by the mitigations we take in relation to the inherent risks of our operations, as we seek to sustain our excellent safety culture, best in class plant utilisation and flawless plant turnarounds. We remain committed in continuous improvements focusing on the safety and efficiency of our operations, as the strong foundations for our operational resiliency and sustainability. Within the areas where we operate, we remain committed to maintain CSR efforts for our stakeholders, signifying commitment to contribute to their well-being and empowerment.

How OER2 will Empower PCG

Enabler	How it helps us:
WORK PROCESS	Enables standardised way of doing work across functions. As the first phase of OER2, the Work Process enabler focuses on delivering safe and reliable operations through: <ul style="list-style-type: none"> • Incorporating necessary standardisations and operating discipline into the organisation • Reducing variations • Leveraging best practices and roles/resources, thus reducing structural costs The implementation of Work Process translates into the highest productivity gain for PCG.
EMPOWERMENT	Enables speed of decision making for the people closest to the action. With Work Process in place, we can accelerate our journey towards creating an empowered organisation. Work Process provides the boundaries, objectives and performance indicators for work to be done. It also provides guidance for Empowered Teams. The enabler promotes the Shared Leadership model as a set of shared practices which can be enacted by our people at all levels of the organisation. Empowered Teams are more productive. Coupled with the cost reduction brought about by Work Process, these two enablers bring the biggest value to our people.
MANAGEMENT SYSTEMS	With both Work Process and Empowered Teams in place, the next step is implementing Management Systems. This enabler stabilises the organisation and helps sustain a new level of performance, and also brings about performance improvement of 5%. Enables requirements to be defined and knowledge retained. Through an integrated management system, visibility and accessibility of various elements in the system could be enhanced across the business.

Message from Head of Commercial

COMMERCIAL EXCELLENCE

The key thrust of PCG's Commercial Excellence anchors on a collaborative relationship with our customers, as we look through our customers' lens to co-create innovative solutions, products and applications which bring added value to their business, thus contributing to their continuous growth.



Shamsairi Mohd Ibrahim
(Head of Commercial)

Key Messages

- ▶ Highest sales volumes with world class levels of Order Fulfillment Reliability
- ▶ Launched 10 new product brands of existing and upcoming products to further strengthen our position as a regional market leader
- ▶ Delivered a total of 64 product applications and solutions to our customers to overcome their pain points and challenges
- ▶ Launched our new state-of-the-art Surfactant Laboratory for our customers to collaborate and leverage on our highly capable technologists

Message from Head of Commercial

Strategic Thrusts:



Main Capital(s):



Achieving Stellar Performance

Our sustained timely product deliveries were a key factor which led to PCG recording world class levels of Order Fulfillment Reliability (OFR) at 93% in 2018. Leveraging on our strategic regional location by focusing on Southeast Asia, has afforded us the dual benefits of maintaining competitive cost and maximising value. We continued with our focus on high value markets and industries through effective market segmentation as well as offering enhanced technical support and solutions for our customers.

Our Value Proposition For Our Customers

PCG has a number of clear market differentiations which define our value proposition for our customers. At the heart of it, is the strong long-term relationships we have built with our customers, which is evident in our laudable customer satisfaction rates over the years.

Our valuable relationships with our customers have enabled us to possess a firm grasp of their business needs to drive growth, as well as the limitations and challenges which impede their growth aspirations. We leverage on this knowledge to capture innovation and collaboration opportunities with our clients, which focuses on evaluating and developing chemical-based products and application solutions that are highly relevant and beneficial to them. In 2018, we remained on course with this focused approach and consequently recorded commendable results in our customer satisfaction score.

Key to remaining at the forefront of a competitive global petrochemical industry and capturing revenue growth from regional markets is our ability to balance our delivery promise against other factors which play a



Head of Commercial, Shamsairi Mohd Ibrahim at APIC 2018 where PCG launched 10 new product brands

critical role in driving Commercial Excellence. These include ensuring production reliability, excellent supply reliability and maximising profitability. In 2018, we remained focused on ensuring our reliability as another facet of our value proposition to customers by working with credible partners to provide storage tanks in Kertih, Kuantan, Port Klang and Bangkok.

Our culture of continuous improvements is manifested in our efforts to enhance Commercial Excellence by enhancing products and service delivery to meet our customers' needs and requirements. An example of this can be seen in the MTBE isotanks we utilise specifically for our pharmaceutical customer segment.

To add to our regional presence in key markets, we have increased our marketing and sales entities through the operationalisation of PC Marketing Indonesia in April 2018 to better serve our Indonesian customers. This added to our base of existing international marketing and sales subsidiaries in Thailand and China, underlining our commitment to intensify customer relations towards providing better and more innovative solutions to regional markets.

Effective product stewardship remains central to our efforts to minimise our products' impact on the environment, whilst ensuring the protection of safety and health by avoiding any negative consequences

which may arise from improper handling and unsafe use. In line with this, in 2018 we conducted a total of six product stewardship engagements with our customers and stakeholders. As well as that, to date we have submitted a Global Product Safety Summary (GPSS) for 11 of our key chemical products to the International Council of Chemical Associations (ICCA), thereby facilitating transparent communication on our chemical products' hazards and risk mitigations.

Enhancing Our Transportation Safety

PCG continued to maintain our commitments and investments in transportation safety, testament of our resolve to maintain the highest levels of HSE throughout our value chain. In 2018, we elevated our Inland HSE Journey through a number of initiatives aimed at enhancing the capabilities of our inland transport vendors and reinforcing road safety practices. Among them was a more comprehensive RTOG as well as an In-Vehicle Management System (IVMS) which incorporated the latest tracking technology to enhance fleet monitoring compliance. Also in place was a new contract management process with a dedicated fleet of inland distribution vehicles which enabled us to enforce HSE Excellence requirements on our transporters in a more effective manner. We are confident these enhancements will strengthen our transportation safety to ensure an accident-free chemical logistics and distribution chain.

Message from Head of Commercial

Expanding Our Market Reach via PIC Readiness

A significant game changer for PCG is the upcoming start-up of PIC in the coming year. Leveraging on the trust and credibility we have built based on reliable and consistent deliveries of high quality products, we have been expanding our market reach by engaging with potential customers for the new line of products.

With PIC, we are re-entering into the polypropylene market and introducing a higher performance and superior quality polymer of metallocene LLDPE (mLLDPE). This will further support our existing customers towards producing products utilising mLLDPE such as film applications, as well as creating opportunities for our customers to further venture into new business growth areas.

We will also be introducing a new isononanol product, which is the building block used to produce plasticisers that is environmentally friendly thus increasing further our specialty chemicals products portfolio.

With all these new products offering, including our market seeding and finalising commercial agreement, we are geared to expand our market reach and strengthened PCG's position as a leading integrated gas-based chemicals producer in Asia Pacific.

New Product Brands

A milestone during the year which I am particularly pleased to share was the launch of 10 new product brands at APIC in August 2018 of existing and upcoming isononanol, polymer and shale inhibitor products to further strengthen our position as a regional market leader.

This move represented the outcome of our refreshed branding strategy which takes into account product innovations as well as analyses of market trends and demands.

Six of these comprise new products which will support the launch of PIC in the coming year. These represent a 10% increase in our range of product offerings, providing customers with a greater choice of high quality products to help them seek new revenue streams and drive the growth and expansion of their own businesses.

Four of these products, namely PETRONAS Etilinas Petlin, PETRONAS Etilinas Chrom, PETRONAS Etilinas Alfatene and PETRONAS Glyde, are currently available in the market, while PETRONAS INA-9 is scheduled to be available in the fourth quarter of 2019. Our new line of product brands is testament of our firm commitment to progress the second-prong of the strategy to diversify our product portfolio into specialty chemicals.

We are proud of our new breakthrough product offerings, particularly the PETRONAS Glyde CM201, a shale inhibitor specifically designed for eco-friendly water based mud systems for upstream drilling activity. Among the distinct advantages PETRONAS Glyde offers include enhancing rheology and temperature stability of polymer additives and improving lubricity and filtration properties. As a result, it provides significant shale stability performance, reduction in mud dilution rate and minimal drilling problems.

In 2018, we launched 10 new product brands as follows:

		Brand Name PETRONAS INA-9
		Product Type Isononanol
Brand Name PETRONAS Propelinas Homopolymer		
Product Type Polypropylene		
		Brand Name PETRONAS Propelinas Copolymer
		Product Type Polypropylene
Brand Name PETRONAS Propelinas Terpolymer		
Product Type Polypropylene		
		Brand Name PETRONAS Etilinas Petlin
		Product Type Low-density Polyethylene
Brand Name PETRONAS Etilinas Alfatene		
Product Type Linear Low-density Polyethylene		
		Brand Name PETRONAS Etilinas Metalene
		Product Type Metallocene linear low-density polyethylene
Brand Name PETRONAS Etilinas Chrom		
Product Type High-density polyethylene		
		Brand Name PETRONAS Etilinas Trimod
		Product Type High-density polyethylene
Brand Name PETRONAS Glyde CM201		
Product Type Shale inhibitor		

Creating Value Through Innovative Co-creation

In 2018, we delivered a total of 64 specially formulated product applications and technical solutions to our customers to help them overcome their pain points, and grow their market reach. These included 53 technical solutions to enable our customers to further enhance their processes and efficiency, and 10 high impact solutions specifically co-created for high value customers.

Through close collaborations with our customers, we conducted our first delivery of polymer coated urea, which is a smart release nitrogen fertiliser that feeds crops throughout the growing season. Working closely with our plants, we focused our manufacturing processes on producing monoethanolamine (MEA) low-water content to meet our customers' needs. By collaborating with our business partners, we were also able to penetrate the pharmaceutical segment, focusing on the production and sales of high purity MTBE for pharmaceutical applications.

A significant move towards building our regional reputation as a reliable and credible chemicals company providing customer solutions through collaborative innovations with our customers was the launch of our new Surfactant Laboratory in May 2018. The application laboratory serves as a platform for our customers to engage and collaborate with our highly-capable application technologists. As the laboratory is located within PETRONAS's state-of-the-art research facility in Bangi, Selangor, we are able to leverage on cutting-edge research equipment and expertise to provide our customers with high value products and application solutions.

Creating Value through Innovation

We delivered a total of **64** specially-formulated product application and technical solutions to our customers

Collaborating with our Business Partners

We were able to penetrate the **pharmaceutical segment**, focusing on the production and sales of **high purity MTBE**

Digitalisation of OER2

We are harnessing the benefits of the digitalisation of **OER2** to better serve our customers by unlocking more value and creating further opportunities

Digitalisation of OER2

We are empowering our people through OER2 by investing in digitalisation to enhance our efficiency to better serve our customers by unlocking more value and creating new opportunities. In line with this, we incorporated various digital platforms to leapfrog our organisation towards greater effectiveness and efficiency, by making more information readily available and accessible.

The Data2Act is an analytic and intelligence tool established for us to serve greater service levels. It is a performance dashboard which provides us with immediately actionable data at hand to enhance our decision-making. Further adding to our capacities is the Operational Excellence Management System (OEMS) Enterprise Content Management system (ECM) platform known as OEMS ECM 3.0, which allows us to retain knowledge and best practices within our management system. We also incorporated the customer relationship management tool of Sales Force Automation (SFA) to enhance our marketing and sales productivity, quicken response times and improve integrated marketing communications.

Additionally, we codified our Work Process, which resulted in the empowerment of our people to conduct their jobs more productively and effectively, as well as ensured replicable results Group-wide, thus adding to our product and service consistency and reliability.

OUTLOOK

For the year ahead, although an uncertain global economic scenario is expected, we remain cautiously optimistic that a fundamentally strong petrochemical industry will see a re-balance of supply and demand leading to continued demand growth. Bearing this in mind, we remain focused on building Commercial Excellence within our resilient business model to capture every opportunity that arises within our focus markets.

Our investment in PIC is progressing on schedule and we have in place the necessary route to market mechanisms to ensure its smooth start-up in the second half of 2019. Site deployment activities conducted during the year have ensured that we are ready with the talent, system and a base of new customers.

With the objective of strengthening our position as the preferred supplier, we remain committed to pushing the boundaries of our efforts, working closely with our application technologists to explore and seize new value added business opportunities for our customers.

Our intensified efforts focusing on innovation will result in more specialised application solutions which meet our customers' needs, as we continue to leverage on the digitalisation of OER2 to better serve them. We will also continue to enhance HSE land transportation to ensure safe delivery of our products to customers, while preserving the surrounding environment.

We are confident that our continued dedication to Commercial Excellence through these focused efforts for the year ahead, will add to our ability to create value and drive future growth.

Message from Head of Strategic Planning & Ventures

GROWTH DELIVERY E X C E L L E N C E

We pursue a two-pronged strategy to deliver sustainable long-term growth for our business. Having delivered on the initial phase of growth since listing in 2010, we are now well-positioned to focus our efforts on the second-prong of the strategy to selectively diversify into derivatives and specialty chemicals.



Akbar Md Thayoob
(Head of Strategic Planning & Ventures)

Key Messages

- ▶ Realising our initial phase of growth
- ▶ PIC petrochemical projects progressing at 96% as planned
- ▶ Evaluating several growth opportunities in derivatives, specialty and bio-based chemicals

“
To future-proof our business, we are firmly on course with our growth trajectory focusing on venturing into derivatives and specialty chemicals.
”

Strategic Thrusts:

Main Capital(s):



Poised to Complete Our Initial Phase of Growth Delivery Excellence

Our growth journey over the past eight years has witnessed us delivering outstanding achievements as a result of focused strategies.

To deliver on the first-prong of the strategy, we have set ourselves an ambitious goal of expanding our production volumes exponentially to capture market leadership in urea production to sustain our strength in basic petrochemicals.

We added significant volumes with the commercial operation of PC Fertiliser Sabah in May 2017, effectively doubling our urea production capacity and propelling PCG towards current leadership position as the largest urea exporter in Southeast Asia.

In line with the second-prong of the strategy, our bid to venture into specialty chemicals was initialised through our joint venture company, BPC. Our first entry into specialty chemicals space was through Integrated Aroma Ingredients Complex, followed by investments in 2-Ethylhexanoic Acid (2-EHAcid) and Highly Reactive Polyisobutene (HR-PIB) plants. All these growth projects had commenced commercial operations in 2016 to 2018. We are pleased that all of our niche, specialty chemical plants are the first of their kind in Southeast Asia, thus putting us ahead of the curve in the regional specialty chemicals market.

We have been working towards integrating our derivatives and specialty chemicals strategy within PIC petrochemical projects and between 2015 and 2016, achieved final investment decision (FID) on glycols, polypropylene, polyethylene and isononanol projects. As of January 2019, all these projects are progressing on track at 96%. Both operational and route-to-market readiness are also on track, and we are well-prepared to commence production in the second half of 2019. Adding to our growth story, our JV with Saudi Aramco in PPC was finalised during the year under review, putting us in



PIC's progress is on track with production set to commence in the second half of 2019

good stead to leverage on this integrated partnership with one of the largest global companies in the oil and gas industry.

Future-Proofing Our Business by Aggressively Venturing into the Specialty Chemicals Portfolio

We are now well-positioned to pursue the second-prong of our strategy, by diversifying our portfolio into derivatives and specialty chemicals to future-proof PCG's business. In the medium to long-term future, the chemicals industry is projected to grow about 4% CAGR. PCG's goal is to maintain our growth at a faster pace than the industry, with the aim to double our earnings.

A crucial component of this strategy is its linkage to prevalent global megatrends which are shaping the world we live in. These megatrends feature chemicals as a key engine of growth which are relevant for PCG to remain competitive and reinforce our position as a market leader. They are driving the demand of chemical products within various sectors, thus presenting us with exciting new options to drive sustainable growth.

We have selected these megatrends as the focus areas in charting our growth strategy. By employing this approach, we are able to ensure that PCG remains relevant and competitive, not just within the short-term,

but into the longer term as well. For more information on these megatrends and how PCG will leverage on them to capture new opportunities, please refer to the information box at the end of my message.

To future-proof our business, we are firmly on course with our growth trajectory focusing on venturing into derivatives and specialty chemicals. Our undertakings within this area focus our energies to expand specialty chemicals portfolio beyond our existing assets, including exploring the bio-based chemicals space. Venturing into derivatives, specialty and bio-based chemicals allows us to be less dependent on advantaged hydrocarbon feedstock, fluctuations in crude oil price and prevalent market volatilities. Consequently, we are able to capture higher margins from the higher value associated with specialty chemicals. Furthermore, venturing into bio-based chemicals will enable us to utilise sustainable feedstock, in alignment with global concerns for more environmentally conscious products. Our next phase of Growth Delivery Excellence is concentrated on deriving the most value through sustainable approach.



Further details on how these megatrends present PCG with various opportunities, can be found on pages 56 – 57

Message from Head of Strategic Planning & Ventures

OUTLOOK

Moving into 2019, our next phase of growth will focus on venturing into derivatives and specialty chemicals as well as bio-based chemicals.

The upcoming commercial operations of petrochemical plants at PIC will further strengthen our position as a regional market leader. Upon commercial operation of PIC, we will significantly grow our nameplate capacity from the current 12.8 million tpa to 14.6 million tpa*. We have also maintained commendable progress on various opportunities evaluation for the next phase of Growth Delivery Excellence. Concurrently, we are pursuing several R&D projects focusing in palm biomass waste into value-added chemicals.

We remain committed to stay on course with our business growth plans and cementing our position as a regional leader in the chemicals market. Through the years, our strong and stable business foundation has provided us with the ability to deliver the value creation promised. Leveraging on our solid foundation in Operational and Commercial Excellence, we aim to maintain our upward moving trajectory to sustain our business' long-term growth.

* capacity by equity

Megatrends

provide new opportunities for chemicals

Urbanisation

2040:

66%



Urban population growth

2010: 54%

2030:

42 megacities



Number of megacities

2015: 29 megacities

Ageing Population

2030:

73.7 years



Global average life expectancy

2015: 71.0 years

Percentage of global population growth for young children* and older people**

	2030	2010
Young children*	8%	9%
Older people**	12%	8%

* Less than 5 years old ** More than 65 years old

Affluent Consumers

2030:

USD21,000



World GDP per capita

2015: USD10,000

Middle class consumer spending in Asia Pacific

	2030	2009
Spending	USD32.9 trillion	USD4.9 trillion

+571% Growth

Global Connections

Trade flows between regions – 1990



Trade flows between regions – 2020



--- \$50bil-\$100bil
 - - - \$100bil-\$500bil
 — \$500bil or more

Energy Trends

2035:

~11 million cars



Global Electric Vehicle (EV) sales

2015: ~1 million cars

2020:

22.5 %



Global Renewables Energy Mix

2010: 8.6%

Opportunities for chemical solutions

The needs for modern and efficient living



Rising awareness on health and wellness



Demand for sophisticated lifestyle and luxury living



Greater demand for business and personal mobility



Demand For Energy Efficiency



Pursuing the Next Phase of Growth Delivery Excellence

PCG's next chapter of growth focuses on our future strategic positioning based on three growth levers.

1

Extend Value Chain

Add value to our existing basic chemicals through downstream investment in derivatives and specialty chemical

2

Build Specialty Platform

Access technology and market via merger and acquisition (M&A)

3

Create Optionality for Growth

Take long-term bet in innovative and emerging technologies through CVC and internal R&D

STRATEGY

We highlight the strategy to drive business growth, taking into account the operating landscape and the risks we face, along with opportunities present.



Chapter 4

60 Our Business Strategy

- Two-Pronged Strategy
- Our Strategic Thrusts
 - Strategic Focus Areas, KPIs and Results
 - Key Activities in 2018
 - Medium to Long-Term Focus
- Our Operating Environment
 - 2018 Landscape, Our Response and Outlook

66 Risk Overview

- Our Key Risks and Opportunities

72 Stakeholder Engagement

- Our Stakeholders

74 Material Matters

- Managing Material Issues

The following navigation icons are used to link our strategy and resources to material matters, strategic risks, key performance indicators and performance:

Main Capitals



Natural



Financial



Manufactured



Intellectual



Human



Social and
Relationship

Strategic Thrusts



Operational Excellence



Commercial Excellence



Growth Delivery Excellence

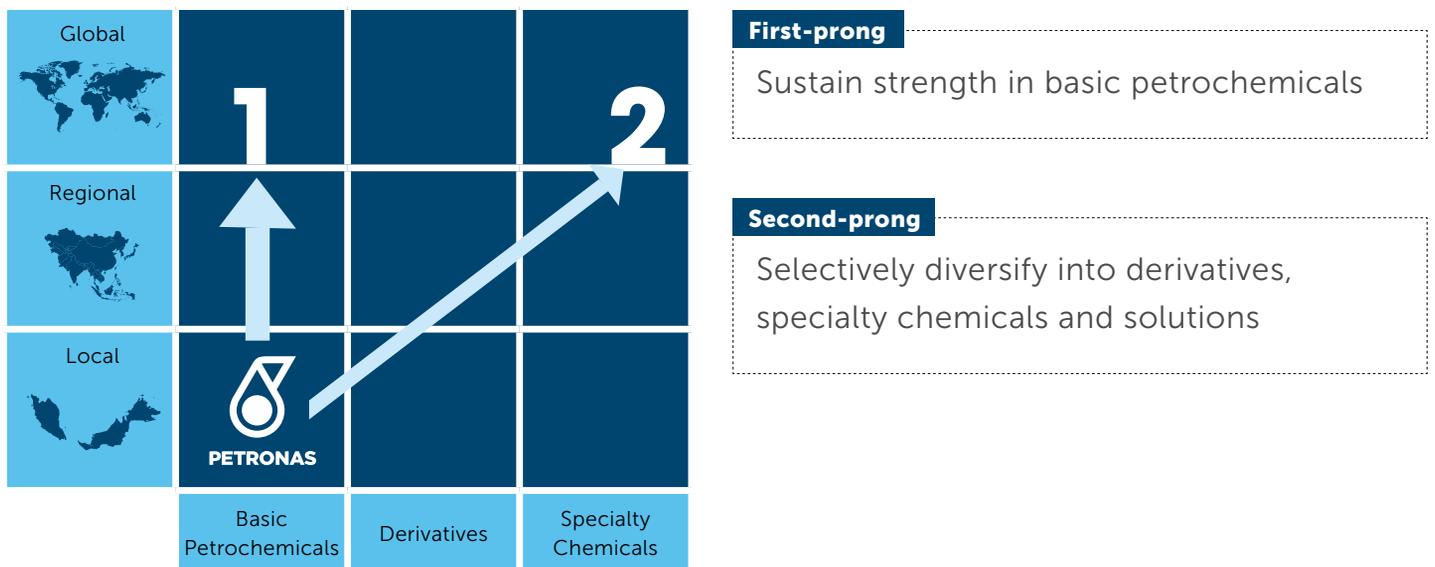
Our Business Strategy

In achieving our Vision, we charted PCG's business direction by pursuing a two-pronged business strategy. The strategy will increase our volume-play advantage as a competitive market leader and will harness value-play from higher margin products, which enhance our resilience against market cyclicity and volatility.

The success of the strategy depends on three strategic thrusts, of which we have formulated several strategic initiatives and the associated performance targets along with the short, medium and long-term time frame. Our focused execution also takes into account the opportunities and risks influenced by our operating environment, the interest of our stakeholders and the material matters in our pursuit for sustainable value creation.

Two-Pronged Strategy

We are driven by our two-pronged strategy to achieve our Vision to be The Preferred Chemical Company Providing Innovative Customer Solutions.



STRATEGIC THRUSTS

In realising our strategy, we focus on three strategic thrusts to ensure a fundamentally resilient business which is able to respond appropriately to changes in the business landscape.



In achieving our strategic priorities, we acknowledge the need to balance between EES performance. Therefore, we have identified strategic initiatives and performance measures to pursue this balance and achieve business sustenance.

Our Strategic Thrusts

PCG's two-pronged strategy is key to drive sustainable value creation for all our stakeholders. To maintain clear focus and continuous progress on our value-driven strategy, we have identified focus areas within three key strategic thrusts of Operational Excellence, Commercial Excellence and Growth Delivery Excellence.

This focused approach ensures that we are on track to deliver sustainable growth, and provide our shareholders with valuable returns over the short, medium and long-term time frame. We have in place a resource allocation plan to execute the strategy within our strategic thrusts and its focus areas. Each strategic thrust draws on specified resources, as identified in our business model on pages 24 to 25. In sustaining our strategy, we depend on the availability of these resources. Discussion on management of resources is available throughout the report, especially in the Management Discussion and Analysis and Creating Value sections.

We closely monitor the performance of each strategic thrusts, including its current key activities, against assigned Key Performance Indicators (KPIs), and activities planned for the future. Based on the outcomes of activities to progress our strategy, we then draw up medium to long-term goals to deliver our strategic objectives.

Operational Excellence

Achieve sustainable world class plant performance

Resources allocated from our capitals



Strategic Focus Areas, KPIs and Results

1. Uphold HSE as a priority.
2. Drive our plants' reliability and efficiency whilst executing flawless plant turnaround.

Link to Targets and KPIs		
KPI	Target	Results
Occupational Safety Incidents (LTIF)	0.27*	0.13
Plant Utilisation (%)	>90**	92

* International Association of Oil & Gas Producers (IOGP) benchmark
 ** Best in class plant utilisation benchmark

Key Activities in 2018

1. Staunch practice of Felt Leadership, ZeTo Rules, "Jom Patuh dan Tegur" (Let's Comply and Intervene) and Behavioural Safety programmes.
2. Strengthened ERS and BAM programmes to ensure plant reliability.
3. Maintained a 10-year Turnaround Master Integrated Schedule across the PETRONAS value chain.
4. Leveraged on the online database STEPS for our onsite teams to cross-reference turnaround information and best practices.

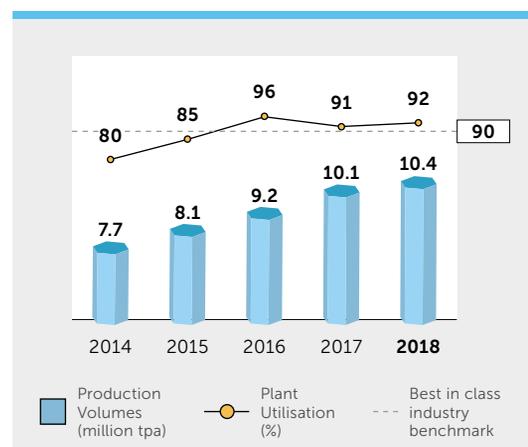
Medium to Long-Term Focus

1. Maintain a strong focus on elevating our safety culture, strengthening compliance and uplifting competencies towards attaining exemplary HSE Excellence.
2. Sustain focus on process safety and effective management of change.
3. Empower our people through OER2 to operate our plants safely, reliably and efficiently.
4. Embark on digital journey i.e. HSE Advanced Analytics using existing big data, and an integrated suite to efficiently manage our physical assets.
5. Ensure highest level of HSE and Operational Excellence upon commencement of PIC operations in 2019.

Safety Performance



Plant Performance



Our Business Strategy

CE Commercial Excellence

Increase value by looking through customers' lens

Resources allocated from our capitals

Strategic Focus Areas, KPIs and Results

1. Deliver competitive, customer-centric value proposition with regional presence.
2. Develop and co-create innovative products and solutions to strengthen market position.
3. Enhance Commercial Excellence capabilities for sustainable business growth.

Key Activities in 2018

1. Enhanced RTOG via an IVMS which incorporated the latest tracking technology to enhance fleet monitoring compliance and safety.
2. Launched 10 new product brands of existing and upcoming products to further strengthen our position as a regional market leader.
3. Delivered a total of 64 product applications and solutions to our customers to overcome their pain points and challenges.
4. Launched our new state-of-the-art Surfactant Laboratory for our customers to collaborate and leverage on highly capable technologists.
5. Increased our regional marketing and sales presence through the operationalisation of PC Marketing Indonesia in April 2018.

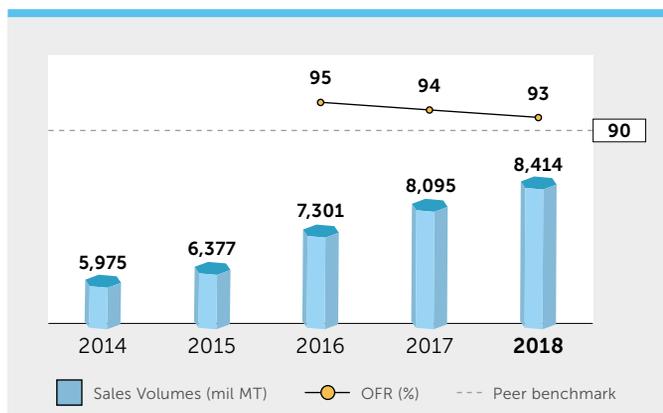
Medium to Long-Term Focus

1. Enhance HSE land transportation to ensure safe delivery of our products to customers, while preserving the surrounding environment.
2. Expand our market reach with PIC operational start-up in the second half of 2019.
3. Continue working closely with our application technologists to explore and seize new value added business opportunities for our customers.
4. Leverage on OER2 to better serve our customers.
5. Leverage on customer relationship management tool of Sales Force Automation to enhance our marketing and sales productivity, quicken response times and improve integrated marketing communications.

Link to Targets and KPIs		
KPI	Target	Result
OFR (%)	90	93

Basis: Peer benchmark

Sales Performance



Note: OFR data is available from 2016 onwards

GE Growth Delivery Excellence

Diversify petrochemicals into higher value-adding products

Resources allocated from our capitals

Strategic Focus Areas, KPIs and Results

1. Extend value chain from molecules at PIC and existing complexes by adding value to our existing basic chemicals through downstream investment in derivatives and specialty chemicals.
2. Build specialty platform to access technology and market via merger and acquisition.
3. Create optionality for growth via internal R&D and CVC.

Key Activities in 2018

1. Commenced production at the Integrated Aroma Ingredients Complex and HR-PIB plant.
2. Continued execution of petrochemical plants at PIC, which are progressing on track at 96%. Operational and route-to-market readiness are also on track.
3. Finalised JV with Saudi Aramco at PPC.
4. Explored several opportunities in derivatives, specialty and bio-based chemicals, currently at various stages of evaluation.

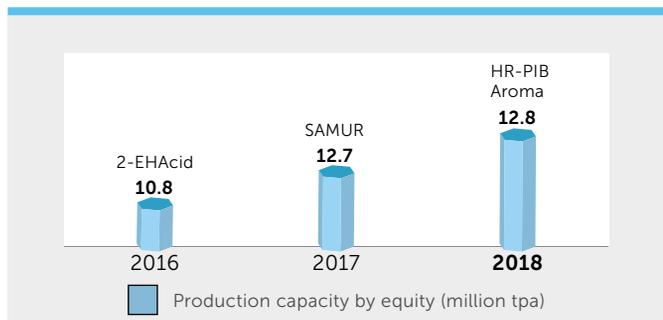
Medium to Long-Term Focus

1. Operationalise PIC petrochemical plants in the second half of 2019.
2. Evaluate various investment opportunities in derivatives, specialty and bio-based chemicals through:
 - Extend Value Chain
 - Build Specialty Platform
 - Create Optionality for Growth

Note: Growth milestones indicate commencement of production

Link to Targets and KPIs	
KPI	Results
PIC Petrochemical project progress (%)	96 - On track for operationalisation in the second half 2019 - Ready for plant commercialisation

Growth Milestones



Our Operating Environment

PCG's business is conducted within a changing and challenging external environment, which bears a strong influence on our ability to deliver our planned strategic initiatives and targets, as well as impacting the ability to effectively allocate our resources.

We are cognisant that our operating environment continues to have an impact to our ability to create stakeholder value. Among others are uncertainty of the global economy, competition in the petrochemical industry as producers expand their capacity and geographical footprint and an increasing environmental awareness among public. Despite that, we have measures in place to counteract or take advantage of these factors to create sustainable value.

Global economy and its impact to petrochemical market

2018 Landscape

The global economy grew by 3.7% largely supported by USA amidst its fiscal stimulus. Towards the end of 2018, the momentum softened due to uncertainty in trade policy and concerns about China's outlook.

Crude oil prices moved similarly with a marked improvement in Dated Brent prices at an average of USD71/bbl, compared to USD54/bbl in 2017, supported by healthy primary energy demand led by North America, developing Asia and Africa.

The overall improvement of crude oil prices and strong demand on the back of increasing supply deficit of our key products such as ethylene, methanol, and urea led to higher product prices compared to 2017.

Capital(s) Affected:



Our Response

1. Deliver Operational Excellence to achieve best in class plant performance.
2. Strengthen Commercial Excellence by looking through customers' lens and actively co-create product solutions and applications with customers.
3. Continue effort to optimise integrated supply chain to ensure competitive cost to serve and timely delivery to our customers.

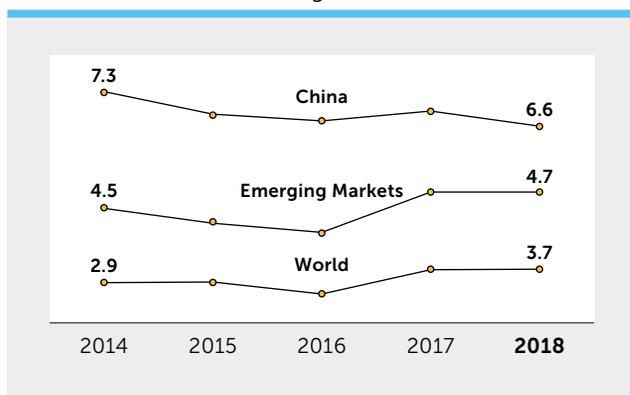
Link to Strategic Response:



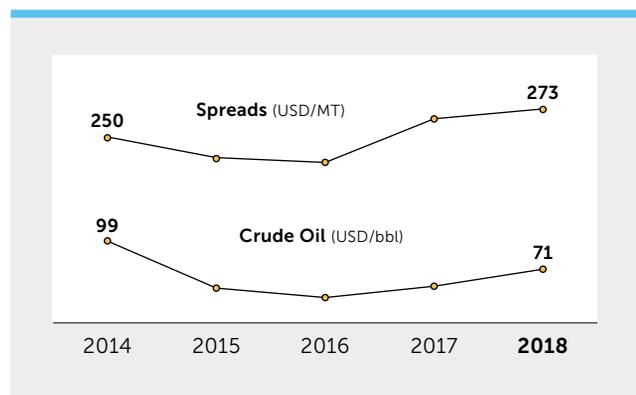
Outlook

Growth in 2019 is expected to fall below the previous year. However, the GDP is expected to be higher than the historical 10-year average. In addition to OPEC's efforts to stabilise crude oil price, the robust fundamentals of petrochemicals' supply and demand as well as strong Asia Pacific GDP growth, it is forecast for the petrochemicals market to remain competitive.

GDP Growth Rate (% Change)



Average Petrochemicals Market Spreads and Crude Oil Prices



Source: IHS, The World Bank, International Monetary Fund (IMF), Platts & ICIS

Our Business Strategy

Competition in the petrochemical industry

2018 Landscape

Heightened competition as industry players are adding new capacities, broadening product portfolio and geographic footprint.

Capital(s) Affected:



Our Response

1. Optimise value proposition to customers focusing on meeting customer requirements, continuously enhance their experience with our superior product quality, supply reliability and efficient technical services as well as continue to co-create innovative product applications and solutions.
2. Enhance regional presence and increase market share in key markets by setting up overseas subsidiaries and representative offices to strengthen our market intelligence, savviness and ability to capture competitive insights for us to be the preferred partner of our customers.
3. Sustain strength of our petrochemical basic and diversify portfolio into derivatives and specialty chemicals by continuously exploring opportunities which are currently at various stages of evaluation.

Link to Strategic Response:

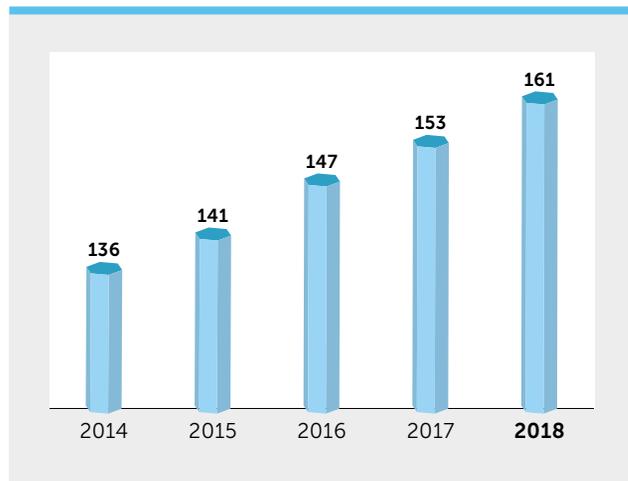


Outlook

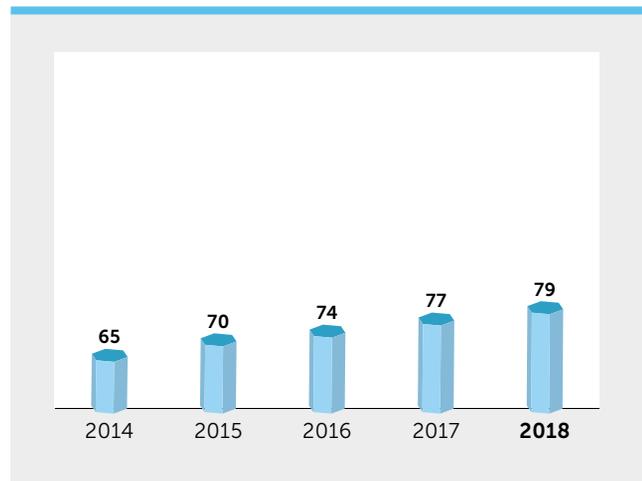
The combination of growing global economy, technology development and megatrends such as urbanisation, rising population and affluent consumers will result in increasing demand for chemical solutions.

Chemicals are rapidly becoming the largest driver of global oil consumption with attractive margin. As such, oil and gas companies are increasingly pursuing integration along the chemical value chain as well as diversifying portfolio into specialty chemicals.

Global Ethylene Consumption, 2014-2018 (million tpa)



Global Methanol Consumption, 2014-2018 (million tpa)



Source: IHS

Increasing environmental awareness among public

2018 Landscape

The awareness on the need to sustainably manage our planet’s resources and ecosystems has been growing and its momentum has significantly picked up in the past decade. Over the last year, there has been a surge of interest in the problem of pollution.

This has resulted into stakeholders demanding greater transparency on business sustainability. Bursa Malaysia has produced the Second Edition of the Sustainability Reporting Guide which encourages companies to do business differently, taking into consideration the EES risks and opportunities alongside financial implications.

Capital(s) Affected:



Our Response

1. Refine our sustainability strategy by identifying SFA to address EES risks and opportunities.
2. Implement initiative under ELMS by leveraging on technology, technical capabilities and competent workforce.
3. Monitor feedstock consumption via enterprise optimisation on ethane value chain.
4. Enhance waste management plan to improve 3R.
5. Develop PETRONAS Glyde CM201, a shale inhibitor specifically designed for eco-friendly water based mud systems for upstream drilling activity whilst continue to explore several opportunities in bio-based chemicals to diversify feedstock beyond hydrocarbon.

Link to Strategic Response:

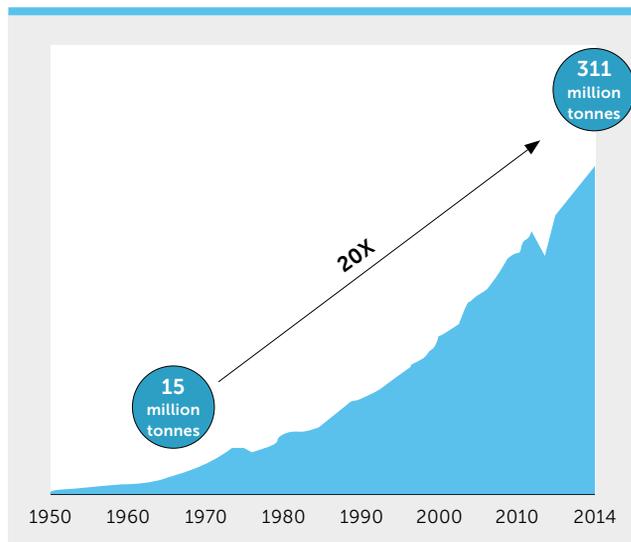


Outlook

Plastic pollution concern will continue to increase as stakeholders including government has taken steps to combat the global crisis.

The current landscape of preventing plastic pollution through 3R efforts is also fragmented and does not address the fundamental need for infrastructure investment. There is untapped value in one-use cycle of plastic that can be used to incentivise collection and reprocessing.

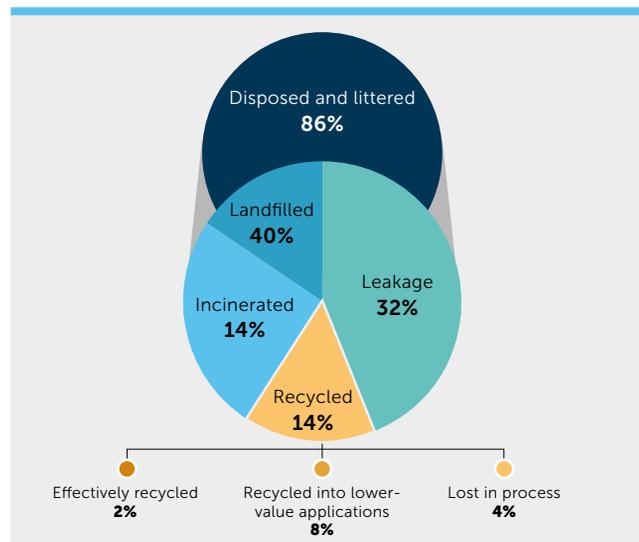
Growth in Global Plastics Production 1950-2014



Note: Production from virgin petroleum-based feedstock only (does not include bio-based, greenhouse gas-based or recycled feedstock)

Source: PlasticsEurope, Plastics - the Facts 2013 (2013); PlasticsEurope, Plastics - the Facts 2015

Global Total Packaging Waste in 2015: 141 million tonnes



Source: World Economic Forum 2016

Risk Overview

Risks arising from a constantly shifting global industrial and geopolitical landscape are among the major challenges a business faces in progressing with its goal of growing shareholders' value in a sustainable manner. Bearing this in mind, PCG has prioritised our focus on effective risk management through our Enterprise Risk Management framework and guideline where we identify, assess, treat and monitor the risks facing our business.

Due to a volatile business environment in 2018, we intensified our continuous risk scanning efforts to identify emerging risks to our business. Emerging risks which are defined as "events or developments in internal or external environments with a high level of uncertainty and not fully understood that could potentially impact delivery of business objectives", were also monitored should their likelihood of occurrence increase for the prompt attention of management and the Board of Directors (Board).

Risk Oversight

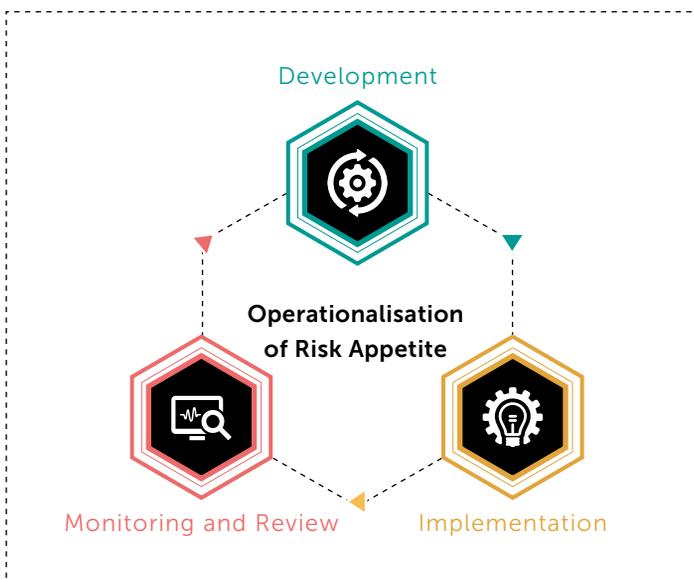
Risk Management oversight is conducted by the Board and the Risk Management Committee. Additionally, oversight is also embedded within the manufacturing and commercial operational levels to ensure seamless integration of risk management into our business processes to protect and safeguard our assets and interests.



Further details on the PCG Risk Management framework and governance oversight structure can be found on pages 32 – 42 under the Statement on Risk Management and Internal Control (SORMIC) of our standalone ACG, which is available online at www.petronaschemicals.com

Risk Appetite and Tolerance

We proactively manage our risks within defined sets of risk appetite and tolerance limits to optimise business returns. We define risk appetite as the amount and type of risk that we are willing to pursue or retain, while tolerance limit as a risk boundary that we are willing to take for each risk exposure. Our risk appetite is not developed in isolation from business factors but take cognisance of PCG's strategic thrusts. In operationalisation of risk appetite, it encompasses a three-step approach to ensure continuous monitoring and improvement as illustrated in the diagram below.



Risk in Strategic Planning and Decision Making

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

Acknowledging that risk and strategy are closely interlinked and do not exist in isolation, in 2018 we continued with our focus to integrate risk management into our strategic planning and business decision making. We conducted risk assessments during PCG's Annual Plans and Budget to ensure that our key strategies are robust and any business assumptions made are better understood, with associated risks well-identified and managed.

All Board and management decision papers are supported with risk assessments to ensure decision makers make fully informed decisions which consider the risk with the necessary controls to achieve the desired business objectives.

As we strive to grow and diversify our product portfolio into derivatives and specialty chemicals, risk assessments have become more critical than ever in the selection of business opportunities and project execution in view of our inexperience in handling unfamiliar and complex projects of such magnitude. This demands concerted efforts to develop robust risk mitigations to ensure successful delivery of growth projects that underpins our commitment to create value for shareholders.

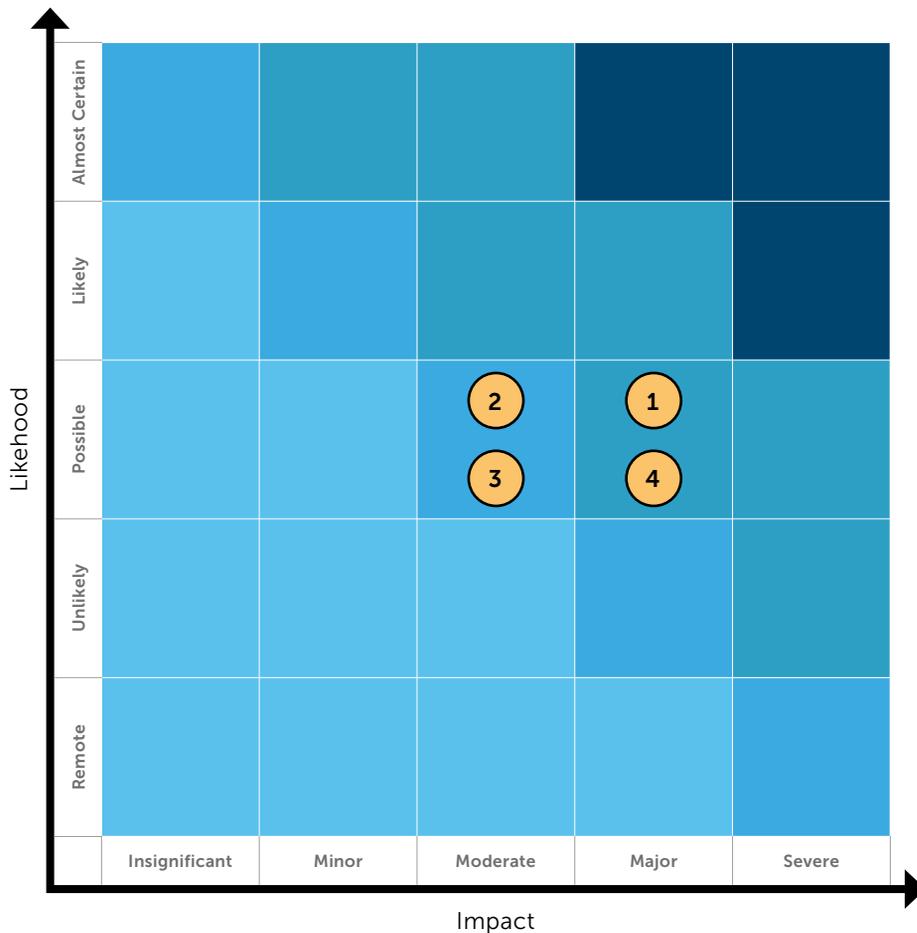
How We Manage Our Risks

We identify, assess, treat and monitor all risks that could potentially impact PCG’s business; including inherent risks as early as possible. These are mapped onto a risk matrix which specifies the likelihood of the occurrence of the risk and its impact. The risks selected are determined based on considerations such as the complexities, hazards and integrated nature of our manufacturing and business processes.



Further details on how we manage our risks can be found on pages 32 – 42 under the the Statement on Risk Management and Internal Control (SORMIC) of our standalone ACG, which is available online at www.petronaschemicals.com

PCG Risk Matrix



- Low**
 - Risk is monitored against any escalation and managed for continuous improvement
- Medium**
 - Risk requires controls with a low priority, monitored against any escalation and managed for continuous improvement
- High**
 - Risk requires controls with a high priority, with target of lowering the risk rating to an acceptable level
- Very High**
 - Risk requires immediate controls in place with the highest priority, with target of lowering the risk rating to an acceptable level
 - Immediate and drastic action/s may be required to safeguard the company

- ① Key Risk : HSE
- ② Key Risk : Plant Operations
- ③ Key Risk : Market
- ④ Key Risk : Project Delivery

Risk Rating Descriptions

Specific mitigation plans which are drawn up are deliberated and challenged to ensure that identified risks are addressed and assigned to risk owners for implementation. Subsequently, the risks and mitigations are tracked and monitored accordingly. Established Key Risk Indicators (KRIs) are monitored and reported to PCG management and Board to provide an early warning of identified risks.

Other Risks

The unpredictable external environment that PCG operates within requires us to be vigilant in our risk management and continuously identify new emerging risks besides annual risk profiling undertaken in accordance to PCG’s risk management framework and guidelines. This year, we have identified geopolitical and cybersecurity as new emerging risks which we reported to management and Board. We closely monitor the changes of geopolitical sentiments involving USA, China and Iran that may affect the overall trade and economies of the Asia Pacific region. We also embarked on several initiatives such as development of Cyber Security Strategy and implementation of Cyber Security Assessment Program (CSAP) to safeguard PCG business interest from cyber attack. Other identified risks that we monitor at operational level include insufficient capable talent and ineffective plant turnaround execution to achieve business target on top of the identified four key risks in the following section.

Risk Overview

Our Key Risks and Opportunities

The following are the details of our key risks, along with their impacts and mitigations.

Key Risks

1 Major HSE incidents (including Process Safety incidents) affecting PCG HSE targets (People, Environment, Asset and Reputation)

Description of Risk

HSE incident is an inherent risk in petrochemical manufacturing facilities, with the highest impact arising from process safety incidents. Among the risk exposures of major HSE incidents are chemical spills and fire.

Besides ensuring the physical safety of our employees and contractors, we need to maintain high workplace safety levels to maintain staff morale, the environment as well as minimise asset damage, plant slowdown and shutdown and sustain our operational license and reputation.

Mitigation actions by PCG

- Focus on execution of HSE Management System (HSEMS), Process Safety Management (PSM) and strengthen HSE governance via Mandatory Control Framework (MCF) to ensure compliance with the requirements
- Implement and monitor compliance to HSE Zero Tolerance (ZeTo) rules to ensure all activities are carried out in a safe manner
- Develop competencies and communicate HSE policies as well as processes to all PCG staff and contractors, with tracked action plans to create awareness and enhance good HSE culture
- Strengthen Felt Leadership and "Jom Patuh dan Tegur" (Let's Comply and Intervene) implementation which involves conducting HSE programmes and walkabouts by the management team to inspire PCG staff and show a strong HSE leadership culture
- Implement and monitor compliance with the Procedure Used Discipline (PUD) programme to ensure all requirements and acceptance criterias for critical and hazardous activities are adhered to at manufacturing sites
- Incorporate, implement and monitor compliance to Road Transport Operational Guideline (RTOG) and PCG Land Transportation Management System in reducing road accidents

Strategic Response:



Material Matters:

- Health & Safety
- Environment

Risk Movement:

Stable since 2017 due to close monitoring of HSE performance

Risk and Opportunity Trade-offs:

There is no quantitative trade-off for the safety of people, environment, asset and reputation. Good HSE records will enhance reputation for corporate responsibility among investors, customers and communities, reduce the threat of legal action and boost staff morale and motivation. We will continue our focus on enforcing good HSE practices and inculcating a work culture which prioritises health and safety as well as minimises HSE risk. We will also continue with our efforts in environmental management initiatives to minimise the business' environmental impacts.

Key Risks

2 Disruptions to plant operations due to poor equipment reliability and unsustainable feedstock and utilities supplies

Description of Risk

Our manufacturing processes are complex and integrated in nature. Although operational integration between feedstock and utilities supplies across plants provides distinct advantages and synergies, it exposes PCG to potential operational interruptions if one or more plants in the integrated value chain fails to operate reliably. Interruptions to plant operations can be caused by several key factors such as inherent hardware or software design deficiencies, equipment failure and disruption of feedstock and utilities supplies.

Any disruption to the plant’s manufacturing process will result in production loss and lower revenue generation. In addition, prolonged plant interruption will also impact on our ability to meet customers’ demand.

Mitigation actions by PCG

- Implement effective ERS, Operation Management and Asset Life Management programme to maximise asset or equipment performance and availability at minimum cost

- Implement OER2 programme focusing on Management System, Work Process and Empowerment to optimise time and resources in producing high quality products

- Conduct regular maintenance, inspection programmes and monitoring of plant reliability threat programme to minimise risk of equipment failure and unplanned shut down

- Collaborate with feedstock and utilities suppliers for sustainable feedstock and utility supply

- Execute Turnaround (TA) Management, where the plant is shut down for inspection and overhaul within a planned time frame

- Implement Business Recovery Plan (BRP) and Business Continuity Plan (BCP) to restore normal operations and business continuity, should there be prolonged interruption

Strategic Response:



Material Matters:

- Business Operations

Risk Movement:

Decrease since 2017 due to enhanced reliability and turnaround execution strategy, coupled with improved feedstock and utilities supply

Risk and Opportunity Trade-offs:

Operational Excellence ensures that PCG is well prepared to capture market opportunities. PCG remains committed to the continuous improvement of management systems, work processes and people empowerment to deliver superior results.

Risk Overview

Key Risks

3 Cyclical nature of petrochemical industry leading to adverse market conditions

Description of Risk

PCG operates in a highly competitive market. Most of our products are commodity based and face stiff competition. The cyclical nature of the petrochemical industry exposes our business to competition risk, as it is influenced by market demand and supply, and changes to the global economy.

Competition arises from new and existing producers with capacity additions, variety product offering and attractive marketing proposition. Crude oil price volatility is expected to continue due to geopolitical risks. Significant natural gas production from North America may impact petrochemical product pricing. Hence, market is predicted to be uncertain.

Mitigation actions by PCG

- Implement asset management and reliability initiatives to ensure production volumes and sales commitment are met
- Develop product application solutions and improvements via innovation and technology to meet customers' needs and produce high quality products to maintain our competitive edge
- Implement initiatives under Commercial Excellence to deliver products more cost effectively and create value for customers
- Strengthen networking and Customer Relationship Management (CRM) in order to understand customers' needs and establish customer loyalty

Strategic Response:



Material Matters:

- Business Operations
- Growth

Risk Movement:

Decrease since 2017 due to focused execution of Commercial Excellence, resulting in improved EBITDA

Risk and Opportunity Trade-offs:

The market landscape remains volatile and challenging amidst the cyclical nature of the petrochemical business. Stiff competition demands PCG to produce and deliver superior value to our customers through understanding of their needs and provide quality products at the right time to enhance our commercial excellence and business resiliency. We will continuously focus on Operational and Commercial Excellence initiatives with OER2 in order to capture opportunities and create greater value.

Key Risks

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

Description of Risk

PIC is a megascale and fully integrated project with high degree of complexity. As the project is nearing its commissioning stage in the second half of 2019, PCG needs to focus on smooth execution of operational and commercial readiness in order to achieve its business targets.

Moving forward, PCG pursues the next phase of Growth Delivery Excellence to deliver sustainable value through its three growth levers of Extend Value Chain, Build Specialty Platform and Create Optionality for Growth through Corporate Venture Capital and internal R&D. We need to ensure our growth projects are completed as planned to future proof our business.

Critical factors to ensure successful delivery of PIC projects include good contractor management, effective project management and effective operational and commercial readiness programme. The business viability of our next phase of growth projects depends on feedstock availability, technology accessibility and market demand.

Mitigation actions by PCG

- Monitor project execution, operational and commercial readiness at various levels up to the Board

- Implement initiatives to strengthen project and contractor management

- Adhere to PETRONAS Project Management System (PPMS) and PETRONAS Technology Management System (PTMS) as project governance

- Leverage on internal Centre of Excellence (COE) team comprising technical and commercial personnel to provide timely availability of resources and expertise to support growth projects

- Access opportunities continuously thus assuring a steady pipeline of growth projects

- Ensure availability of funding to support growth projects

Strategic Response:



Material Matters:

- Growth

Risk Movement:

Stable since 2017 due to close monitoring of project execution and commercial readiness

Risk and Opportunity Trade-offs:

As our competitors steadily broaden their product portfolio and expand their geographical footprint, our Growth Delivery Excellence offers an exciting opportunity to grow our business and remain relevant and competitive in the industry. Although it may have an impact on our financial capital in the short term, it should boost our earnings and ensure PCG business sustainability in the long run.

Stakeholder Engagement

Our Stakeholders

As Asia Pacific's leading integrated gas-based chemicals producer, our products are applied in almost every sphere of life, through which we have grown our operating footprint substantially across many stakeholder groups locally and regionally.

Each group in our spectrum of stakeholders have their own unique areas of interests, due to the different ways they are impacted by our business.

To understand our stakeholders' needs and interests, and effectively build positive and meaningful relationships with our stakeholders, we have adopted the Stakeholder Management Process as guided by PETRONAS Group Strategic Communication.

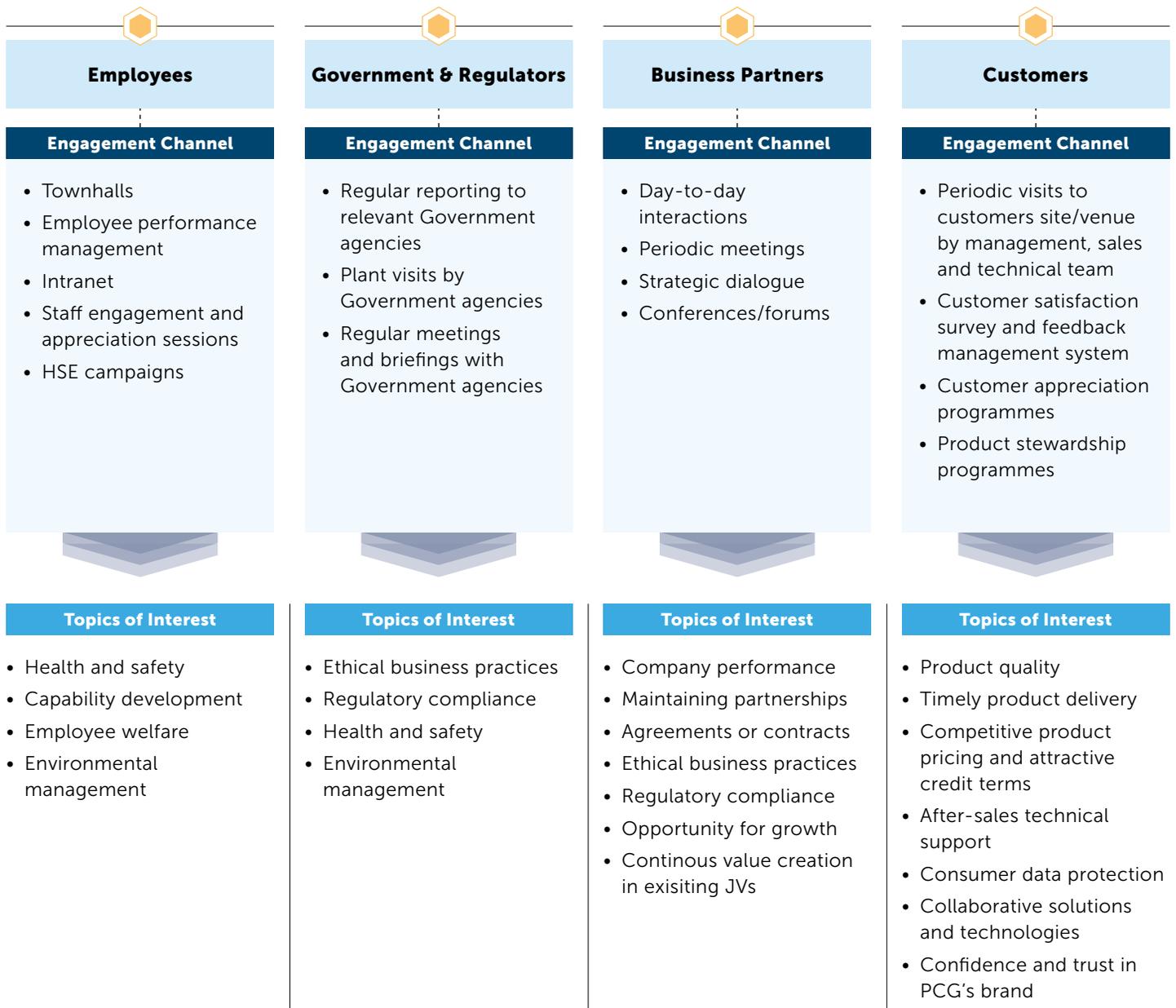
By continuously engaging with our stakeholders, we are able to keep abreast of evolving social and environmental expectations. We also use stakeholder insights to fortify our business strategy, and to

continuously develop world class products, with the ultimate aim of delivering value to society at large. Our dealings with our stakeholder groups have always been interactive, transparent, and above all, consistent, as they are embedded in our day-to-day operations.

We respond to our stakeholders' needs and interests via our actions, which we diligently monitor to establish a strong cohort of advocates for PCG. This reporting suite intends to be responsive to stakeholders, therefore the way in which we address their needs is discussed in these reports. A summary of our stakeholders' topics of interest, and our response is illustrated below.



Further details on our stakeholders' topics of interest, and our response, can be found on pages 16 – 19 of our standalone SR, which is available online at www.petronaschemicals.com



Stakeholder Engagement



Engaging with customers at a regional Product Stewardship event



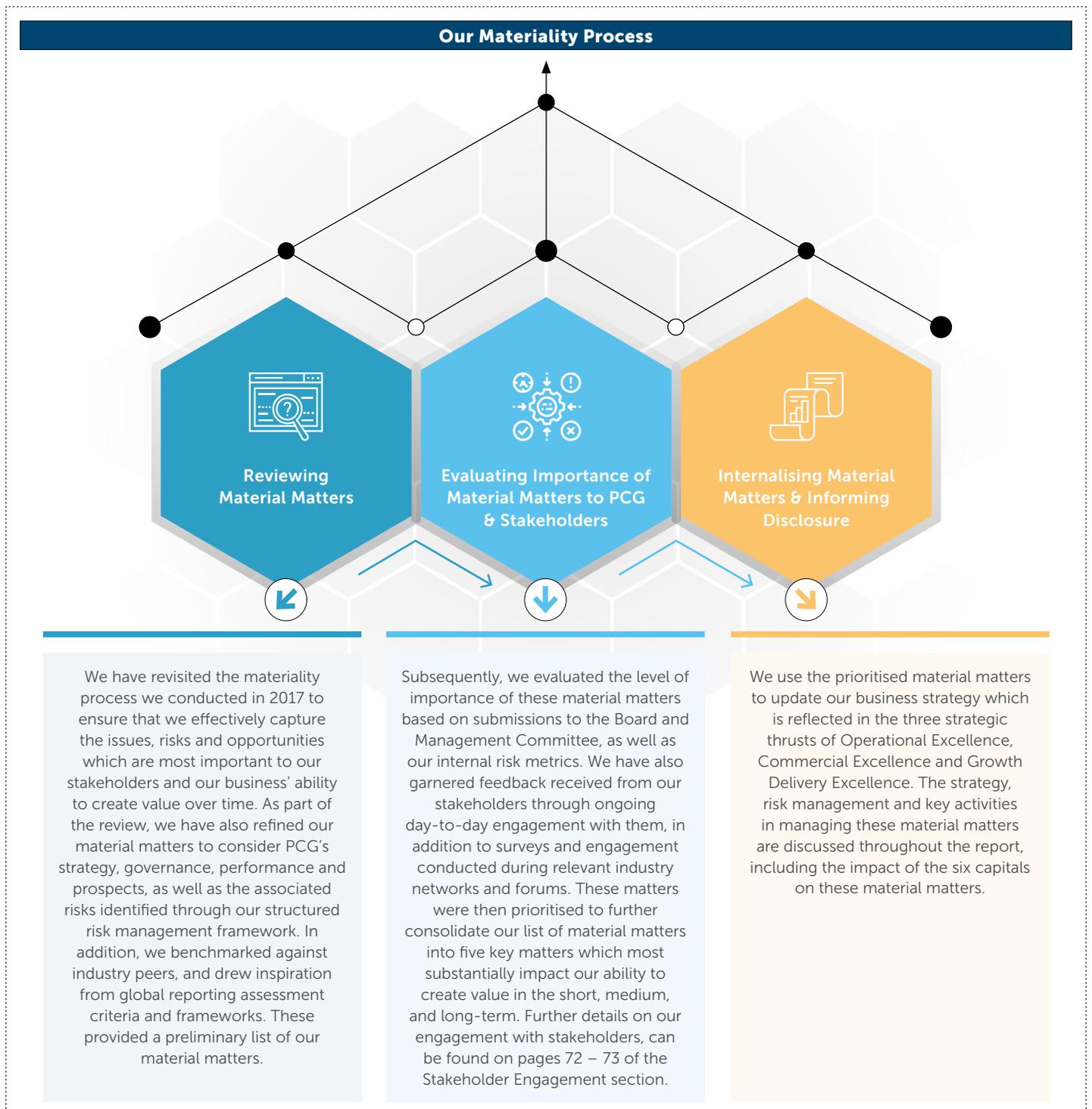
PCG MD/CEO Datuk Sazali Hamzah (second from right) and Board member Datuk William Toh Ah Wah (first from right) speaking to shareholders at the AGM

Shareholders and Investment Community	Suppliers and Vendors	Media	Communities
<p>Engagement Channel</p> <ul style="list-style-type: none"> • Investors and analysts briefings • Site visits • Annual Reports • Annual General Meetings • Announcements via Bursa Malaysia • One-to-one and group meetings • Investment conferences • Company website 	<p>Engagement Channel</p> <ul style="list-style-type: none"> • Regular meetings • Day-to-day interactions • Forums • Site visits 	<p>Engagement Channel</p> <ul style="list-style-type: none"> • Networking sessions between PCG management and media • Press conferences • Press releases 	<p>Engagement Channel</p> <ul style="list-style-type: none"> • CSR programmes • Periodic briefings and engagement with local communities • Festivity celebrations
<p>Topics of Interest</p> <ul style="list-style-type: none"> • Responsible and ethical business practices • Shareholders' returns • Growth strategies • Business sustainability • Regulatory compliance 	<p>Topics of Interest</p> <ul style="list-style-type: none"> • Ethical business practices • Timely delivery • Agreements or contracts • Favourable terms of payment • Well-being and safety 	<p>Topics of Interest</p> <ul style="list-style-type: none"> • Ethical business practices • Regulatory compliance • Safety and health • Data protection • Environmental management • New innovation and technology • Business growth • Media investment and support 	<p>Topics of Interest</p> <ul style="list-style-type: none"> • Education and social support • Environmental management • Safety and health

Material Matters

Managing Material Issues

As we advance with our IR journey, we strive to communicate how we create value by demonstrating continuous efforts and disclosing the output and outcomes in a manner that is meaningful to our stakeholders. Therefore, we have identified five material matters that reflect the challenges and opportunities of our business model. These material matters have guided the content disclosure of this report. Below, we narrate the steps taken in determining the material matters.



In the table below, we connect our material matters to our Strategic Thrusts to demonstrate how the key focus areas of our strategy respond to our stakeholders' interests and create value for stakeholders and our business. Management of these material matters are discussed throughout the report, with further elaboration in the next section, guiding the discussion on how we use and deliver value from our resources.

Our Material Matters	Delivery under the strategic thrusts	Stakeholders Groups with Interest	Main Capitals
HEALTH AND SAFETY	   <ul style="list-style-type: none"> Improving and maintaining safety and health in our operations Inculcating a strong safety culture Mitigating against process safety risks Emphasising the importance of road safety culture in transportation safety 	<p>Employees, Government and Regulators, Suppliers and Vendors, Communities and Media</p>	 
BUSINESS OPERATIONS	  <ul style="list-style-type: none"> Elevating asset reliability and performance Nurturing the capabilities of our people Close collaboration with our suppliers to ensure reliable feedstock and utilities supplies Delivering superior product quality and service in meeting customer needs 	<p>Employees, Shareholders and Investment Community, Business Partners, Customers, Suppliers and Vendors</p>	     
GROWTH	  <ul style="list-style-type: none"> Investing in cutting-edge solutions, innovation and technologies Improving customer experience through collaborative solutions Pursuing growth strategies through portfolio expansion and strategic investment based on the 3 growth levers 	<p>Shareholders and Investment Community, Business Partners, Customers and Media</p>	     
ENVIRONMENT	 <ul style="list-style-type: none"> Managing the use of natural resources in our operations Minimising our environmental footprint, considering energy and greenhouse gas emissions, waste and water management 	<p>Employees, Government and Regulators, Media, and Communities</p>	 
SOCIAL AND GOVERNANCE	  <ul style="list-style-type: none"> Providing a supportive work environment for all our employees Engaging our surrounding communities Investing in CSR programmes Increasing transparency and ethical practices in governance Promoting product stewardship through transparent and honest communications with our customers and other stakeholders 	<p>Employees, Government and Regulators, Business Partners, Shareholders and Investment Community, Suppliers and Vendors, Media, and Communities</p>	

CREATING VALUE

We share our value creation journey over the past year using the six capitals.





Chapter 5

78 How We Create Value

- Natural Capital
 - Consolidated Statement of Profit or Loss
 - Consolidated Statement of Financial Position
 - Consolidated Statement of Cash Flows
 - Consolidated Statement of Changes in Equity
 - 5-year Group Financial Analysis
 - 5-year Group Financial Highlights
 - 5-year Group Financial Information
 - Group Quarterly Performance for FY2018 and FY2017
 - Value Added for Distribution and Value Distributed
- Manufactured Capital
- Intellectual Capital
- Human Capital
- Social and Relationship Capital

The following navigation icons are used to link our strategy and resources to material matters, strategic risks, key performance indicators and performance:

Main Capitals



Natural



Financial



Manufactured



Intellectual



Human



Social and
Relationship

Strategic Thrusts



Operational Excellence



Commercial Excellence



Growth Delivery Excellence

How We Create Value

Natural Capital



Natural Capital



Financial Capital



Manufactured Capital

Our Natural Capital consists of the natural resources we utilise in our business operations which includes hydrocarbons, energy and water. As processes and activities associated with converting hydrocarbon resources into high-value chemicals can potentially harm the environment, we have in place environmental management systems aimed at reducing the environmental footprint.

Link To Strategic Response & Material Matters

Strategic Response:



Material Matters:

- Environment
- Business Operation
- Growth

Energy Use and Greenhouse Gas Emissions

The use of natural gas as both fuel and feedstock within our manufacturing processes results in the emissions of GHG, of which the main one is carbon dioxide (CO₂). Moreover, more than 75% of our total GHG emissions are the result of energy consumed to maintain plant operations. Our efforts to efficiently manage our energy consumption is guided by ELMS, which encourages continuous systematic improvements to drive efficient energy. This also contributes to the reduction of our operating costs. In 2018, our GHG intensity reduced by 2% as a consequence of our continuous implementation of ELMS.



PC Fertiliser Kedah CO₂ Recovery Unit

Emissions to Air and Discharge to Water

Our HSE Policy provides guidelines and practices through which we are able to manage plants' air and water emissions. Additionally, we monitor the quality of air and water surrounding our plants to ensure that we are not in breach of legal emissions standards. While shutdown and start-up activity during statutory turnaround have resulted in higher air emissions during the year, our COD has been on a declining trend since 2014 as a consequence of the implementation of best practices for water & wastewater management.

We have begun working on the processes and systems we need in place to ensure our compliance with the Environmental Quality (Clean Air) Regulations 2014 (CAR2014) which will be effective in June 2019. A key requirement is the implementation of a CEMS within our plants. In 2018, we conducted a gaps assessment which indicated that we are 45% in compliance with CEMS. We will be implementing the necessary systems and procedures to ensure full compliance and will closely monitor and track our closure on this. We closely engage with authorities to receive and provide feedback as well as exchange ideas. Our strict compliance with air emission regulations ensured that we recorded zero violations and no penalties from authorities in 2018. With the Environmental Quality (Clean Air) Regulations 2014 coming into force in June 2019, we are implementing the necessary systems and procedures.

As part of our effort to incorporate best practices to further reduce our emissions, we implemented the Leak Detection and Repair (LDAR) programme. LDAR is a proactive structured inspection of joints, valves and potential leak points. We recorded 90% progress on LDAR as at end 2018, and have targeted to complete one cycle of LDAR monitoring for all our plants by 2020.

Waste Generation

We practice a comprehensive Waste Management System in our efforts to minimise our waste, especially hazardous waste. Our practices cover reducing, reusing, recycling and/or recovering of waste generated by our facilities. Majority of our hazardous waste are recycled as fuel, solvents, lubricants or other beneficial products. Where possible, spent catalysts used in our processes are sent to specialised facilities where precious metals are extracted from them. We also quantify and inventorise all hazardous waste, which is then safely stored in dedicated areas within each manufacturing site before being transported to government-licensed waste facilities for appropriate treatment. PCG recorded total waste generated of 28.2 thousand tonnes in 2018, with a waste recycling volume improvement by 10% in 2018.



Intellectual Capital



Human Capital



Social and Relationship Capital

Freshwater Consumption

We use large quantities of water within our manufacturing processes to generate steam and to cool down and clean our plant machinery. Since 2017, our water management activities and processes have been conducted in adherence to PETRONAS' Guidelines on Water Practices (WAPS). Practising WAPS enables our plants to optimise operations, while conducting ongoing maintenance to ensure efficient water use. In year 2018, our freshwater withdrawal stood at 37.88 millions m³, an increase of 7% from previous year. This is due to increased water intake for our utilities plant after undergoing heavy turnaround.

Natural Gas Consumption

PCG's business utilises natural gas as feedstock in several of our manufacturing processes in order to maximise value from Malaysia's natural gas resources. An example would be at our urea manufacturing facility, PC Fertiliser Kedah where the plant's primary reformer converts natural gas to syngas as part of the manufacturing process. PCG believes in practising sustainable consumption which focuses on reducing our environmental footprint within manufacturing processes. Thus, at PC Fertiliser Kedah, its CO₂ Recovery Unit captures about 30% of the gas from the primary reformer, and recycles it as feedstock in the production of urea.

Natural Gas Feedstock Volume

Feedstock volume (UOM)	2017	2018
Methane ('000 mmbtu)	106,089	109,101
Ethane, Propane, Butane and Heavy Naphtha (kmt)	3,254	3,215

How We Performed

Our performance as compared to 2017:

- **2%** reduction in GHG emission
- **1%** reduction in NOx
- **8%** increment in SOx
- **33%** reduction in wastewater discharge
- **15%** increment in waste generation

Trade-Off Between Capitals

Growing climate change concerns and our own industrial consumption are impacting the availability of the Natural Capital we rely on: hydrocarbon, water and energy among others, which are non-renewable. As we continue to grow the business, we will leverage on Financial Capital for investment in our Manufactured Capital, which will improve the efficient use of our Natural Capital.



Further details on our environmental management efforts and performance data trends, can be found on pages 44 – 49 under the Management Discussion and Analysis Section and our standalone SR, which is available online at www.petronaschemicals.com

How We Create Value

Financial Capital



Natural Capital



Financial Capital



Manufactured Capital

Our Financial Capital is defined by the pool of funds available to us which allows us to maintain all our other capitals. Effective financial management is key to ensure that we are able to deliver strong financial results in 2018 and continue to grow our business as well as deliver sustainable returns to our shareholders. We practice robust financial management by rigorously and diligently monitoring our cash flow. This ensures that we are able to maintain an optimal level of working capital while maximising our fund investment.

Link To Strategic Response & Material Matters

Strategic Response:



Material Matters:

- Business Operations
- Growth

Cost Discipline and Optimisation

We maintain robust and rigorous cost optimisation and cost discipline efforts throughout our Group in order to maintain low cost levels, while maximising shareholders' value. These were borne through ensuring optimal business operations via continuous focus on Commercial and Operational Excellence.

Commercial Excellence initiatives which bring about reduction in costs such as cost to serve include co-loading of products to reduce transportation costs, and contracts of affreightment to secure vessel supply.

Operational Excellence cost optimisation efforts include effective management of operational costs via strict budgetary controls, and efficient energy management systems such as the Energy and Loss Management System to address energy waste issues via adoption of effective energy practice standards. By maintaining our focus on turnaround costs and schedules through the Turnaround Master Integrated Schedule across our value chain, PCG was able to contain costs within a heavy year of turnaround at our plants.

Efficient Management of Working Capital and Liquidity

Working capital management is crucial to PCG Group towards ensuring that we have sufficient cash to fund operational requirements for optimal business operations. Our working capital initiatives are largely focused on effective inventory management, trade receivables and liquidity management.

The efficient management of trade receivables was effected via a robust credit risk policy and regular tracking and monitoring of overdue receivable. As for liquidity management, our policy is aimed at ensuring that we have sufficient minimum cash balance in place through tracking and analysis of our daily cash flow movements and quarterly cash flow forecasts, to ensure optimum cash for our operational and growth requirements.

Rigorous Projects Evaluation

Project investment decisions are rigorously evaluated based on a stage gated process to ensure we are not missing out on any potential opportunities. Our evaluation process ranks potential projects in order of best value on our investment. Appropriate funding plans are instituted for projects which have been selected for further

development. By adopting this approach, we have been able to ensure that PCG effectively maximises shareholders value through short-term and long-term financial planning towards supporting our strategic thrusts and growth projects.

Strengthen Risk Management and Governance

PCG operates within a business environment which is uncertain. A key challenge to our continuous growth and profitability is the ability to identify all potential risks and upon doing so, to minimise, accept, transfer or avoid them. This demands a proactive Risk Management Framework, which is implemented throughout PCG Group-wide.

We continuously strengthen our risk management approach to safeguard our business and strengthen our ability to respond to a crisis by having a strong governance structure and processes in place. 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.

During the year, we further fortified our risk management and governance via the establishment of a dedicated enterprise-wide Board Risk Committee (BRC) focusing on high impact business decisions. PCG's Risk Appetite was developed by aligning to PCG business strategies, with four Risk Appetite Focus Areas which are closely controlled and monitored under operational, financial sustainability, reputation and compliance.

Dividend Payout

We ensure sustainable return via dividend distribution to shareholders. We maintain a dividend policy with a dividend payout ratio at 50% of Group PATANCI.

How We Performed

- Revenue: **RM19.6 billion** (2017: RM17.4 billion)
- PAT: **RM5.1 billion** (2017: RM4.4 billion)
- EBITDA: **RM7.0 billion** (2017: RM6.6 billion)
- Dividend for the year: **RM2.6 billion** (2017: RM2.2 billion)
- Tax contributions: **RM443 million** (2017: RM617 million)



Intellectual Capital



Human Capital



Social and Relationship Capital

PCG has maintained a focused approach in the management of our Financial Capital, towards ensuring that we are able to sustain optimal business operations by contributing towards our other business capitals with the aim of securing value creation and growth for our business, and to maximise shareholders' value.

Consolidated Statement of Profit or Loss

In RM million	Year ended 31 December	
	2018	2017
Revenue	19,576	17,407
Cost of revenue	(12,702)	(11,021)
Gross profit	6,874	6,386
Selling and distribution expenses	(818)	(764)
Administration expenses	(694)	(615)
Other expenses	(200)	(9)
Other income	397	242
Operating profit	5,559	5,240
Financing costs	(17)	(20)
Share of profit of equity-accounted joint ventures and associates, net of tax	108	16
Profit before taxation	5,650	5,236
Tax expense	(592)	(822)
PROFIT FOR THE YEAR	5,058	4,414
Other comprehensive income/(expenses)		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation differences	166	(1,321)
Share of other comprehensive income/(expenses) of equity-accounted joint ventures and associates	36	(113)
Total other comprehensive income/(expenses) for the year	202	(1,434)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5,260	2,980
Profit attributable to:		
Shareholders of the Company	4,979	4,177
Non-controlling interests	79	237
PROFIT FOR THE YEAR	5,058	4,414
Total comprehensive income attributable to:		
Shareholders of the Company	5,182	2,743
Non-controlling interests	78	237
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5,260	2,980



- PCG Group revenue increased by RM2.2 billion or 12.5% to RM19.6 billion as a result of higher product prices and sales volumes recorded during the year despite the strengthening of Ringgit Malaysia against the US Dollar.



- Higher feedstock costs led to the cost of revenue increase by RM1.7 billion or 15.3% to RM12.7 billion compared to RM11.0 billion in the previous year.
- Additionally, fixed costs increased on the back of higher manpower expenses following a one-off adjustment in the current year relating to under accrual of manpower-related expenses in the previous year.



- Higher other expenses mainly due to foreign exchange losses on shareholder loans pursuant to the divestment of 50% equity interest in PPC to conclude our new partnership with Saudi Aramco.



- PCG Group profit for the year was also higher by RM644 million or 14.6% at RM5.1 billion primarily due to higher spread and volumes as well as lower tax expense, which was partially negated by the strengthening of the Ringgit Malaysia against the US Dollar.
- The Group's effective tax rate for the year stood at 10% which is reflective of the various tax legislations within which the Group operates, including among others Malaysia Income Tax Act 1967 and Global Incentive for Trading (GIFT) under Labuan Financial Services and Securities Act 2010.

How We Create Value

Financial Capital



Natural Capital



Financial Capital



Manufactured Capital

Consolidated Statement of Financial Position

In RM million	2018	2017
ASSETS		
Property, plant and equipment (PPE)	19,080	20,792
Prepaid lease payments	28	42
Investments in joint ventures and associates	1,232	1,192
Intangible asset	-	1
Long term receivables	29	113
Deferred tax assets	237	300
TOTAL NON-CURRENT ASSETS	20,606	22,440
Trade and other inventories	1,698	1,723
Trade and other receivables	2,668	2,370
Tax recoverable	64	55
Cash and cash equivalents	12,329	6,674
TOTAL CURRENT ASSETS	16,759	10,822
TOTAL ASSETS	37,365	33,262
EQUITY		
Share capital	8,871	8,871
Reserves	21,608	18,994
Total equity attributable to shareholders of the Company	30,479	27,865
Non-controlling interests (NCI)	695	1,003
TOTAL EQUITY	31,174	28,868
LIABILITIES		
Deferred tax liabilities	919	838
Other long term liabilities and provisions	163	212
TOTAL NON-CURRENT LIABILITIES	1,082	1,050
Borrowings	2,072	-
Trade and other payables	2,896	3,217
Current tax payables	141	127
TOTAL CURRENT LIABILITIES	5,109	3,344
TOTAL LIABILITIES	6,191	4,394
TOTAL EQUITY AND LIABILITIES	37,365	33,262



- PCG Group recorded lower PPE by RM1.7 billion or 8.2% at RM19.1 billion as a result of the reduction of share in PPE following our divestment of 50% equity interest at PPC. This was partially offset by the addition of projects-in-progress for PIC petrochemical projects, turnaround cost and various reliability and improvement projects.



- We generated higher cash and cash equivalent by RM5.7 billion or 84.7% at RM12.3 billion on the back of higher profit recorded as well as divestment of 50% equity interest in PPC. This was partially offset by investment in PIC Petrochemical projects and dividends paid to shareholders.



- Total equity was higher by RM2.3 billion or 8.0% at RM31.2 billion due to higher reserves which was contributed by higher profit generated during the year partially negated by lower NCI and dividend payments of RM2.3 billion.
- Lower NCI primarily due to the acquisition of 12% and 40% NCI shares in PC Olefins and PC LDPE respectively.



- We have included provision for decommissioning costs for the Group's vinyl plant within non-current liabilities. The vinyl plant was discontinued as a result of our strategy to upvalue the Group's portfolio.



- Borrowings increased by RM2.1 billion at PPC following drawdown of USD1.0 billion or RM3.9 billion bridging loan to fund the PIC Petrochemical project cost, partially offset by the impact of derecognition of 50% of the said loan upon the divestment of equity interest in PPC.



Intellectual Capital



Human Capital



Social and Relationship Capital

Consolidated Statement of Cash Flows

In RM million	Year ended 31 December	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	5,650	5,236
Adjustments for:		
- Depreciation and amortisation	1,619	1,589
- Finance costs	17	20
- Interest income	(315)	(211)
- Loss on partial divestment of a subsidiary	160	-
- Share of profit of equity-accounted joint ventures and associates, net of tax	(108)	(16)
- Other non-cash items	7	(290)
Operating profit before changes in working capital	7,030	6,328
Change in trade and other inventories	(31)	(359)
Change in trade and other receivables	(292)	203
Change in trade and other payables	99	(439)
Cash generated from operations	6,806	5,733
Interest income received	304	195
Taxation paid	(443)	(617)
Net cash generated from operating activities	6,667	5,311
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from equity-accounted joint ventures and associates	124	98
Investment in an associate	(21)	(24)
Proceeds from disposal of property, plant and equipment	2	2
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	969	-
Purchase of property, plant and equipment	(2,957)	(3,446)
Net cash used in investing activities	(1,883)	(3,370)



- Net cash generated from operating activities increased by RM1.4 billion or 25.5% to RM6.7 billion primarily contributed by the higher profit generated and changes in working capital during the year.



- Net cash used in investing activities was lower by RM1.5 billion or 44.1% at RM1.9 billion mainly attributable to proceeds from divestment of 50% equity interest in a subsidiary as well as lower capital investment in PIC Petrochemical projects.

How We Create Value

Financial Capital



Consolidated Statement of Cash Flows (Con't)

In RM million	Year ended 31 December	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	(1,493)	(1,236)
- others (third parties)	(827)	(684)
- non-controlling interests	-	(554)
Drawdown of term loan	3,886	-
Payment to a non-controlling interest on additional equity interest	(634)	-
Proceeds from shares issued to a non-controlling interest	-	7
Repayment of:		
- finance lease liabilities	(56)	(55)
- revolving credit	-	(23)
Net cash generated from/(used in) financing activities	876	(2,545)
Net cash flows from operating, investing and financing activities	5,660	(604)
Effect of foreign currency translation differences	(17)	(5)
Net increase/(decrease) in cash and cash equivalents	5,643	(609)
Net foreign exchange differences on cash held	12	(120)
Cash and cash equivalents at beginning of the year	6,674	7,403
Cash and cash equivalents at end of the year	12,329	6,674



- Net cash generated from financing activities of RM876 million as compared to net cash used in the corresponding year of RM2.5 billion largely due to term loan drawdown by a subsidiary in the current year, partially negated by acquisition of shares held by a non-controlling interest in certain subsidiaries.

Consolidated Statement of Changes In Equity

In RM million	Year ended 31 December	
	2018	2017
Total equity at the beginning of the year	28,868	28,313
Foreign currency translation differences	166	(1,321)
Share of other comprehensive income of equity-accounted joint ventures and associates	36	(113)
Total other comprehensive income/(expenses) for the year	202	(1,434)
Profit for the year	5,058	4,414
Total comprehensive income for the year	5,260	2,980
Additional equity interest in subsidiaries	(634)	-
Additional shares issued to non-controlling interests	-	7
Dividends to shareholders of the Company	(2,320)	(1,920)
Dividends to non-controlling interests	-	(512)
Total transactions with owners of the Group	(2,954)	(2,425)
Total equity at end of the year	31,174	28,868



Intellectual Capital



Human Capital



Social and Relationship Capital

5-year Group Financial Analysis

RM million



- Profit for the year was lower compared to 2013 at RM2.7 billion mainly due to declining spreads amidst unfavourable petrochemical market conditions.

Total assets mainly consist of property, plant and equipment, including development of SAMUR Project and cash and cash equivalents.

On 13 March 2014, the Group incorporated PC Marketing Thailand and on 24 September 2014, PC Marketing China.

On 11 June 2014, the Group completed the divestment of its entire 93.11% equity interest in Phu My Plastics and Chemical Company Limited.
- Profit for the year improved compared to 2014 at RM3.1 billion attributable to higher sales volumes, lower operating cost and the impact of the weakening of Ringgit Malaysia against US Dollar, partially offset by lower product spreads.

Total assets increased mainly attributed to SAMUR Project.

On 3 November 2015, the Group acquired 100% equity in PC INA, PPC and PRPC Elastomers, as part of the Pengerang Integrated Complex (PIC) in Pengerang, Johor.
- Profit for the year was higher compared to 2015 at RM3.2 billion as a result of higher sales volumes, lower operating cost and the impact of the weakening of Ringgit Malaysia against US Dollar partially negated by lower product spreads.

Total assets increased mainly attributed to progression of SAMUR Project and the development of PIC Petrochemical projects.
- Profit for the year increased compared to 2016 at RM4.4 billion on the back of improved product prices and higher sales volumes, as well as the impact of the weakening of Ringgit Malaysia against US Dollar.

Total assets increased mainly due to the development of PIC Petrochemical projects.

On 1 May 2017, PC Fertiliser Sabah commenced its commercial operation contributing to the additional sales volumes during the year.
- Profit for the year was higher compared to 2017 at RM5.1 billion on the back of higher product prices and sales volumes further supported by lower tax expense. This was partially offset by the strengthening of Ringgit Malaysia against US Dollar.

Total assets grew mainly due to increase in cash and cash equivalents following profit generated during the year and divestment of 50% equity interest in PPC, partially offset by investment in PIC Petrochemical projects and dividends paid to shareholders.

On 28 March 2018, the Group completed the abovementioned divestment and subsequently PPC ceased to be a subsidiary of the Company and has since been accounted for as a joint operation.

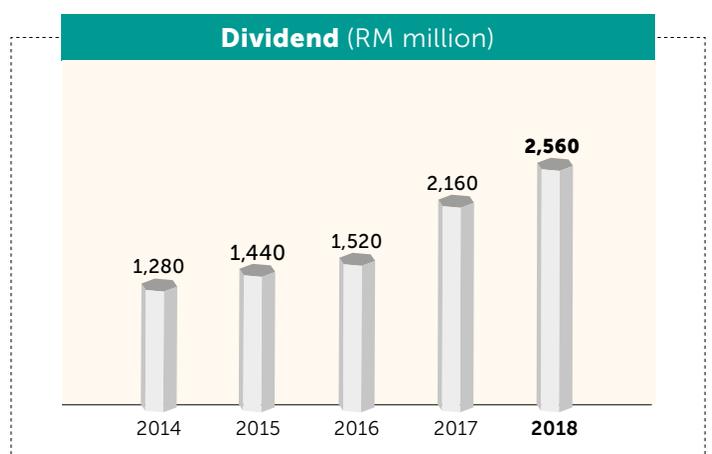
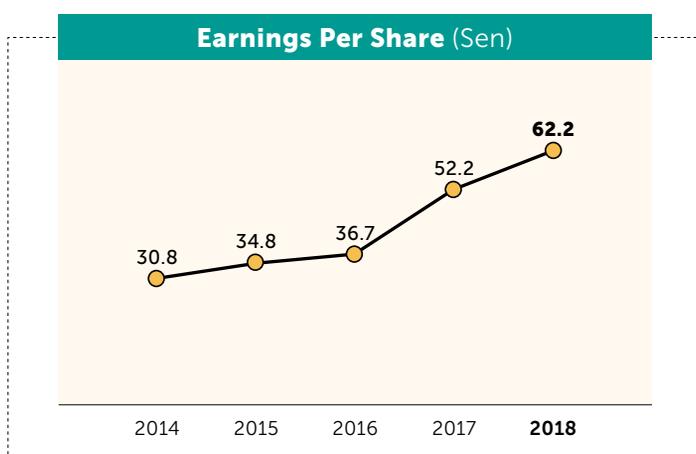
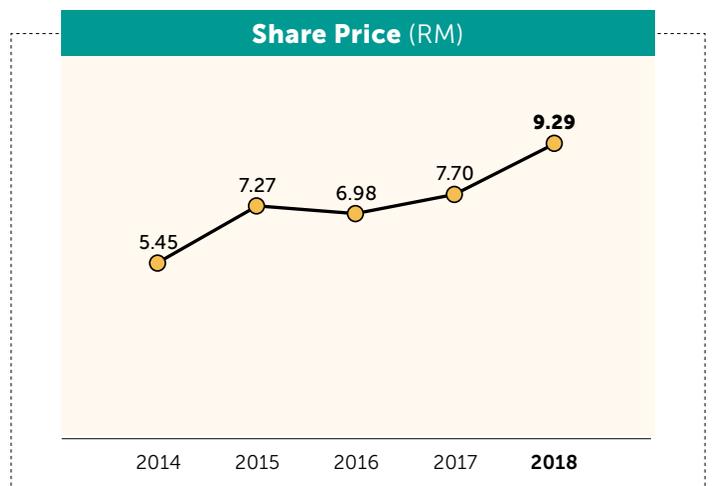
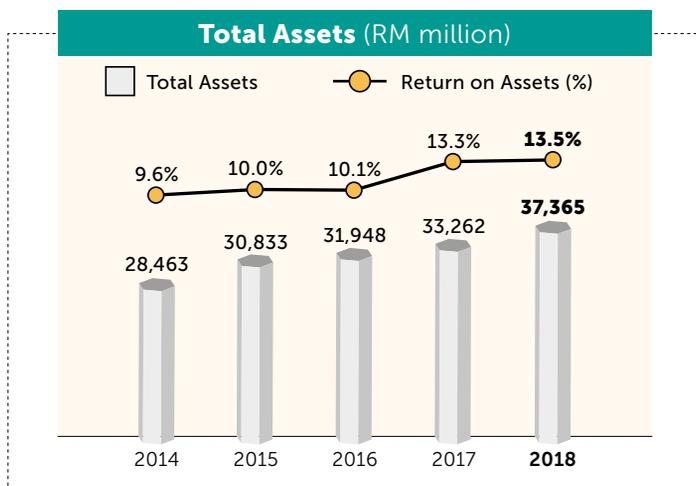
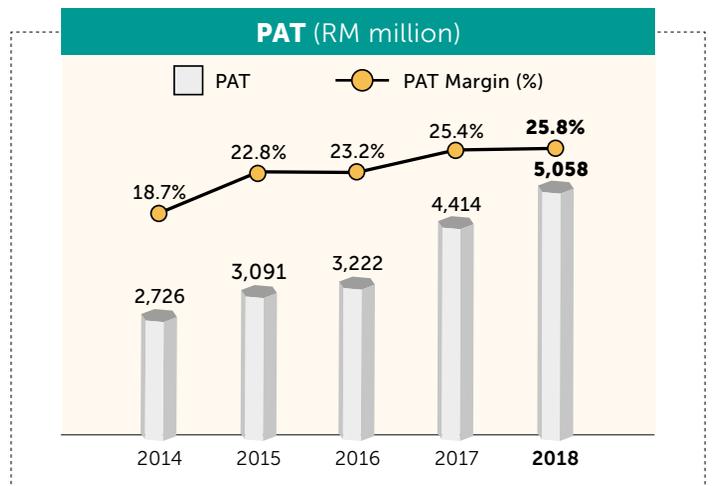
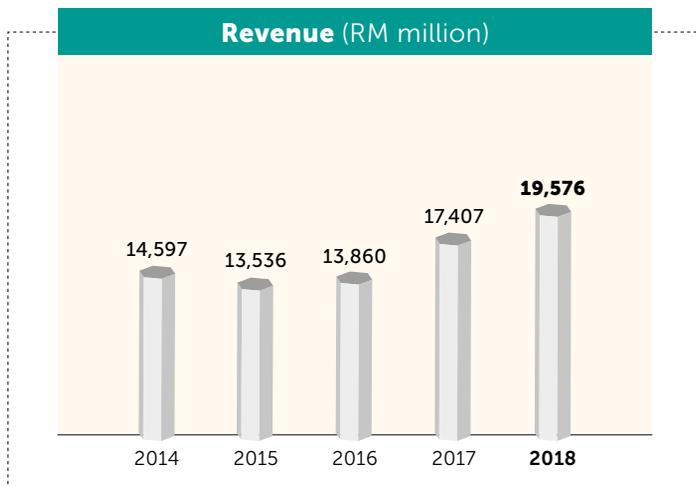
On 29 March 2018, the Group completed the acquisition of a non-controlling interest held in PC Olefins and PC LDPE. Following this, PC Olefins and PC LDPE have become wholly-owned subsidiaries of the Company.

How We Create Value

Financial Capital



5-year Group Financial Highlights





Intellectual Capital



Human Capital



Social and Relationship Capital

5-year Group Financial Information

Key Results (RM million)	2014	2015	2016	2017	2018
Revenue	14,597	13,536	13,860	17,407	19,576
By segment:					
Olefins and Derivatives	10,510	9,495	9,744	11,350	12,280
Fertilisers and Methanol	4,046	3,995	4,063	6,013	7,241
Others	41	46	53	44	55
Cost of revenue	(10,150)	(8,989)	(8,536)	(11,021)	(12,702)
Selling and distribution expenses	(603)	(615)	(704)	(764)	(818)
Administration expenses	(551)	(582)	(667)	(615)	(694)
Other expenses	(471)	(391)	(196)	(9)	(200)
Other income	609	798	289	242	397
Operating profit	3,431	3,757	4,046	5,240	5,559
Financing cost	(46)	(11)	47	(20)	(17)
Share of profit of equity accounted joint ventures and associates, net of tax	166	87	17	16	108
Profit before taxation	3,551	3,833	4,110	5,236	5,650
Tax expense	(825)	(742)	(888)	(822)	(592)
Profit for the year	2,726	3,091	3,222	4,414	5,058
Profit attributable to shareholders of the Company	2,465	2,782	2,932	4,177	4,979
Key statement of financial position					
Property, plant and equipment	14,255	16,597	18,543	20,792	19,080
Cash and cash equivalents	9,807	8,707	7,403	6,674	12,329
Total assets	28,463	30,833	31,948	33,262	37,365
Borrowings	-	30	23	-	2,072
Total liabilities	3,986	4,243	3,635	4,394	6,191
Share capital	800	800	800	8,871	8,871
Reserves	21,922	23,983	26,242	18,994	21,608
Total equity attributable to shareholders of the Company	22,722	24,783	27,042	27,865	30,479
Non-controlling interests	1,755	1,807	1,271	1,003	695
Total equity	24,477	26,590	28,313	28,868	31,174
Share Information					
Earnings per share (sen)	30.8	34.8	36.7	52.2	62.2
Dividend per share (sen)	16.0	18.0	19.0	27.0	32.0
Net tangible asset per share (RM)	2.84	3.10	3.38	3.48	3.81
Closing share price (RM)	5.45	7.27	6.98	7.70	9.29
Number of ordinary shares (million)	8,000	8,000	8,000	8,000	8,000
Market capitalisation (RM million)	43,600	58,160	55,840	61,600	74,320

How We Create Value

Financial Capital



Group Quarterly Performance for FY2018 and FY2017

In RM million	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 2018
Revenue	4,951	4,733	4,830	5,062	19,576
Operating profit	1,323	1,491	1,306	1,439	5,559
Profit before taxation	1,336	1,495	1,342	1,477	5,650
Profit for the period/year	1,107	1,380	1,272	1,299	5,058
Profit attributable to shareholders of the Company	1,065	1,372	1,257	1,285	4,979
Earnings per share (sen)	13.3	17.2	15.7	16.1	62.2
Dividends per share (sen)	-	14	-	18	32

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



Intellectual Capital



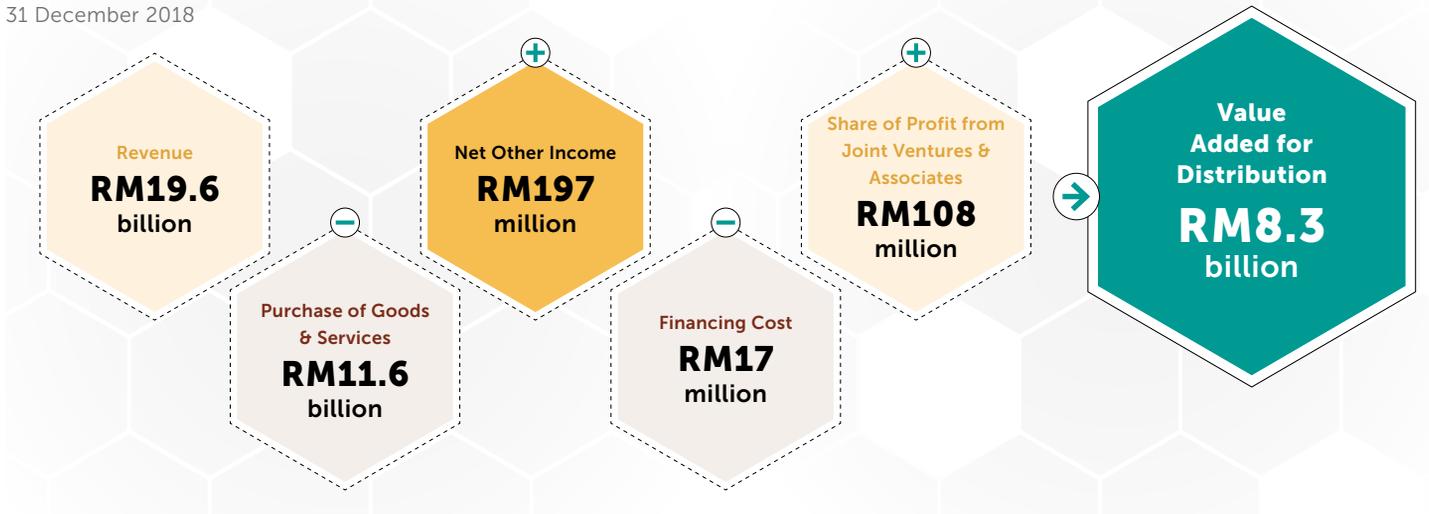
Human Capital



Social and Relationship Capital

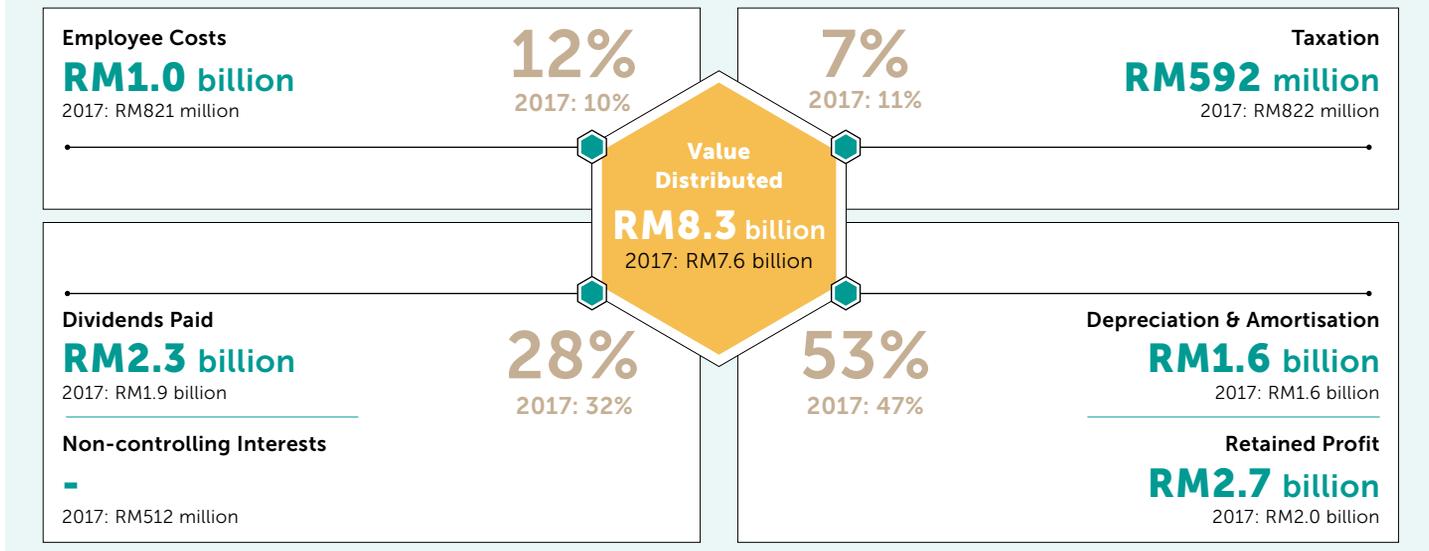
Value Added for Distribution

31 December 2018



Value Distributed

31 December 2018



Trade-Off Between Capitals

Increasing our Financial Capital is key to sustaining growth across all other capitals, such as Manufactured Capital, Intellectual Capital and Human Capital. It also allows for our investment in operations which promote resource efficiency, thus reducing negative impact on Natural Capital.



Further details on our financial performance for 2018, can be found on pages 36 – 43. Details of the Company and the Group's financial statements for the financial year ended 31 December 2018 can be found in our standalone AFS, which is available online at www.petronaschemicals.com

How We Create Value

Manufactured Capital



Natural Capital



Financial Capital



Manufactured Capital

Our Manufactured Capital is defined by the assets that we efficiently operate, maintain and manage to ensure that the production activities are carried in a safe, reliable and efficient manner. Our plant assets operate within two main business segments of Olefins and Derivatives (O&D) and Fertiliser and Methanol (F&M). PCG owns and operates a total of 13 plants, while another four are owned, but operated via joint ventures and associates.

Link To Strategic Response & Material Matters

Strategic Response:



Material Matters:

- Health and Safety
- Business Operations
- Growth
- Environment

Ensuring High Performance Assets

To drive our plants at optimal performance, PCG's focus is on ensuring that our assets are designed, constructed, operated, inspected and maintained at high levels of quality, complying to relevant industrial standards and regulations, codes and best practices. Whenever and wherever possible, we identify and mitigate necessary risks and threats to sustain safe operations, prevent equipment failures and avoid consequential impacts to people and environment. Ultimately, our aim is to improve asset reliability and integrity in supporting PCG to deliver on business targets and achieve best in class operational performance.

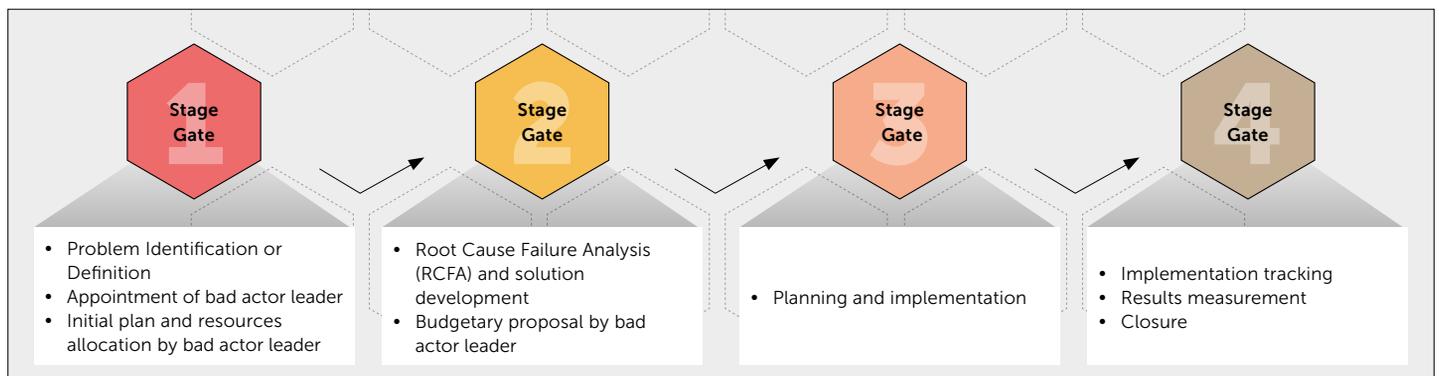
Effective Asset Management Policies

PCG has institutionalised the PCG Physical Asset Management requirements that incorporates Integrity, Reliability and Maintenance Management as part of the overall integrated management system of OEMS. The key output of the process is a comprehensive programme namely ERS and BAM that ensures assets are designed, constructed, operated, inspected and maintained at quality levels, in compliance with the relevant industrial standards and regulations, codes and best practices. With OEMS available and accessible Group-wide, we are able to ensure consistency in the efficiency and productivity of all our plants Group-wide.

Programmes to Sustain Safe and Reliable Operations

In order to sustain safe and reliable operations, PCG has deployed the BAM and Plant Threat Management programmes. The BAM programme focuses on managing repeated or high value unplanned failures through a systematic stage gated process. Through Plant Threat Management efforts, we are able to effectively manage anticipated threat as a proactive measure.

BAM involves four systematic stage gates as follows:





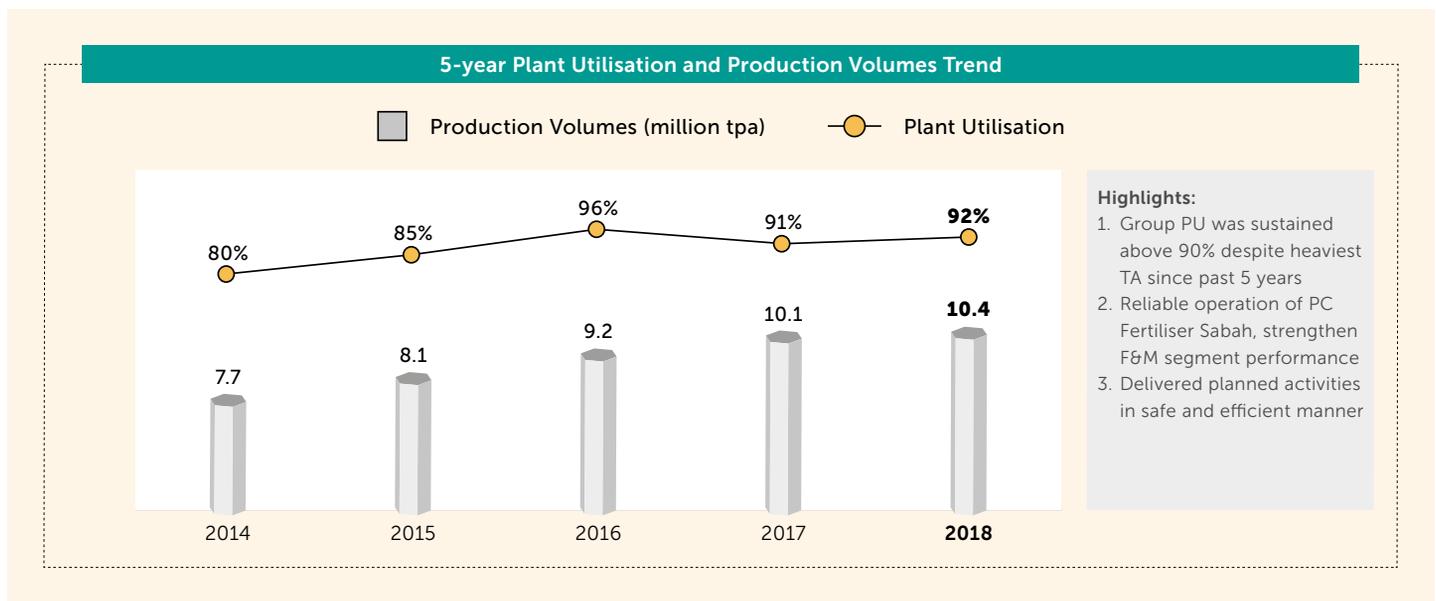
Processes to Manage Efficient Turnaround

Our TA is governed by a comprehensive set of TA Management Guidelines (TAMG) which defined roles and responsibilities of key personnel, system requirements, reporting platforms, communication and competency requirements, assurance and review, as well as retention and safekeeping on records. We have established TACS, which serves as centre of excellence that overlooks and governs TA planning and overall coordination of TAs within the Group. TACS also serves as a pivotal function in capturing and retaining best practices and lessons learnt on TA across the Group.

Asset Rejuvenation Programme

Our asset rejuvenation programme is an important component of how we ensure our plant integrity and reliability towards operation continuity. A major asset rejuvenation conducted during the year was for ABF, which was built in 1985. Known as the Dabai Project, it involves the rejuvenation of the urea ship loading facilities at the ABF plant in Bintulu.

How We Performed



Trade-Off Between Capitals

As we invest in Manufactured Capital initiatives to improve plant performance, we are able to return long-term value to our Financial Capital, and strengthen our customer relationship within our Social and Relationship Capital. However, this may impact our Financial Capital in the short term due to investment in improvement initiatives, and risk of impacting the Natural Capital negatively in the long run due to the increased use of resources and generation of by-products.

How We Create Value

Intellectual Capital



Natural Capital



Financial Capital



Manufactured Capital

Our Intellectual Capital is borne through the adoption of an innovation led culture which encourages innovative thought processes and approaches in meeting our customers' requirements by viewing pain points through the customers' lens and collaborating closely with them to co-create solutions that allows them to grow their business. Within our plant facilities, the innovations we adopt in work processes and management systems lead to higher production outputs, while reducing our impact on the environment.

Link To Strategic Response & Material Matters

Strategic Response:



Material Matters:

- Business Operations
- Growth

Product Innovation and Co-creation of Product Applications and Solutions with Customers

A desired outcome of our product innovation is to create products for the marketplace that address the needs and aspirations of our customers. This approach ensures our relevance in the industry, and cements our position as a market leader. In 2018, PCG launched PETRONAS Glyde CM201, a shale inhibitor specifically designed for eco-friendly water based mud system for upstream drilling activities. This innovative product offers enhanced rheology and temperature stability of polymer additives, as well as improved lubricity and filtration properties, all of which lead to significant shale stability performance, a reduction in mud dilution rates and minimal drilling problems related to the mud system.

In-line with our vision of being a preferred chemical company, we collaborate closely with our customers to co-create product application solutions that meet their business requirements. These solutions allow our customers to push the boundaries of their product performance and application envelop, and to further grow their business. In 2018, we delivered a total of 10 co-created high impact solutions for our high value customers in the latex processing, paper coating and automotive car industries. We further unlock value for our customers by providing technical solutions that leverages on the technical expertise and know-how of our application technologists. In 2018, we delivered a total of 53 technical solutions to our customers that helped them optimise their manufacturing process and resolve issues affecting their product performance.

A key move in 2018 was the setting up of our Surfactant Laboratory as a platform for our customers to directly engage and collaborate with our highly capable application technologists. The lab was purposefully located within the premises of PETRONAS Research Sdn Bhd (PRSB) in Bangi, Selangor, to leverage on the cutting edge research equipment and expertise that resides within the research facility. This approach ensures our long-term sustainability as a chemicals solutions provider that is able to create value-added products and solutions that are not generic, and thus enhance our customers' business.

R&D for Long-term Sustainability

In keeping with our aspiration to become a specialty chemical player, we strategically undertake technology research activity to develop technology and product solutions that are in-line with our business goals. We actively collaborate with and leverage on research institutions in order to accelerate our research programme. A key area of research for PCG is in converting biomass waste to value added chemicals. In 2018, through our collaboration with PRSB, we managed to achieve a breakthrough in the research of upgrading palm biomass into higher value chemicals and have now put in place a plan to install a pilot facility to further mature the process technology.



Intellectual Capital



Human Capital



Social and Relationship Capital

Innovations to Improve our Manufacturing Efficiencies

We employ the use of innovative solutions within our manufacturing facilities to enhance our operational efficiencies, resulting in improvements in our processes. At PC Glycols, we improved catalyst performance by changing the chemical replenish strategy, which ultimately increased the production volumes. PC Ammonia has also upgraded its facilities to a reformed gas boiler, a new boiler design which has increased plant reliability and reduces operational costs.

We have also put in place operational innovations aimed at reducing our manufacturing plants' impact on the environment. This include an innovative pallet clamp design at PC LDPE which prevented damage to the plastic pallets, thus hindering any potential HSE issues.

Protecting Data and Intellectual Property

PCG is guided by PETRONAS Intellectual Property (IP) Policy with regards to IP protection. This covers overall IP management systems, including procedures, processes and guidelines relating to technology derived from R&D activities. IP rights protection have the function of protecting us against potential competitors as well as preventing infringement.

With regards to the protection of company information and data, our protection mechanisms are embedded within the PETRONAS Information Technology infrastructure and systems, which is under the purview of PETRONAS ICT Sdn Bhd. These include firewalls, intrusion prevention systems (IPS), anti-virus/malware/anti-spam tools, hard disk encryption, access control and passwords. Additionally, all users are required to adhere to the PETRONAS Records Management Principle and PETRONAS Records Management Standards and Guidelines to ensure the proper handling of data and information according to the four classifications of Secret, Confidential, Internal and Open.

How We Performed

Delivered **64** product and application solutions consisting of:

- **53** technical solutions for our customers
- **10** co-created high impact solutions for high value customers
- **1** new product launch – Glyde CM201, an eco-friendly shale inhibitor

Trade-Off Between Capitals

Our Intellectual Capital is key in growing our Social and Relationship as well as Growth Capital, especially in relation to our customers, with whom we work closely to provide innovative products and ensure timely reliable supply. Investment input from Financial Capital for R&D and new technology would result in the short-term reduction of our Financial Capital, but ultimately leads to longer term growth. Our Intellectual Capital is also important in enabling us to find ways to improve our operational efficiency, which eventually allow us to reduce the consumption of our Natural Capital.



Further details on our co-creation efforts with customers can be found on pages 50 – 53 under the Management Discussion and Analysis section and our standalone SR, which is available online at www.petronaschemicals.com

How We Create Value

Human Capital



Our human capital comprises diverse employee of 4,414 people who provide the impetus for us to achieve our business strategies. We promote the development of a dynamic work environment by investing in the development of people towards building a high performance workforce while maintaining the highest levels of HSE standards to ensure the safety and well-being of our staff, contractors and communities where we operate.

Link To Strategic Response & Material Matters

Strategic Response:

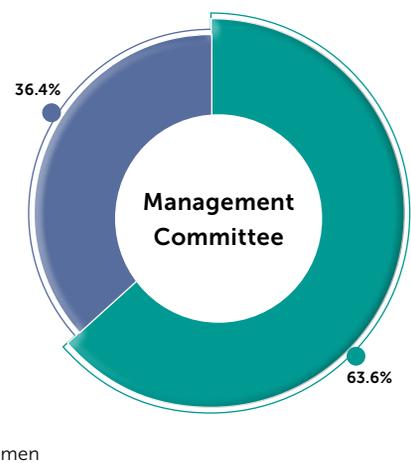
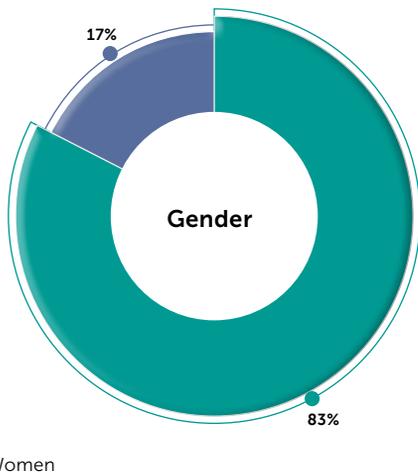
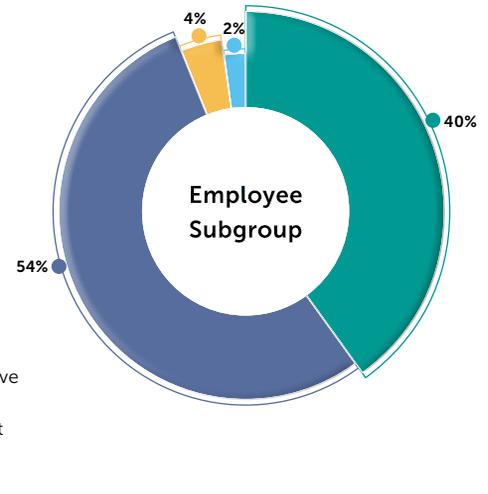
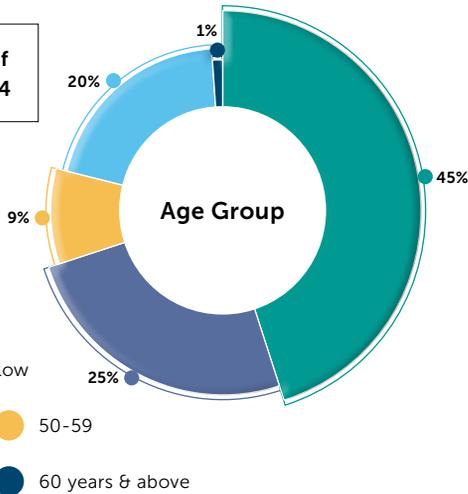


Material Matters:

- Health and Safety
- Business Operations
- Growth

DIVERSITY AND INCLUSION

Total number of employee: 4,414





Intellectual Capital



Human Capital



Social and Relationship Capital

Structured Capability Development Framework

We have implemented a structured and integrated Capability Development Framework (CDF) to manage individual and organisational competency development programmes. Our approach to capability development employs directed talent development programmes for both functional skill development and leadership development. Among talent development programmes that we have implemented are Downstream Grounding Programme (DGP) and ACD. DGP is on the job training for new technical executive whilst ACD adopts a blended learning approach around core components of assessment, coaching and training for technical executives. In 2018, we embarked on two new initiatives to further strengthen the competencies of our technical staff, namely the Technical Professional (TP) Network Programme and the ACD Booster Programme.

To help non-technical executive with their careers progression, we conduct an annual Online Functional Assessment (OFA) to identify competency gaps of our non-technical executive. In doing so, we are assisting our employees to identify and plan learning and development activities that will help them to close their skill gaps, thus aiding in their career progression. The OFA consists of self assessment which allows staff to assess themselves prior to their superior's assessment.

Our talent development initiatives also include supporting employees to obtain the relevant certifications to upskill themselves. These include the Professional Marketing Certification by the Chartered Institute of Marketing (CIM), Safety and Health Officer and Internal Combustion Engine (ICE) Driver.

PETRONAS Competency-Based Assessment System (PECAS) is an assessment platform for Non-Executive Technical (NET) i.e technicians and operators in PCG, including domestic and wholly-owned international company. PECAS is used to certify the competency of our NET in ensuring targeted competency levels are achieved.

Staff Development Programme to Support Life-long Learning

As a reflection of our commitment in providing an environment that supports life-long learning, PCG's Staff Development Programme provides employees with the opportunity to pursue further studies in relevant fields. We provide two types of programmes. The first is full sponsorship for employees to further their studies at a recognised institution or university either locally or overseas for either the MBA academic programme, as part of Techno-Commercial Leaders Development (TCLD) Programme, or a Masters or PhD. The second programme provides financial assistance to employees who pursue their studies on either a part-time or full-time basis at a recognised institution or university and programme of their own accord.

Robust Leadership Development Training

Our Leadership Development training is guided by the PETRONAS Leadership Framework and aims to develop a leadership pool that can drive our organisational business objectives. These are available to all our executives from the early stages of their career through the PETRONAS Potential Leaders Programme, and continues throughout their advancing career path until they reach middle to top management level, at which point identified individuals will undergo signature leadership programmes befitting their role and responsibility.



Leadership Sharing Session with President and Group CEO of PETRONAS, Tan Sri Wan Zulkiflee Wan Ariffin

How We Create Value

Human Capital



Natural Capital



Financial Capital



Manufactured Capital

Providing A Safe Workplace for Our Employees

In order to provide our workers with a safe work environment, PCG views Occupational Safety and Health (OSH) as a key priority towards ensuring that our plant operations are conducted in a safe manner. Through the inculcation of a safe work culture, we ensure our employees' safety is our utmost importance and, at the same time, ensure the employees take the responsibility and accountability to perform tasks safely. Additionally, it also minimises the probability of plant shutdowns due to health and safety incidents, which ensures the continuous reliability of our operations. Our efforts within this sphere are guided by our HSE Policy. Our approach to ensure a safe workplace is strengthened by clear commitments in all our plant operations.

The establishment of a taskforce overseeing ZeTo Rules compliance during the year has further strengthened our workplace safety culture. Alongside this, ongoing safety programmes such as "Jom Patuh dan Tegur" (Let's Comply and Intervene), Felt Leadership and the Behavioural Safety Programme also add to our exemplary health and safety oriented work culture.

Collaborative Approach Towards Ensuring a Conducive Workplace

We undertake a collaborative approach between management and employees, giving our staff the voice to contribute towards the creation of an optimal workplace environment. Each of our plants has its own HSE Committee comprising of employees and management, who work collaboratively to develop, promote and evaluate measures to ensure our people's well-being and safety. Our plants also have emergency response teams who undergo annual emergency and crisis exercises to ensure they are able to respond quickly and effectively in the event of any emergencies.

Conducting Organisation Culture Survey to Measure High Performance

We measure our employee engagement levels through the PETRONAS Organisational Culture Survey (POCS) which assesses four key drivers of high performance to help us identify improvement areas to achieve higher performance. The POCS is conducted once every two years, with the last one in 2017, and the next one scheduled for 2019. Based on the Denison Model, POCS measures four key drivers of high performance among our employees which are mission, adaptability, involvement and consistency.

Competitive Salaries for Employees

We offer our people competitive salaries within the oil and gas sector in Malaysia in order to attract and retain the right talent that will help us drive our business goals and strategies.

How We Performed

- LTIF rate of **0.13** in 2018
- **7.77** Average training man-days per employee
- High employee participation rate of **96%** in POCS conducted in 2017
- **16** new Technical Professional developed
- **34%** technical executive completed ACD Assessment within 7 years
- **66%** non-technical executive achieved excellent result in OFA
- Ratio of Ready Talent to Critical Positions **2.3 : 1**

Trade-Off Between Capitals

Directors and employee-related costs significantly affect our Financial Capital. However, we believe the provision of competitive salary and benefits, investments in talent development, and spending on safety & health initiatives would create a productive, safe and healthy workforce. This high quality Human Capital will generate value across the business, positively affecting Manufactured, Social and Relationship Capital as well as Intellectual Capital.



Further details on talent development, and health and safety initiatives and performance trends can be found on pages 34 – 57 or our standalone SR, which is available online at www.petronaschemicals.com

Social and Relationship Capital



Intellectual Capital



Human Capital



Social and Relationship Capital

Our Social and Relationship Capital is defined by the relationships we have with our diverse spectrum of stakeholders. It encompasses customer relationship management, supplier relationships, business ethics and compliance, CSR initiatives, employee engagement and fair labour practices, business partners, shareholder relations and media relations. To build relationships of trust, recognition and advocacy with all our stakeholders, we believe in effectively managing stakeholders' perceptions of PCG's performance, behaviour and communications. Effective reputation management ensures our long-term business to drive sustainable business growth within a complex and shifting business landscape. For more information on our Business Partners, please refer to the Management Discussion and Analysis on pages 28 – 57 of this Integrated Report. Please also refer to Stakeholder Engagement on pages 72 – 73 of this Integrated Report for an overview of our stakeholder engagements.

Link To Strategic Response & Material Matters

Strategic Response:



Material Matters:

- Business Operations
- Social and Governance
- Growth

Customer Relationship Management

Our Customer Relationship Management (CRM) is premised on building strong partnerships with our customers as we create value for them. This involves us meeting their expectations and requirements, and working closely with them to co-create innovative products and applications that enhance their business. This approach results in our products bringing added value to our customers' business, thus contributing to their business growth. Ultimately, it leads to strengthened relationships with our existing network of customers, and puts us in a position to build strong relationships with new customers based on a track record of consistent and high quality product deliveries.

We also participate in regional events to enhance our industry reputation and networking capacities. In 2018, we were the main sponsor of APIC 2018 held in Malaysia. Our participation in this regional event enhanced our reputation as an active and responsible industry player, and further strengthen our relationship with petrochemical players in Northeast Asia and Southeast Asia.

Our products are available throughout the Asia Pacific region as well as in the USA. Our export market comprises a total of 29 countries, with our principal markets in Thailand, China, Indonesia, Vietnam and the Philippines, where we have subsidiaries and representative offices. About 31% of our products are consumed within Malaysia, and 37% in other Southeast Asia countries. The rest of our products are channelled to other markets such as China, Japan, South Korea, Taiwan, New Zealand and Australia where there are strong demand. By having overseas marketing subsidiaries, we strengthen market intelligence, savviness and ability to capture competitive insights to be the preferred partner of our customers.

We maintain a close relationship with our customers through a diverse range of activities. Our Customer Satisfaction Survey (CSS) which is conducted once every two years, is designed to obtain feedback from our customers, which we use to improve our customer-related operations and services. We also measure customers' feedback using Six Sigma methodology as a continuous improvement to eliminate defects in our products and services, hence achieving World Class performance of Sigma 5.0 in 2018. Additionally we monitor OFR to promote a performance-driven culture among our transporters to ensure customers' requirements are met.



PCG Head of Commercial, Shamsairi Mohd Ibrahim addressing customers at a dinner reception in Japan

How We Create Value

Social and Relationship Capital



Natural Capital



Financial Capital



Manufactured Capital

Product Stewardship

Product Stewardship is at the core of how we conduct our business and operations as a responsible chemical company. We regularly and systematically conduct product risk assessments on our chemical products to ascertain their risk category. This allows us to communicate accurate and sufficient information to our customers and stakeholders for safe handling and use of our products. By adhering to the guiding principles of product stewardship, we enable our stakeholders to maximise the value from our products with minimum impact to health and environment.

In 2018, we conducted a total of six product stewardship seminars in five countries that reached a wide ranging audience of 375 people who are in direct contact with our products. In addition, we also engaged in regular dialogues with industry professionals, trade associations and government agencies. We developed Global Product Safety Summaries (GPSS) as guided by the International Council of Chemical Associations (ICCA) in order to tabulate accurate information on the hazards and risk mitigations for our chemical products. This information is published in the ICCA portal to allow transparent and easy access by the public. As of 2018, we have completed the GPSS for 19 of our key chemical products, which are currently available at the ICCA portal.

As a signatory to the Responsible Care® global charter we fully embrace the best practices of the Responsible Care® programme. In 2018, we won 17 Responsible Care® awards in the categories of Distribution Code, Community Awareness and Emergency Response Code, Pollution Prevention Code, Process Safety Code, Employee Health and Safety Code as well as Product Stewardship Code.



Product Stewardship seminar conducted in Ho Chi Minh, Vietnam

Supplier Relationships

Our suppliers include feedstock and utilities suppliers from within the PETRONAS Group and its subsidiaries, as well as external suppliers for our manufacturing facilities, and logistics and service providers for the delivery of our products.

Relationships between PCG and other companies within the PETRONAS Group are conducted through multiple cross-business platforms at all levels up to senior leadership, working collaboratively to synchronise operational activities and sharing technical experience and expertise.

As for relationships with external suppliers, this is primarily governed by the PETRONAS Supply Chain Management Policy. The Policy covers vendors' selection and tendering processes to ensure that the suppliers we appoint are technically competent and their proposed solutions are commercially viable. It includes PCG's expectations of HSE requirements of our operations, and takes into account the supplier's previous industry track record.

An example of our effort in improving supplier safety can be seen through the transportation safety programme. Transportation safety is an area of critical concern, especially taking into account the hazardous nature of the chemicals we transport to our customers. We are continuously working with our transportation vendors to ensure high level of safe transportation and storage of chemicals along the whole value chain of our operations. Among measures we have implemented are subjecting our transporters' and their vehicles to rigorous tests and inspections to ensure they meet all expected vehicular and people requirements.



PCG Head of Manufacturing, Mahadzir Rani and Head of Production & Operation Management (POM) Upstream, Ruslan Abdul Ghani officiate the collaboration effort



Intellectual Capital



Human Capital



Social and Relationship Capital

Relations with Shareholders

To ensure that we maintain good relationships with our shareholders based on trust, transparent and continuous disclosures, we conduct a number of engagements during the year. The focal point of this is our Annual General Meeting (AGM) where the Chairman of our Board of Directors effectively communicates PCG’s performance outcomes for the year, and shares our forward strategy to continue engendering growth and deliver valuable returns to our shareholders. We exercise continuous sharing of information with the investment community to provide clarity on our ongoing business, operations and market outlook trends. Further details on Investor Relations can be found on pages 123 – 124.



 Q&A session at the AGM

Corporate Social Responsibility

We contribute to the well-being and empowerment of local communities within the areas that we operate through our CSR programmes which are guided by three pillars, namely Education, Community Well-being and Development as well as Environment.

Upholding the Education pillar, our Back-to-School programme supports learning initiative and also provides school necessity assistance to underprivileged students in our areas of operation.

Additionally, our Safe Handling of Chemicals at School (SHOC4School) programme imparts knowledge on safe handling of chemicals in the laboratory targeting science stream students, science teachers and school laboratory assistants.

Meanwhile, in supporting the community well-being and development pillar, the First Aider for Every Home (FAiEH) programme empowers local communities by providing fundamental first aid skills in order to respond quickly and effectively during emergency situations, thus

aiding in capabilities and skills development within local communities. This programme aims to produce at least one qualified first aider per family in the community.

Finally, our signature environmental conservation initiative, ecoCare, supports our sustainability development agenda in line with FTSE4Good requirements. ecoCare programme focuses on the reforestation and rehabilitation of ecologically sensitive mangrove habitat. Over the years, the programme has evolved from managing the ecosystem along Kertih river to setting up ecoCare Environmental Education Centre (EEC) that serves as a resource centre with facilities in promoting awareness and understanding of environmental conservation amongst students, teachers and community.

In order to gauge the effectiveness of our CSR programmes, we have incorporated feedback mechanisms into our individual programmes to gather views and opinions which offers us a valuable channel of engagement with our communities.

How We Create Value

Social and Relationship Capital



Natural Capital



Financial Capital



Manufactured Capital

Media Relations

We recognise the importance of effective communications and building relationships with media to maintain PCG's reputation and brand image. Such interactions are important to better understand how we can further create value for the media by understanding what is important to them. Our media engagement strategy aims to increase public confidence and maximise the experience of our stakeholders via organising effective engagements with media and sharing business and growth information in a transparent and timely manner to address media interests and fulfill public concerns. Over the years, PCG's business activities and financial performance are disseminated through announcements to media via distribution of press releases, postings on the company's website, interviews with the MD/CEO and other senior management, growth project site visits as well as press conferences. Throughout 2018, PCG conducted 18 engagement sessions with international and local media and trade publications. A total of 15 business and financial announcements as well as CSR programmes' press releases were distributed to relevant media in 2018. Our efforts resulted in gains in media mileage worth RM2.3 million.

Additionally, we shared 43 new media related items and pertinent information on PCG's media centre in the company's website. As part of our efforts to maintain good relationship with the media, we accommodated media requests and conducted five exclusive interviews with international media and trade publications as well as a press conference post the Annual General Meeting.



Press conference conducted upon completion of the 2018 Annual General Meeting

Employee Engagement and Fair Labour Practices

We have in place employee engagement platforms and policies governing fair labour practices to provide a workplace culture which encourages high levels of engagement with our people. High employee engagement levels are a critical component to ensure high productivity, especially in encouraging discretionary effort, and inspiring a high-performance work culture. Among PCG's employee engagement channels are regular townhall sessions, HSE campaigns, staff engagement and appreciation sessions.

Besides ensuring a wide demographic of employees offering differing opinions and perspectives, we also promote fair and equal treatment of all our employees, regardless of age, gender and ethnicity. As well as that, PCG believes in upholding and promoting fundamental human rights and fair labour practices within all our operational facilities.

We practice the recruitment and promotion of women in our workforce, especially within traditionally male-dominated areas of technical jobs at our plants. As a result, we recorded a 1% increase in female employees in 2018 from the previous year.

We have also introduced work life balance initiatives to help our people balance their personal needs with the demands of their job. These include special rooms for breastfeeding mothers, flexible working hours, access to gym facilities and an employee referral programme for those who require professional assistance from experts for personal and family matters. Ongoing engagement sessions are a focal point of the conversation we have with our people to motivate them and allow them to voice their opinions and grievances with management. As well as that, in order to demonstrate our appreciation to loyal staff who have contributed their service to the Group, we have in place long service awards for our employees.

Our Whistleblowing Policy allows for employees and members of the public to disclose any improper conduct through internal channels. This includes instances of fraud, bribery, abuse of power, conflict of interest, theft or embezzlement, misuse of company property and non-compliance with procedures. We have a number of easily accessible reporting channels in place such as e-mail, online submission through our website, in person to the Head of HR Business/Operating Units, using the Whistleblower Form, in writing to the PETRONAS Whistleblowing Committee and through our Whistleblowing hotline which is available during office hours from Monday to Friday. In so far as is reasonable, all whistleblowers are given the protection of confidentiality of identity.

Employees who wish to air their grievances can utilise the Whistleblowing process or personally file their complaints with the HR Department. We provide an Employee Assistance Programme (EAP) which our staff can access via a hotline number and e-mail to help them resolve any behavioural, health or productivity problems they may be facing which is adversely affecting their well-being. In addition, we have adopted the PETRONAS Health Programme which among other things, entitles staff aged 30 years old and above to Preventive Health Screening every two years, while staff aged 46 years and above are entitled to it annually.

Union representation is available to all non-executive PETRONAS staff, except for confidential staff members such as HRM and Security. However, all non-executive staff are eligible for any benefit agreed in the Collective Agreement regardless of whether they are a member of the Union. The human rights of our employees are safeguarded under the Turnaround Management Guideline which deals with employee working hours. It applies to all our plants and covers not just turnaround activities, but extends to plant shutdowns and project executions. The guideline is also in compliance with fatigue management and provides compensation to our staff.



Intellectual Capital



Human Capital



Social and Relationship Capital

Business Ethics and Compliance

We believe in maintaining the highest levels of business ethics and compliance amongst all levels of our organisation to reinforce the high levels of confidence in PCG from Government regulators, shareholders and investors. Our business compliance covers a range of ethical and regulatory areas including anti-competition, strategic trade, anti-bribery, international sanctions and data protection.

The principles governing our ethical standards and compliance can be found within CoBE, PETRONAS Whistleblowing Policy, Corporate Disclosure Guide and the Anti-Bribery and Corruption Manual. Annual training is conducted for all employees covering the areas of Misconduct, PETRONAS Disciplinary Process, Managing

Absenteeism, PETRONAS Whistleblowing Policy, Conflict of Interest and any Industrial Relations issues. All new recruits are required to undergo CoBE Module training during their induction programme. In 2018, all new staff underwent CoBE training, while a total of 320 staff attended the annual training. No whistleblowing cases or incidents of corruption were reported during the year. For more information on internal controls and corporate governance framework to promote ethical business, please refer to our CG Overview Statement in this Integrated Report and the Board Audit Committee Report in the standalone governance publication.

How We Performed

• **Order Fulfilment Reliability**

	Order Fulfilment Reliability
2018	93%
2017	94%
2016	95%

Basis: Peer benchmark is 90%

• **Customer Feedback (6 Sigma)**

	Customer Feedback (6 Sigma)
2018	5.0
2017	5.2
2016	5.0

Basis: Sigma 5.0 and above is World Class performance

- Shareholders engagements focused on being transparent about our strategy and conveying the context of our business
- More than **13,000** people benefitted from our CSR programmes and about **3,000** mangrove trees are seeded and replanted in an area of **11,000** square meter along Kertih river
- Gained media mileage worth **RM2.3 million**
- Fair and equal treatment of all our employees
- No whistleblowing cases or incidents of corruption reported in 2018

Trade-Off Between Capitals

The relationships with our stakeholders, both external and internal are crucial for our business. As we invest in enhancing the Social and Relationship Capital with our stakeholders, we are positively affecting the availability and quality of all capitals across the board, including Human Capital and Financial Capital. By continuously engaging our employees and applying fair labour practices we ensure a sustainable workforce to support our operations, while our efforts to forge long-term partnerships and effective communications with our customers and suppliers will be reflected in a stronger financial bottom line.



Further details on employee, supply chain management, product stewardship and community related initiatives can be found on pages 34 – 57 on our standalone SR which is also available online at www.petronaschemicals.com.

GOVERNANCE

We disclose our Corporate Governance Overview Statement, to be read together with our standalone publication - A Commitment to Governance and Corporate Governance Report 2018.



MEETING



Chapter 6

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120 Effective Audit and Risk Management

122 Integrity and Ethics

123 Communication with Stakeholders

The following navigation icons are used to link our strategy and resources to material matters, strategic risks, key performance indicators and performance:

Main Capitals



Natural



Financial



Manufactured



Intellectual



Human



Social and Relationship

Strategic Thrusts



Operational Excellence



Commercial Excellence



Growth Delivery Excellence

Corporate Governance Overview Statement

Committed to the Highest Standards



1 Application on Malaysian Code on Corporate Governance

Responsibility for good governance lies with the Board

The Board is primarily responsible in ensuring the highest standards of corporate governance as set out in the MCCG 2017. This Corporate Governance Overview Statement should be read in conjunction with the Corporate Governance Report and the standalone governance publication, titled A Commitment to Governance (ACG). These publications describe how the Board applies the main principles of good governance during the year under review, and are accessible online at www.petronaschemicals.com.

Corporate Governance Overview Statement



2 Compliance Statement

The Board is committed to maintain the highest levels of governance and integrity within the Group, based on the three principles of:

- Leadership and Effectiveness
- Accountability
- Communication with Stakeholders

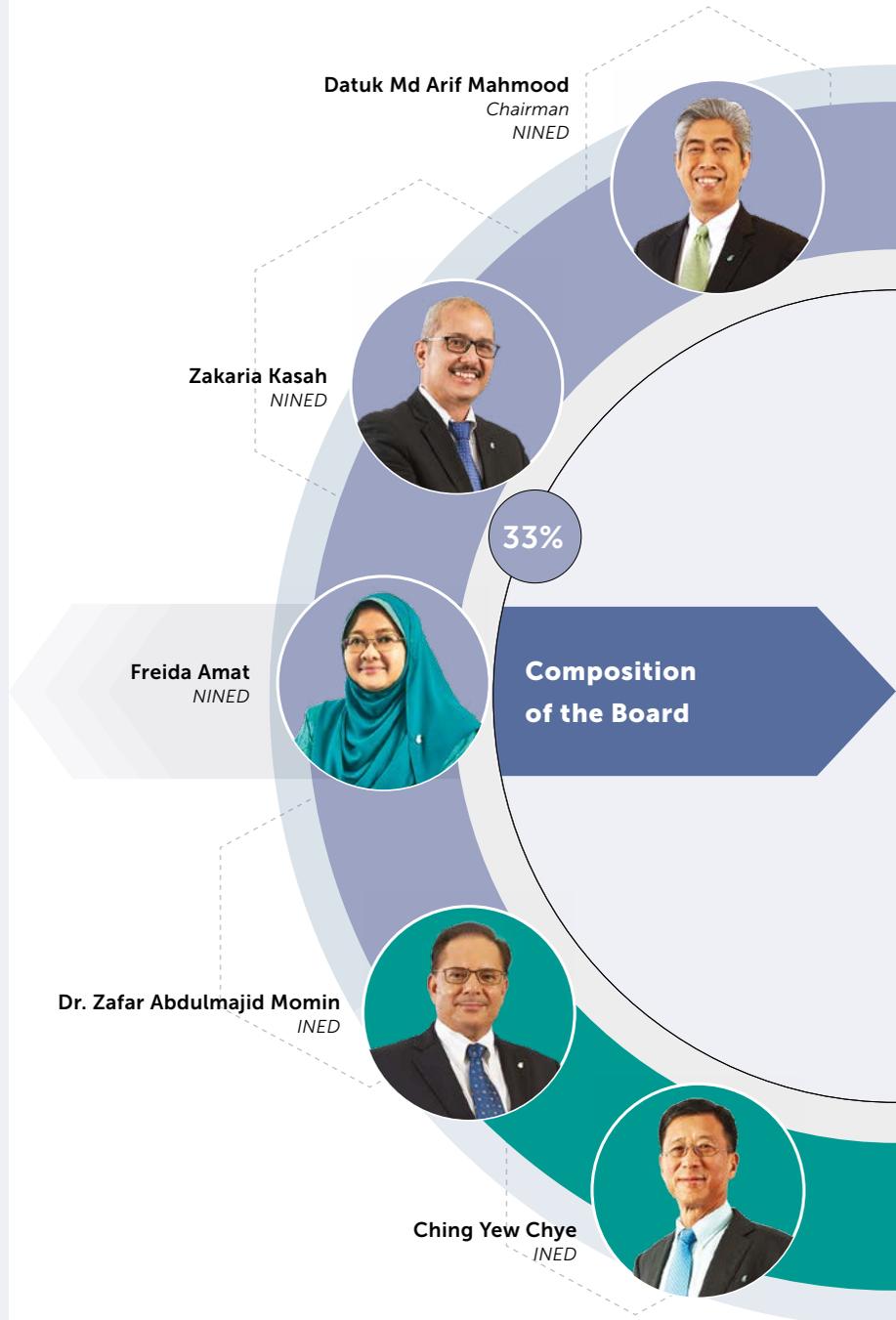
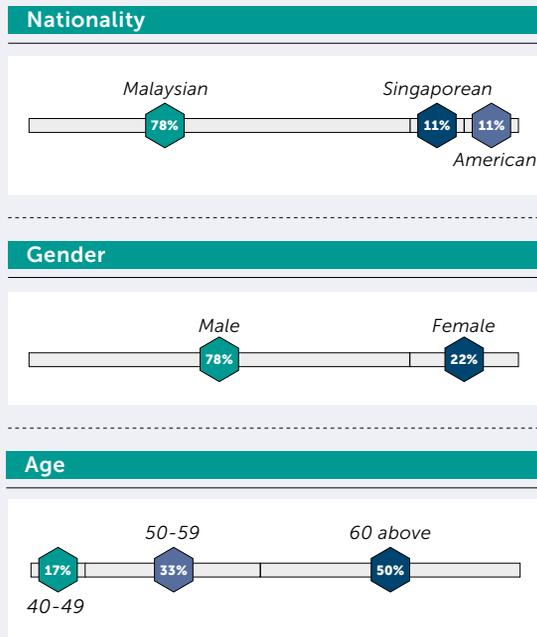
The application of the MCCG 2017 is on an “apply or explain” basis and the practices underpinning the principles are entrenched in many of the Group’s internal controls, policies and procedures governing corporate conduct. The Board is satisfied that the Group has adopted and applied the principles, best practices and the MMLR by Bursa Malaysia, along with Companies Act 2016 and Corporate Governance Guide (3rd Edition) issued by Bursa Malaysia.

Board Composition, Profiles and Structure

LEADERSHIP

Our Board

PCG continues to be led by an active, engaged and experienced Board. The Board seeks to ensure it has an appropriate mix of diversity, skills and experience to discharge its responsibilities effectively. At present, our Board comprises nine highly dedicated individuals with notable careers in their respective fields.



Board Skills Matrix and Experience



Board Composition, Profiles and Structure

LEADERSHIP



Key Features of Our Board

Board Balance

→ The Board comprises **majority of Independent Directors**

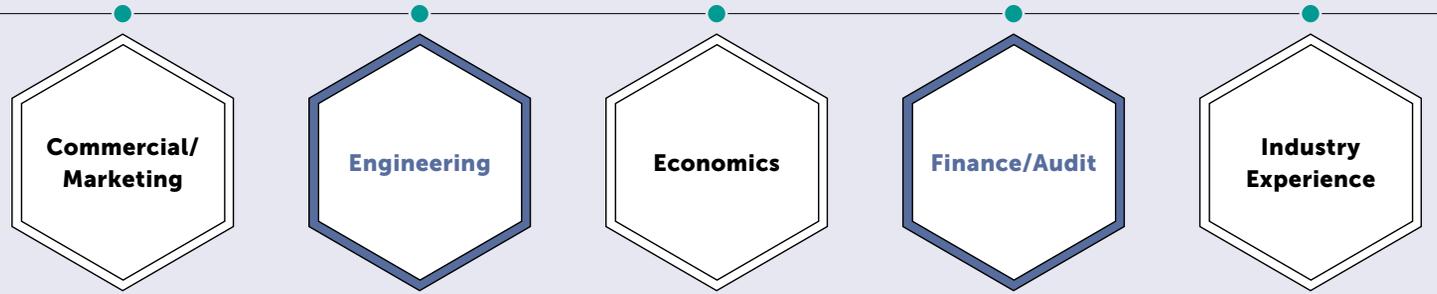
A Newly Established Board Risk Committee

→ Composed of three INEDs and one NINED, of which the Chairman is an INED

Roles

→ The roles of the Chairman and MD/CEO are **separate** and **distinct**

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



Board Composition, Profiles and Structure

As at 25 February 2019

LEADERSHIP



Datuk Md Arif Mahmood

*Chairman
Non-Independent
Non-Executive Director*

Nationality: Malaysian
Gender: Male
Age: 56

DATE APPOINTED TO BOARD

1 May 2015

LENGTH OF SERVICE

3 years and 10 months

BOARD COMMITTEE

Nil

Board Skills Matrix:

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

Industry Experience:

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



Further details about Datuk Md Arif Mahmood, can be found on page 03 of ACG, which is available online at www.petronaschemicals.com



Datuk Sazali Hamzah

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

Nationality: Malaysian
Gender: Male
Age: 52

DATE APPOINTED TO BOARD

8 May 2014

LENGTH OF SERVICE

4 years and 2 months

BOARD COMMITTEE

Nil

Board Skills Matrix:

- Engineering
- Operations
- Commercial/Marketing

Industry Experience:

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



Further details about Datuk Sazali Hamzah, can be found on page 03 of ACG, which is available online at www.petronaschemicals.com



Vimala V. R. Menon

Senior Independent Director

Nationality: Malaysian
Gender: Female
Age: 64

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)

Board Skills Matrix:

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

Industry Experience:

- Banking and Finance
- Regional/International



Further details about Vimala V. R. Menon, can be found on page 04 of ACG, which is available online at www.petronaschemicals.com



Board Composition, Profiles and Structure

As at 25 February 2019

LEADERSHIP



Datuk William Toh Ah Wah

Independent
Non-Executive Director

Nationality: Malaysian
Gender: Male
Age: 61

DATE APPOINTED TO BOARD

13 June 2014

LENGTH OF SERVICE

4 years and 8 months

BOARD COMMITTEE

- Chairman of NRC
- Member of BAC

Board Skills Matrix:

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

Industry Experience:

- Regional/International



Further details about Datuk William Toh Ah Wah, can be found on page 04 of ACG, which is available online at www.petronaschemicals.com



Warren William Wilder

Independent
Non-Executive Director

Nationality: American
Gender: Male
Age: 61

DATE APPOINTED TO BOARD

1 July 2018

LENGTH OF SERVICE

7 months

BOARD COMMITTEE

- Chairman of BRC

Board Skills Matrix:

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

Industry Experience:

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



Further details about Warren William Wilder, can be found on page 05 of ACG, which is available online at www.petronaschemicals.com



Ching Yew Chye

Independent
Non-Executive Director

Nationality: Malaysian
Gender: Male
Age: 65

DATE APPOINTED TO BOARD

13 August 2010

LENGTH OF SERVICE

8 years and 6 months

BOARD COMMITTEE

- Member of NRC
- Member of BAC

Board Skills Matrix:

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

Industry Experience:

- Banking and Finance
- Regional/International



Further details about Ching Yew Chye, can be found on page 05 of ACG, which is available online at www.petronaschemicals.com

Board Composition, Profiles and Structure

As at 25 February 2019

LEADERSHIP



Dr. Zafar Abdulmajid Momin

Independent
Non-Executive Director

Nationality: Singaporean
Gender: Male
Age: 60

DATE APPOINTED TO BOARD

1 July 2018

LENGTH OF SERVICE

7 months

BOARD COMMITTEE

- Member of BRC

Board Skills Matrix:

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

Industry Experience:

- Shipping/Logistics
- Regional/International

Further details about Dr. Zafar Abdulmajid Momin, can be found on page 06 of ACG, which is available online at www.petronaschemicals.com



Zakaria Kasah

Non-Independent
Non-Executive Director

Nationality: Malaysian
Gender: Male
Age: 54

DATE APPOINTED TO BOARD

31 July 2015

LENGTH OF SERVICE

3 years and 7 months

BOARD COMMITTEE

- Member of BRC

Board Skills Matrix:

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

Industry Experience:

- Oil and Gas
- Regional/International

Further details about Zakaria Kasah, can be found on page 06 of ACG, which is available online at www.petronaschemicals.com



Freida Amat

Non-Independent
Non-Executive Director

Nationality: Malaysian
Gender: Female
Age: 50

DATE APPOINTED TO BOARD

31 July 2015

LENGTH OF SERVICE

3 years and 7 months

BOARD COMMITTEE

- Member of BAC

Board Skills Matrix:

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

Industry Experience:

- Oil and Gas
- Regional/International

Further details about Freida Amat, can be found on page 07 of ACG, which is available online at www.petronaschemicals.com

Additional Information:

- 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.

LEADERSHIP



Datuk Sazali Hamzah

Age: 52
Nationality: Malaysian
Gender: Male

Managing Director/Chief Executive Officer

Description of roles:
 Datuk Sazali Hamzah is responsible for the overall operational, financial and sustainable management of PCG and its subsidiaries. He sits on the Board of PCG and several PETRONAS companies.

Date of appointment: 08/05/2014

- Experience Matrix:**
- Corporate Governance
 - Human Resource
 - Industry Experience
 - Risk Management
 - Strategic Marketing
 - Strategy Development and Implementation
 - Technology



Rashidah Alias

Age: 46
Nationality: Malaysian
Gender: Female

Chief Financial Officer

Description of roles:
 Rashidah Alias is 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. She sits on the Board of several PETRONAS companies.

Date of appointment: 01/11/2015

- Experience Matrix:**
- Accounting
 - Corporate Governance
 - Finance
 - Industry Experience
 - Risk Management
 - Strategy Development and Implementation



Shamsairi Mohd Ibrahim

Age: 52
Nationality: Malaysian
Gender: Male

Head of Commercial

Description of roles:
 Shamsairi Mohd Ibrahim is responsible for PCG's overall commercial excellence. He is CEO of both PC Marketing and PC Marketing Labuan, and sits on the Board of several PETRONAS companies.

Date of appointment: 01/09/2017

- Experience Matrix:**
- Corporate Governance
 - Industry Experience
 - Risk Management
 - Strategic Marketing
 - Strategy Development and Implementation
 - Technology



Mahadzir Rani

Age: 51
Nationality: Malaysian
Gender: Male

Head of Manufacturing

Description of roles:
 Mahadzir Rani is responsible for PCG's overall operational excellence and sits on the Board of several PETRONAS companies.

Date of appointment: 01/07/2017

- Experience Matrix:**
- Corporate Governance
 - Human Resource
 - Industry Experience
 - Risk Management
 - Strategic Marketing
 - Strategy Development and Implementation
 - Technology

Management Committee

LEADERSHIP



Akbar Md Thayoob

Age: 55
Nationality: Malaysian
Gender: Male

Head of Strategic Planning & Ventures

Description of roles:
 Akbar Md Thayoob is responsible for PCG's overall strategic planning, business development and ventures management. He sits on the Board of several PETRONAS companies.

Date of appointment: 01/09/2017

- Experience Matrix:**
- Human Resource
 - Industry Experience
 - Risk Management
 - Strategic Marketing
 - Strategy Development and Implementation
 - Technology



Datin Zarina Zakaria @ Mohamad

Age: 51
Nationality: Malaysian
Gender: Female

Head of Human Resource Management

Description of roles:
 Datin Zarina Zakaria @ Mohamad is responsible for PCG's people strategies, talent development and management, as well as human resource services.

Date of appointment: 01/10/2014

- Experience Matrix:**
- Corporate Governance
 - Human Resource
 - Strategy Development and Implementation



Ch'ng Guan How

Age: 49
Nationality: Malaysian
Gender: Male

Chief Innovation & Technology Officer

Description of roles:
 Ch'ng Guan How is responsible for PCG's product development, customer application co-development, technical support, product stewardship functions to deliver innovative customer solutions.

Date of appointment: 01/04/2017

- Experience Matrix:**
- Human Resource
 - Industry Experience
 - Risk Management
 - Strategic Marketing
 - Strategy Development and Implementation
 - Technology



Hasnizaini Mohd Zain

Age: 44
Nationality: Malaysian
Gender: Female

Head of Legal and Corporate Secretariat

Description of roles:
 Hasnizaini Mohd Zain is responsible for PCG's legal affairs and company secretarial services, and sits on the Board of several PETRONAS companies.

Date of appointment: 01/05/2018

- Experience Matrix:**
- Corporate Governance
 - Law
 - Human Resource
 - Industry Experience

LEADERSHIP



Ahmad Zaki Daud

Age: 46
Nationality: Malaysian
Gender: Male

Head of Health, Safety & Environment

Description of roles:

Ahmad Zaki Daud is responsible for PCG’s overall HSE performance, process safety and sustainable development.

Date of appointment: 01/09/2015

Experience Matrix:

- Industry Experience
- Risk Management
- Strategy Development and Implementation
- Technology



Siti Azlina Abd Latif

Age: 47
Nationality: Malaysian
Gender: Female

Head of Corporate Affairs & Administration

Description of roles:

Siti Azlina Abd Latif is responsible for planning, development and implementation of all PCG’s corporate branding, stakeholder and media management, communication and reputation management.

Date of appointment: 01/08/2016

Experience Matrix:

- Accounting
- Corporate Governance
- Risk Management
- Strategic Marketing
- Strategy Development and Implementation



Mohd Zakir Jaafar

Age: 48
Nationality: Malaysian
Gender: Male

Head of Project Directorate

Description of roles:

Mohd Zakir is responsible for the delivery and execution of PCG’s key projects.

Date of appointment: 01/01/2019

Experience Matrix:

- Human Resource
- Industry Experience
- Risk Management
- Strategy Development and Implementation
- Technology

Our Governance Structure

LEADERSHIP

How We Approach Our Governance

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

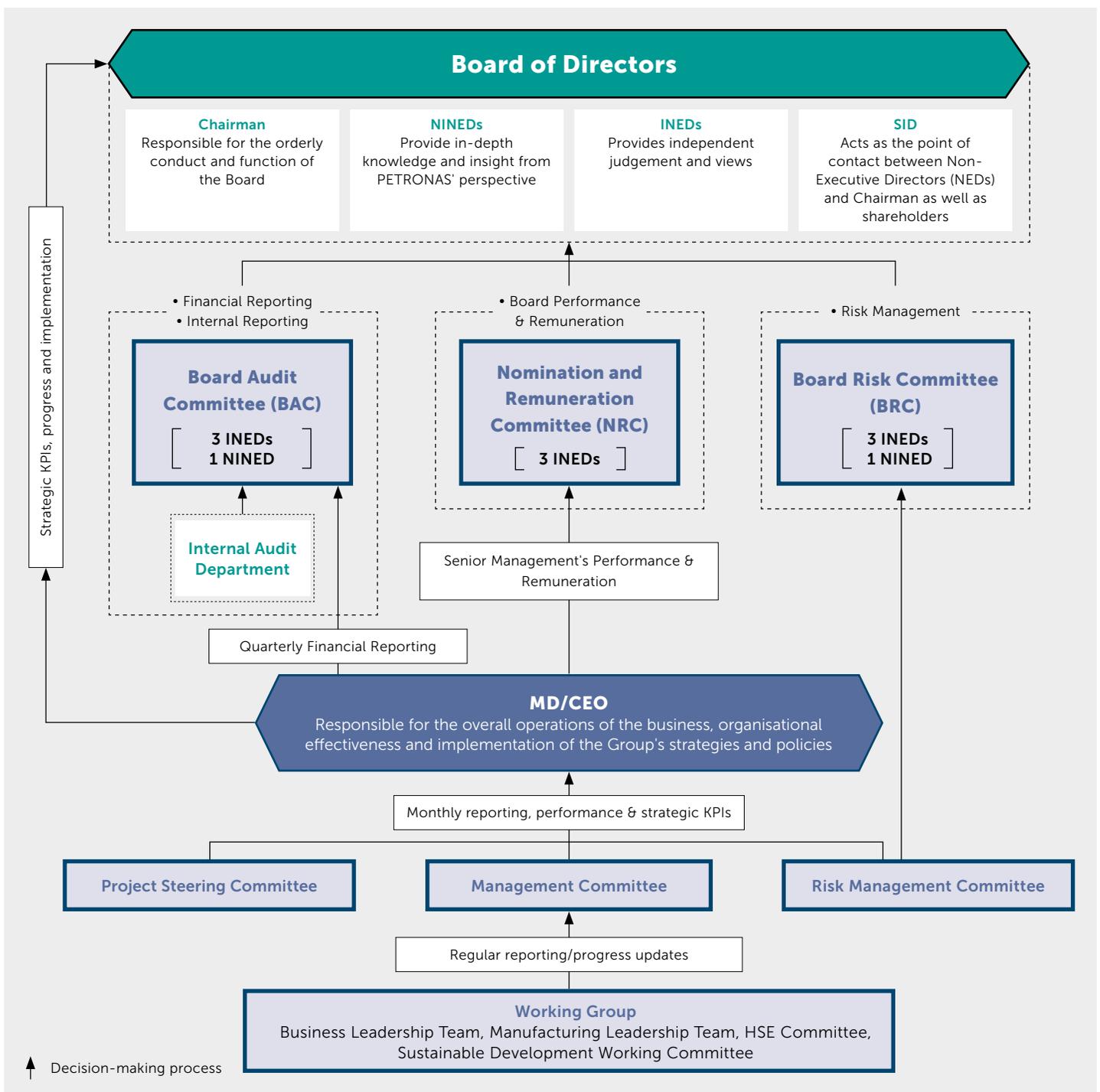
Our Governance Framework

Good corporate governance enhances the credibility and reputation of the Company, as well as promoting and safeguarding the interests of shareholders and other stakeholders. Maintaining

a good and solid framework of corporate governance continues to be PCG's top priorities.

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

We continually look to enhance our governance framework to best adhere to new guidelines and governance practices. In view of this, our Board instituted the Board Risk Committee (BRC) on 25 February 2019. The role of the BRC is to review the policy and plans for risk management and its effectiveness.



The Board 2018 Activities and Priorities

LEADERSHIP

Duties and Responsibilities of the Board

In 2018, the Board discharged its duties and responsibilities by deliberating various agendas including strategic, operational, financial, human resources and corporate governance. These agendas had strong links to our two-pronged strategy and its three strategic thrusts of Operational Excellence, Commercial Excellence and Growth Delivery Excellence. Our Board has four scheduled meetings in a year, while additional ad-hoc meetings are convened as and when needed. Aside from Board meetings, urgent decisions were also approved via Directors’ Circular Resolutions. The Board also conducts Board Strategic Conversation, attended by all members of the Management Committee to deliberate on the Group’s strategic direction and growth.

Board Key Focus Areas in 2018

Topic	Description
Strategy	
Group’s Business Plan (BP)	<p>The Board deliberated on strategic insights and approved PCG’s BP which spans over five years. Projections presented to the Board were prepared against market forecast. Our strategic initiatives are based on three strategic thrusts namely Operational Excellence, Commercial Excellence and Growth Delivery Excellence were also presented to the Board for their deliberation. The Board also deliberated on PCG’s resource allocation plans as well as potential risks and mitigations towards achieving the targets set.</p> <p>The Board continued to monitor the sustenance of current business operations and performance progress against the business plans target taking into consideration changes in the global economy, oil and gas industry landscape as well as emerging risks.</p>
Progress of Growth Delivery Excellence	<p>The Company’s strategic directions, execution and performance in pursuing Growth Delivery Excellence via extend value chain, build specialty platform and create optionality for growth were periodically reviewed at the Board for guidance and directions of way forward.</p> <p>During the year, the Board reviewed the progress of our petrochemicals project in PIC encompassing its execution, operational and commercial readiness. The Board also oversaw the progress of each new opportunities evaluated by the Company to selectively diversify the portfolio into derivatives and specialty chemicals. The realisation of PCG’s growth journey were also deliberated at length in assuring the Company long-term aspiration is realised.</p> <p>The Board had also provided their guidance on PCG’s equity divestment in PPC until its completion.</p>
Guidance on Research and Development (R&D)	<p>The Board provided guidance on research approach as well as method of execution to bring R&D project towards technology maturity and commercialisation.</p>
Strategic Initiatives	<p>The Board deliberated on various strategic initiatives carried out by the Company comprising enterprise optimisation as well as value enhancement of existing portfolio and our current joint ventures to sustain position as a regional leader and deliver strong business results.</p>
Financial	
Reviewed and Approved the Group’s Budget	<p>The Board deliberated, provided direction and approved the 2019 Budget. As performed annually, the Board approved the budget and resource allocation for the following year as well as endorsed the forecast for the next four years. Budget is presented to the Board quarterly for progress updates and review, based on operational performance, strategic outcomes, and any changes to the operational or external environment.</p>
Reviewed and Approved the Group’s Performance on Quarterly Basis	<p>The Business Performance Report is mandatory to be reported at quarterly Board meetings. Performance is measured and tracked against the approved KPIs. The MD/CEO and Key Management’s KPI and their performance were presented to the Board to oversee, measure and track against the approved KPI targets for the year in achieving the Company’s aspiration and objective. On quarterly basis, the Board was updated on the performance against the BP targets.</p>

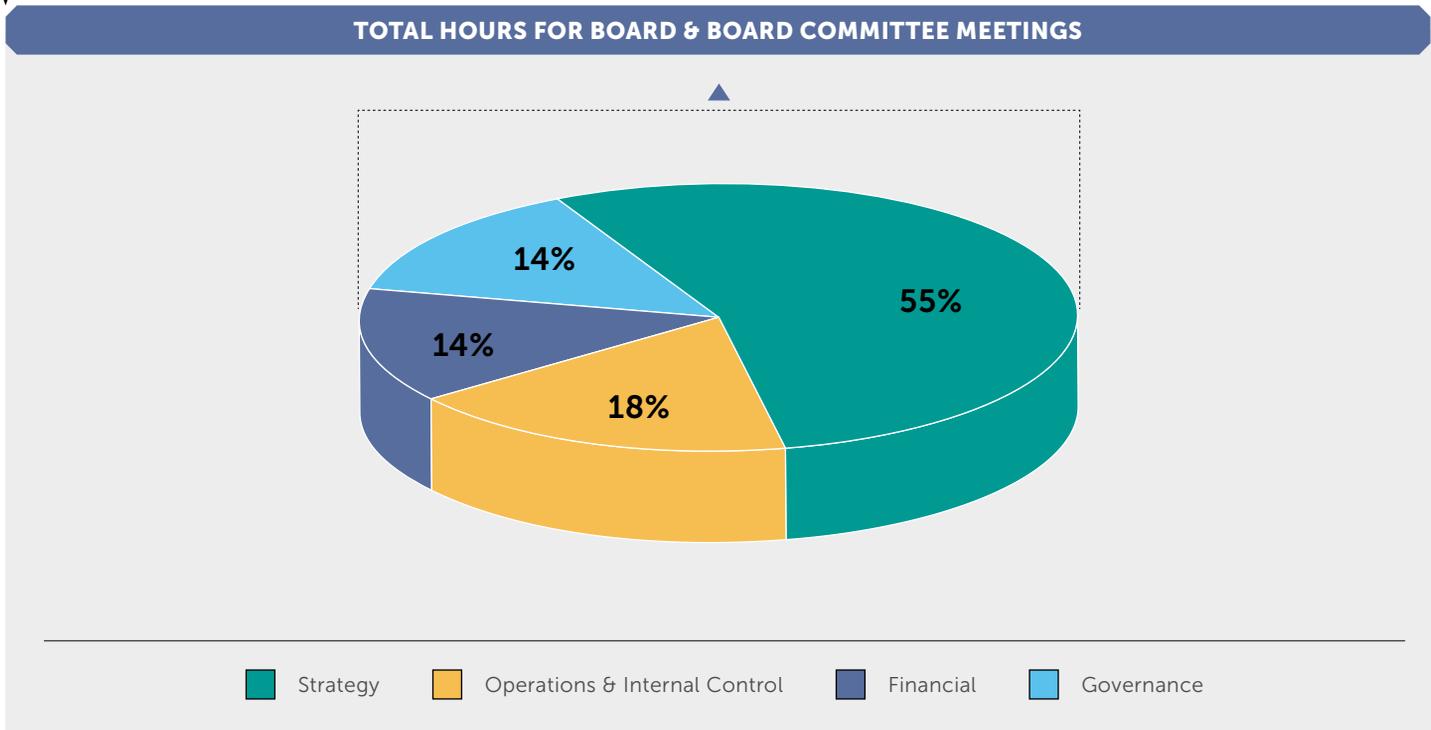
The Board 2018 Activities and Priorities

LEADERSHIP

Topic	Description
Risk	
Identified and Managed Principal Risks	<p>The Board deliberated and approved PCG’s critical risks that may significantly impact PCG’s business goals and targets. The Board constantly monitors the agreed mitigations to manage or reduce the impact of these critical risks. Key risk indicators which provide early warnings on the increasing likelihood or impact of these critical risks towards PCG business objectives were also reported to the Board.</p> <p>To ensure risks undertaken in pursuit of business objectives are within the acceptable level, the Board approved the PCG risk appetite which sets its key operational boundaries. Any breach of risk appetite may jeopardise PCG business sustainability, hence, will be escalated to the Board for deliberation.</p> <p>Various emerging risks or opportunities resulting from volatile, uncertain and complex external environment such as US-China trade war, single use plastics and cyber security, with its preliminary assessment towards PCG business are identified and reported to the Board.</p>
Governance	
Implementation and Monitoring of Succession Planning	<p>As part of the role of the Board of PCG, the Board ensures that there is an appropriate succession plan for members of the Board.</p> <p>Pursuant to the NRC’s terms of reference, the NRC has the primary responsibility for identifying suitable candidates for Board’s positions. A screening and assessment process which may include interviews will be carried out by the NRC. The Company has in place the Board Selection Criteria and process flow for appointment of a director.</p> <p>During the year, the Board has approved the Board Succession Plan Framework in order to ensure smooth transition of change of directors. This is to assist the NRC to:</p> <ul style="list-style-type: none"> (a) Identify suitable candidates ahead of time in order to facilitate a rapid response to an anticipated retirement or unanticipated departure of directors. (b) To assess the competencies as well as the skills and experience of the new directors in order to ensure that they bring to the Board the required skills and experience to fill the defined gaps.
Reviewed the Master Services Agreement (MSA) (formerly known as Centralised Support Functions Agreement (CSFA)) and Limits of Authority (LOA) for the Group	<p>Reviewed changes on the followings:</p> <ol style="list-style-type: none"> 1. MSA covering new Finance Centre of Excellence (COE) services and other centralized functions between PETRONAS and PCG and its subsidiaries. 2. LOA to align with the revision of Finance organisational structure in PCG Group due to Finance COE.
Related Party Transaction (RPT)/Recurrent Related Party Transaction (RRPT)	<p>The BAC and Board reviewed all RPTs and RRPTs to ensure all transactions are at arm’s length and were carried out on normal commercial terms and not to the detriment of the minority shareholders.</p>

The Board 2018 Activities and Priorities

LEADERSHIP



EFFECTIVENESS

Board Diversity

The Board recognises the benefits of diversity in all its forms, at Board level and throughout the Group. During 2018, the Board comprised Directors from various nationalities, coupled with a wide range of backgrounds and expertise. The Board supports the country's aspirations of 30% female representations at Directors level and is ever vigilant in sourcing for the right mix of talent, expertise and knowledge to strengthen the current membership. During the year under review, 22% of the Board were women.

Board Induction and Continuing Development Programme for Directors

All new Directors appointed to the Board receive a comprehensive induction programme. These include 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 the ongoing and potential projects. During the year, our two newly appointed Directors had also completed the Mandatory Accreditation Programme, in compliance with the MMLR.



Further details on our Board Diversity can be found on page 14 in our standalone ACG which is available online at www.petronaschemicals.com

Effectiveness and Remuneration

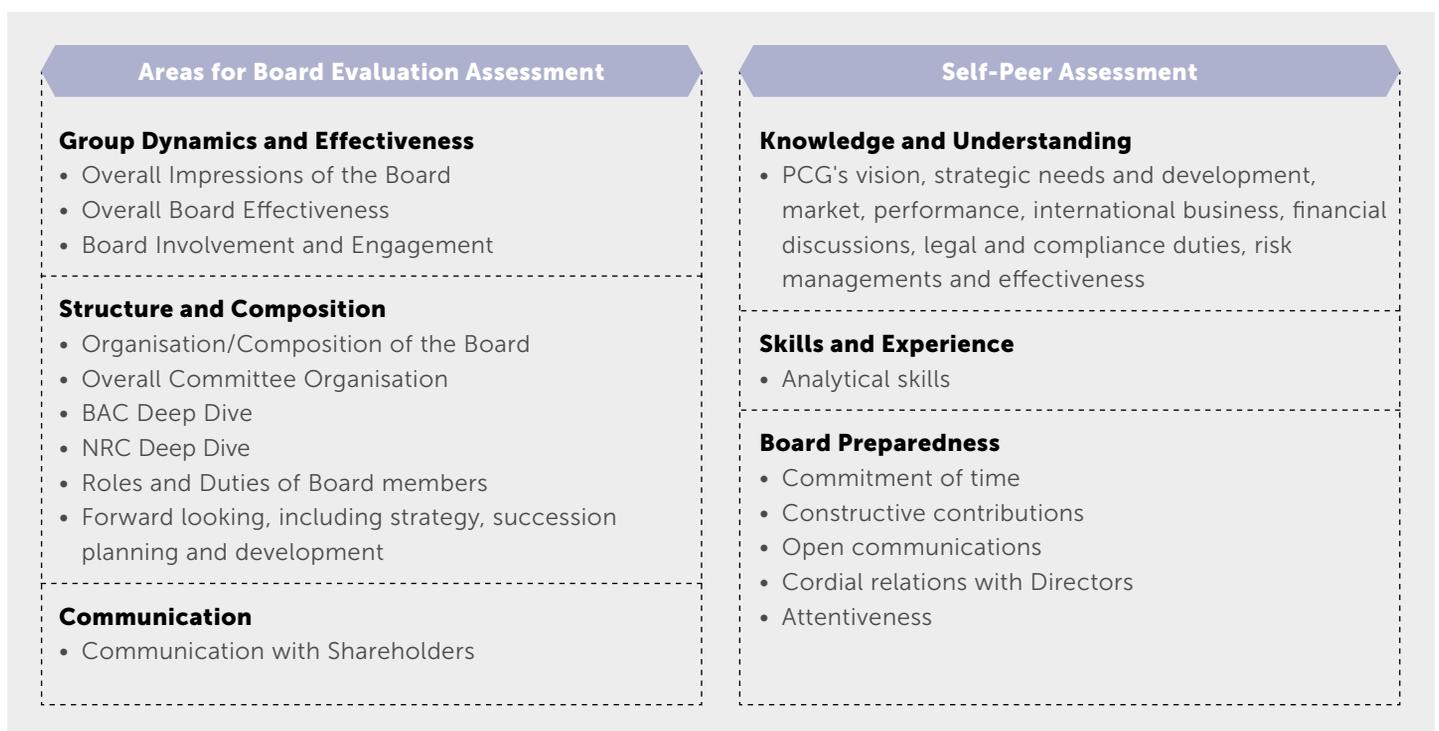
EFFECTIVENESS

Board Effectiveness Evaluation

A formal Board Effectiveness Evaluation (BEE) is undertaken on an annual basis to assess the effectiveness of the following:

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

For the year under review, the BEE was internally conducted. The questionnaires on the BEE incorporated applicable best practices, whereby the indicators used by the Board include among others, the Board composition, planning process, conduct, communication with the management and stakeholders as well as strategy and planning for the Group.



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 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.

Effectiveness and Remuneration

EFFECTIVENESS

Directors' Fees

The approach to Directors' fees are 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)
		Board (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 approvals 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.

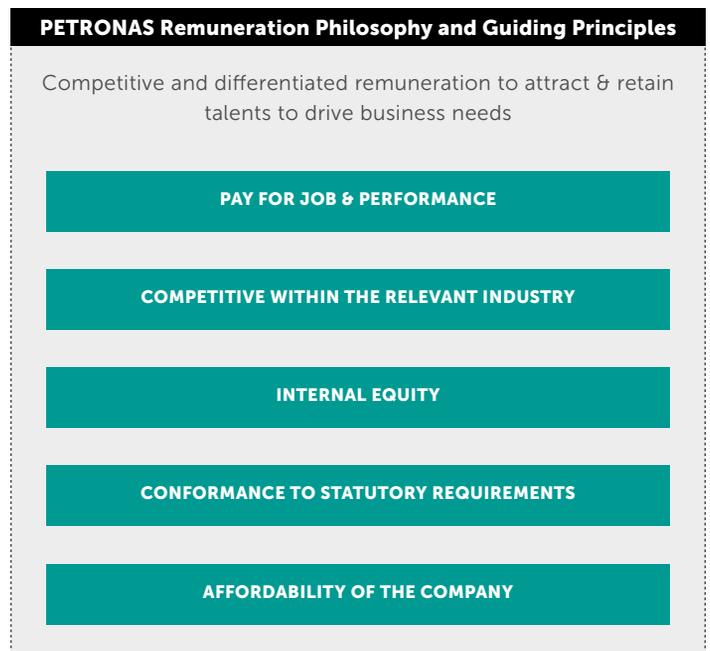
The Company also reimburses all expenses incurred by the Directors, where relevant, in the course of carrying out their duties as Directors.

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

Datuk Sazali Hamzah, the MD/CEO and an 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 costs 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 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.



Effective Audit and Risk Management

ACCOUNTABILITY

As part of its efforts to ensure effective audit and risk management, the Board has delegated its function to the BAC.

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

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

BAC 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's revised MSA.
- 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 and endorsed 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.

Effective Audit and Risk Management

ACCOUNTABILITY

Internal Audit

- a) 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.
- b) Monitored the implementation of Agreed Corrective Actions on audit findings until duly resolved on quarterly basis.
- c) 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.
- d) 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.
- e) Reviewed the Internal Audit Charter.

Related Party Transactions and Conflict of Interest

The BAC reviewed all RPTs/RRPTs in accordance with the PCG’s 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:

- a) The status of the Company’s RPTs/RRPTs.
- b) The Independent Advisor’s Report for RRPT Phase 1 and Phase 2 in respect of the Company’s project in PIC.
- c) The performance of RPT/RRPT’s vendors.

External Audit

- a) 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.
- b) Reviewed with the external auditors the results of the statutory audit and the audit report.
- c) Reviewed the proposed fees for the statutory audits.
- d) 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.
- e) During the year, PCG engaged the external auditors for certain non-audit services. Further details on the total non-audit fees paid to the external auditors can be found on page 26 of our standalone ACG which is available online at www.petronaschemicals.com.

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 Terms of Reference.

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.



Integrity and Ethics

ACCOUNTABILITY

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



Further details of CoBE is available online at www.petronaschemicals.com

Whistleblowing Policy

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



Further details on the PETRONAS Whistleblowing Policy is available online at www.petronaschemicals.com

Corporate Disclosure Guide

The Company has in place an internal corporate disclosure guide that provides guidelines on 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 Guidelines [3rd 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.

Risk Management and Internal Control

The Board acknowledges the importance of maintaining a sound internal control system and 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.

The Group's approach to risk management and internal control is discussed in more detail on the Statement on Risk Management and Internal Control as set out on page 32 to 42 of the ACG publication.

Communication with Stakeholders

COMMUNICATION WITH STAKEHOLDERS

Communicating Effectively With Stakeholders And Investors

The Board recognises the importance of effective dialogue with stakeholders and investors. We believe that communication with our stakeholders is a two-way process. We take into consideration views and feedback that we receive from all 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 analysts, institutional investors (local and international) as well as retail shareholders. 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 MCGG 2017’s provisions concerning dialogue with shareholders and with good governance.



Further details on how we engage our stakeholders can be found on page 72 of this Integrated Report

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

In addition, the Company actively updates its website www.petronaschemicals.com with the latest information on the corporate and business aspects of the Group. Press releases, announcements to Bursa Malaysia, media conference post AGM, analyst briefings and quarterly results of the Group are also made available on the website and this serves to promote accessibility of information for the Company’s shareholders and all other market participants. Communication and feedback from investors can also be directed to email address petronaschemicals_ir@petronas.com or alternatively, it can be addressed to:

ZAIDA ALIA SHAARI
Head of Investor Relations

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

Communication with Stakeholders

COMMUNICATION WITH STAKEHOLDERS

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

VIMALA V.R. MENON

Senior Independent Director

PETRONAS CHEMICALS GROUP BERHAD

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 Proxy Form 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. 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 20th AGM of the Company held on 2 May 2018, representing an increase of 10.0% from the attendance at the 19th AGM in 2017.

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

ADDITIONAL INFORMATION

Chapter 7

- 126** List of Properties
- 130** Analysis of Shareholdings
- 133** Corporate Directory
- 135** Notice of Annual General Meeting
- 138** Administrative Details for PCG
21st Annual General Meeting

Proxy Form

List of Properties

No.	Name of registered owner/ Beneficial owner:	Acquisition date	Existing use	Land area:	Age of plant & building:	NBV as at 31/12/2018:
	(sq metre unless otherwise stated)			(Years)	(RM '000)	
1	PETRONAS Chemicals Derivatives Sdn Bhd, PETRONAS Chemicals Olefins Sdn Bhd, PETRONAS Chemicals Glycols Sdn Bhd (each a 1/3 part owner)	30.08.2000	Industrial land - TNB sub-station	3,886	18	252,925
	H.S.(D) 3385, PT No. 10535, Mukim Kertih, Kemaman, Terengganu					
	Leasehold for 60 years, expiring on 29 August 2060					
	H.S.(D) 3316, PT No. 9015, Mukim Kertih, Kemaman, Terengganu	30.08.2000	Industrial land - Waste water and treatment substation	260,469	18	
	Leasehold for 60 years, expiring on 29 August 2060					
	Pajakan Negeri No. Hakmilik 7594, No. Lot 8068, Mukim Kertih, Kemaman, Terengganu	30.08.2000	Industrial land - Plant for production of ethylene derivatives	611,075	18	
	Leasehold for 60 years, expiring on 29 August 2060					
2	PETRONAS Chemicals Methanol Sdn Bhd	31.8.2004	Industrial land - Plant for production of methanol	14 hectares	14	1,154,020
	No. 205350607, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan					
	Leasehold for 99 years, expiring on 31 December 2082					
3	PETRONAS Chemicals Methanol Sdn Bhd	01.06.1992	Industrial land - Plant for production of methanol and administration office	34 acres	27	465,633
	No. 206291590, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan					
	Leasehold for 51 years, expiring on 30 December 2043					
4	PETRONAS Chemicals MTBE Sdn Bhd	17.11.1992	Industrial land - Plant for production of MTBE	36 hectares	26	174,663
	H.S.(D) 9688 P.T. No. 4538, Mukim Sungai Karang, Kuantan, Pahang					
	Leasehold for 66 years, expiring on 14 July 2058					

List of Properties

No.	Name of registered owner/ Beneficial owner:	Acquisition date	Existing use	Land area:	Age of plant & building:	NBV as at 31/12/2018:
	Lot. no./Leasehold period			(sq metre unless otherwise stated)	(Years)	(RM '000)
5	PETRONAS Chemicals MTBE Sdn Bhd H.S.(D) 34911, No. P.T. 15128, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 99 years, expiring on 8 January 2100	09.01.2001	Industrial land - Propane dehydrogenation plant	34 acres	18	413,887
6	PETRONAS Chemicals MTBE Sdn Bhd H.S.(D) 34912, No. P.T. 15129, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 99 years, expiring on 8 January 2100	09.01.2001	Emergency response building	15 acres	18	6,299
7	Polypropylene Malaysia Sdn Bhd H.S. (D) 9686, No. Lot P.T. 4536, Mukim Sungai Karang, Kuantan, Pahang Leasehold for 66 years, expiring on 14 July 2058	15.07.1992	Industrial land - Plant for production of polypropylene	20 hectares	26	9,553
8	PETRONAS Chemicals Fertiliser Kedah Sdn Bhd Pajakan Negeri No. Hakmilik 1010, No. Lot 10750 Gurun, Kuala Muda, Kedah Leasehold for 99 years, expiring on 22 April 2102	01.11.1999	Commercial/ industrial land - Plant for production of urea and ammonia	699,100	19	192,354
9	PETRONAS Chemicals Fertiliser Kedah Sdn Bhd Pajakan Negeri No. Hakmilik 3396 - 3399, No. Lot 174 - 177, Seksyen 6, Gurun, Kuala Muda, Kedah Leasehold for 99 years, expiring on 12 February 2105	01.11.1999	Commercial/ industrial land - Plant for production of urea and ammonia	201,233	19	55,368

List of Properties

No.	Name of registered owner/ Beneficial owner:	Acquisition date	Existing use	Land area:	Age of plant & building:	NBV as at 31/12/2018:
	Lot. no./Leasehold period			(sq metre unless otherwise stated)	(Years)	(RM '000)
10	ASEAN Bintulu Fertilizer Sdn Bhd No.323, Lot 35, Block 20, Kemena Land District, Bintulu, Sarawak Leasehold for 99 years, expiring on 19 February 2083	01.04.1983	Mixed zone/ town land - Plant for production of urea and ammonia	38 hectares	36	294,049
11	ASEAN Bintulu Fertilizer Sdn Bhd No.321, Lot 2233-2239, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	08.02.2005	Mixed zone/ town land - Dwelling house	8,298	14	1,330
12	PETRONAS Chemicals Ethylene Sdn Bhd, PETRONAS Chemicals Polyethylene Sdn Bhd Pajakan Negeri No. Hakmilik 6282, No. Lot 8075, Mukim Kertih, Kemaman, Terengganu Leasehold for 51 years, expiring on 16 June 2052	02.04.1993	Industrial land - Plant for production of ethylene/polyethylene	567,800	26	401,344
13	PETRONAS Chemicals Ethylene Sdn Bhd Pajakan Negeri No. Hakmilik 3939, No. Lot 5217, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 23 October 2054	31.05.1995	Industrial land - Storage facility for water	191,200	24	4,046
14	PETRONAS Chemicals Ammonia Sdn Bhd Pajakan Negeri No. Hakmilik 7588, No. Lot 8066, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 19 August 2060	01.08.2000	Industrial land - Plant for production of ammonia and any other related gas	98,490	18	193,882
15	PETRONAS Chemicals Ammonia Sdn Bhd PT 15786, Lot 5276, Mukim Kertih, Kemaman, Terengganu Leasehold for 44 years, expiring on 08 January 2055	30.12.2011	Industrial land - KIPC Shared Facilities which includes the administrative, laboratory and workshop buildings	96,208	7	32,592

List of Properties

No.	Name of registered owner/ Beneficial owner:	Acquisition date	Existing use	Land area:	Age of plant & building:	NBV as at 31/12/2018:
	Lot. no./Leasehold period			(sq metre unless otherwise stated)	(Years)	(RM '000)
16	PETRONAS Chemicals LDPE Sdn Bhd Pajakan Negeri No. Hakmilik 7593, No. Lot 8073, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 19 August 2060	20.08.2000	Industrial land - Plant for production of LDPE	184,677	18	79,773
17	Kertih Port Sdn Bhd Pajakan Negeri No. Hakmilik 4695, No. Lot 7120, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 5 March 2060	02.08.2000	Industrial land - Operations of Kertih Port (Jetty and marine related facilities)	43,100	18	318,658
18	Kertih Port Sdn Bhd Pajakan Negeri No. Hakmilik 4696, No. Lot 7121, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 5 March 2060	02.08.2000	Industrial land - Gas and oil pipelines (Reclamation area land & Coastal Strip Land)	41,400	18	411
19	Kertih Port Sdn Bhd Pajakan Negeri No. Hakmilik 6280, No. Lot 8077 Mukim Kertih, Kemaman, Terengganu Leasehold for 51 years, expiring on 16 June 2052	31.03.1993	Industrial land - Administration complex and other related facilities	58,570	26	16,023
20	Vinyl Chloride (Malaysia) Sdn Bhd Pajakan Negeri No. Hakmilik 3331, No. Lot 51062, Mukim Kertih, Kemaman, Terengganu Leasehold for 44 years, expiring on 8 January 2055	07.09.1998	Industrial land - Integrated PVC manufacturing plant	187,958	20	3,709
	Pajakan Negeri No. Hakmilik 7394, No. Lot 6058, Mukim Kertih, Kemaman, Terengganu Leasehold for 60 years, expiring on 18 December 2056	07.09.1998	Industrial land - Integrated PVC manufacturing plant	121,400	20	

Analysis of Shareholdings

As at 25 February 2019

Share Capital : RM800,000,000 comprising 8,000,000,000 ordinary shares
 Class of Shares : Ordinary shares
 Voting Rights : One Vote Per Ordinary Share (on a poll)

Distribution of Shareholdings

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shareholdings
Less than 100	296	1.82	2,143	0.00
100 - 1,000	5,588	34.47	4,711,881	0.06
1,001 - 10,000	7,824	48.26	32,498,316	0.40
10,001 - 100,000	1,517	9.36	48,065,291	0.60
100,001 to less than 5% of issued shares	986	6.08	2,223,793,169	27.80
5% and above of issued shares	2	0.01	5,690,929,200	71.14
Total	16,213	100.00	8,000,000,000	100.00

Classification of Shareholders

Category	No. of Shareholders		% of Shareholders		No. of Shares		% of Shareholdings	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
1 Individuals	12,383	110	76.38	0.68	52,119,287	742,554	0.65	0.01
2 Body Corporate								
a. Banks/Finance Companies	90	1	0.55	0.01	787,511,210	1,100	9.84	0.00
b. Investment Trusts/ Foundation/Charities	3	0	0.02	0.00	171,000	0	0.00	0.00
c. Other types of companies	225	6	1.39	0.04	12,052,000	5,489,000	0.16	0.07
3 Government Agencies/ Institutions	4	0	0.02	0.00	1,153,000	0	0.01	0.00
4 Nominees	2,362	1,029	14.57	6.34	6,220,953,988	919,806,861	77.76	11.50
5 Others	0	0	0.00	0.00	0	0	0.00	0.00
Total	15,067	1,146	92.93	7.07	7,073,960,485	926,039,515	88.42	11.58

List of Substantial Shareholders

No.	Name	No. of Shares		% of Shareholdings	
		Direct	Indirect	Direct	Indirect
1	CIMB Group Nominees (Tempatan) Sdn Bhd <i>Exempt an for Petroliaam Nasional Berhad</i>	5,148,000,000	-	64.35	-
2	Citigroup Nominees (Tempatan) Sdn Bhd <i>Employees Provident Fund Board (Including Portfolio Managers)</i>	614,324,100	-	7.68	-

Analysis of Shareholdings

As at 25 February 2019

List of Directors' Shareholdings

No.	Name	No. of Shares		% of Shareholdings	
		Direct	Deemed Interest	Direct	Deemed Interest
1	Datuk Md Arif Mahmood	20,000	-	0.00	-
2	Datuk Sazali Hamzah	-	-	-	-
3	Vimala V.R. Menon	20,000	-	0.00	-
4	Ching Yew Chye	20,000	-	0.00	-
5	Datuk William Toh Ah Wah	-	-	-	-
6	Warren William Wilder	-	-	-	-
7	Dr Zafar Abdulmajid Momin	-	-	-	-
8	Zakaria Kasah	6,000	-	0.00	-
9	Freida Amat	6,000	-	0.00	-

List of Management's Shareholdings

No.	Name	No. of Shares		% of Shareholdings	
		Direct	Deemed Interest	Direct	Deemed Interest
1	Rashidah Alias	6,000	-	0.00	-
2	Mahadzir Rani	-	-	-	-
3	Shamsairi Mohd Ibrahim	6,000	-	0.00	-
4	Akbar Md Thayoob	6,000	-	0.00	-
5	Ch'ng Guang How	2,000	-	0.00	-
6	Hasnizaini Mohd Zain	1,000	-	-	-
7	M. Zakir Jaafar	-	-	-	-
8	Datin Zarina Zakaria	-	-	-	-
9	Siti Azlina Abd Latif	-	-	-	-
10	Ahmad Zaki Daud	-	-	-	-

List of 30 Largest Shareholders

No.	Name	Holdings	%
1	CIMB Group Nominees (Tempatan) Sdn Bhd <i>Exempt an for Petroliam Nasional Berhad</i>	5,148,000,000	64.35
2	Citigroup Nominees (Tempatan) Sdn Bhd <i>Employees Provident Fund Board</i>	542,929,200	6.79
3	Kumpulan Wang Persaraan (Diperbadankan)	204,222,200	2.55
4	AmanahRaya Trustees Berhad <i>Amanah Saham Bumiputera</i>	127,679,500	1.60
5	Cartaban Nominees (Asing) Sdn Bhd <i>Exempt an for State Street Bank & Trust Company (West Clt Od67)</i>	66,645,600	0.83
6	AmanahRaya Trustees Berhad <i>Amanah Saham Malaysia</i>	62,735,800	0.78
7	AmanahRaya Trustees Berhad <i>Amanah Saham Malaysia 2 - Wawasan</i>	59,940,600	0.75

Analysis of Shareholdings

As at 25 February 2019

List of 30 Largest Shareholders (Con't)

No.	Name	Holdings	%
8	AmanahRaya Trustees Berhad <i>Amanah Saham Bumiputera 2</i>	50,973,400	0.64
9	Malaysia Nominees (Tempatan) Sendirian Berhad <i>Great Eastern Life Assurance (Malaysia) Berhad (Par 1)</i>	49,480,900	0.62
10	HSBC Nominees (Asing) Sdn Bhd <i>JPMCB Na For Vanguard Emerging Markets Stock Index Fund</i>	45,396,832	0.57
11	Maybank Nominees (Tempatan) Sdn Bhd <i>Maybank Trustees Berhad for Public Ittikal Fund (N14011970240)</i>	44,250,000	0.55
12	HSBC Nominees (Asing) Sdn Bhd <i>JPMCB NA for Vanguard Total International Stock Index Fund</i>	43,897,588	0.55
13	Cartaban Nominees (Tempatan) Sdn Bhd <i>PAMB for Prulink Equity Fund</i>	43,260,900	0.54
14	Lembaga Tabung Haji	42,899,900	0.54
15	Citigroup Nominees (Tempatan) Sdn Bhd <i>Employees Provident Fund Board (Nomura)</i>	41,449,300	0.52
16	Permodalan Nasional Berhad	29,784,900	0.37
17	Citigroup Nominees (Tempatan) Sdn Bhd <i>Exempt an for AIA Bhd.</i>	29,359,400	0.37
18	Maybank Nominees (Tempatan) Sdn Bhd <i>Mtrustee Berhad for CIMB Islamic Dali Equity Growth Fund (Ut-Cimb-Dali)(419455)</i>	28,038,000	0.35
19	AmanahRaya Trustees Berhad <i>Amanah Saham Bumiputera 3 - Didik</i>	27,562,300	0.34
20	HSBC Nominees (Asing) Sdn Bhd <i>JPMBL SA for Robeco Capital Growth Funds</i>	27,309,900	0.34
21	Cartaban Nominees (Asing) Sdn Bhd <i>GIC Private Limited for Government of Singapore (C)</i>	27,258,800	0.34
22	AmanahRaya Trustees Berhad <i>Public Islamic Dividend Fund</i>	25,938,500	0.32
23	HSBC Nominees (Asing) Sdn Bhd <i>JPMCB NA for Stichting Depository Apg Emerging Markets Equity Pool</i>	23,607,120	0.30
24	AmanahRaya Trustees Berhad <i>Amanah Saham Malaysia 3</i>	19,513,800	0.24
25	Malaysia Nominees (Tempatan) Sendirian Berhad <i>Great Eastern Life Assurance (Malaysia) Berhad (Par 3)</i>	18,011,000	0.23
26	AmanahRaya Trustees Berhad <i>Public Islamic Equity Fund</i>	17,747,800	0.22
27	Citigroup Nominees (Asing) Sdn Bhd <i>Exempt an for Citibank New York (Norges Bank 9)</i>	17,221,300	0.22
28	Valuecap Sdn Bhd	16,545,000	0.21
29	Pertubuhan Keselamatan Sosial	15,759,310	0.20
30	AmanahRaya Trustees Berhad <i>Public Islamic Select Enterprises Fund</i>	14,582,900	0.18
	Total	6,912,001,750	86.41

Wholly-Owned Subsidiaries

1. **Kertih Port Sdn Bhd**
Lot 3633, Kawasan Bukit Tengah
KM 105, Jln Kuantan-Kuala Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5648/5796
Fax : +609 830 5618/5623/5639
2. **PCM (China) Co., Ltd.**
Unit 10-011, 10th Floor
No. 1000 Lujiazui Ring Road
Hang Seng Bank Tower
Pudong New Area
Shanghai 200120
China
Tel : +8621 6887 1445
Fax : +8621 1445 ext 211
3. **PCM (Thailand) Company Limited**
5th Floor, Bangkok City Tower
179 South Sathorn Road
Kwaeng Tungmahamek
Khet Sathorn Bangkok
10120 Thailand
Tel : +66 2679 5600
Fax : +66 2679 5511
4. **PETRONAS Chemicals Ammonia Sdn Bhd**
Kompleks Pentadbiran
Petrokimia PETRONAS
KM 105, Jalan Kuantan-Kuala
Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5000
Fax : +609 830 5222
5. **PETRONAS Chemicals Derivatives Sdn Bhd**
Administration Building
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuala Terengganu-
Kuantan
24300 Kertih
Terengganu Darul Iman
Tel : +609 830 7700
Fax : +609 830 7759
6. **PETRONAS Chemicals Fertiliser Kedah Sdn Bhd**
KM 3, Jalan Jeniang
P.O. Box 22
08300 Gurun
Kedah Darul Aman
Tel : +604 466 6666
Fax : +604 468 5200
7. **PETRONAS Chemicals Fertiliser Sabah Sdn Bhd**
Jalan SOGIP 4,
Sipitang Oil & Gas Industrial Park,
89850, Sipitang, Sabah
Tel : +608 781 3872
Fax : +608 781 3852
8. **PETRONAS Chemicals Glycols Sdn Bhd**
Administration Building,
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuala Terengganu-
Kuantan
24300 Kertih
Terengganu Darul Iman
Tel : +609 830 7700
Fax : +609 830 7759
9. **PETRONAS Chemicals Isononanol Sdn Bhd**
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2051 5000
10. **PETRONAS Chemicals Marketing Sdn Bhd**
Level 19, Tower 2,
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2331 5000
Fax : +603 2331 1747
11. **PETRONAS Chemicals Marketing (Labuan) Ltd**
Level 19, Tower 2,
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2331 5000
Fax : +603 2331 1747
12. **PETRONAS Chemicals Methanol Sdn Bhd**
Kawasan Perindustrian Ranca-Ranca
P.O. Box 80079
87010 Federal Territory Labuan
Tel : +6087 594 000
Fax : +6087 594 979
13. **PETRONAS Chemicals MTBE Sdn Bhd**
Lot 111/112
Kawasan Perindustrian Gebeng, Balok
26080 Kuantan
Pahang Darul Makmur
Tel : +609 585 6700
Fax : +609 583 4090/4743
14. **PETRONAS Chemicals Polyethylene Sdn Bhd**
Lot 3834
Kawasan Bukit Tengah, KM 105
Jalan Kuantan-Kuala Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 2000
Fax : +609 827 3940
15. **Polypropylene Malaysia Sdn Bhd**
Lot 111/112 Kawasan Perindustrian
Gebeng, Balok
26080 Kuantan
Pahang Darul Makmur
Tel : +609 585 6700
Fax : +609 583 4090/4743
16. **PRPC Elastomers Sdn Bhd**
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Tel : +603 2051 5000
17. **PT PCM Kimia Indonesia**
Menara 165, Lantai 14
Jl.TB Simatupang Kav 1
Cilandak Timur
Kecamatan Pasar Minggu
Jakarta Selatan
12560 Indonesia
Tel : +6221 2940 6682
Fax : +6221 2940 6683
18. **Vinyl Chloride (Malaysia) Sdn Bhd**
Aras 1, Kompleks Pentadbiran
Petrokimia PETRONAS
KM 105 Jalan Kuantan-Kuala Terengganu
24300, Kerteh Kemaman
Terengganu Darul Iman
Tel : +609 830 5000
Fax : +603 2331 1747
19. **PETRONAS Chemicals LDPE Sdn Bhd**
Lot 9717, PETRONAS Petroleum
Industry Complex
KM 105, Jalan Kuantan-Kuala
Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5068
Fax : +609 830 5858/5990
20. **PETRONAS Chemicals Olefins Sdn Bhd**
Administration Building
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuala Terengganu-
Kuantan
24300 Kertih
Terengganu Darul Iman
Tel : +609 830 7700
Fax : +609 830 7759

Corporate Directory

Partly-Owned Subsidiaries

- | | | |
|--|--|--|
| <p>21. ASEAN Bintulu Fertilizer Sdn Bhd
KM 18, Jalan Tanjung Kidurong
P.O. Box 482, 97008 Bintulu, Sarawak
Tel : +6086 231 000/232 000
Fax : +6086 251 043</p> | <p>23. PETRONAS Chemicals Aromatics Sdn Bhd
c/o PETRONAS Penapisan (T) Sdn Bhd
KM 105 Jalan Kuantan-
Kuala Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 3007
Fax : +609 830 3188</p> | <p>24. PETRONAS Chemicals Ethylene Sdn Bhd
Lot 3834, Kawasan Bukit Tengah
KM 105, Jalan Kuantan-
Kuala Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 2000
Fax : +609 827 3940</p> |
| <p>22. PCM Chemical India Private Limited
9th floor, Hindustan Times House
18-20 Kasturba Gandhi Marg
New Delhi 110001
Tel : +9111 2373 8715
Fax : +9111 2373 8712</p> | | |

Joint Operation

- 25. Pengerang Petrochemical Company Sdn Bhd (formerly known as PRPC Polymers Sdn Bhd)**
Level 38, Vista Tower,
The Intermark, 348, Jalan Tun Razak
50400, Kuala Lumpur
Tel : +603 2858 2242
Fax : +603 2858 3148

Joint Ventures

- | | |
|--|--|
| <p>26. BP PETRONAS Acetyls Sdn Bhd
Kompleks Pentadbiran
Petrokimia PETRONAS
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5300
Fax : +609 830 5321</p> | <p>27. Kertih Terminals Sdn Bhd
Tingkat 1, Kompleks Pentadbiran
KPSB
Lot 3633 Kawasan Bukit Tengah
KM 105, Jalan Kuantan-Kuala
Terengganu
24300 Kertih, Kemaman
Terengganu Darul Iman
Tel : +609 830 5788
Fax : +609 830 5665</p> |
|--|--|

Associates

- | | | |
|---|---|---|
| <p>28. BASF PETRONAS Chemicals Sdn Bhd
Jalan Gebeng 2/1
Kawasan Perindustrian Gebeng
26080 Kuantan
Pahang Darul Makmur
Tel : +609 585 5000
Fax : +609 583 4623</p> | <p>29. Idemitsu SM (Malaysia) Sdn Bhd
PLO 408, Off Jalan Pekeliling
Pasir Gudang Industrial Estate
81700 Pasir Gudang
Johor Darul Takzim
Tel : +607 252 5350
Fax : +607 252 8281</p> | <p>30. Malaysian NPK Fertilizer Sdn Bhd
Batu 2, Jalan Jeniang
P.O. Box 24
08300 Gurun
Kedah Darul Aman
Tel : +604 468 4075
Fax : +604 468 4619</p> |
|---|---|---|

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 21st Annual General Meeting (AGM) of the Company will be held at the Grand Ballroom, Level 2, The Majestic Hotel Kuala Lumpur, 5 Jalan Sultan Hishamuddin, 50000 Kuala Lumpur, Malaysia on Monday, 29 April 2019 at 10.30 a.m. to transact the following businesses:-

Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon.

Please refer to Explanatory Note A

2. To re-elect the following Directors who retire by rotation pursuant to Article 93 of the Company's Constitution:

(a) Datuk Sazali Hamzah (Resolution 1)

(b) Freida Amat (Resolution 2)

Please refer to Explanatory Note B

3. To re-elect the following Directors, who were appointed during the year pursuant to Article 99 of the Company's Constitution:

(a) Warren William Wilder (Resolution 3)

(b) Dr. Zafar Abdulmajid Momin (Resolution 4)

Please refer to Explanatory Note B

4. To approve the Directors' Fees and Allowances payable to the Non-Executive Directors of up to RM2.7 million with effect from 30 April 2019 until the next Annual General Meeting of the Company. (Resolution 5)

Please refer to Explanatory Note C

5. To approve the re-appointment of KPMG PLT, as Auditors of the Company for the financial year ending 31 December 2019 and to authorise the Directors to fix their remuneration. (Resolution 6)

Please refer to Explanatory Note D

Special Business

To consider and if thought fit, to pass the following Special Resolution, with or without modifications:-

6. PROPOSED ADOPTION OF A NEW CONSTITUTION OF THE COMPANY

"**THAT** the draft new set of the Constitution of the Company in the form and manner as set out in Appendix A attached herewith be and is hereby approved and adopted as the new Constitution of the Company, in substitution for, and to the exclusion of, the existing Constitution of the Company **AND THAT** the Directors be and are hereby authorised to do all such acts and things and to take such steps that are necessary to give effect to adoption of the new Constitution of the Company." (Special Resolution)

7. To transact any other business of which due notice shall have been given in accordance with the Companies Act 2016 and the Company's Constitution.

FURTHER NOTICE IS HEREBY GIVEN THAT for the purpose of determining a member who shall be entitled to attend and vote at the forthcoming 21st AGM, the Company shall be requesting the Record of Depositors as at 22 April 2019. Only a depositor whose name appears on the Record of Depositors as at 22 April 2019 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.

By Order of the Board

Hasnizaini Mohd Zain (LS0009780)
Kang Shew Meng (MAICSA 0778565)
 Company Secretaries

Kuala Lumpur
 29 March 2019

Notice of Annual General Meeting

Notes:

Proxy and/or Authorised Representatives

1. A member of the Company entitled to attend and vote at the meeting may appoint not more than two proxies to attend and vote on his behalf provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 (SICDA), it may appoint at least one proxy but not more than two proxies in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities accounts.
3. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
4. Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
5. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at the Company's Share Registrar, Boardroom Share Registrars Sdn Bhd (formerly known as Symphony Share Registrars Sdn Bhd), Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia, not less than 48 hours before the time fixed for holding the meeting.
6. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with this Proxy Form.

Explanatory Notes

Note A

The audited financial statements are laid before the shareholders pursuant to the provisions of Section 244(2)(a) of the Companies Act, 2016. The same is for discussion and not put forward for voting.

Note B

(i) Re-election of Directors who retire in accordance with Article 93 of the Company's Constitution

Article 93 of the Company's Constitution provides that one-third of the Directors of the Company for the time being shall retire by rotation at an AGM of the Company provided always that all Directors, shall retire from office once at least in each three years but shall be eligible for re-election at the AGM. A Director retiring at a meeting shall retain office until the close of the meeting whether adjourned or not.

At the forthcoming 21st AGM, three directors will be retiring in accordance with Article 93 of the Company's Constitution. They are 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 21st AGM of the Company.

(ii) Re-election of Directors who retire in accordance with Article 99 of the Company's Constitution

Warren William Wilder and Dr Zafar Abdulmajid Momin were appointed during the financial year under review and will be retiring at the forthcoming AGM pursuant to Article 99 of the Company's Constitution. They, being eligible for re-election have also given their consent for re-election at this 21st AGM.

The Board endorsed the Nomination and Remuneration Committee's recommendation that the Directors who retire in accordance with Articles 93 and 99 of the Company's Constitution are eligible to stand for re-election.

The profiles of the retiring Directors are set out in the Profile of the Board of Directors on pages 108 to 110 (inclusive) and 3 to 7 (inclusive) of the Company's Integrated Report 2018 and our publication - A Commitment to Governance respectively.

Notice of Annual General Meeting

Note C

Pursuant to Section 230(1) of the Companies Act 2016, the fees of the directors, and any benefits payable to the directors including any compensation for loss of employment of a director or former director of a public company or a listed company and its subsidiaries, shall be approved at a general meeting.

The fees and allowances structure of the Non-Executive Directors (NEDs) of the Company is as follows:

- Monthly fixed fees for duties as Director/Chairman;
- Meeting allowance for each Board/Board Committee attended; and
- Fuel allowance.

The Directors' fees and meeting allowances for Non-Independent Non-Executive Directors who are also employees of Petroliaam Nasional Berhad (PETRONAS) are paid directly to PETRONAS.

The shareholders at the last AGM held on 2 May 2018 approved the Directors' Fees of up to RM2,600,000 for the period from 1 January 2018 until the next AGM of the Company. The actual Directors' Fees and other benefits paid to the NEDs for the financial year ended 31 December 2018 was RM1,706,370.00.

The Directors' fees for the NEDs for the period from 30 April 2019 until the conclusion of the next AGM of the Company are estimated not to exceed RM2.7 million. The calculation is based on the estimated number of scheduled Board and Board Committees' meetings and on assumption that all the NEDs will remain in office until the next AGM. This resolution is to facilitate payment of the Directors' Fees for financial year 2019/2020.

The Board will seek shareholders' approval at the next AGM in the event the Directors' fees and allowances proposed are insufficient.

Details of the fees paid to the NEDs for the financial year ended 31 December 2018 are published on the Company's official website at www.petronaschemicals.com.

Note D

The Board at its meeting held on 25 February 2019 recommended the re-appointment of KPMG PLT as external Auditors of the Company for the financial year ending 31 December 2019 for approval of the shareholders.

KPMG PLT has met the criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia).

Note E

The Special Resolution, if passed, shall align the Constitution of the Company with the new Companies Act 2016 which came into force on 31 January 2017, the updated provisions of the Main Market Listing Requirements of Bursa Malaysia, and prevailing statutory and regulatory requirements as well as to render clarity and consistency throughout, details of which are as set out in the Appendix A.

Abstention from Voting

Any Non-Executive Director of the Company who is a shareholder of the Company will abstain from voting on Resolution 5 concerning remuneration of the Non-Executive Directors at the 21st AGM.

Other Information

The Company has engaged independent scrutineers to count, audit and validate the votes for each proposal presented to shareholders.

Administrative Details For PCG 21st Annual General Meeting

Day, Date and Time	Monday, 29 April 2019 at 10.30 a.m
Venue	Grand Ballroom, Level 2, The Majestic Hotel Kuala Lumpur, 5 Jalan Sultan Hishamuddin, 50000 Kuala Lumpur, Malaysia

Registration

- Registration will start at 8.15 a.m. at the Grand Ballroom foyer, Level 2, The Majestic Hotel Kuala Lumpur.
- Please produce your original Identification Card (IC) at the registration counters for verification and ensure that you collect your IC upon completion of verification.
- Subsequent to verification of your IC and signing of the attendance list, you will be given an identification wristband to be secured around your wrist.
- If you are attending the meeting as a shareholder as well as a proxy, you will be registered once and will only be given one identification wristband to enter the meeting hall.
- No person will be allowed to enter the meeting hall without wearing the identification wristband. There will be no replacement in the event if you lose or misplace your identification wristband. Upon completion of registration, please proceed to the meeting venue located at the Grand Ballroom, Level 2, The Majestic Hotel Kuala Lumpur.
- Please note that you will not be allowed to register on behalf of another member even with the original IC of that other member.
- The registration counters will only handle verification of identities and registrations. If you have other queries or need clarifications, please proceed to the Help Desk.

Parking

- Parking is available at The Majestic Hotel (basement parking) **ONLY** based on first-come, first-served basis. You may collect the parking token at the Grand Ballroom foyer area at Level 2, The Majestic Hotel Kuala Lumpur prior to exiting the meeting venue.
- Please be advised that PCG will not reimburse any parking costs incurred at any other locations. As such, please observe the above-mentioned parking instruction.
- Please note that PCG shall not bear any responsibilities for lost parking token(s).
- In view of limited parking bay at The Majestic Hotel Kuala Lumpur, shareholders are encouraged to use the following public transport to the meeting venue:

By LRT/KTM Komuter/MRT

- Kelana Jaya Line (Light Rail Transit):
Disembark at the KL Sentral Station, which is about 15 minutes walking distance to the meeting venue.
- KTM Komuter:
Disembark at the KTM Kuala Lumpur Station, which is about 5 minutes walking distance to the meeting venue.
- Sg Buloh – Kajang Line (MRT):
Disembark at the Muzium Negara Station, which is about 8 minutes walking distance to the meeting venue.

Alternatively, you may also take a ride on the complimentary shuttle service (available every 15 minutes) provided for PCG shareholders from the following stations:

- Muzium Negara MRT Station – Pick up point at Muzium Negara exit
- KL Sentral LRT Station – Pick up point at KLIA Express Arrival Hall exit

Help Desk

- The Help Desk is provided for enquiries or clarifications in relation to registration matters, and also to handle revocation of proxy appointments.

Integrated Report

- PCG's Integrated Report 2018 and other publications are available at: www.petronaschemicals.com or www.bursamalaysia.com

GPS Coordinates: 3.1389. 101.692

Proxy Form

PETRONAS CHEMICALS GROUP BERHAD (COMPANY NO: 459830-K)



PETRONAS

Number of Ordinary Shares Held	
CDS Account No.	

I/We _____ NRIC/Passport No./Company No: _____
(Full Name In Capital Letters)

of _____ Telephone No: _____
(Full Address)

being a member of PETRONAS Chemicals Group Berhad (the Company) hereby appoint:

Full Name (in Block)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Full Name (in Block)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the 21st Annual General Meeting of the Company to be held at the Grand Ballroom, Level 2, The Majestic Hotel Kuala Lumpur, 5 Jalan Sultan Hishamuddin, 50000 Kuala Lumpur, Malaysia on Monday, 29 April 2019 at 10.30 a.m. and at any adjournment thereof.

Resolutions	Ordinary Business	For	Against
1	Re-election of Datuk Sazali Hamzah as a Director		
2	Re-election of Freida Amat as a Director		
3	Re-election of Warren William Wilder as a Director		
4	Re-election of Dr. Zafar Abdulmajid Momin as a Director		
5	Directors' Fees and Allowances of up to RM2.7 million with effect from 30 April 2019 until the next Annual General Meeting of the Company payable to Non-Executive Directors		
6	Re-Appointment of KPMG PLT as Auditors of the Company		

Resolution	Special Business	For	Against
Special Resolution	Proposed Adoption of a New Constitution of the Company		

Note: Please refer to the Notice of Annual General Meeting for full details of the proposed Resolutions.

(Please indicate with an "X" in the spaces provided whether you wish your vote to be cast for or against the Resolutions. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit)

Dated this _____ day of _____

Signature/Common Seal of Shareholder(s)

Notes :

Proxy and/or Authorised Representative

1. For the purpose of determining a member who shall be entitled to attend and vote at the forthcoming 21st AGM, the Company shall be requesting the Record of Depositors as at 22 April 2019. Only a depositor whose name appears on the Record of Depositors as at 22 April 2019 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.
2. A member of the Company entitled to attend and vote at the meeting may appoint not more than two proxies to attend and vote on his behalf provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 (SICDA), it may appoint at least one proxy but not more than two proxies in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities accounts.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
5. Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at the Company's Share Registrar, Boardroom Share Registrars Sdn Bhd (formerly known as Symphony Share Registrars Sdn Bhd), Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia, not less than 48 hours before the time fixed for holding the meeting.
7. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with this Proxy Form.

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AFFIX
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Boardroom Share Registrars Sdn Bhd

*(formerly known as Symphony Share
Registrars Sdn Bhd)*

Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya, Selangor
Malaysia

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