

The Right Formula

annual report 2012



www.petronaschemicals.com

NOTICE IS HEREBY GIVEN THAT the 15th Annual General Meeting
of the Company will be held at Tamingsari Ballroom, The Royale Chulan Hotel Kuala Lumpur, 5, Jalan Conlay,
50450 Kuala Lumpur, Malaysia on Wednesday, **22 May 2013** at **10.30 a.m.**

Note: Refer to page 250 to 253 for complete Notice of Annual General Meeting.



THE RIGHT FORMULA

In a dynamic business environment, the right formula for success is essential. PETRONAS Chemicals Group Berhad (PCG) focuses on its competitive advantage to sustain its position as the leading integrated chemicals producer in Malaysia, and one of the largest in Southeast Asia. By ensuring the right formula in the six key areas of safety, performance, growth, people, innovation and environment, we are able to deliver solutions and products of value. With the right formula, we are well positioned to take advantage of the prospects for petrochemical business within Asia Pacific.

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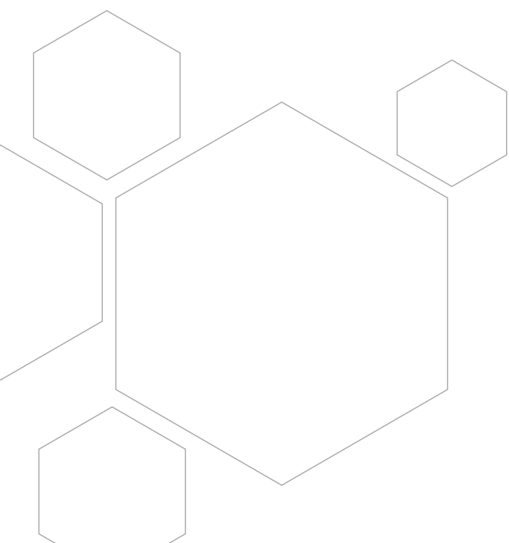
Financial Statements

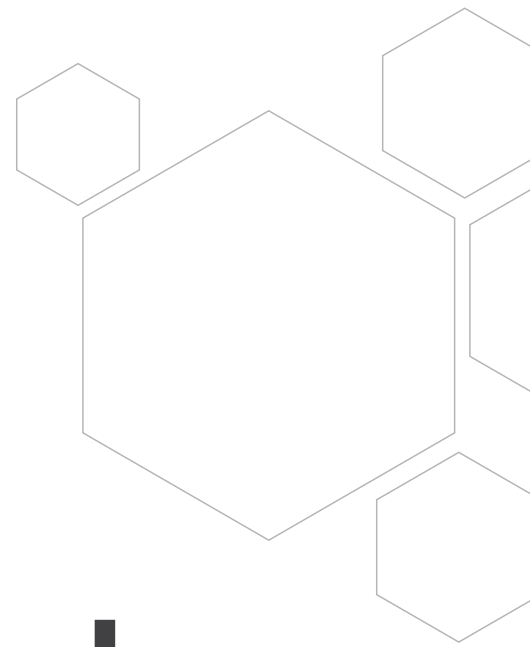
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Our Vision

The Asia Pacific integrated **chemical champion** delivering customer-driven sustainable solutions through distinctive operational and marketing excellence.





Our Shared Values

LOYALTY

PROFESSIONALISM

INTEGRITY

COHESIVENESS



The background of the poster is a photograph of an industrial facility, likely an oil or gas refinery. It features a complex network of metal walkways, yellow safety railings, and large pipes. In the upper right, two workers in orange safety suits and hard hats are visible on a platform. In the lower right, a close-up shows a gloved hand holding a blue tool. The bottom half of the image is overlaid with a semi-transparent white hexagonal pattern, resembling a honeycomb or molecular structure.

THE RIGHT FORMULA FOR

Safety

We view safety to be of utmost importance and we go to great lengths to ensure that everything we do involves the highest level of care and diligence. This ensures the well being of our people, the environment and the community whilst protecting our assets and business value.





THE RIGHT FORMULA FOR

Performance

We constantly challenge ourselves to push the boundaries of our performance. Sustaining a profitable business model requires both relentless focus on operation and marketing excellence as well as effective financial discipline. Guided by our shared values, we will continue to set the performance bar higher for ourselves and across our value chain.





THE RIGHT FORMULA FOR

Growth

We have clear strategies in place to ensure we have the appropriate plans and resources for the next phase of our growth journey. With our close proximity to growth markets, strong financial position and strong parentage, we have the capacity to strengthen our position and achieve our growth aspirations.





THE RIGHT FORMULA FOR

Innovation

We believe that connecting chemistry and innovation can generate new ways to solve challenges. We encourage different perspectives and the ability to think out of the box to keep the inventive process alive and create value in every way possible. We remain committed to develop and provide innovative customer driven solutions.





THE RIGHT FORMULA FOR

People

We recognise that our people are our greatest assets. To this end, we continue to nurture and develop our talents to realise their maximum potential. We provide a safe and conducive working environment, one which inspires personal growth, drives high performance and values the strength of working collectively.





THE RIGHT FORMULA FOR

Environment

We are responsible corporate citizens and continuously strive to find the right blend of solutions not just to products but also towards the environment. We are committed to the conservation and preservation of the environment and the community where we operate through rigorous standards across our business.



Key Highlights

Revenue

RM16.6 BILLION

Profit Before Tax

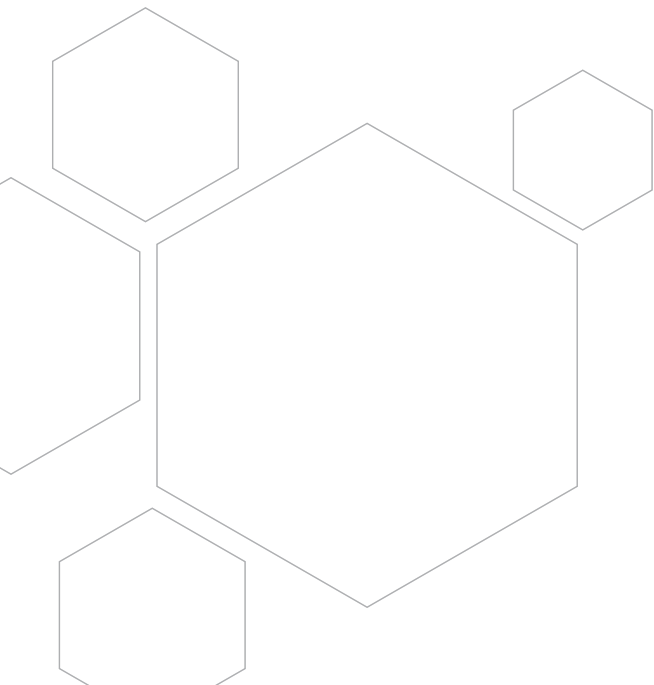
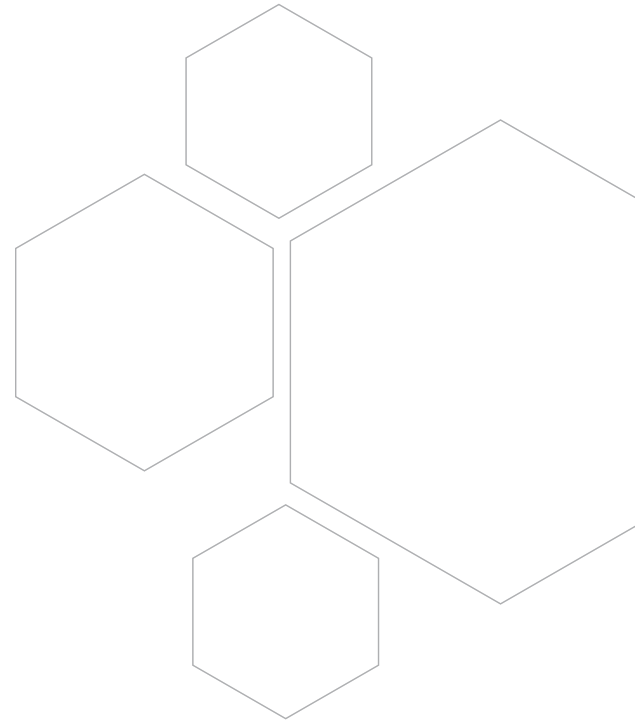
RM4.6 BILLION

EBITDA

RM5.8 BILLION

Total Asset

RM25.9 BILLION





Interim Dividend

8 SEN per ordinary share

Proposed Final Dividend

14 SEN per ordinary share

Strong track record

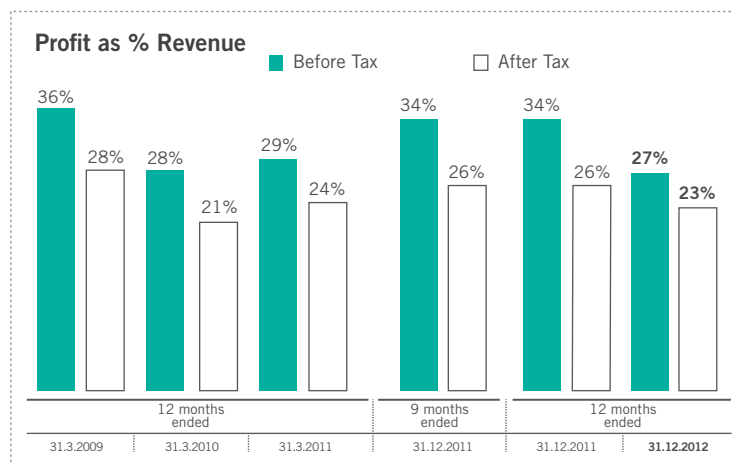
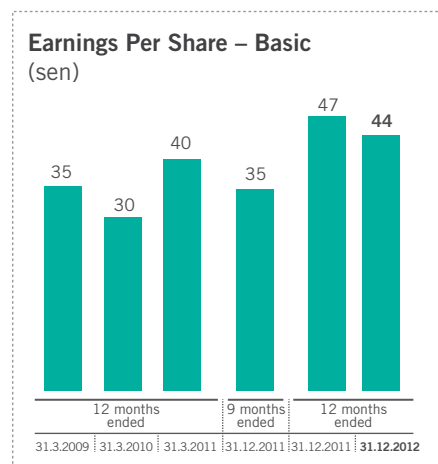
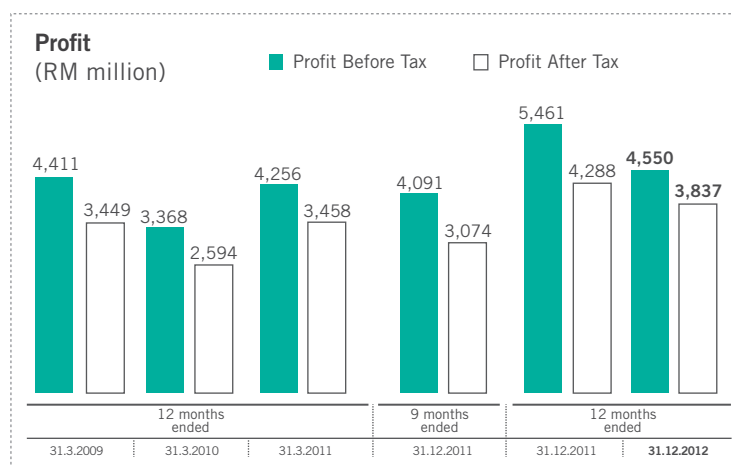
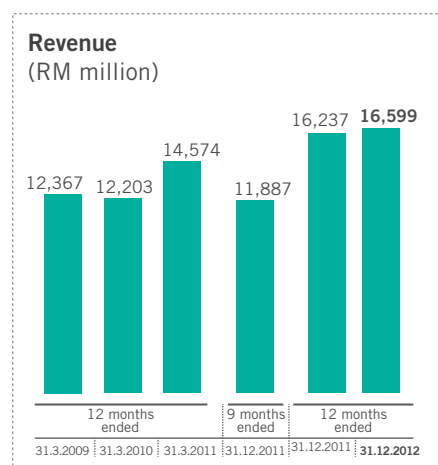
on Health, Safety and Environment

Improvement in
plant operational performance

Proximity
to growth market

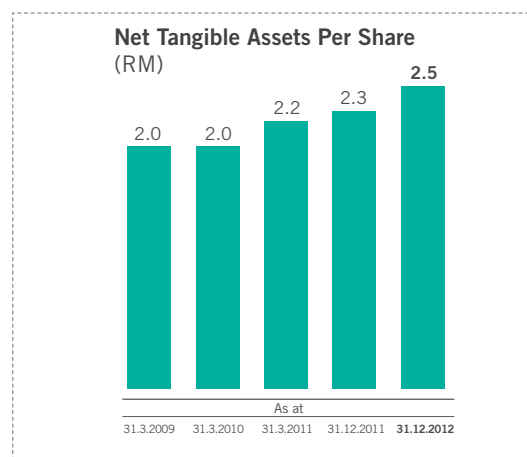
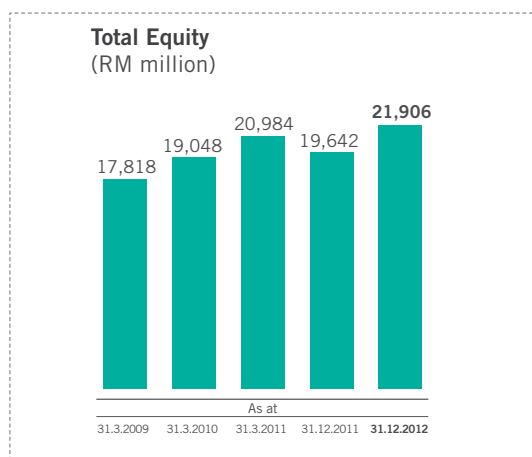
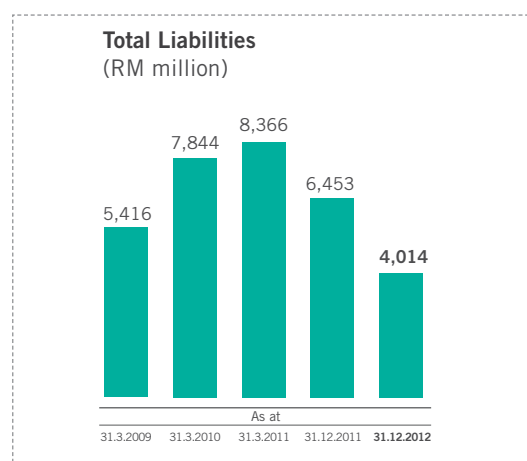
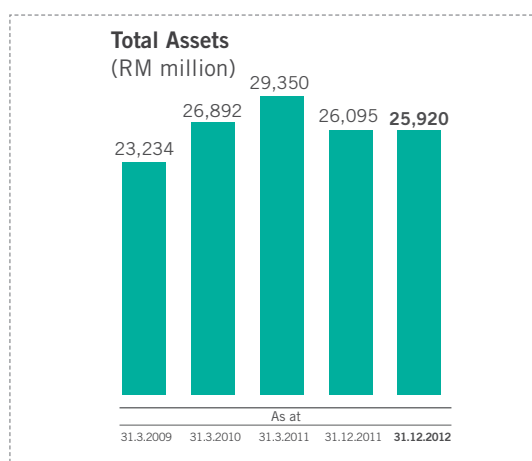


Group Financial Highlights



Statement of profit or loss and other comprehensive income items:

RM million	Group					
	12 months ended 31.3.2009	12 months ended 31.3.2010	12 months ended 31.3.2011	9 months ended 31.12.2011	12 months ended 31.12.2011	12 months ended 31.12.2012
Revenue	12,367	12,203	14,574	11,887	16,237	16,599
Profit Before Tax	4,411	3,368	4,256	4,091	5,461	4,550
Profit Before Tax as % Revenue	36%	28%	29%	34%	34%	27%
Profit After Tax	3,449	2,594	3,458	3,074	4,288	3,837
Profit After Tax as % Revenue	28%	21%	24%	26%	26%	23%
Earnings Per share (sen) – Basic	35	30	40	35	47	44
EBITDA	5,155	3,803	4,674	4,508	6,076	5,778
EBITDA Margin	42%	31%	32%	38%	37%	35%



Statement of financial position items:

RM million	Group				
	As at 31.3.2009	As at 31.3.2010	As at 31.3.2011	As at 31.12.2011	As at 31.12.2012
Total Assets	23,234	26,892	29,350	26,095	25,920
Total Equity	17,818	19,048	20,984	19,642	21,906
Total Liabilities	5,416	7,844	8,366	6,453	4,014
Net Tangible Assets Per Share (RM)	2.0	2.0	2.2	2.3	2.5

Note: Comparative figures for 31 March 2009, 31 March 2010 and 31 March 2011 were prepared under FRS while figures for 31 December 2011 and 31 December 2012 were prepared under MFRS.

The Group changed its financial year end in 2011 from March to December, making it a nine month reporting period from 1 April to 31 December. To allow for meaningful comparison, comparatives for the twelve month ended 31 December 2011 has been included.



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A full-page background image showing a person in a blue and red jacket painting a yellow wall with a long-handled brush. The wall is part of a house with a red roof and white-framed windows. The scene is brightly lit, suggesting daytime.

The Right Formula

METHANOL

is a chemical building block used in the production of many items present in our daily lives, from fuel, paints and solvents to particle boards and plywood.

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PCG at A Glance

PETRONAS Chemicals Group Berhad (PCG) is the leading integrated chemicals producer in Malaysia and one of the largest in South East Asia. We operate a number of world class production sites, which are fully integrated from feedstock to downstream end-products.

With a total combined production capacity of over 10 million metric tons per annum (mtpa), we are involved primarily in manufacturing, marketing and selling a diversified range of chemical products, including olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products. Listed on Bursa Malaysia Securities Berhad and with nearly three decades of experience in the chemicals industry, PCG was established as part of the PETRONAS Group to maximise value from Malaysia's natural gas resources.



Quick Facts

- Comprises 24 companies producing a wide range of chemical products.

- Two major operating business segments:
 1. Olefins and Derivatives
 2. Fertilisers and Methanol

- Operates two integrated petrochemical complexes, one in Kertih, Terengganu and the other in Gebeng, Pahang.

- Three manufacturing complexes in Gurun, Kedah; Bintulu, Sarawak and Labuan that produce fertilisers and methanol.

- Total production capacity of over 10 mtpa.

- The largest producer of methanol in South East Asia and fifth largest in the world*.

- The fifth largest producer of urea in South East Asia*.

- The third largest producer of LDPE in South East Asia*.

- Sole producer of methanol, urea, paraxylene, methyl tertiary butyl ether (MTBE), ethanolamines, ethoxylates, glycol ethers, butanol and butyl acetates in Malaysia.

- Joint-venture partners include BASF, BP Chemicals, Idemitsu Kosan, Mitsubishi Corporation and Sasol Limited.



* Based on installed capacity.



Gurun, Kedah

- Urea
- Ammonia
- Methanol

Pasir Gudang, Johor

- Styrene Monomer

Gebeng Integrated Petrochemical Complex, Pahang

- | | |
|--------------------------------------|-----------------------|
| • Oxo-alcohols | • Butanediol |
| • Propylene | • Polypropylene |
| • Acrylics | • Butyl Acetate |
| • Methyl Tertiary Butyl Ether (MTBE) | • Butyl Glycol Ethers |
| • N-Butane | |

Our Operations

Vung Tau, Vietnam

- Polyvinyl Chloride*

Federal Territory of Labuan

- Methanol

Bintulu, Sarawak

- Urea
- Ammonia

Kertih Integrated Petrochemical Complex, Terengganu

- Acetic Acid
- Polyethylene
- Paraxylene
- Ammonia
- Oxogas
- Ethylene
- Vinyl Chloride Monomer*
- Ethylene Glycols
- Carbon Monoxide
- Polyvinyl Chloride*
- Butanol
- Propylene
- Ethanolamines
- Glycol Ethers
- Butyl Acetate
- Ethoxylates
- Nonylphenol Ethoxylate
- Benzene
- Polyethylene Glycol
- Polyalkaline Glycol

* Pursuant to the decision to discontinue the vinyl business, the Group has ceased production of Vinyl Chloride Monomer and Polyvinyl Chloride at its Kertih plants from January 2013 and is in the process of divesting its interest in the polyvinyl chloride plant in Vietnam.

A map of Asia and Oceania. The landmasses are colored in teal and grey. Teal regions include China, India, Thailand, Malaysia, and Indonesia. Grey regions include Australia, New Zealand, and parts of Southeast Asia. Orange dots are placed in China, India, Thailand, Malaysia, and Indonesia. Dotted lines connect the labels on the left to the corresponding dots on the map.

CHINA

INDIA

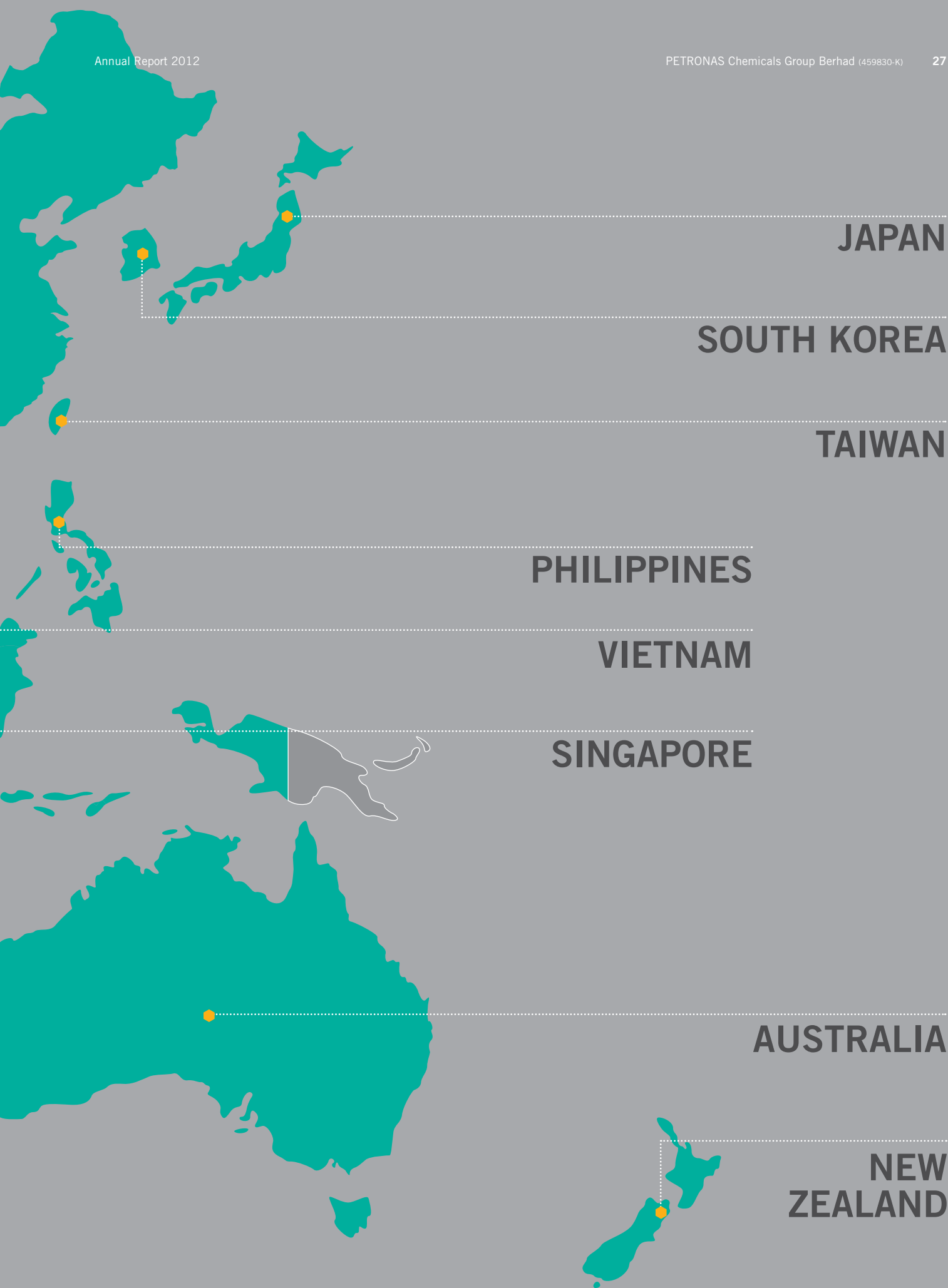
THAILAND

MALAYSIA

INDONESIA

Our Reach

We market a broad range of chemical products to customers in 30 countries. Our major markets outside Malaysia include ASEAN countries such as Indonesia, Philippines, Singapore, Thailand and Vietnam as well as Australia, China, India, Japan, New Zealand, South Korea and Taiwan.



JAPAN

SOUTH KOREA

TAIWAN

PHILIPPINES

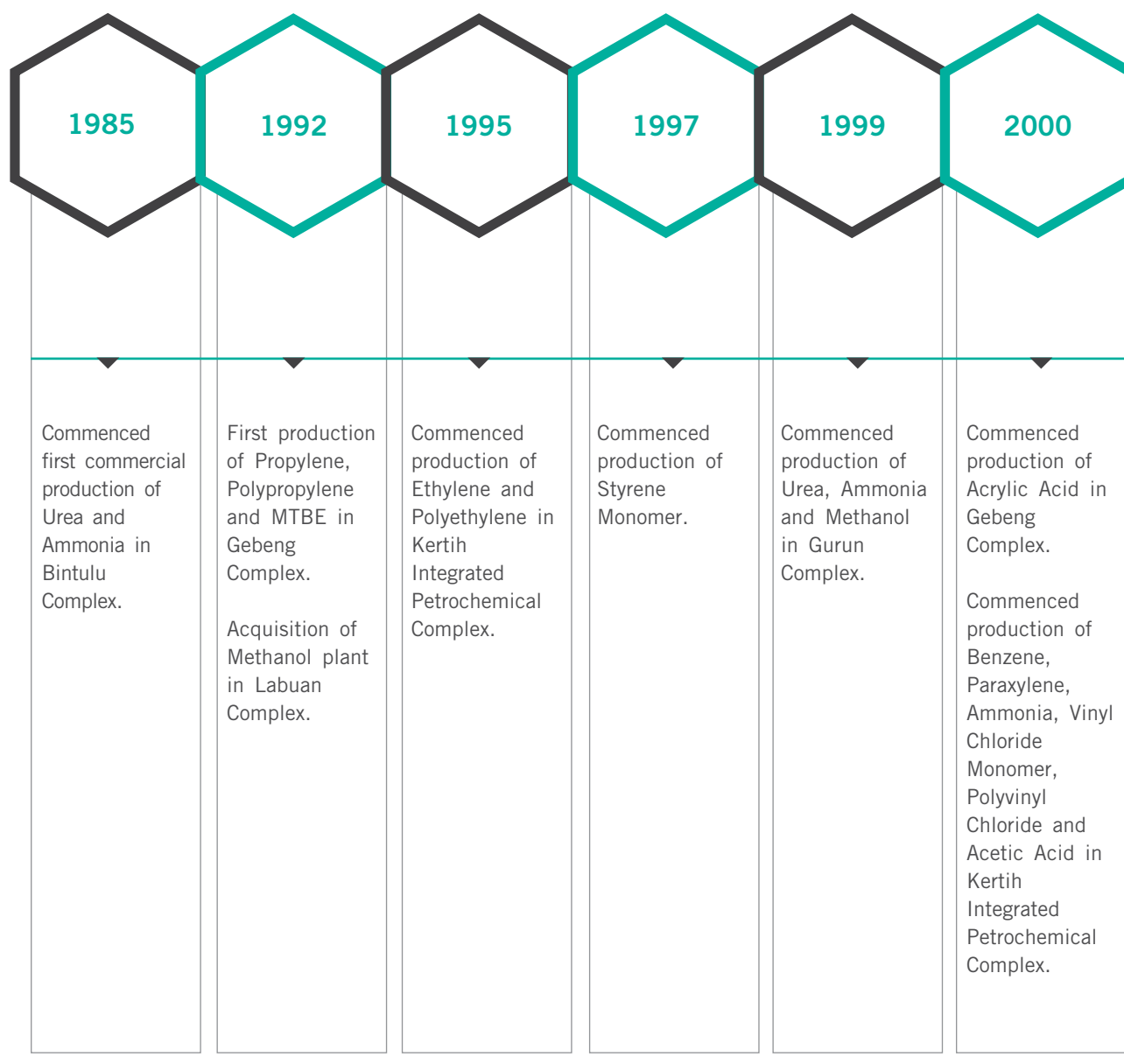
VIETNAM

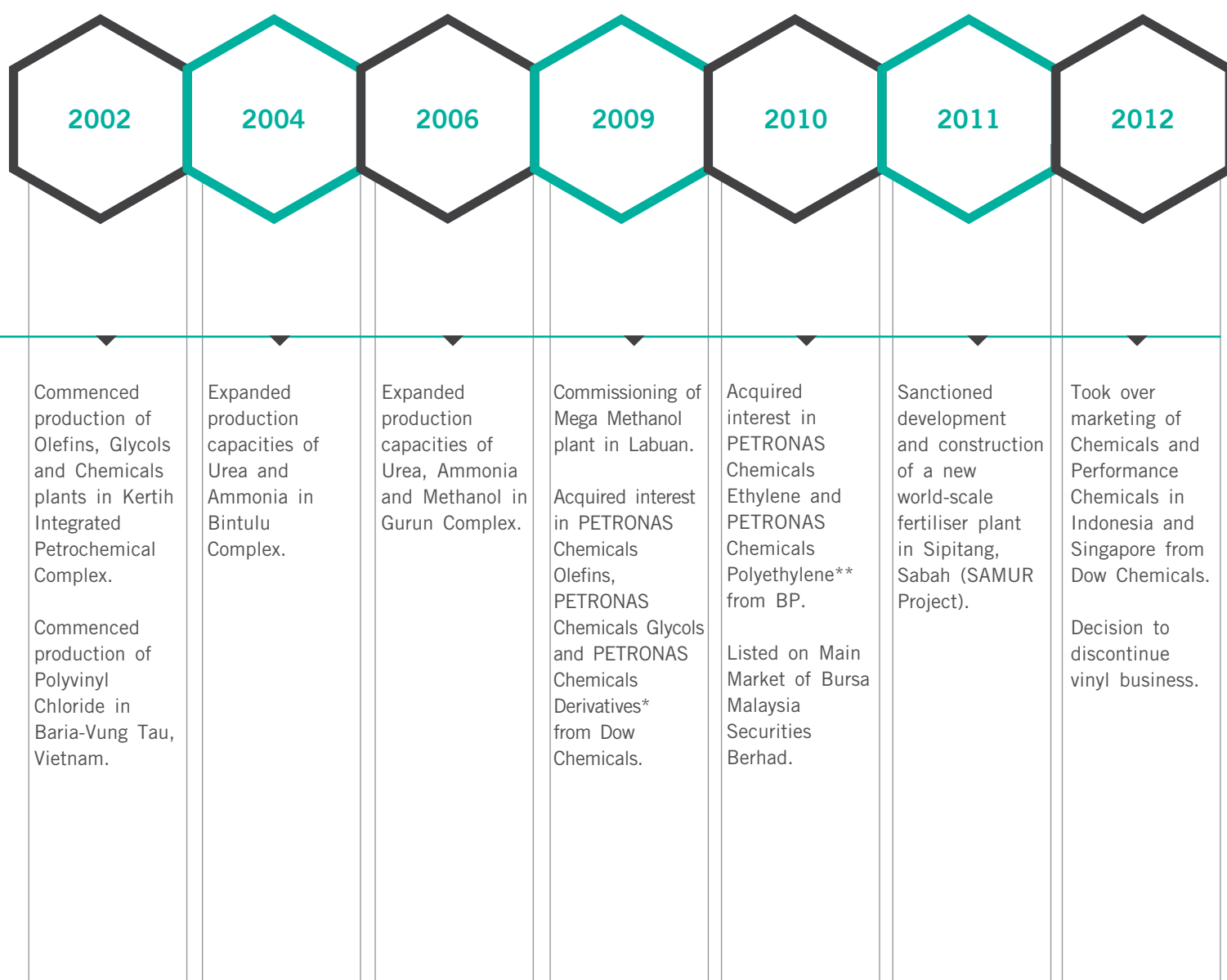
SINGAPORE

AUSTRALIA

**NEW
ZEALAND**

Our Milestones





* Formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd

** Formerly known as Polyethylene Malaysia Sdn Bhd

Our Products Portfolio

Our Olefins and Derivatives segment manufactures and sells a wide range of olefin and polymer products, from ethylene and propylene, which are used as basic feedstock for other products, to intermediate products such as ethylene oxide, ethylene glycol, butanol chemicals, as well as various ethylene oxide derivatives, including basic high performance chemicals.

Key products in our Olefins and Derivatives segment include the following:

Olefins and Derivatives

Product	Description	Feedstock	Primary End Uses
Ethylene	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas	Ethane	Feedstock for production of polyethylene and other derivatives, including ethylene oxide, an intermediate product in the production of ethylene glycol, ethyl alcohol, brake fluids, surfactants and synthetic motor oils; also used to produce styrene, a raw material used in the production of plastic and rubber goods
Propylene	An olefinic hydrocarbon recovered from petrochemical processes in the form of a colourless gas	Propane	Feedstock for the production of polypropylene, acrylic acids, acrylic esters and oxo-alcohols
Polyethylene (LLDPE, HDPE, LDPE)	A polymer derived from polymerisation of ethylene	Ethylene	Feedstock in the manufacture of plastic products, including film, pipes, wires, cables and ducting
Polypropylene	A polymer derived from polymerisation of propylene	Propylene	Feedstock in manufacture of woven bags, plastics, films, ropes, yarn, chairs, food and garment packaging and other industrial and consumer products
Mono-Ethylene Glycol (MEG)	An organic chemical compound derived from the oxidation of ethylene	Ethylene, Oxygen	Polyester resins for fibres and polyethylene terephthalate (PET) containers and bottles, antifreeze, electronic applications and brake fluid formulation
Di-Ethylene Glycols (DEG)	An organic chemical compound derived from the oxidation of ethylene	Ethylene, Oxygen	Fibreglass application and brake fluid formulation
Vinyl Chloride Monomer	Colourless reactive gas primarily used to manufacture Polyvinyl Chloride	Ethyl Dichloride, Ethylene, Oxygen	Feedstock in production of Polyvinyl Chloride
Polyvinyl Chloride	A versatile thermoplastic polymer produced from Vinyl Chloride Monomer	Vinyl Chloride Monomer	Feedstock in manufacture of pipes, pipe and conduit fittings, automobiles parts, blow moulding, roofing tiles, bottles, containers, films, wires and cables
Paraxylene	An aromatic hydrocarbon in the form of a colourless, flammable liquid	Heavy Naphtha	Production of purified terephthalic acid, which in turn is used in the manufacture of polyester for packaging applications, soft drink bottles, fibres and film
Benzene	An aromatic hydrocarbon in the form of a colourless, flammable liquid	Heavy Naphtha	Feedstock for styrene monomer production and raw material for derivatives used in manufacture of disposable food containers, cutlery, packing electrical appliances and tyres

Product	Description	Feedstock	Primary End Uses
Methyl Tertiary Butyl Ether (MTBE)	An organic ether that is volatile, combustible in the form of a colourless liquid that is categorised as an oxygenate due to its ability to boost the oxygen content and octane rating of gasoline	Butane, Methanol	Gasoline additive to boost octane levels to improve burning of fuel and reduce level of emissions
N-Butane	Highly flammable, colourless gas	Butane	Feedstock for production of butanediol
Performance Chemicals	Chemicals produced in smaller volume with higher unit values and used for critical applications requiring stringent performance	Ethylene Oxide	Production of surfactants, personal care products, urethane foam, cement and construction applications, detergents and emulsifiers

In addition to the products listed above, our Associates and Jointly Controlled Entity produce and sell the following petrochemical products under Olefins and Derivatives segment:

Product	Description	Feedstock	Primary End Uses
Acrylics*	Clear colourless liquid with a characteristic odour. Forms homopolymers and copolymers; readily undergoes polymerization and addition reactions with a wide variety of organic acid and inorganic compounds	Propylene	Use in manufacturing superabsorbents, detergents, flocculants and fibres
Oxo-Alcohols*	Clear and neutral liquid with a characteristic odour. It is miscible with all common solvents, eg alcohols, ketones, aldehydes, ethers, glycols and aromatic and aliphatics hydrocarbons. Its miscibility with water, however, is restricted	Oxogas and Propylene	Use in coatings, pharmaceuticals and cosmetics
Butanediol*	Colourless, volatile cycloaliphatic ether, neutral, highly polar with an odour characteristic of acetone. This hygroscopic diol is soluble in water, alcohols, esters, ketones, glycol ether and glycol ether acetates; immiscible in aromatic and aliphatics hydrocarbons and diethylether	Butane	Production of polyesters and polyurethanes
Styrene Monomer	Raw materials in liquid form derived from complex petrochemical processes. It is a clear, colourless, flammable liquid, distinctive aromatic odour (harmful by inhalation) and has an irritant effect to respiratory system, eyes and skin	Ethylene, Benzene	Raw material for the production of polystyrene which is used to make electrical, electronics and engineering plastic parts and packaging containers. Used in high-impact plastic such as acrylonitrile butadiene styrene (ABS), latex paints and most synthetic rubber

* Source: BPC Product Specification and BASF factbook 2012

Our Products Portfolio

Our Fertilisers and Methanol segment produces and sells methanol and a range of nitrogen, phosphate and compounded fertilisers. Key products in our Fertilisers and Methanol segment include the following:

Fertilisers and Methanol

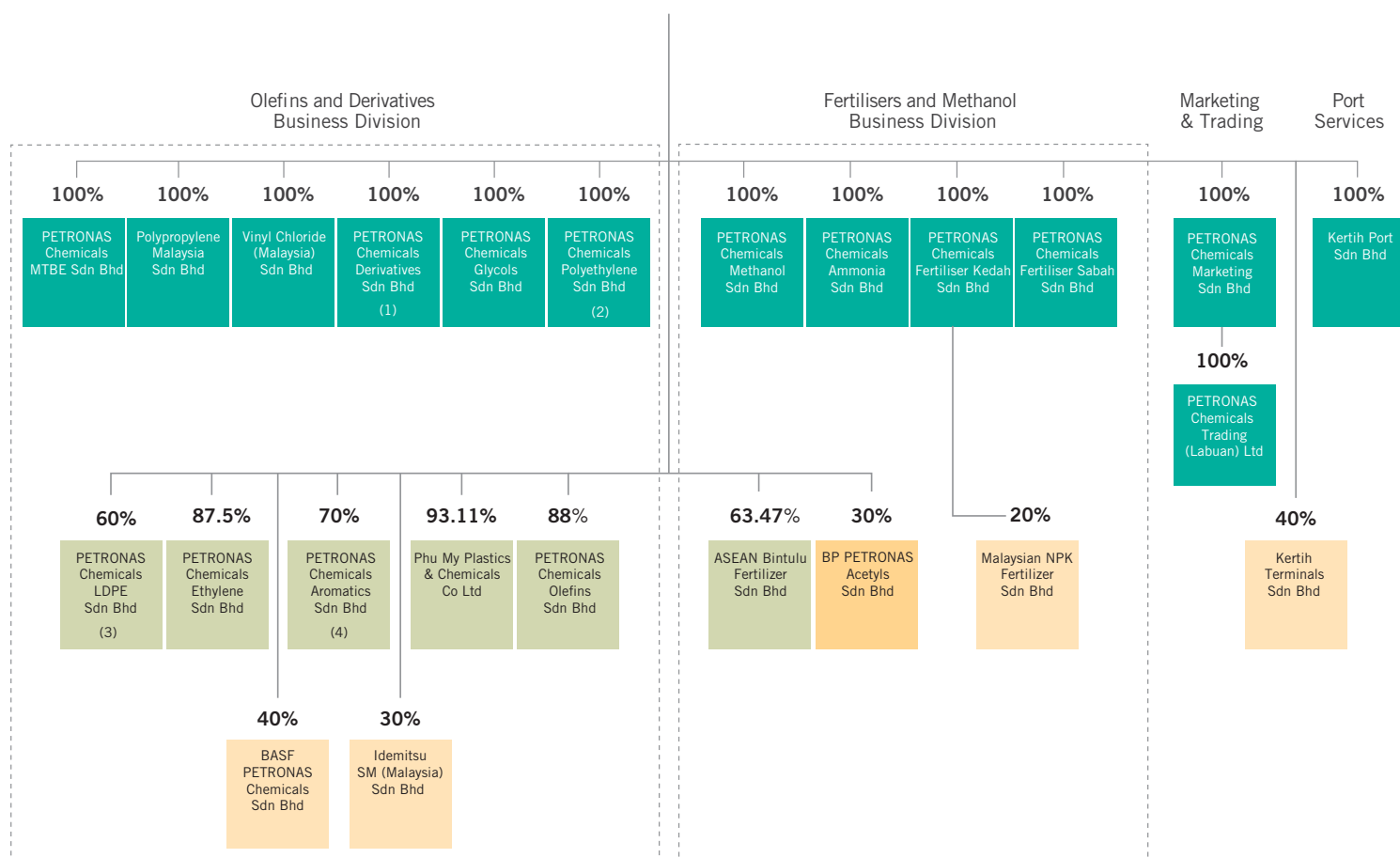
Product	Description	Feedstock	Primary End Uses
Urea	A fertiliser with a minimum nitrogen content of approximately 46% by weight	Ammonia, Carbon Dioxide	Commercial fertiliser used in the production of many crops; raw material for the manufacture of adhesives, moulding powders, varnishes and foams
Ammonia	A nitrogen and hydrogen compound in the form of colourless gas with a characteristic pungent odour	Methane, Hydrogen, Nitrogen	Feedstock for the production of urea and other industrial applications, including as a refrigerant and latex anti-coagulant
Methanol	Simplest organic alcohol and is a colourless, flammable liquid	Methane	Use in the production of formaldehyde, acetic acid, chloromethanes and methyl methacrylate, which in turn are used in the production of resins, adhesives, paints, plastics, flavourings, silicones and plexiglass
Carbon Monoxide	Colourless, odourless and tasteless gas that is lighter than air	Methane	Feedstock for production of acetic acid
Oxogas	Gas consisting primarily of carbon monoxide and hydrogen	Methane	Feedstock for production of butanol

In addition to the products listed above, our Jointly Controlled Entity produces and sells the following petrochemical product under Fertiliser and Methanol segment:

Product	Description	Feedstock	Primary End Uses
Acetic Acid	Chemical intermediate in the form of colourless liquid	Methanol, Carbon Monoxide	Raw material for petrochemical intermediates and end-products, including vinyl acetate monomer for coatings and adhesives, purified terephthalic acid for polyester production, acetate esters, cellulose acetate, acetic anhydride and monochloroacetic acid

Group Structure

PETRONAS CHEMICALS GROUP BERHAD



- (1) formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd
 (2) formerly known as Polyethylene Malaysia Sdn Bhd
 (3) formerly known as PETLIN (Malaysia) Sdn Bhd
 (4) formerly known as Aromatics Malaysia Sdn Bhd

- Wholly-owned Subsidiaries
 ■ Partly-owned Subsidiaries
 ■ Associates
 ■ Jointly Controlled Entity

Corporate Information

Directors

Datuk Wan Zulkiflee bin Wan Ariffin
(Chairman)

Dr Abd Hapiz bin Abdullah
(President/Chief Executive Officer)

Vimala a/p V.R. Menon

Ching Yew Chye

Dong Soo Kim

Ir Kamarudin bin Zakaria

Md Arif bin Mahmood

Ir Pramod Kumar Karunakaran

Rashidah binti Alias @ Ahmad

Registrar

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel : (+603) 7841 8000
Fax : (+603) 7841 8151

Registered Office

Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia
Tel : (+603) 2051 5000
Fax : (+603) 2051 1501

Business Address

Level 15, Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia
Tel : (+603) 2051 5000
Fax : (+603) 2051 3888

Principal Bankers

CIMB Bank Berhad
Malayan Banking Berhad
Citibank Berhad
RHB Bank Berhad
HSBC Bank Malaysia Berhad

Stock Exchange Listing

Main Market of Bursa Malaysia Securities Berhad

Auditors

KPMG Desa Megat & Co

Website

www.petronaschemicals.com

Board Audit Committee

Vimala a/p V.R. Menon (Chairman)
Ching Yew Chye
Dong Soo Kim
Md Arif bin Mahmood

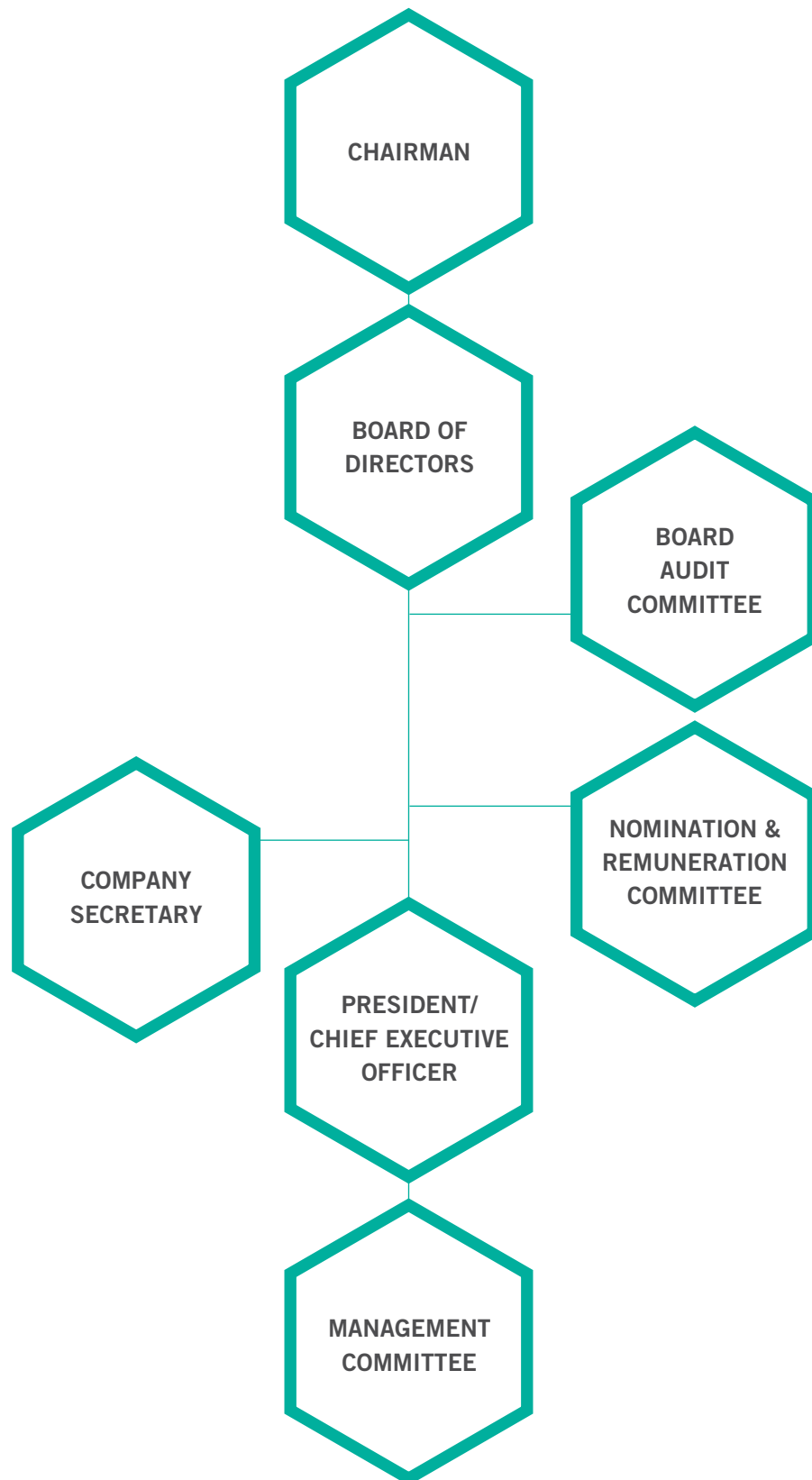
Nomination and Remuneration Committee

Ching Yew Chye (Chairman)
Vimala a/p V.R. Menon
Dong Soo Kim

Company Secretaries

Noryati binti Mohd Noor
Kang Shew Meng

Organisational Structure



Sitting from left to right:

Vimala a/p V.R. Menon

Datuk Wan Zulkiflee bin Wan Ariffin
(Chairman)

Dr Abd Hapiz bin Abdullah
(President/CEO)

Rashidah binti Alias @ Ahmad

Standing from left to right:

Ir Kamarudin bin Zakaria

Md Arif bin Mahmood

Ching Yew Chye

Dong Soo Kim

Ir Pramod Kumar Karunakaran

Noryati binti Mohd Noor
(Company Secretary)

Kang Shew Meng
(Company Secretary)



Board of Directors



Directors' Profile



Datuk Wan Zulkiflee bin Wan Ariffin

Chairman
Non-Independent Non-Executive Director

Nationality
Malaysian

Experience
30 Years

Datuk Wan Zulkiflee bin Wan Ariffin, a Malaysian aged 52, is a Non-Independent Non-Executive Director. He was appointed as the Chairman of PETRONAS Chemicals Group Berhad on 22 June 2010.

He holds a Bachelor of Engineering Degree in Chemical Engineering from the University of Adelaide, South Australia. In 2000, he attended the INSEAD Senior Management Development Program and in 2004, he attended the Advanced Management Program at Harvard Business School. He was conferred the Honorary Fellowship by the Institution of Chemical Engineers, UK in November 2005.

He joined PETRONAS in 1983 as a Process Engineer involved in the development of several Gas Processing Plants. In the ensuing years, he held various positions within the PETRONAS Group including serving in the Office of the President as Executive Assistant to the President as well as in the International Projects Management Division of OGP Technical Services and the Strategy and Business Development Unit of PETRONAS. He was the Managing Director and Chief Executive Officer of PETRONAS Gas Berhad, a public listed subsidiary of PETRONAS, from 2003 to 2007 and Vice President of Gas Business from April 2006 until April 2010.

Datuk Wan Zulkiflee is currently the Chief Operating Officer of PETRONAS and the Executive Vice President for Downstream Business. He is a member of the Board of Directors, Executive Committee and Management Committee of PETRONAS, and serves on various Boards of several joint ventures and subsidiary companies in the PETRONAS Group. He is also the Chairman of PETRONAS Dagangan Berhad, another public listed subsidiary of PETRONAS, a Board Member of Johor Petroleum Development Corporation Berhad and the Industry Advisor to the Engineering Faculty of University Putra Malaysia.

Datuk Wan Zulkiflee was appointed to the Board of PETRONAS Chemicals Group Berhad on 15 December 2008. During the year, he attended six (6) Board meetings.



Dr Abd Hapiz bin Abdullah

President/CEO
Executive Director

Nationality	Experience
Malaysian	27 Years

Dr Abd Hapiz bin Abdullah, a Malaysian aged 55, is an Executive Director. He was appointed as the President/CEO of PETRONAS Chemicals Group Berhad on 1 May 2011.

He holds a Doctor of Philosophy in Organic Chemistry from Utah State University, USA and a Bachelor of Science in Chemistry from University of Nevada, USA. He was conferred the Associate Fellow Engineers by the Institution of Chemicals Engineers in March, 2012.

He has more than 27 years of technical, marketing and business development experience in the chemical manufacturing industry. In 1985, he joined Dow Chemical Malaysia and held several positions including Regional Asia Pacific Technical Manager and Regional Asia Pacific Marketing Manager for Dow Chemical Polyolefins Asia Pacific. Subsequently, he joined DuPont Malaysia Sdn Bhd in 1995 where he held several senior positions from General Manager to Country Manager for Malaysia. In 1999, he was appointed as the Managing Director of DuPont Malaysia Sdn Bhd and Regional Manager, Asia Pacific Packaging & Industrial Polymer. His last position in DuPont Malaysia Sdn Bhd was as Managing Director and Regional Director, Asia Pacific Glass Laminating Solution, a position he held since 2007.

He is currently the Chairman of Chemical Industries Council of Malaysia (CICM) which has membership of more than 100 companies and affiliation with eight other sub sector chemical groups in Malaysia.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 1 May 2011. During the year, he attended five (5) Board meetings.



Directors' Profile



Vimala a/p V.R. Menon

Independent Non-Executive Director

Nationality	Experience
Malaysian	31 Years

Vimala a/p V.R. Menon, a Malaysian aged 58, is an Independent Non-Executive Director. She is the Chairman of the Board Audit Committee and Senior Independent Non-Executive Director. She is also a member of the Nomination and Remuneration Committee. She is a Fellow of the Institute of Chartered Accountants in England and Wales and is also a member of the Malaysian Institute of Accountants.

She qualified as a Chartered Accountant in 1981 and began her career at Deloitte Kassim Chan in 1982. In 1984, she joined Edaran Otomobil Nasional Berhad (EON Berhad) and served as Executive Director of Finance and Corporate Services of EON Berhad until 2007. She was subsequently appointed to Proton Holdings Berhad as Director of Finance and Corporate Services from 2008 to 2009. She served on the Boards of EON Berhad from 1990 to 2006 and EON Bank Berhad from 1994 to 2004. She was also a member of the Boards of Jardine Cycle & Carriage Limited from 1994 to 2003 and PT Astra International Tbk, Indonesia from 2000 to 2003.

Currently, she is an Independent Non-Executive Director as well as the Chairman of Board Audit Committee of PETRONAS Dagangan Berhad, another public listed subsidiary of PETRONAS. She is also a Director and the Chairman of Board Audit Committee of Cycle & Carriage Bintang Berhad.

She was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 August 2010. During the year, she attended six (6) Board meetings, six (6) Board Audit Committee meetings and four (4) Nomination and Remuneration Committee meetings.

Ching Yew Chye

Independent Non-Executive Director

Nationality	Experience
Malaysian	30 Years

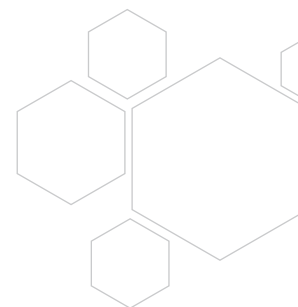


Ching Yew Chye, a Malaysian aged 59, is an Independent Non-Executive Director. He is the Chairman of the Nomination and Remuneration Committee and a member of the Board Audit Committee. He holds a Bachelor of Science (Honours) degree from the University of London, United Kingdom.

He is a seasoned management and information technology professional with more than 30 years of work experience. In 1978, he joined Scicon Consultancy in the United Kingdom. In 1982, he joined Accenture plc (Accenture), a global management consulting, technology services and outsourcing company. From 1997 to his retirement in 2007, he assumed various regional senior management roles in Accenture, including Managing Partner of the Financial Services Industry Group-Asia, Geographic Council Chairman-Asia and Managing Partner for the South Asia Region. He was also a member of the Accenture Global Executive Committee from 2001 to 2004 and served on several committees/task forces to craft Accenture's global strategy.

He is currently an Independent Non-Executive Director of HSBC Bank Malaysia Berhad and Genting Plantations Berhad. He is also a member of the advisory board of Yorkville Advisors HK Ltd.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 August 2010. During the year, he attended six (6) Board meetings, six (6) Board Audit Committee meetings and four (4) Nomination and Remuneration Committee meetings.



Dong Soo Kim

Independent Non-Executive Director

Nationality	Experience
Korean	38 Years

Dong Soo Kim, a Korean aged 66, is an Independent Non-Executive Director. He is also a member of the Board Audit Committee and the Nomination and Remuneration Committee. He holds a Bachelor of Science degree in Chemical Engineering from the University of California, Berkeley, USA and a Master of Science Degree in Chemical Engineering from the University of Idaho, USA.

He began his career with the Dow Chemical Company in 1975 as the plant superintendent of its chloride/caustic plant. He then served as the Director of Corporate Planning in Hanwha Chemical Corporation from 1983 to 1987. In 1987, he joined DuPont Korea as a Project Manager and has held several senior managerial positions including Site Manager, Business Director and Global Fluoroproduct Operations Director. In 1996, he was appointed as Corporate Officer of E.I. DuPont, and Vice President and General Manager of Global Non-Wovens Business. In 1998, he became the President of DuPont Asia Pacific, the first Asian to take the role in more than 200 years of DuPont history and retired in 2009. After his retirement, he served as the Advisor of DuPont Asia Pacific until January 2011.

He is currently the professor in charge of developing the next generation of leaders at Seoul School of Integrated Sciences and Technology. He also serves as a partner-coach at the Korean Coaching Institute. He was appointed to the Board of PETRONAS Chemicals Group Berhad on 13 August 2010. During the year, he attended six (6) Board meetings, six (6) Board Audit Committee meetings and four (4) Nomination and Remuneration Committee meetings.

Ir Kamarudin bin Zakaria

Non-Independent Non-Executive Director

Nationality	Experience
Malaysian	29 Years



Ir Kamarudin bin Zakaria, a Malaysian aged 58, is a Non-Independent Non-Executive Director. He holds a Bachelor of Science Degree in Chemical Engineering from the University of Surrey, United Kingdom. He is a Fellow of the Institute of Chemical Engineers, UK. He is also registered with the Board of Engineers Malaysia.

He joined PETRONAS in 1984 and is currently the Vice President of Group Operations Excellence and Vice President of Downstream Operations Division, PETRONAS. Prior to this, he held various senior positions in PETRONAS including Vice President of Petrochemical Business, Senior General Manager of PETRONAS Group Technology Solution, Chief Executive Officer of PETRONAS Penapisan (Terengganu) Sdn Bhd and General Manager (Refinery) of PETRONAS Penapisan (Melaka) Sdn Bhd.

He was part of the pioneer team of PCG's maiden plant, ASEAN Bintulu Fertilizer Sdn Bhd where he rose to the position of General Manager (Plant). He was a member of the Management Committee of PETRONAS from 2007 to 2010. He also sits on the Board of several companies within the PETRONAS Group.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 23 October 2007. During the year, he attended six (6) Board meetings.

Directors' Profile



Md Arif bin Mahmood

Non-Independent Non-Executive Director

Nationality
Malaysian

Experience
29 Years

Md Arif Bin Mahmood, a Malaysian aged 50, is a Non-Independent Non-Executive Director and a member of the Board Audit Committee.

He holds a Master of Business Administration from Massachusetts Institute of Technology and a Bachelor of Science Degree in Electrical Engineering from Boston University, USA.

He joined PETRONAS in 1984 and is currently the Vice President of Corporate Strategic Planning, PETRONAS. Prior to assuming this position, he held various senior positions in PETRONAS including Vice President of Oil Business, Managing Director/Chief Executive Officer of ASEAN Bintulu Fertilizer Sdn Bhd, Senior General Manager of Retail Business Division at PETRONAS Dagangan Berhad and General Manager (Gas Processing-Plant B) of PETRONAS Gas Berhad. Currently, he is also a member of the Management Committee of PETRONAS and he sits on the Board of several companies within the PETRONAS Group.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 15 December 2008. During the year, he attended five (5) Board meetings and five (5) Board Audit Committee meetings.

Ir Pramod Kumar Karunakaran

Non-Independent Non-Executive Director

Nationality
Malaysian

Experience
29 Years



Ir Pramod Kumar Karunakaran, a Malaysian aged 53, is a Non-Independent Non-Executive Director. He holds a Bachelor of Science in Communication (Electronics) Engineering from Leeds Polytechnic (now known as Leeds Metropolitan University), United Kingdom in 1983.

He joined PETRONAS in 1984 and is currently the Vice President of Infrastructure and Utilities, Gas and Power Business. Prior to assuming this position, he held various senior positions in PETRONAS including Managing Director/Chief Executive Officer of Ethylene (Malaysia) Sdn Bhd (now known as PETRONAS Chemicals Ethylene Sdn Bhd), Senior General Manager of Group Technology Solution, Head of Group Plant Performance Management for Group Technology Solution and General Manager (Plant) at ASEAN Bintulu Fertilizer Sdn Bhd.

He was appointed to the Board of PETRONAS Chemicals Group Berhad on 15 September 2011. During the year, he attended four (4) Board meetings.



Rashidah binti Alias @ Ahmad

Non-Independent Non-Executive Director

Nationality
Malaysian

Experience
19 Years

Rashidah binti Alias @ Ahmad, a Malaysian aged 40, is a Non-Independent Non-Executive Director. She holds a Bachelor of Commerce (Accounting) from the University of New South Wales, Australia. She is an Associate Member of the Institute of Chartered Accountants in Australia (ICAA).

She began her career in 1994 at Arthur Andersen, a firm of Chartered Accountants, where she was involved in audit and various advisory assignments. Since joining PETRONAS in 1998, she has held various positions within PETRONAS covering areas of corporate planning, portfolio management, bonds issuance, company listing and taxation.

She is currently responsible for PETRONAS Group financial reporting, performance review as well as planning and budgeting. She is also responsible for managing finance shared services as well as financial reporting control and governance for PETRONAS Group. She currently sits on the Board of several companies in the PETRONAS Group.

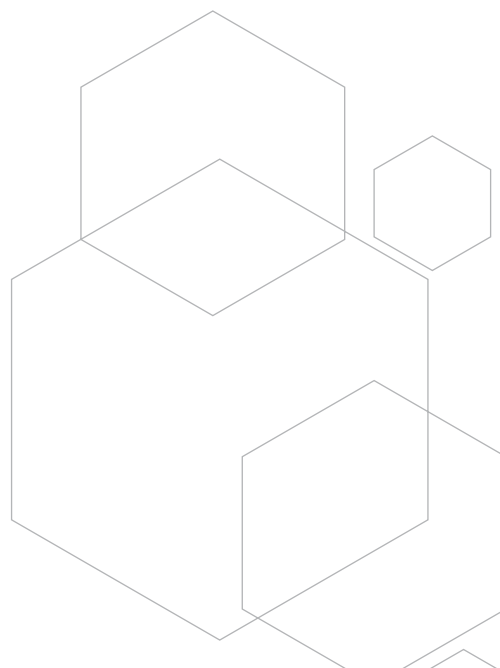
She was appointed to the Board of PETRONAS Chemicals Group Berhad on 15 September 2011. During the year, she attended six (6) Board meetings.

None of the Directors have:

Any family relationship with any other Director and/or major shareholder.

Any conflict of interest with PETRONAS Chemicals Group Berhad.

Any conviction for offences within the past 10 years other than traffic offences.



Management Profiles

1. Dr. Abd Hapiz bin Abdullah

President/Chief Executive Officer

Dr. Abd Hapiz bin Abdullah, aged 55, graduated with a Doctor of Philosophy in Organic Chemistry from Utah State University, Utah, USA in 1984.

He has more than 27 years of experience in chemical industry in the area of technical, marketing and business development. He started his career in 1985 with Dow Chemical Malaysia where he held several positions including Regional Asia Pacific Technical Manager and Regional Asia Pacific Marketing Manager for Dow Chemical Polyolefins Asia Pacific. In 1995, he joined DuPont Malaysia and held several senior management positions. In 1999, he was appointed as the Managing Director of DuPont Malaysia and also Regional Manager, Asia Pacific Packaging and Industrial Polymer.

His last position prior to joining PCG was as Regional Director, Asia Pacific Glass Laminating Solution as well as Managing Director of DuPont Malaysia. He is an Executive Director for our Group and is currently the Chairman of Chemical Industries Council of Malaysia (CICM).

He assumed his current position in May 2011.

2. Wan Shamilah binti Wan Muhammad Saidi

Chief Financial Officer

Wan Shamilah binti Wan Muhammad Saidi, aged 42, graduated with a Bachelor of Science in Economics and Accounting from the University of Bristol, United Kingdom in 1993. She is a Fellow of the Institute of Chartered Accountants in England and Wales and is also a member of the Malaysian Institute of Accountants.

She joined PETRONAS in October 1993 as a Finance Executive in PETRONAS Carigali Sdn Bhd. From 1995 to 1998, she worked for Morison Stoneham, a firm of Chartered Accountants in United Kingdom. She rejoined PETRONAS in 1998 as a Manager in Group Finance of PETRONAS. In the ensuing years, she held various positions covering mergers and acquisitions, finance, marketing and trading across several businesses within PETRONAS. In 2004, she was appointed as General Manager of Finance in PETRONAS Gas Berhad, another public listed subsidiary of PETRONAS. Her last position prior to joining PETRONAS Chemicals was as Senior General Manager of Crude Oil Group, PETRONAS.

She is currently responsible for the management of all financial and fiscal aspects of our Group, as well as risk management and investor relations. She also sits on the Board of several companies in the PETRONAS Group.

She assumed her current position in August 2010.

3. Yusa' bin Hassan

Head of Olefins and Derivatives Business Division

Yusa' bin Hassan, aged 50, graduated with a Bachelor of Science in Mechanical Engineering from West Virginia University, USA in 1984.

He joined PETRONAS in 1985 as an Engineer in Technical Department. His career spans over 28 years in PETRONAS Refining and Petrochemical Businesses, covering plant technical and operations areas. From 1988 to 1997, he held various plant senior management positions in PETRONAS Ammonia Sdn Bhd (now known as PETRONAS Chemicals Ammonia), PETRONAS Penapisan (Terengganu) Sdn Bhd and MTBE Malaysia Sdn Bhd (now known as PETRONAS Chemicals MTBE) and Polypropylene Malaysia Sdn Bhd. He was also part of the pioneer team of PCG's maiden plant, ASEAN Bintulu Fertilizer Sdn Bhd. Prior to joining PETRONAS Chemicals as the Head of Fertiliser and Methanol Business Division, he was the CEO for MTBE Malaysia Sdn Bhd (now known as PETRONAS Chemicals MTBE) and Polypropylene Malaysia Sdn Bhd.

He is currently responsible for the overall business activities and plant operations under the Olefins and Derivatives Business Division for our Group. In addition, he also assumes the position of Managing Director/CEO of PETRONAS Chemicals Aromatics. He sits on the Board of several companies in the PETRONAS Group.

He assumed his current position in June 2011.



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Management Profiles

4. Muhammad Shah bin Ali

Head of Fertilisers and Methanol Business Division

Muhammad Shah bin Ali, aged 51, graduated with a Bachelor of Science in Chemical Engineering from Ohio University, USA in 1985.

He started his career with PETRONAS in 1985 as an Engineer for a Petrochemical Project. From 1988 to 1999, he held several plant operations and project positions in PETRONAS Penapisan (Melaka) Sdn Bhd and Aromatics Malaysia Sdn Bhd (now known as PETRONAS Chemicals Aromatics). In the following years, he assumed various senior management positions in Crude Oil Group, a marketing arm of PETRONAS and in 2009, he was appointed as the Managing Director and CEO of ASEAN Bintulu Fertilizer Sdn Bhd. His last position prior to joining PETRONAS Chemicals was as the CEO of PETRONAS Trading Corporation Sdn Bhd.

He is currently responsible for the overall business activities and plant operations under Fertilisers and Methanol Business Division of our Group. He also sits on the Board of several companies in the PETRONAS Group.

He assumed his current position in January 2012.

5. Herman Schrijver

Head of Operational Excellence & Health, Safety and Environment

Herman Schrijver, aged 63, graduated with a Master of Science in Chemical Engineering from the Technical University Delft, the Netherlands in 1974.

He joined Shell Chemicals in the Netherlands in 1974 as an Assistant Unit Manager. From 1974 to 1996, he held a number of operational and technology management positions in the company in the Netherlands. Between 1996 and 2007 he assumed various senior management positions in Shell and Shell JV units in Germany, USA and the Netherlands. His last assignment in Shell was as Global Technology Manager Aromatics and Base Chemicals for Shell Global Solutions, East Malaysia located in Kuala Lumpur. He joined PETRONAS in 2010 as the CEO of OPTIMAL Group of Companies (now known as PETRONAS Chemicals Olefins Sdn Bhd, PETRONAS Chemicals Glycols Sdn Bhd and PETRONAS Chemicals Derivatives Sdn Bhd). Prior to assuming his current position, he was the Technical Advisor for the same three companies.

He is currently responsible for the Operational Excellence and Health, Safety & Environment for our Group, steering PCG towards achieving its Operational Excellence targets and goals.

He assumed his current position in January 2013.

6. Kamarul Ariffin bin Tajul A'mar

Head of Centralised Services Division

Kamarul Ariffin bin Tajul A'mar, aged 49, graduated with a Bachelor of Engineering in Chemical Engineering from University of New South Wales, Australia in 1988.

He started his career in 1989 in Pan Century Oleochemical and later joined PETRONAS in 1990 as an Environmental Engineer in Marine and Safety Department. From 1994 to 2007, he served on several technical, HSE and plant operation positions in Polyethylene Malaysia Sdn Bhd (now known as PETRONAS Chemicals Polyethylene) and Polypropylene Malaysia Sdn Bhd. He was later appointed as the Head of Quality and HSE in PETRONAS Egyptian Venture, Egypt until 2010. His last position prior to joining PETRONAS Chemicals was as CEO of PETLIN Malaysia Sdn Bhd (now known as PETRONAS Chemicals LDPE).

He is currently responsible for the Group's centralised services, covering logistics and distribution, plant turnaround, plant project engineering and laboratory services. In addition, he also assumes the position of CEO of Kertih Port Sdn Bhd. He is the Industrial Advisor for the faculty of Chemical Engineering at University Technology PETRONAS. He also sits on the Board of several companies in the PETRONAS Group.

He assumed his current position in January 2012.



Management Profiles

7. Abdul Aziz bin Othman

Head of Strategic Planning and Business Development

Abdul Aziz bin Othman, aged 47, graduated with a Bachelor of Science in Mechanical Engineering from George Washington University, USA in 1987.

He joined in 1987 as a Mechanical Engineer in PETRONAS Gas Berhad where he was involved in the various process and pipeline engineering projects for the company. From 2000 to 2005, he held various positions covering strategic planning, resource allocation, mergers and acquisitions and business development within PETRONAS with specific focus on gas business. In 2005, he was appointed as the General Manager in PETRONAS Gas Berhad, responsible for the operations of Centralised Utilities and Facilities, which serves PETRONAS Integrated Petrochemical Complex in Kertih, Terengganu. Prior to joining PCG in June 2011, he was the CEO of Vinyl Chloride Malaysia Sdn Bhd.

He is currently responsible for the overall planning, development and implementation of business strategies and growth projects for our Group. He also sits on the Board of several companies in the PETRONAS Group.

He assumed his current position in August 2011.

8. Noryati binti Mohd Noor

Head of Legal and Corporate Secretariat

Noryati binti Mohd Noor, aged 47, graduated with a Bachelor of Law from the International Islamic University Malaysia in 1989. She was admitted to the Malaysian Bar in 1990.

She joined PETRONAS in July 1990 as a Legal Executive in PETRONAS Dagangan Berhad. She worked for PETRONAS Dagangan Berhad until 1997, after which she joined Gas District Cooling (M) as a Senior Legal Counsel. In the ensuing years, she was involved in several projects in Iran, Singapore and Indonesia for the Gas and Power Business. Her last position prior to joining PCG was as Senior Legal Counsel for PETRONAS Gas Berhad. She was also the Company Secretary for PETRONAS Gas Berhad until May 2012.

She is currently our Company Secretary, responsible for all legal affairs and company secretarial services of our Group. She also sits on the Board of several companies in the PETRONAS Group.

She assumed her current position in March 2012.

9. Zilfalilah binti Abdul Aziz

Head of Human Resource Management

Zilfalilah binti Abdul Aziz, aged 46, graduated with a Bachelor of Science in Computer Science and Mathematics from the New Mexico Institute of Mining and Technology, New Mexico, USA in 1988.

She joined PETRONAS in 1990 as a Management Executive in the Human Resource Information and Administration Department. Throughout her career which spans across 23 years in Human Resource Management, she has covered various portfolios such as People Strategy and Development, International Human Resource and Management, Remuneration and Research as well as Human Resource Information System. Prior to joining PCG, she was the General Manager of Human Resource Management in PETRONAS Gas Berhad, a position she held since 2009.

She is currently responsible for people strategies, talent development and management as well as Human Resource Services of our Group.

She assumed her current position in March 2013.



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OUR PERFORMANCE

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The Right Formula

POLYETHYLENE is commonly used in the production of plastics packaging. Safe and durable, it is present in various form of consumer products including shopping bags, food packaging and wrap films, toys and detergent bottles.

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Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the Annual Report of PETRONAS Chemicals Group Berhad (PCG) for the Financial Year Ended 31 December 2012. Overall, the Group delivered robust results despite challenging market conditions faced by the petrochemical industry globally, demonstrating yet again our strength and agility in operating as an integrated value chain.

ECONOMIC AND INDUSTRY LANDSCAPE

The year 2012 began on a positive note as investor confidence was buoyed by promising economic data from the US and Europe. However, the overall sense of optimism waned by the second quarter as the slow pace of recovery in the US, possibility of a prolonged recession in Europe and lower than anticipated growth in China led to uncertainty and volatility in the global economy. Consequently, global GDP growth slowed from 3.9% in 2011 to 3.2% in 2012 despite governments' efforts to provide economic stimulus and quantitative easing.

Notwithstanding the weak economic sentiment, Brent crude oil price remained relatively steady averaging at USD112 per barrel levels. Market worries over supply following tightening of Iran sanctions and continued geopolitical turmoil in Middle East and North African oil producing countries lent support to the crude oil price. Similarly, upstream naphtha feedstock prices which move in tandem with crude remained elevated during the year.

The impact of the weaker economy was acutely felt by the petrochemical industry as product demand softened throughout the year. Producers saw squeezed margins and in some cases, negative margins as feedstock prices remained high whilst downstream end-product prices were capped due to limited affordability of end-buyers.

Against these challenging market conditions, the Group continued to deliver our value proposition as a resilient and highly competitive petrochemicals player, leveraging on our integrated value chain and proximity to growth markets.

The Group maintained its market reach with 58% revenue derived from outside Malaysia, particularly within Asia. The domestic market contributed the remaining 42% of our revenue, reaffirming our leadership position in Malaysia as the largest olefins manufacturer and the sole producer of methanol and urea.

Chairman's Statement

We continued our good track record in terms of HSE performance, in line with the best-practices of the petrochemicals industry. Operationally, our efforts in driving plant integrity and operating excellence yielded results.

OUR PERFORMANCE

Health, Safety and Environment (HSE) remain our topmost priority and I am pleased to report that we continued our good track record in terms of HSE performance, in line with the best-practices of the petrochemicals industry.

Operationally, our efforts in driving plant integrity and operating excellence yielded results. Feedgas supply situation for our Labuan facility, which constrained our production last year, also improved. The stronger plant performance coupled with lower level of external limitations led to higher Group plant utilisation rates at 83% compared to 76% in the previous year. This translated into higher sales volumes, enabling the Group to capture additional value.

We were not spared by the market vagaries as we saw thinning product spreads during the year under review, driven by lower average product prices. Hence, despite higher sales volume, revenue grew marginally by 2% at RM16.6 billion whilst group profit fell by 11% to RM3.8 billion. Profit attributable to shareholders fell by 7% to RM3.5 billion with earnings per share attributable to our shareholders decreased by about 6% to 44 sen from 47 sen for the same period last year.

DIVIDEND

The Board of Directors is pleased to propose a single tier final dividend of 14 sen per share amounting to RM1.12 billion, subject to shareholders' approval at the forthcoming Annual General Meeting. This will be in addition to the interim single tier dividend of 8 sen per share, amounting to RM640 million and paid to shareholders on 16 October 2012.

OUR GROWTH

I am pleased to inform that we are making progress on our growth strategy to expand our production capacity. During the year under review, we have also undertaken portfolio optimisation to high grade our product mix.

Our world-scale green-field Sabah Ammonia Urea (SAMUR) project will strengthen our urea market position in South East Asia. The new urea plant will have a production capacity of 1.2 million metric tonnes per annum (mtpa) of granulated urea, almost doubling our current capacity. Located in Sipitang Oil & Gas





Industrial Park, the project is expected to spur the growth of Sipitang and its surrounding area, promoting economic spin-offs for Sabah. Construction work is currently on-going with completion targeted in 2015.

As part of our portfolio optimisation strategy to extract maximum value from our integrated value chain, we have discontinued our vinyl business effective January 2013. The vinyl business is not as closely integrated within the Group's value chain and, hence, its performance has not been satisfactory compared to other parts of the value chain. The discontinuation allows us to divert feedstock and resources previously committed to the vinyl business towards production of higher margin products.

We are also expanding resources to ensure our readiness to participate in the Refinery and Petrochemicals Integrated Development (RAPID) project, which is currently led by our parent PETRONAS. If sanctioned, RAPID project would present us with the opportunity to significantly grow our product portfolio into high-value specialty chemicals, in line with our growth strategy.

OUTLOOK

The global economy will remain a concern in 2013 with GDP growth forecasted at 3.5%, a slight uptick from 2012. Although growth may gain better traction as the year goes on, it will be very much dependent on the recovery in the US and emerging markets such as China, since the Eurozone issue will most likely continue to persist within the near term.

Chairman's Statement



Moving beyond 2013, however, the outlook may well be more positive with GDP forecasted to further strengthen to 4.1% as the global economy emerges from the doldrums, on the back of assumed eventual recovery in the Europe.

Asia Pacific will be the engine for growth with China and other parts of Asia forecasted to consume 50% of global production of basic chemicals by 2015. Solid demand growth is anticipated in PCG's key markets within South East Asia and the larger Asia Pacific, fuelled by rising domestic consumption.

On the supply side, capacity additions until 2017 is not expected to be sufficient to meet the additional demand. This puts the petrochemical industry in a favourable position moving forward, whereby the petrochemical market cycle is expected to move into an upward trajectory as the global economy recovers.

With the foregoing in mind and given our unflagging commitment to HSE and operational excellence, position of strength from our integrated value chain and market presence, as well as our committed pursuit of growth strategies, I believe we are in a good position to remain as a leading and resilient petrochemicals player in the Asia Pacific.



Demand growth is anticipated in PCG's key markets within South East Asia and the larger Asia Pacific, fuelled by rising domestic consumption.



APPRECIATION

I would like to take this opportunity to express my sincere appreciation and gratitude to our shareholders and stakeholders for making these achievements possible.

I would also like to thank the Board of Directors for their collective counsel and support, as well as the Management Committee and our dedicated employees for their unwavering determination and commitment in making the year under review a successful one.

I look forward to your continued support in the coming years as we continue on our journey to be a group known for its distinctive operational and marketing excellence.

Datuk Wan Zulkiflee
Chairman



Dear Shareholders,

On behalf of PETRONAS Chemicals Group Berhad (PCG), it gives me great pleasure to present the Group's performance for the Financial Year Ended 31 December 2012. Despite facing market headwinds, the Group recorded robust operational and financial performance for the year as the strength of our integrated value chain coupled with our operational efficiency allowed us to remain resilient and agile.

President/CEO's Message

INDUSTRY OVERVIEW

The year under review was a challenging one for the petrochemical industry. Slower pace of global economic growth following continued economic uncertainty in the US and Europe as well as lower than anticipated growth in China led to dampened manufacturing activities and shrinking trade flows worldwide. This in turn adversely affected the demand for petrochemical products.

As a result of weaker demand, petrochemical product prices fell during the year under review. The ICIS Petrochemical Index or IPEX, comprising a basket of

12 key petrochemical products, dropped by 5% compared to the previous year. In contrast to petrochemical product prices, naphtha feedstock costs remained high at an average of USD933 per metric tonne, supported by elevated crude oil prices and shortage of supply with several Asian crackers undergoing maintenance during the year. This led to contraction in product margins as most producers were not able to pass on the high production costs to end-buyers. Consequently, several products recorded lower and in some cases, negative margins during the year under review.



President/CEO's Message

The Olefins & Derivatives (O&D) business was directly impacted by the lacklustre global economy and weak market conditions. On average, olefins & derivatives product prices in 2012 were lower compared to the previous year with lower demand across the board and excess supply in the market. Polymers, vinyls and derivatives were hit more acutely with prices decreasing by more than 10% for certain products. Two products, however, bucked the trend. MTBE prices rose, driven by higher gasoline prices and supported by firm demand for gasoline blending whilst benzene price increased mainly on the back of supply constraints in the market.

In contrast, average prices for fertilisers, methanol and related products broadly continued on an uptrend. Ammonia prices soared, contributed by supply disruptions of major exporters. Methanol prices rose on the back of sanction on Iranian cargoes and robust demand for methanol end products following growth in key markets as well as greater use of higher octane gasoline. Urea prices, however, recorded a slight dip as additional capacity especially from Qatar and China placed pressure on an already saturated market.

OPERATIONAL PERFORMANCE

For the year under review, we remained resolute in observing high Health, Safety and Environment (HSE) standards and continuously endeavoured to emulate and institutionalise best practices in HSE across the Group. I am pleased to report that the Group continued our good HSE track record for the year under review.

We also continue to remain steadfast in driving operational and marketing excellence whilst optimising our products in addressing the challenging market conditions.



Our efforts bore fruit as the Group's overall plant performance improved. The stronger plant performance was further supported by lower level of external limitations, with improved gas supply availability particularly for our methanol facility in Labuan. This resulted in higher plant utilisation overall at 83% compared to 76% in the corresponding year.

Correspondingly, production volume for the year grew by 679 KMT or 9% at approximately 8.5 million tonnes compared to the corresponding year. The Group sold 3.2 million tonnes of olefins and derivatives products and 3.6 million tonnes of fertilisers and methanol products, which represents increases of 2% and 9% respectively. In total, sales volume increased by 362 KMT or 6% at 6.8 million tonnes. Total sales volume to production volume was 79% compared to 82% in the previous year.

Overall, Malaysia contributed 42% to total sales while China made up nearly 20%, making it our largest export destination.

Olefins & Derivatives

Our O&D business segment turned in a strong operational performance for the year under review with nearly all plants consistently achieving commendable levels of plant reliability throughout the year. Consequently, the segment saw lower plant maintenance activities compared to the corresponding year.

The stronger operational performance countered the impact from external challenges. Product prices declined and demand softened, particularly in the second and third quarter of the year. O&D segment also faced feedstock limitation in the third quarter mainly due to revamp and rejuvenation work at our supplier's gas processing plant.