Our performance for the year was underpinned by higher operational efficiency and improving gas supply availability.

The segment was able to effectively mitigate these external challenges through proactive and continuous molecule management and optimisation efforts. This allowed us to prioritise on higher margin products, hence maximising our margins.

Overall, with improved operational performance and efficient molecule optimisation, the segment recorded higher plant utilisation and sales volumes.

FERTILISERS & METHANOL

Our Fertilisers and Methanol (F&M) business segment recorded better performance for the year under review despite having heavier plant maintenance activities across its plants.

This was on the back of improving gas supply situation for our methanol facility. We continue to work closely with our upstream suppliers to resolve any remaining issues or limitations.

Overall, the segment achieved higher sales volumes, on the back of higher plant utilisation rates. This allowed F&M segment to capitalise on steady market conditions for all its products.

FINANCIAL PERFORMANCE

Our performance for the year was underpinned by higher operational efficiency and improving gas supply availability, which translated into higher sales volumes. Coupled with the flexibility afforded by our integrated value chain, we were able to remain nimble in countering the challenging market conditions, with lower product prices and narrowing margins.

For the Financial Year Ended 31 December 2012, PCG posted revenue of RM16.6 billion, a 2% growth driven by higher sales volume by 6%. Together with favourable exchange rate movements, the higher sales volume across both business segments mitigated the impact of lower average product prices by 4%.

Overall, profit fell by 11% at RM3.8 billion as a result of narrowing product spreads particularly for Olefins & Derivatives products, compounded by the lower share of profits from associate and jointly controlled entities.

President/CEO's Message

We continue to optimise our product portfolio in addition to maximising margins through active molecule management, prioritising the production of higher value products.

There were several once-off financial items during the year under review which affected our results. Firstly, pursuant to our decision to discontinue the vinyl business, we recognised expenses amounting to RM490 million. This includes necessary impairments and specific provisions required for the decommissioning of our vinyl chloride monomer and polyvinyl chloride plants in Kertih as well as other contractual commitments. In addition, pursuant to successful application for tax incentive, we have also recognised deferred tax assets at one of our subsidiaries. This led to positive tax incentive impact of RM432 million.

Excluding these once-off items, profit would have been lower by 9%.

Group EBITDA for the year fell slightly by 5% to RM5.8 billion.

STRATEGY FOR GROWTH

Optimisation of Product Portfolio
We continue to optimise our product portfolio in addition to maximising margins through active molecule management, prioritising the production of higher value products.

Pursuant to our decision to discontinue vinyl business, we have ceased operations at our Vinyl Chloride Monomer (VCM) and Polyvinyl Chloride (PVC) plants in Kertih, Terengganu effective January 2013 onwards. We are also currently in the process of divesting our interest in our PVC plant in Vung Tau, Vietnam.

This hard call was made after due consideration of the inherent limitation within our vinyl business and its relative performance against other businesses within the Group. Our vinyl business is not as closely integrated within the Group's product value chain as it obtains its Ethylene Di-Chloride (EDC) feedstock from the open market.

Consequently, our vinyl business has not been able to capture the full value and synergies of the Group's integrated business model whereby the product of one plant is used as feedstock in another, so as to maximise margins along the value chain. Instead, our vinyl business was highly susceptible to the cyclicality of its feedstock market.

With the discontinuation of our vinyl business, we now have additional flexibility to divert ethylene towards production of higher margin products within the Group's portfolio.

Expansion of Production Capacity

I am pleased to report that we are making good progress on the construction of the new fertiliser plant in Sipitang, Sabah.

With a capacity of 1.2 million metric tons per annum (mtpa) of granulated urea, the Sabah Ammonia Urea project (SAMUR) will strengthen our position as a key fertiliser player in the region. As a pioneer project in the Sipitang Oil and Gas Industrial Park, we are working in close collaboration with the relevant stakeholders in Sabah to ensure its success and timely completion by 2015. With the required skilled manpower to operate SAMUR, we have already embarked on a structured training programme for new recruits at our various chemicals plants throughout Malaysia.

Further ahead in the horizon, the Refinery and Petrochemicals Integrated Development (RAPID) project which is being led by our parent, PETRONAS, may present us with opportunity to significantly grow our product portfolio through high-value specialty chemicals. It would also diversify our feedstock base into naphtha, complementing our current gas feedstock base. Our efforts to further build on our operational excellence and marketing capability will put us in good stead to be a key player in the project.

Corporate Responsibilities

As a responsible corporate citizen, we seek to contribute towards a progressive and sustainable future for all as we aim to be at the heart of the communities wherever we operate. In pursuing our corporate objectives, we are commited to the well being of our employees, the enrichment of the lives of people we touch and the safeguarding of the environment where our businesses are located.

President/CEO's Message

I am pleased to note that our efforts in promoting an ingrained HSE culture as the DNA of our organisation and of our people have been recognised with several of our plants receiving various awards during the year. Amongst others, we were presented with awards by the Chemical Industries Council of Malaysia (CICM), Malaysian Society for Safety and Health (MSOSH), National Council of Occupational Safety and Health (under the purview of the Ministry of Human Resources) and Royal Society for the Prevention of Accidents (RoSPA). Our Strive for ZERO campaign will continue to remain at the forefront to inculcate the culture of safety is priority, in all aspects of our business.

In order to sustain HSE, operational and marketing excellence throughout the Group, we continue to place our people as our greatest asset. Our talents are put through regular capability and leadership development programmes to better facilitate job placement and career progression. This ensures we have a ready pipeline of talents for succession planning in support of our business growth aspirations.

Last but not least, we remain committed to our corporate social responsibility (CSR) programmes which complement our business activities and contribute positively to the communities and environment where we operate. Our signature CSR programme, ecoCare, focuses on monitoring and maintaining the ecosystem along the Kertih River and its surrounding vicinity. ecoCare is undertaken in collaboration with the Malaysian Nature Society. We also continue to carry out other CSR activities during the year such as "Program BAKTI Pendidikan PETRONAS" (an adopt-a-school programme to help less fortunate students), "Program Sentuhan Kasih" (a community outreach initiative that provides assistance to the poor and underprivileged families) and "Back to School" programme (to assist children from underprivileged families in areas where we operate). In addition, we also carried out several smaller-scale environmental care activities, involving the local communities and our staff, such as river care and beach cleaning programmes.

APPRECIATION

We are now into our third year operating as a Group since our listing in 2010. It has been an eventful journey thus far with successes and challenges along the way.

On behalf of PCG's management and staff, I would like to take this opportunity to sincerely thank our Chairman YBhg Datuk Wan bin Zulkiflee Wan Ariffin for his forward-looking leadership and support. I would also like to express my appreciation to our distinguished Board of Directors for their invaluable stewardship and guidance.

To our valued customers, business partners, regulatory bodies and agencies, as well as our parent PETRONAS, thank you for your continuing support and confidence in us.

To our shareholders, we pledge our continuing commitment to maximise shareholders' value and deliver our best.

On behalf of the Management, I would like to convey my heartfelt gratitude to the PCG family who has remained steadfast in their dedication and hard work in ensuring that the Group delivered commendable performance in the face of considerable challenges during the year under review.

Let us all look to the future with optimism as we forge ahead on our journey to achieve our vision to be "The Asia Pacific integrated chemical champion delivering customer driven sustainable solutions through distinctive operational and marketing excellence."

Dr Abd Hapiz Abdullah
President/CEO

Group Financial Review

GROUP FINANCIAL PERFORMANCE

The Group changed its financial year ended from 31 March to 31 December in the previous year, making it a nine month reporting period from 1 April to 31 December 2011. To allow for meaningful comparison, comparatives referred to in this financial review for Group Financial Performance relates to the twelve months calendar year ended 31 December 2011 (CY2011).

RM million	12 months ended 31.03.2009	12 months ended 31.03.2010	12 months ended 31.03.2011	9 months ended 31.12.2011	12 months ended 31.12.2011	12 months ended 31.12.2012	Increase/ (Decrease) 12 months
Revenue	12,367	12,203	14,574	11,887	16,237	**16,599**	2%
Cost of Revenue	7,500	8,561	10,299	7,454	10,425	**10,935**	5%
Profit Before Tax	4,411	3,368	4,256	4,091	5,461	**4,550**	-17%
Profit After Tax	3,449	2,594	3,458	3,074	4,288	**3,837**	-11%

Revenue

During the year under review, the Group registered revenue of RM16.6 billion, a slight growth of 2% compared to RM16.2 billion in the previous year. The increase in revenue came on the back of higher sales volume and was further supported by favourable exchange rate movements as the Ringgit strengthened against the USD Dollar, despite lower average product prices realised in line with market.

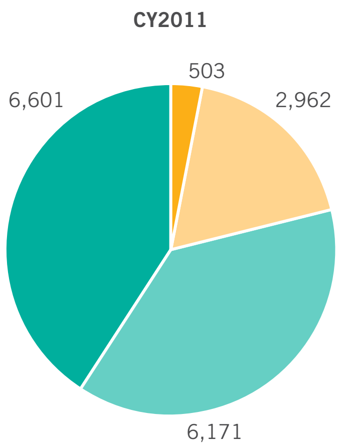
The Group achieved higher sales volume driven by stronger plant performance and lower level of external limitations, in particular, methane gas supply availability improved compared to the previous year. Consequently, the Group's plant utilisation improved from 76% to 83%.

Revenue by product

Product	12 months ended 31.12.2011 RM Mil	12 months ended 31.12.2011 %	9 months ended 31.12.2011 RM Mil	9 months ended 31.12.2011 %	12 months ended 31.12.2012 RM Mil	12 months ended 31.12.2012 %
Olefins & Derivatives						
Polymers	3,055	18.82	2,099	17.66	**3,022**	18.20
Other Chemicals & Derivatives	1,940	11.95	2,017	16.97	**2,059**	12.40
Benzene & Paraxylene	2,496	15.37	1,818	15.29	**2,773**	16.71
Glycols	1,470	9.05	1,179	9.92	**1,136**	6.84
Olefins	1,461	9.00	976	8.21	**1,389**	8.37
Performance Chemicals	1,508	9.29	612	5.15	**1,407**	8.48
Intermediate Chemicals	145	0.89	103	0.87	**172**	1.04
Total Olefins & Derivatives	12,075	74.37	8,804	74.07	**11,958**	72.04
Fertilisers & Methanol						
Fertilisers	2,518	15.51	2,015	16.95	**2,753**	16.59
Methanol	1,447	8.91	914	7.69	**1,659**	9.99
Carbon Monoxide	159	0.98	125	1.05	**186**	1.12
Total Fertilisers & Methanol	4,124	25.40	3,054	25.69	**4,598**	27.70
Others*	38	0.23	29	0.24	**43**	0.26
Total	**16,237**		**11,887**		**16,599**	

**Others: Rendering of services, sales of general merchandise and other products*

Revenue by geographical segment
(RM million)

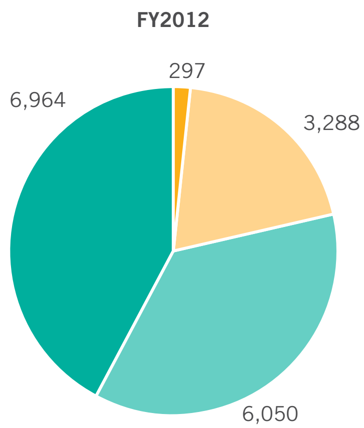


Malaysia

Other Asian Countries

China

Rest of the World



Group Financial Review

Cost of Revenue

Group cost of revenue rose by RM510 million or 5% at RM10.9 billion, primarily attributable to higher feedstock cost by RM674 million or 12%. The higher feedstock cost was driven by both higher consumption following higher production as well as higher prices, particularly for propane, butane and heavy naphtha in line with market. Feedstock cost remains the principal component in cost of revenue, making up nearly 60% of the total cost.

Cost of revenue was also affected by once-off impairment expenses recognised during the year amounting to RM127 million related to the discontinuation of the Group's vinyl business and higher energy and utilities expenses by RM87 million as a result of higher plant on-stream days.

These unfavourable variances were offset by lower product costs incurred by RM427 million as a result of lower external product sourcing undertaken this year to mitigate system volume shortfall and meet customer commitments. In contrast, the Group saw higher level of external product sourcing last year to complement lower production volumes, particularly for high value Olefins & Derivatives products.

Operating Expenditure

Group operating expenditure increased by 57% or RM612 million compared to the corresponding year, largely due to once-off costs of RM363 million arising from the discontinuation of the Group's vinyl business. These costs mainly relate to provisions made for decommissioning and onerous contracts.

Excluding these once-off costs, operating expenditure rose by only 23% or RM249 million, driven by higher selling and distribution costs in tandem with higher volume as well as manpower costs as a result of higher number of staff.

Profit

Despite higher volume, Group profit before tax fell by RM911 million or 17% at RM4.6 billion from RM5.5 billion, mainly due to expenses relating to the discontinuation of the Group's vinyl business recognised during the year. Excluding once-off expenses, profit before tax would be lower by RM381 million or 7% at RM5.1 billion resulting from narrowing product margins for Olefins & Derivatives products.

Share of profit from associates and jointly controlled entity also declined by RM151 million or 35% at RM286 million following lower contribution from an associate company amidst challenging market conditions.

The Group's effective tax rate was significantly lower at 16% compared to 22% in the previous year. The lower tax rate was attributable to the recognition of deferred tax assets on tax incentives granted to a subsidiary company during the year.

Overall, profit for the year was lower by RM451 million or 11% to RM3.8 billion. EBITDA was also lower by RM298 million or 5% at RM5.8 billion.

SEGMENTAL ANALYSIS

Olefins and Derivatives Segment

The Olefins and Derivatives segment continued to be the key contributor to the Group, making up 72% of Group revenue and 67% of Group EBITDA.

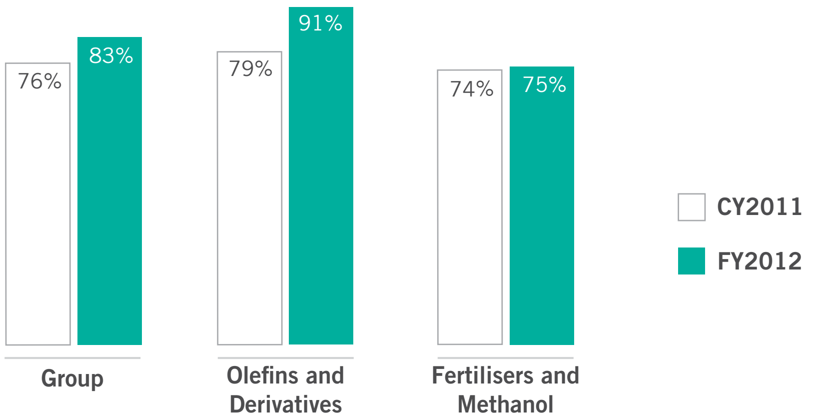
Market conditions for Olefins and Derivatives products were less favourable during the year under review as overall slowdown and uncertainty over the global economy led to dampened demand and depressed prices. With lower average product prices, revenue for the segment declined by 1% at RM12.0 billion compared to RM12.1 billion last year despite higher sales volume attained by 2%.

The segment saw higher sales volume this year as a result of improved plant performance in line with lower level of maintenance activities.

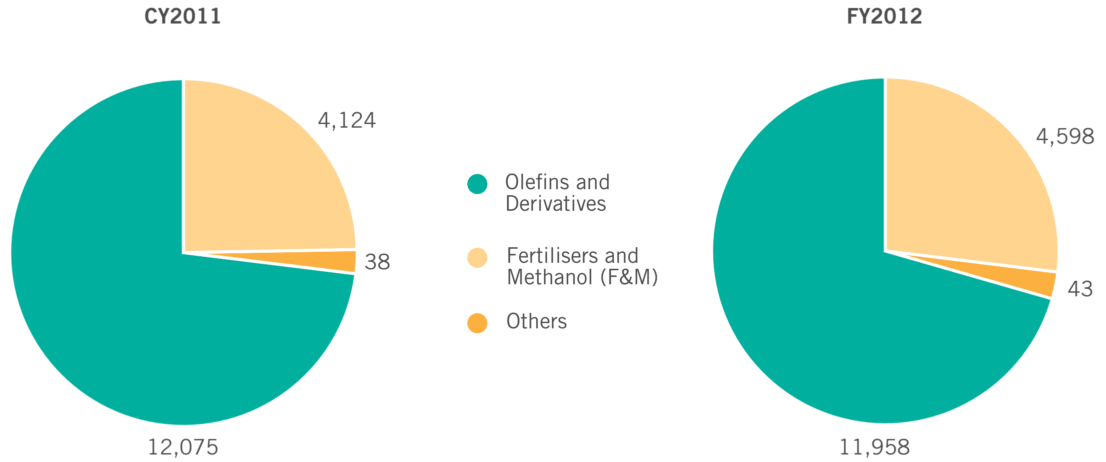
Profit for the year was lower by RM1.2 billion or 37% at RM2.1 billion with lower operating profits recorded as feedstock prices did not move in tandem with product prices. The segment's profits were also affected by once-off discontinuation expenses relating to the discontinuation of the vinyl business and lower contribution from an associate company amidst challenging market conditions.

Accordingly, EBITDA fell by RM564 million or 13% to RM3.9 billion compared to last year.

Plant Utilisation Rate



Revenue by segment
(RM million)



Group Financial Review

Fertilisers and Methanol Segment

The Fertilisers and Methanol segment contributed RM4.6 billion or 28% of Group revenue, an increase of RM474 million or 11% compared to the previous year. The revenue growth was underpinned by higher average product prices and sales volume.

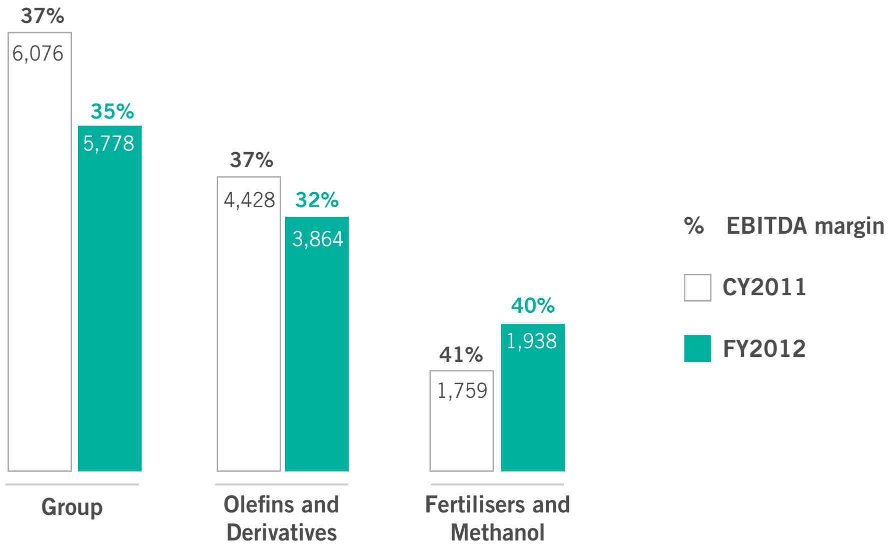
In contrast to Olefins and Derivatives, Fertilisers and Methanol product prices were broadly on an uptrend during the year under review, supported by stronger ammonia and methanol prices on the back of supply constraints and robust demand. Urea price, however, was lower amidst ample supply with additional capacities coming onstream.

The segment recorded higher sales volumes driven by better plant performance and lower level of external limitations with improved methane gas supply availability this year.

Profit for the year rose by 52% or RM578 million at RM1.7 billion as a result of the stronger plant performance, further supported by the positive tax incentive impact in a subsidiary company amounting to RM432 million.

EBITDA increased by 10% or RM179 million at RM1.9 billion, representing 34% of the Group's EBITDA.

EBITDA by segment
(RM million)



GROUP FINANCIAL POSITION

Total Assets

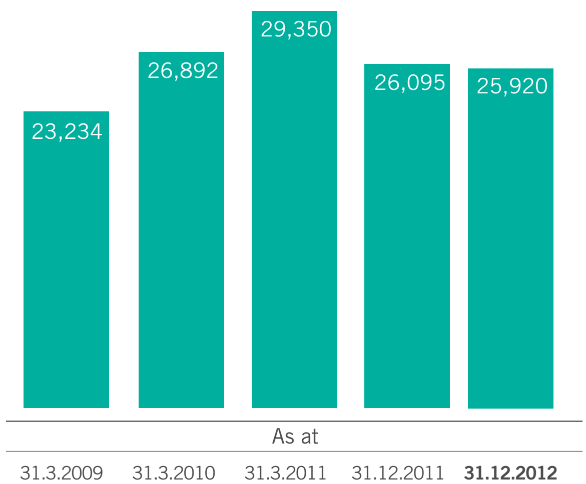
The Group's total assets fell slightly by 1% or RM175 million to RM25.9 billion as at 31 December 2012 from RM26.1 billion as at 31 December 2011.

Property, plant and equipment balances were lower by RM598 million following depreciation charge for the year of RM1.1 billion as well as impairments and write-offs amounting to RM167 million largely attributable to the discontinuation of the Group's vinyl business, offset by additions relating to SAMUR and other plant operational CAPEX of RM829 million.

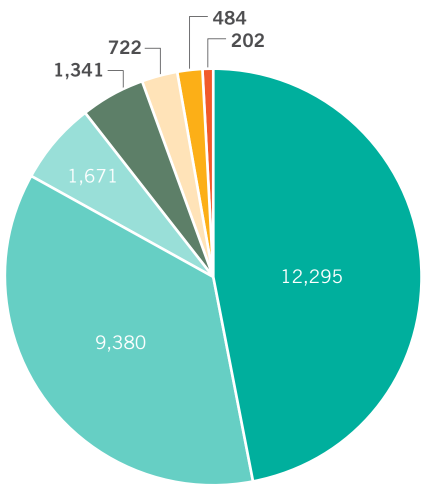
Trade and other receivables was higher by RM365 million, mainly due to advance payments for SAMUR and in line with higher revenue recorded.

Group cash and cash equivalents stood at RM9.3 billion, lower by RM73 million in line with lower cash generated from operations, higher capital expenditure and loan settlements during the year.

Total Assets
(RM million)

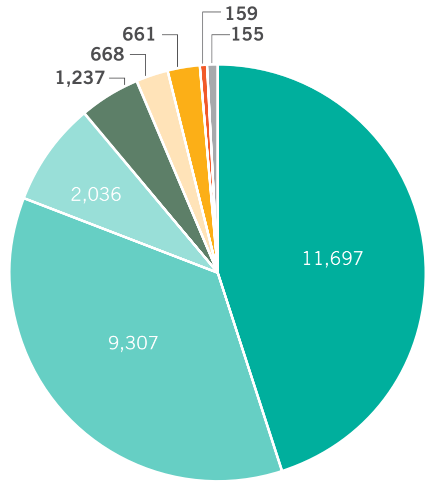


Total Assets as at 31.12.2011
(RM million)



- Property, plant and equipment
- Cash and cash equivalents
- Trade and other receivables
- Trade and other inventories
- Investments in associates and jointly controlled entity
- Deferred tax assets
- Other assets
- Assets classified as held for sale

Total Assets as at 31.12.2012
(RM million)



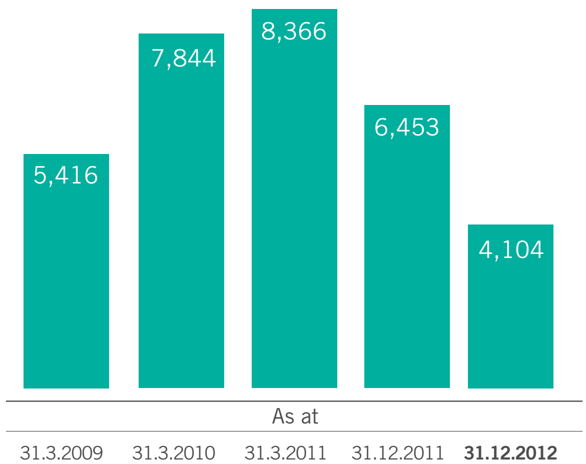
Group Financial Review

Total Liabilities

The Company's total liabilities fell by 38% or RM2.4 billion to RM4.0 million as at 31 December 2012 from 6.5 billion as at 31 December 2011. The reduction was mainly contributed by lower borrowings balance by RM2.4 billion as the Group repaid nearly all of its outstanding debt during the year under review, including the shareholder's loan to PETRONAS of RM1.9 billion and the Islamic Financing facilities in two subsidiary companies of RM274 million. The Group's deferred tax liabilities was also lower by RM219 million as certain amounts were offset against the deferred tax assets recognised on tax incentives granted to a subsidiary company during the year.

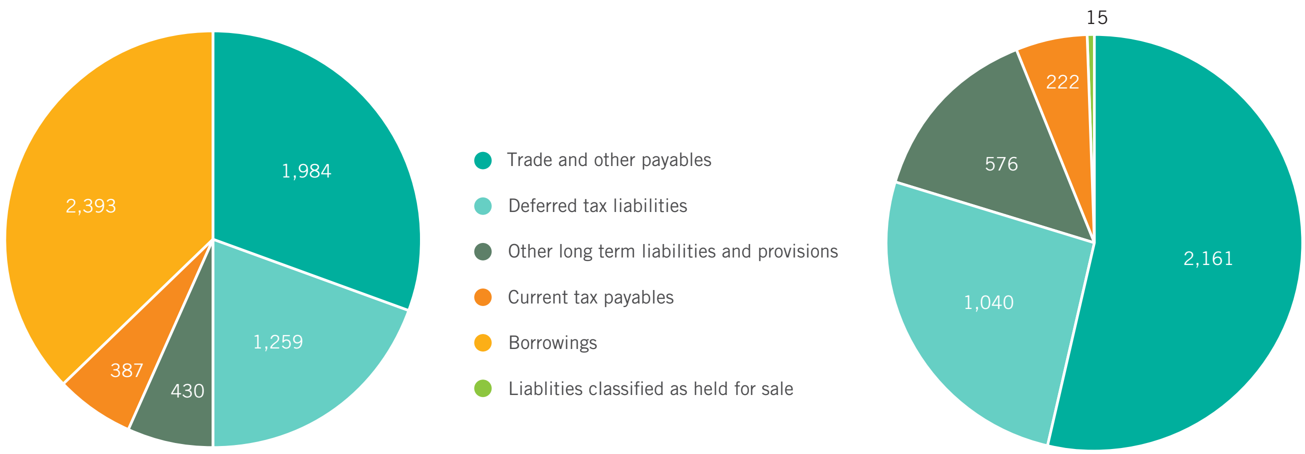
The Group also recognised provisions for decommissioning activities and onerous contracts during the year amounting to RM407 million mainly in relation to the discontinuation of its vinyl business.

Total Liabilities
(RM million)



Total Liabilities as at 31.12.2011
(RM million)

Total Liabilities as at 31.12.2012
(RM million)



GROUP CASH FLOW

For the year ended 31 December 2012, the Group's cash and cash equivalents was marginally lower by RM73 million at RM9.3 billion.

The Group's cash inflow from operating activities was lower by RM1.5 billion at RM4.6 billion compared to the corresponding year at RM6.2 billion as a result of lower cash receipt from customers in line with trending of sales towards the year end, coupled with higher cash paid to suppliers mainly driven by higher feedstock cost compared to 2011.

Net cash outflow from investing activities was higher by RM482 million at RM604 million, largely contributed by higher property, plant and equipment purchases amounting to RM241 million mainly relating to SAMUR, coupled with lower dividends received from associate companies by RM186 million.

Net cash outflow from financing activities was lower by RM116 million at RM4.1 billion on the back of lower dividends paid to shareholders by RM1.0 billion and drawdown of loans by subsidiary companies by RM542 million, despite higher repayment of borrowings, namely on shareholder's loan to PETRONAS by RM1.0 billion and on Islamic Financing facilities by RM208 million. Higher dividends paid in the previous year was due to final dividend in respect of the 12 months period to 31 March 2011 compared to a 9 months period to 31 December 2011 paid in 2012. This is pursuant to the Group's change in financial year end.

Statement of Value Added

	Group		Company	
	12 months ended 31.12.2012 RM Mil	9 months ended 31.12.2011 RM Mil	12 months ended 31.12.2012 RM Mil	9 months ended 31.12.2011 RM Mil
Revenue	16,599	11,887	2,761	1,801
Purchase of goods and services	(10,317)	(6,808)	(77)	(33)
Value added by the companies	6,282	5,079	2,684	1,768
Other expenses	(459)	(96)	(131)	(1)
Other income	375	341	306	194
Financing costs	(82)	(97)	(57)	(75)
Share of profit after tax of equity accounted associate and jointly controlled entity	286	273	–	–
Value added available for distribution	**6,402**	**5,500**	**2,802**	**1,886**
DISTRIBUTION				
To employees				
Employment costs	734	596	152	77
To government				
Taxation	713	1,017	27	33
To shareholders				
Dividends	1,280	2,160	1,280	2,160
Minority Interest	220	109	–	–
Retained for reinvestment and future growth				
Depreciation and amortisation	1,118	813	–	–
Retained profit	2,337	805	1,343	(384)
	6,402	**5,500**	**2,802**	**1,886**

GROUP 12 months ended 31.12.2012 **GROUP 9 months ended 31.12.2011**

Investor Relations

The Malaysian capital market was fairly robust in 2012, sustaining momentum and growing amidst uncertainties in the global external environment, namely the US fiscal cliff, Eurozone debt crisis, turmoil in Middle East and Africa, as well as slowdowns in China and major emerging markets. The Kuala Lumpur Composite Index (KLCI) reached a historical high in December, supported by strong domestic demand and steady government spending.

PCG's share price performance was also affected by both internal and external factors. It rose to a high of RM7.00 in February, as the year began with the global markets gaining momentum on expectations of improving outlook on the European and US markets. However, as the year progressed, escalating concerns on the US financial crisis approaching its debt limit and prolonged European sovereign debt crisis, coupled with concerns over slower than anticipated growth in China economy dampened the capital market sentiment. Our share price movements also reflected the challenging market conditions faced by petrochemicals industry. PCG's share price ended the year at RM6.40 with a low of RM5.66 in early December.

In line with market sentiment, PCG shares were more actively traded in the first half of the year with volume of shares traded tapering off towards the end of the year.

The market has been mixed thus far in 2013 with some volatility amidst still uncertain global growth prospects. Investors remained wary of the domestic political outlook in Malaysia and the pace of economic growth from the developed and emerging markets. From January to mid-March 2013, PCG share prices have risen slightly by 2%, moving in tandem with the KLCI. As at 13 March 2013, PCG is one of KLCI's top 10 counters with a market capitalisation of RM50.9 billion.

INVESTOR RELATIONS

We remain committed to actively engage, communicate and build a professional relationship with the investment community. In meeting this objective, we have in place a structured Investor Relations programme in line with our Investor Relations Policy. In 2012, we conducted over 100 engagement sessions with analysts and fund managers which took place in the form of face-to-face meetings and conference calls, held at our corporate office in Kuala Lumpur as well as several other locations within Malaysia and abroad.

COMPANY VISITS AND NON DEAL ROADSHOWS

As part of our Investor Relations programme, we regularly engage with key institutional investors within Malaysia to update on the latest development and performance of PCG. These engagements allow us to reach out to the investors in the Malaysian capital market community, to better understand and attend to their interests and concerns.

Similarly, we conducted a number of roadshows to Singapore, Hong Kong, Boston and New York in 2012. These engagements included two-way dialogues where we presented the latest updates on PCG and obtained feedback from our international investors. The roadshows conducted ensured our global investors are kept abreast of PCG's performance and the latest developments on growth pursuits and industry outlook.

PARTICIPATION IN CORPORATE EVENTS

During the year, we also participated in several corporate events hosted within the region. We participated in Invest Malaysia 2012 conference held in May 2012, where selected public listed companies were showcased to promote Malaysia as an attractive marketplace in ASEAN. In September 2012, we also took part in the Global Commodities Conference in Singapore.

Investor Relations

ANALYSTS' BRIEFINGS

In conjunction with the company's quarterly financial announcements to Bursa Malaysia, we hosted quarterly analysts' briefings in February, May, August and November 2012. The analysts' briefings, which are conducted via webcast and conference call, provided a platform for PCG Management to have timely discussion with participating institutional shareholders and analysts on the latest performance results. At these analysts' briefings, participants were able to enquire details on the quarterly financial results as well as seek clarifications on recent corporate developments.

SHAREHOLDERS' PLANT VISITS

We recognise the need for our investors to appreciate the nature of our business and chemical products that we produce. During the year under review, we hosted a number of visits to our facilities at the integrated petrochemical complex in Kertih, Terengganu for both our institutional and retail shareholders. The plant visits were well received and enabled our shareholders to see our operations firsthand, thus increasing their appreciation of our business.

CAPITAL MARKET FEEDBACK

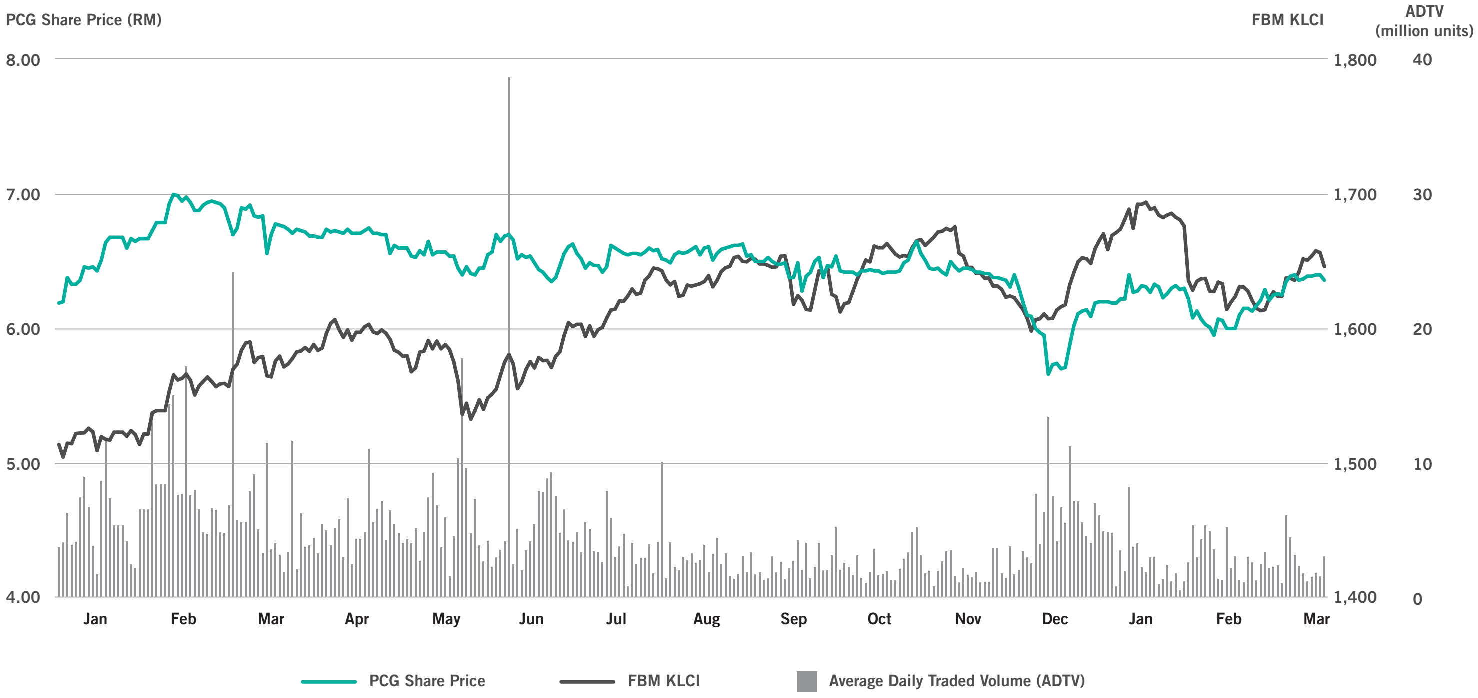
PCG is well covered with regular issuance of reports from around 24 research houses. Regionally, PCG was recognised as one of the top ten companies for investor relations in FinanceAsia's Best Asia Company Poll. PCG was also recognised in the list of Top Ten for Best CFO for Investor Relations for large market capitalisation counters from the Malaysia Investor Relations Association (MIRA) Awards 2012.

Our website continues to serve as an important link with our investors. We continue to improve and enhance the experience by providing user-friendly touch points for the investment community with easy access to our archive of analysts' briefings, corporate presentation, annual reports, releases to Bursa Malaysia and other relevant corporate news or information.

Investor Relations can be contacted at

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

Share Performance



Closing Prices	RM	on:	Average Daily Traded Volume (ADTV)
High	7.00	9 February 2012	4,756,387 units
Low	5.66	3 December 2012	

Financial Calendar

2012

28 May

Announcement of the unaudited quarterly report of consolidated results for the 1st Quarter Ended 31 March 2012

28 August

Announcement of the unaudited quarterly report of consolidated results for the 2nd Quarter Ended 30 June 2012

27 September

Date of entitlement of the interim dividend for Financial Year ended 31 December 2012

16 October

Date of payment of the interim dividend for Financial Year ended 31 December 2012

27 November

Announcement of the unaudited quarterly report of consolidated results for the 3rd Quarter Ended 30 September 2012

31 December

Date of Financial Year End

2013

25 February

Announcement of the unaudited quarterly report of consolidated results for the 4th Quarter Ended 31 December 2012

26 April

Date of Notice of Annual General Meeting and date of issuance of Annual Report 2012

22 May

Date of 15th Annual General Meeting

7 June

Date of entitlement of the final dividend for Financial Year ended 31 December 2012

25 June

Date of payment of the final dividend for Financial Year ended 31 December 2012

Our Achievements

As a responsible corporate citizen and leader in a high-risk chemicals industry, PCG strives to nurture, promote and sustain good Health, Safety and Environment culture. Our efforts have received recognition in the form of various awards.

These include, amongst others, the Chemicals Industries Council of Malaysia (CICM) Responsible Care Awards, Malaysian Society for Occupational Safety and Health (MSOSH) Awards, National Occupational Safety and Health Excellence Awards and Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards.

During period under review, PCG was listed as among the top three organisations with the Best Strategic Corporate Social Responsibility programmes in Malaysia.

Moving forward, we shall continue to strive for excellence in all aspects of our operations.

PCG in the News

4,500 jobs from 'world-scale' Sabah Ammonia Urea project

Petronas committed to invest RM45 billion in Sabah petroleum sector

PCG fokus dua projek utama

PETRONAS Chemicals Group Berhad (PCG) akan menumpukan kepada dua projek utama iaitu Projek Ammonia Urea Sabah (Samur) dan Projek usaha sama di Gebeng, Kuantan sebagai inisiatif rancangan pengembangan tahun ini.

Pengurus merangkap Ketua Pegawai Operasinya, Datuk Wan Zulkiflee Wan Ariffin berkata, setakat ini, perkembangan projek Samur yang dijalankan di Sipitang, Sabah telah siap 75 peratus dan dijangka selesai sepenuhnya awal 2015.

国油化学拨47亿资本开销

Perolehan PCG meningkat 16%

KUALA LUMPUR 28 Ogos - Petronas Chemical Group Bhd (PCG) mencatatkan peningkatan perolehan sebanyak 16 peratus kepada RM3.9 bilion bagi suku kedua tahun ini yang berakhir Jun lalu berbanding tempoh yang sama tahun lalu.

Menurut satu kenyataan di sini hari ini, rekod tersebut disumbang oleh peningkatan prestasi operasi di sebalik harga pasaran yang sedikit merosot.

Secara keseluruhan, keuntungan kumpulan bagi suku tersebut berkembang lapan peratus kepada RM0.9 bilion berbanding tempoh sama tahun lalu.

Perolehan kumpulan bagi tempoh enam bulan pula, turut meningkat kepada RM8.3 bilion berbanding sebelumnya berikutan prestasi operasi yang semakin baik selain jumlah jualan yang semakin meningkat.

Bagaimanapun, keuntungan bagi tempoh tersebut sedikit menyusut sebanyak satu peratus kepada RM2.1 bilion disebabkan sumbangan salah satu syarikat bersekutu yang merosot berikutan persekitaran pasaran yang mencabar selain perbelanjaan cukai yang tinggi kepada kumpulan.

"Portfolio produk yang pelbagai membantu ... sekitaran persaingan yang mencabar ketika ini, kami akan terus menawarkan produk-produk yang berkualiti selain memberi fokus kepada pasaran memberi nilai terbaik," kata Presiden dan Ketua Pegawai Eksekutif PCG, Dr. Abd. Hafiz Abdullah.

Dengan itu, ahli lembaga pengarah PCG turut mengumumkan dividen interim peringkat tunggal sebanyak lapan sen sesaham atau RM640 juta dan akan dibayar pada 16 Oktober ini kepada pemegang saham.

ABD. HAFIZ ABDULLAH

Higher volumes, prices lift Petronas Chemicals earnings

The group has delivered healthy results amid challenging market conditions.

Perolehan PCG meningkat tahun lalu

Teach students HSE at early age – PCM

Untung RM1.466b

Petronas Chemicals Group Bhd mencatat keuntungan sebelum cukai RM1.466 bilion pada suku pertama berakhir 31 Mac lalu didorong pemerolehan pendapatan RM4.389 bilion.

Kumpulan itu merekodkan keputusan yang lebih baik bagi suku semasa berbanding suku sebelumnya hasil daripada prestasi operasi yang lebih baik dalam persekitaran pasaran yang mencabar, katanya dalam satu kenyataan.

Pendapatannya mening-

PETRONAS sedia labur RM45 bilion di Sabah

Tingkat industri huluan, hiliran medan gas asli baru

PETRONAS komited melabur sekitar RM45 bilion dalam industri huluan dan hiliran minyak dan gas di Sabah berikutan penemuan medan gas asli yang baru di luar pesisir negeri itu.

Bermula dengan Projek Ammonia Urea Sabah (SAMUR), syarikat itu menanam Projek SAMUR di Sipitang semalam.

Majlis itu disempurnakan Perdana Menteri, Datuk Seri Najib Razak. Hadir sama Ketua Menteri Sabah Datuk Seri Musa Aman dan Presiden dan Ketua Eksekutif Petronas Datuk Shamsul Azhar

naan projek ini akan meningkatkan keupayaan dan pengalaman mereka dan seterusnya membuka lebih banyak peluang untuk mereka dalam industri berkaitan.

"Kami juga yakin projek ini akan menjadi pemangkin kepada pertumbuhan sektor sokongan yang

DR. A. HAFIZ ABDULLAH (duduk dua dari kanan) bersama masyarakat di sekitar sungai Kerteh menanam pokok bakau di Kerteh, Terengganu baru-baru ini.

EcoCare Petronas Chemical – MNS

KEWUJUDAN industri petroleum di Kerteh Terengganu telah membuka banyak peluang pekerjaan dan perniagaan kepada penduduk tempatan di negeri itu.

Malah, perkembangan pesat industri tersebut turut sama mempengaruhi kemajuan pekan kecil tersebut.

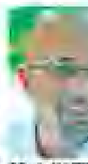
Namun, di sebalik pembangunan dan kemajuan yang dibawa, tanggungjawab terhadap alam sekitar tidak sebarangnya diabaikan.

Justeru itu, sebagai warga korporat, Petronas melaksanakan tanggungjawab korporatnya dengan melaksanakan program penanaman pokok bakau di sepanjang Sungai Kerteh.

Menurut Ketua Pegawai Eksekutif, PETRONAS Chemical Group, **Dr. A. Hafiz Abdullah**, pihaknya sentiasa berwaspada dalam memenuhi kehendak atau piawaian kesihatan, keselamatan dan alam sekitar yang ditentukan oleh pihak berkuasa.

"Malah kami juga komited dalam menganjurkan program bersama masyarakat tempatan seperti program EcoCare ini.

"Program EcoCare ini telah dijalankan dengan kerjasama Persatuan Pencinta



DR. A. HAFIZ ABDULLAH

tersebut melibatkan pembinaan dan rehabilitasi semula hutan sistem ekologi paya bakau dan hutan pesisir sekitar pinggir Sungai Kerteh.

Manakala fasa kedua adalah melibatkan implementasi program pendidikan alam sekitar dan kokurikulum yang berpusat di Pusat Pendidikan Alam Sekitar yang akan dimulakan oleh PETRONAS dengan kerjasama MNS.

Pusat Pendidikan Alam Sekitar tersebut sedang dibina di dalam kawasan yang sama dan apabila ia siap kelak apa yang diharapkan, adalah dengan kerjasama serta sokongan penduduk setempat lebih banyak program berkaitan pendidikan alam sekitar boleh dilaksanakan.

Jelas Dr. A. Hafiz, pusat yang dibiaya sepenuhnya oleh PETRONAS tersebut merupakan satu-satu pusat seumpamanya yang terdapat di Pantai Timur Malaysia.

Malah, ia juga amat sesuai untuk dijadikan sebagai pusat integrasi pendidikan alam sekitar yang mampu memberi kesedaran dan kefahaman berkaitan alam sekitar kepada pelajar sekolah, guru-guru, komuniti tempatan.

Menurut Presiden MNS, **Prof. Dr. Maketab Mohamad**, Pusat Pendidikan

SAMUR PROJEK HILIRAN ERA BARU UNTUK SABAH

Menelan kos RM4.6 bilion dan akan buka peluang 4,000 pekerjaan: PM

OLEH KAMARUDDIN LUDIN

Petronas Chemical beach cleaning

SOME 500 people attended Petronas Chemicals Group Bhd's recent beach-cleaning

OUR RESPONSIBILITIES

The Right Formula

METHYL TERTIARY BUTYL ETHER (MTBE)
is commonly found in unleaded gasoline. It replaces lead use as octane booster to help gasoline burn cleaner, thus reducing harmful emissions from automobiles.

Sustainability Report

As a responsible corporate citizen, we believe sustainability is integral to the long-term success of the Group. We believe that the integration and balance of economic, environmental and social issues in the way we plan, execute and monitor our various businesses are critical to our continuing growth and success.

This is in light of the fact that market demand for sustainable products is growing; that new sustainability related regulations on a range of issues are coming into force both locally and globally; and that support for human rights, environmental protection and the need to give back to the community are becoming increasingly more important to our stakeholders.

As part of the PETRONAS Group, we have adopted PETRONAS' Corporate Sustainability Framework with key result areas as follows:

Shareholder Value – Sustaining the company's profitability through value creation, and efficient extraction and manufacturing processes.

Natural Resource Use – Making oil and gas products available at reasonable market prices, promoting efficient use of energy and water, and supporting the use of renewable energy.

Climate Change – Limiting emissions of greenhouse gases into the atmosphere.

Biodiversity – Ensuring projects and operations do not have significant impact on the diversity of humans, animals and plants.

Health, Safety & Environment (HSE) – Preventing and eliminating injuries, health hazards and damage to property and conserving the environment.

Product Stewardship – Ensuring that products conform to quality and HSE standards, and meet the needs of society.

Societal Needs – Safeguarding human rights within our sphere of influence, contributing to community needs, investing in training and education, promoting arts and sports, and conducting our business in a transparent manner.

For the period under review, we continued to honour our long standing commitment to the environment, by proactively addressing environmental challenges, promoting environmental responsibility through comprehensive Health, Safety and Environment (HSE) management policies, upholding HSE standards and encouraging the development and use of environmentally-friendly designs and technologies.

We also believe that a cornerstone to the healthy growth of our company is the development of high-calibre future leaders. Hence, we strive to enhance and develop the talents and capabilities of our people to fully maximise their potential.

With nearly three decades of experience, we fully recognise that our long-term success depends on the mutual beneficial growth of the communities in which we operate. They are our long-term partners and we are dedicated to reaching out to them through our CSR programme, as well as by providing both direct and indirect employment opportunities or by becoming the catalyst for socio-economic growth.

Conserving Our Environment

PCG endeavours to continue using resources such as energy and water responsibly in all our operations and we aim to reduce our greenhouse gas emissions through our continuous drive for energy efficiency.

Environmental conservation continues to be among key sustainable development issues for the petrochemicals industry. As such, the industry is focused on mitigating its impact on the environment, efficiently using natural resources and producing sustainable products, while meeting the world's growing need for chemical products.

As a leader in the petrochemicals industry in Asia Pacific, PCG endeavours to continue using resources such as energy and water responsibly in all our operations and we aim to reduce our greenhouse gas emissions through our continuous drive for energy efficiency.

As we strive to develop more and better products to meet society's needs, we shall continue to balance socio-economic and environmental requirements.

AWARDS

For the period under review, our efforts at remaining constantly vigilant in observing HSE standards and continuously striving for best practices in HSE have been met with prestigious awards. The following are the organisations that have presented PETRONAS Chemicals Group of Companies with their much coveted awards.

Chemical Industries Council of Malaysia (CICM) Responsible Care Awards

Responsible Care is one of CICM's flagship activities, launched by the Council in 1994. More than 100 signatories or chemical companies have pledged their commitment to Responsible Care.

The CICM Responsible Care Committee and its Regional Committees, namely the Central, Eastern, Northern and Southern Zone Committees, have been established to further enhance the promotion and implementation of Responsible Care among the chemical industry players in

Malaysia. The following are PCG subsidiaries that have received the CICM Responsible Care Awards for the year under review:

1. PETRONAS Chemicals Fertiliser Kedah Sdn Bhd
    - Community Awareness and Emergency Response Code – Gold
    - Employee Health and Safety Code – Gold
    - Process Safety Code – Silver

2. PETRONAS Chemicals LDPE Sdn Bhd (formerly known as PETLIN (Malaysia) Sdn Bhd)
    - Distribution Code – Silver
    - Product Stewardship Award – Silver
    - Community Awareness and Emergency Response Code – Merit
    - Pollution Prevention Code – Merit
    - Process Safety Code – Merit
    - Employee Health and Safety Code – Merit

3. PETRONAS Chemicals Derivatives Sdn Bhd (formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd)
    - Process Safety Code – Silver
    - Community Awareness and Emergency Response Code – Merit
    - Pollution Prevention Code – Merit
    - Employee Health and Safety Code – Merit

4. PETRONAS Chemicals Ammonia Sdn Bhd
    - Community Awareness and Emergency Response Code – Merit
    - Process Safety Code – Merit
    - Employee Health and Safety Code – Merit

5. PETRONAS Chemicals Aromatics Sdn Bhd (formerly known as Aromatics Malaysia Sdn Bhd)
    - Pollution Prevention Code – Merit

Conserving Our Environment

Malaysian Society for Occupational Safety and Health (MSOSH) Awards

The MSOSH Awards are presented annually to companies in Malaysia that have outstanding Occupational Safety and Health (OSH) performance. Identified companies are subjected to stringent document and site verification audits from the MSOSH Panel of Auditors in order to be considered for the awards. The panel members comprise representatives from the Department of Occupational Safety and Health (DOSH), Social Security Organisation (SOCSO), National Institute of Occupational Safety and Health (NIOSH), Standards and Industrial Research Institute of Malaysia Berhad (SIRIM), QAS International and Federation of Malaysian Manufacturers (FMM). The following are PCG subsidiaries that have received the MSOSH Awards for the year under review:

1. PETRONAS Chemicals Methanol Sdn Bhd
   - Grand Award

2. PETRONAS Chemicals MTBE Sdn Bhd
   - Grand Award

3. PETRONAS Chemicals Ethylene Sdn Bhd
   - Gold Merit

4. ASEAN Bintulu Fertilizer Sdn Bhd
   - Gold Class I

5. PETRONAS Chemicals Ammonia Sdn Bhd
   - Gold Class I

6. PETRONAS Chemicals Derivatives Sdn Bhd (formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd
   - Gold Class I

7. Polypropylene (Malaysia) Sdn Bhd
   - Gold Class II

Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Awards

RoSPA, which is based in United Kingdom, organises its prestigious award scheme to recognise excellence in work-related health and safety performance by private and public sector organisations. The scheme is based on the assessment of a broad portfolio of evidences about the level of development and performance of an entrant's occupational health and safety management system, and also takes into account the entrant's reportable accident rate and enforcement experience.

The following are PCG subsidiaries that have received the RoSPA Occupational Health and Safety Awards for the year under review:

1. PETRONAS Chemicals Ammonia Sdn Bhd
   - Gold Award

2. PETRONAS Chemicals Fertiliser Kedah Sdn Bhd
   - Gold Award

Sarawak Chief Minister's Environmental Award (CMEA)

The CMEA is presented to exemplary organisations that have made tremendous effort to improve environmental performances in its organisation with a view to boosting sustainable development in the state. It is jointly organised by the Natural Resources and Environment Board (NREB) Sarawak and the Sarawak Chamber of Commerce and Industry. The Award is one of the incentives given to business and industries to encourage stewardship in environmental protection and management in the state. It also aims at providing organisations with the opportunity of an independent evaluation for their environmental commitment. The award is also intended to stimulate business and industry initiatives in assuming a proactive role in environmental protection throughout the state, by establishing the winning participants as role models.

For the year under review, ASEAN Bintulu Fertilizer Sdn Bhd received the CMEA Gold Award.

Conserving Our Environment

ecoCare is a programme that involves the reforestation and rehabilitation of ecologically sensitive mangrove habitat along Kertih River.

MOVING FORWARD WITH SUSTAINABLE DEVELOPMENT

PCG strives towards efficient use of natural resources. We continuously seek better practices that reduce the usage of water, while promoting the recycling of waste. We pay great attention to minimising energy loss and greenhouse gas (GHG) emission by improving our plants' efficiency.

As part of our strategy to broaden our product portfolio, studies on the Group's bio footprint that support Malaysia's national green agenda are underway, complementing our plans for continuous enhancement of waste management.

ENVIRONMENTAL CONSERVATION WITH THE COMMUNITY

As an aspiring leader in environmental sustainability, we strive to become stewards of our good earth, share our best practices and lead others to excel in doing more for the environment we are blessed with. It has always been in our corporate fabric and culture to provide services and products that meet customers' expectations whilst minimising the impact on the environment. In addition, we host, fund and pioneer environmental preservation efforts that are designed to drive environmental awareness and canvass public participation towards a more sustainable way of life. Apart from PCG's signature environmental CSR programme ecoCare, we have also invested in a wide range of environmental conservation activities.

ecoCare Programme

The mangrove forests and river vegetation along Kertih River are sensitive habitats for aquatic and terrestrial wildlife. The mangroves act as fertile breeding grounds for freshwater and marine life, which also support the local fishing industry located at the river mouth.

Acknowledging the importance of this ecosystem, PCG through PETRONAS Chemicals Olefins, PETRONAS Chemicals Glycols and PETRONAS Chemicals Derivatives (formerly known as OPTIMAL Chemicals Sdn Bhd) has implemented the ecoCare programme. ecoCare is a joint programme of PCG and the Malaysian Nature Society (MNS) that involves the reforestation and rehabilitation of ecologically sensitive mangrove habitat along Kertih River, concurrently promoting community-based involvement and management of the ecosystem.

The main objective is to restore the mangrove and surrounding coastal vegetation to their natural state through proper zone segmentation of the mangrove forests. As of 2012, more than 11,000 square metres of the mangrove forest along Kertih River have been replanted with more than 6,600 mangrove seedlings.

Environmental education programmes for the local villagers were also established in order to promote long term awareness and sustained conservation of the ecosystem.

As part of the ecoCare programme, an Environment Education Centre (EEC) is being built along the banks of Kertih River. The EEC will provide an integrated environmental education avenue to promote awareness of nature among children, teachers and the local community.

Conserving Our Environment

Love Our Forests Programme

The Bukit Bauk Forest Reserve is situated to the south of the town of Dungun. The 7,287ha area is gazetted as an "educational forest" for ecological and botanical studies. The area is a tropical rainforest with high biodiversity of flora, while its streams and river are breeding grounds for tiger prawns and giant snakehead fish. One of the world's smallest fish (from the genus Paedocypris) can also be found in the peat swamps at the foothills of Bukit Bauk.

'Love Our Forest @ Bukit Bauk' Programme is an environmental conservation initiative jointly organised by PETRONAS Chemicals Aromatics and PETRONAS Penapisan (Terengganu) Sdn Bhd, a subsidiary of PETRONAS. The programme serves to increase environmental awareness among the local community, while conserving the high biodiversity value of the Bukit Bauk Forest Reserve. Since the programme began in 2008, PETRONAS Chemicals Aromatics has successfully planted up to 500 trees (including camphor, meraga and nyatoh trees) within the Bukit Bauk forest reserve. In addition, gazebos and other infrastructures were built to attract more visitors and researchers to the site.

Program Cintai Sungai 2012 (River Care Programme)

Program Cintai Sungai was successfully conducted by PETRONAS Chemicals MTBE and Polypropylene Malaysia. This annual event is aimed at creating awareness amongst the community in Kuantan, Pahang of the importance of conserving nature and protecting the environment.

This event included a tree planting ceremony and the donation of 100 fruit trees to the local council, which were planted around the Balok area.

Refuse, Reduce and Reuse (3R) Programme

The objective of this programme was to promote 3R (Refuse, Reduce and Reuse) in the city of Bintulu, Sarawak. It was led by ASEAN Bintulu Fertilizer in collaboration with the Bintulu Development Authority, Natural Resources and Environment Board and Bintulu Education Office.

The programme involved two primary schools in Bintulu and the activities that were carried out included:

- Providing recycling bins to the schools to inculcate 3R practices among students.
- Establishing a community collection center at each school for recyclable waste, which aims to encourage public participation in 3R activities.
- Providing entrepreneurial training to school teachers on ways to maximise revenue from 3R activities.
- Organising an annual "Recycle, Design & Win" contest for school children. The contest involves creating innovative products/designs from recyclable materials.

HSE @ School Programme

HSE @ School is an initiative by PETRONAS Chemicals LDPE (formerly known as PETLIN Malaysia Sdn Bhd) to educate students of local secondary schools about the importance of health, safety and environmental protection (HSE). The programme promoted HSE inspections at school, reduction of HSE hazards at school labs, workshops and hallways, and introduced an emergency response plan for schools. As part of the programme's 3R initiative, the school collected around two tonnes of recyclable materials.

Beach Cleaning Events

Several beach cleaning events were held by PCG in Kertih during the period under review. A beach cleaning exercise was held at Tanjung Batu Beach in April 2012 followed by Bukit Tampin Beach in October 2012. Participants in these activities were from our manufacturing facilities in Kertih namely PETRONAS Chemicals Ethylene, PETRONAS Chemicals Polyethylene and PETRONAS Chemicals Aromatics, as well as local authorities, our contractors, the local community and local schools. A total of more than 2.5 tonnes of waste was collected as a result of this activity with the help of 650 participants.

Other fun-filled activities were also held during the events, including an innovation contest where participants created everyday items using recyclable materials.

Growing in the Marketplace

PCG strives to sustain a profitable business model while upholding our shared values of loyalty, integrity, professionalism and cohesiveness. We are committed to running our business in the most efficient and effective manner, creating value for our shareholders, customers, suppliers and other stakeholders.

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TO SHAREHOLDERS AND CUSTOMERS

Our commitment to deliver strong earnings coupled with sustainable long-term growth means that our business strategy planning and implementation are executed and delivered to maximise shareholder value, whilst guided by exemplary corporate governance practices at all times. With reliable and advantageous feedstock, we are able to operate a number of world-class production sites that are integrated from feedstock to downstream end-products. In serving our customers, we continue to focus on continuous improvement and strive to raise the bar through growth strategies, higher efficiencies and technology upgrades.

Growing in the Marketplace

Our growth projects aim towards strengthening our market positions, whilst contributing towards Malaysia's long-term development and nation building.

The Sabah Ammonia Urea (SAMUR) project is expected to generate greater employment and business opportunities in Sabah during the construction and post construction stages. Acting as a catalyst for Sabah's petrochemical industry, the SAMUR project will also spur the growth of supporting industries, such as infrastructure development, logistics, housing, hotel, healthcare and education.

The Refinery and Petrochemical Integrated Development (RAPID) project, currently led by our parent, PETRONAS has the potential of turning Southern Johor into a new refinery and petrochemical centre in Malaysia, complementing the existing complexes in the country's eastern corridors. It will also create multiple economic spin-offs and a new generation of oil and petrochemical professionals, in line with the Government's aspirations to turn Malaysia into a leading petroleum industry hub in the region.

QUALITY PRODUCTS

In our efforts to meet the highest standard for our petrochemical products, all of our production facilities have their own quality control units and quality management systems, and are certified with the relevant ISO standards.

In addition, each quality management system undergoes internal and external audits annually to ensure continuous compliance and effectiveness. Quality control processes for our products and facilities are conducted at each of the plants through "in process" testing of products and various stages in the production process, so that any deviation can be detected and remedied promptly.

Our methanol plants, for example, are tested not only on production processes, but also undergo tests relating to gases, water treatment and boiler systems, as well as intermediate and final products via scheduled daily testing, in order to produce chemical grade methanol. These processes are subject to strict United States Federal grade AA specification guidelines and also the highest Japanese quality standards. Furthermore, emission levels have to comply with the requirements of the Malaysian Department of Environment.

SUSTAINABLE PRODUCTION PERFORMANCE

We operate and maintain our production facilities to ensure sustainable plant performance. Our facilities undergo regular and periodic inspections to ensure compliance to the requirements of Department of Environment as well as Department of Occupational Safety and Health. The production performance of our facilities are further monitored by tracking a number of performance indicators commonly used in the petrochemicals industry, covering HSE indicators as well as efficiency indicators such as plant utilisation rate and plant reliability rate.

Creating a Great Workplace

PCG strongly believe that our employees are our most valuable assets. Our business success is directly linked to their dedication and capabilities.

We strongly believe our employees are our most valuable assets. Our business success is directly linked to their dedication and capabilities.

We source for right talents, develop and retain them by applying best practices in our rewards management system and ensuring a highly conducive working environment.

As at 31 December 2012, PCG had 4,277 employees, out of which 77% and 23% were technical and non-technical staff respectively.

Job Function	Category	Number of Employees
Executive	Non-Technical	587
	Technical	1,052
Non-Executive	Non-Technical	402
	Technical	2,236
Total		**4,277**

Throughout the year under review, we focused on building an adequate pool of leaders as part of our continuous efforts to achieve and sustain operational excellence and to address future growth. In that regard, numerous leadership and capability workshops for all levels were organised.

We uphold our shared values of loyalty, professionalism, integrity and cohesiveness in the daily conduct of our business and operations. We also propagate high standards of integrity, openness and accountability at all levels within the Group.

HEALTH & SAFETY

Strive For Zero

PCG remains committed towards ensuring that our employees and contractors are able to work under safe and healthy conditions while safeguarding the interest of the local communities. The "STRIVE FOR ZERO" campaign which was launched in 2011 continued in earnest to support our aspiration towards highest standards in HSE.

Creating a Great Workplace

STRIVE FOR ZERO

ZERO injury ZERO harm to the environment
ZERO incident ZERO occupational illness
ZERO *ZeTo* non-compliance

The campaign is premised on building the culture and shaping the mindset of all staff towards zero safety incidents at all times.

A key activity carried out under the "STRIVE FOR ZERO" campaign in 2012 included mandatory "safety walkabouts" led by Management. These walkabouts not only assisted in identifying potential safety hazards, but also demonstrated Management's commitment to ensure a safe working environment for our employees.

In the event of a serious safety incident occurring at one of our facilities, a "safety pause" will be initiated throughout the Group. During the safety pause, leaders would communicate the details of the incident and lessons learnt to all employees - this is to prevent the occurrence of similar incidences at other facilities or sites. In ensuring timely sharing of lessons learnt, the cascading of the safety pause groupwide must be completed within 48 hours.

"Safety Walkabouts" demonstrated Management's commitment to ensure a safe working environment for our employees.

At the same time, we recognise that our employees must be made aware of hazards outside of their workplace. As an example, we launched a "Festive Safety Campaign" which provided employees and their families with a checklist for a safe vacation.

HSE Training

To maintain strong occupational safety and health performance at our operations, all new staff and contractors at our manufacturing facilities are required to undertake extensive training sessions on safe plant operations. These trainings cover various topics such as safe handling of chemicals, hazardous waste management, permit-to-work system and emergency response. In addition, all staff are required to attend periodic refresher training sessions to ensure that their knowledge are kept current.

Emergency Response

Due to the potential hazards at our facilities and work place, it is important for us to be prepared to handle any emergency/crisis situations.

Consequently, regular emergency exercises are conducted based on various potential emergency situations. Larger scale exercises are also periodically conducted with neighbouring facilities and relevant government agencies to ensure good coordination of joint emergency responses.

For instance, during the year under review, an oil spill response and disaster management exercise involving fire/explosion as well as search and rescue situation was conducted from 9 to 11 October 2012. The exercise was organised by Kertih Port Sdn Bhd in collaboration with other companies within the Kertih Integrated Petrochemicals Complex and government agencies, such as the Marine Department, Malaysian Maritime Enforcement Agency and the Department of Environment.

The drill tested the ability of the emergency response team in handling multiple emergencies simultaneously and the coordination between various parties affected by the emergency situation.

A Crisis Management Team (CMT) comprising top management personnel was formed at the PCG Corporate Office in 2012. The purpose of the CMT would be to provide support to each facility's Emergency Management Team, while addressing business continuity issues. It would also coordinate resource allocations in the event of crisis situations involving multiple PCG facilities.

Creating a Great Workplace

We are committed to develop and nurture the leadership qualities and capabilities of our staff.

LEADERSHIP AND CAPABILITY DEVELOPMENT

We are committed to develop and nurture the leadership qualities and capabilities of our staff. In PCG, our staff are provided with the necessary developmental programmes so that they would be able to reach their fullest leadership potential and close their capability gaps. Staff leadership qualities and capabilities are generally developed via three main approaches:

1. Enrichment of developmental experience that is done through mobility or on-the-job assignments;
2. Developmental relationship, such as mentoring, coaching or leader-to-leader conversation; and
3. Structured development programmes, such as PETRONAS Leadership Learning Series conducted by PETRONAS Leadership Centre and technical programmes at INSTEP.

Various assessments programmes have been developed to assist the identification of gaps or areas for improvements. For example, the Accelerated Capability Development (ACD) Programme and PETRONAS Competency Based Assessment (PECAS) are used within the technical/engineering disciplines. These structured programmes enable staff to ascertain required skills for their current positions as well as subsequent higher positions. Upon completion of the assessment, clear development plans will be developed with their superiors to close assessed capability gaps.

It is also important to keep our staff engaged and updated on our business decisions and directions. Staff engagement sessions that open up avenues for two-way communication between PCG management team and staff are periodically conducted throughout the year. The engagement sessions serve as effective platforms in imparting information on the company's vision, mission, financial performance, latest business developments and challenges. They also provide a good forum for PCG Management to obtain feedback and comments in ensuring a conducive and dynamic work environment or culture.

Caring for the Community

Social responsibility is one of our key values and is embedded within our business conduct. We believe that empowering communities involves helping people develop ways that are not merely beneficial but also sustainable.

The diverse business portfolio and operating locations of PCG enable us to touch the lives of thousands of people across the country. Social responsibility is one of our key values and is embedded within our business conduct. We believe that empowering communities involves helping people develop ways that are not merely beneficial but also sustainable.

Thus, all our endeavours are aimed at achieving our commercial objectives while carrying out our responsibility towards socioeconomic development. We are committed to being a good corporate citizen by caring for the communities where we operate.

Specifically, we actively engage communities through a broad range of sustainable CSR initiatives that are focused on education.

CORPORATE SOCIAL RESPONSIBILITY PROGRAMME

Program Bakti Pendidikan PETRONAS

PCG continues to be active in Program Bakti Pendidikan PETRONAS (Program Bakti), an adopt-a-school programme held throughout the PETRONAS Group. Its aim is to help improve the academic performance of underprivileged children in primary schools. In addition, this programme assists in nurturing the characters of these children by helping to hone their psychosocial skills.

A "Back to School & Student Excellence Rewards" event was organised by PETRONAS Chemicals Olefins , PETRONAS Chemicals Glycols and PETRONAS Chemicals Derivatives (formerly known as OPTIMAL Chemicals Sdn Bhd) for underprivileged school children from schools within Kertih, Terengganu that have been adopted under Program Bakti. Some 40 students received school bags filled with school uniforms and stationery, while 33 students were rewarded for academic excellence.

Similarly, PETRONAS Chemicals Ammonia and PETRONAS Chemicals Fertiliser Kedah were also active in organising annual motivational camps at adopted schools within Terengganu and Kedah in preparation for their final examinations. The activities on English Language, Malay Language, Science and Mathematics were conducted with the aid of experienced teachers who taught in ways that were fun and interesting to the students. High achievers among schoolchildren under Program Bakti were also duly rewarded to encourage continuous learning and development.

Likewise, ASEAN Bintulu Fertilizer in cooperation with Malaysia LNG Sdn Bhd, a subsidiary of PETRONAS, facilitated fun learning sessions that helped to cultivate positive interpersonal skills at two primary schools within Bintulu, Sarawak.

Similarly, PETRONAS Chemicals MTBE organised motivational camps for children of MTBE staff and students from its adopted schools to prepare and motivate them in sitting for their final examinations.

Program Bakti, which is conducted with the co-operation of the Ministry of Education, is part of the larger PETRONAS corporate social investment programme that embraces the concept of empowering people through education and promoting human capital development in the communities wherever the Group operates.

Minor Scholarship Programme

ASEAN Bintulu Fertilizer awarded 26 promising students with scholarships under its Minor Scholarship Programme. These secondary school students were from the Bintulu division of Sarawak and belonged to families with incomes of RM1,000 and below. This was the fourth year ASEAN Bintulu Fertilizer presented the scholarships to deserving students.

Caring for the Community

The Minor Scholarship Programme is aimed at helping students with potential for excellence in academics but who live well below the poverty line, to develop themselves into individuals with balanced growth. This is also in line with the State Government's mission to eradicate poverty through human capital building.

Green Project

ASEAN Bintulu Fertilizer contributed AGRENAS urea fertiliser to Sekolah Kebangsaan Batu 18 and local farmers around the school area under its Green Project, with a view to promoting sustainable eco-friendly agricultural practices.

Some 20 volunteers among the staff, together with farmers, teachers and students, worked hand in hand to plant vegetables at the Green Project site near the school. The application and benefits of AGRENAS were shared with the participants.

Program Sentuhan Kasih

Program Sentuhan Kasih is a community outreach initiative that provides assistance to the poor and underprivileged families in the country during major festive seasons. The programme emphasises on the importance of reaching out and fostering a better relationship with the community as well as the importance of instilling a sense of giving among our workforce.

The activities included shopping for Hari Raya goodies with orphans and underprivileged children, visiting the poor and needy as well as breaking fast or 'iftar' at various locations throughout the country where we operate.

Sentuhan Harapan

Sentuhan Harapan is an extension of PETRONAS' Sentuhan Kasih programme to contribute to the government's hardcore poverty eradication efforts in the country. The programme aims to assist hardcore poor families across Malaysia by providing them with RM80 monthly food aid for two years.

Collaboratively organised with the MyKasih Foundation, recipients are also given training in basic financial literacy and skills to help them gain knowledge in areas related to family finances and ways to increase the joint family income.

As the representative of PETRONAS' operations in the northern region, PETRONAS Chemicals Fertiliser Kedah organised the launching of Sentuhan Harapan PETRONAS 2012 at Kuala Muda, Kedah whereby underprivileged families were also presented with festive essentials.

In similar vein, PCG provided school assistance to underprivileged school children in Sipitang, Sabah to assist them in preparing for the 2013 school session.

Caring for the Community

Community Sports

To cultivate a healthy relationship with external stakeholders, especially the younger generation within the area of our operations, we organised various sports events and tournaments. These included a Futsal Tournament at Paka as well as sports carnivals at both northern and eastern regions.

Similarly, some 14 local agencies put their best foot forward for the Futsal Networking Game 2012 organised by ASEAN Bintulu Fertilizer. The participating teams included Bintulu Development Authority, Bintulu Port Sdn Bhd, Bomba, Polis Diraja Malaysia, Malaysia Airport Berhad, Bintulu Integrated Facility, University Putra Malaysia, Sarawak Electricity Supply Corporation, Immigration Department and Resident & District Office.

In enhancing our relationship with the local community where we operate, various other community engagement activities were organised.

Sahabat Pendidikan Pencegahan Dadah-PETRONAS (Sahabat PPDa-PETRONAS)

Sahabat Pendidikan Pencegahan Dadah-PETRONAS (Sahabat PPDa-PETRONAS) is one of PETRONAS' initiatives that focuses on capability building and education through awareness of drug and substance abuse.

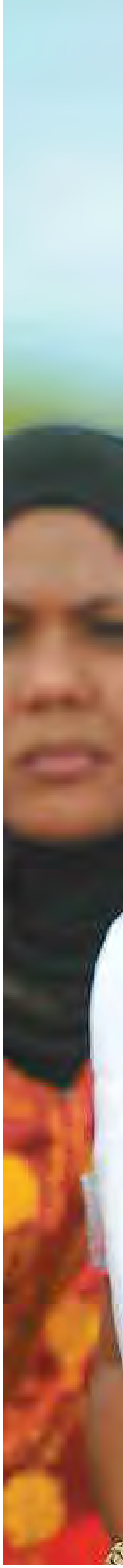
Collaboratively organised with the Ministry of Education, the programme is aimed at driving and facilitating the involvement of primary and secondary school students as well as teachers to promote awareness on prevention of drug and substance abuse in schools while imparting career opportunities within the Oil and Gas Industry.

As the representative of PETRONAS in the northern region, PETRONAS Chemicals Fertiliser Kedah conducted the programme for some 1,400 children school in Kedah.

Other Community Engagements

In enhancing our relationship with the local community where we operate, various other community engagement activities were organised throughout the year under review. These initiatives ranged from community *gotong-royong* cleanup and spruce-up programmes at villages situated within the plants' vicinity, to festive celebrations, health campaigns and blood donation drives.

These initiatives were carried out to foster stronger relations between staff and the surrounding communities, as well as among our employees.



Calendar of Events

5 January 2012

Back to School Programme & Student Excellence Rewards

PETRONAS Chemicals Olefins, PETRONAS Chemicals Glycols and PETRONAS Chemicals Derivatives (formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd) organised a Back to School & Student Excellence Rewards programme for primary school students under Program Bakti Pendidikan PETRONAS. Underprivileged students received school assistance while high performing students received incentives for excellence in their studies.

8 February 2012 A

Back to School Programme

PCG handed out schoolbags to deserving students from local schools in Sipitang, Sabah as part of its Corporate Social Responsibility initiatives.

16 February 2012 B

Sabah Ammonia Urea (SAMUR) Ground Breaking Ceremony

PCG held a ground breaking ceremony for its SAMUR Project in Sipitang, Sabah. The event was officiated by YAB Dato' Sri Mohd Najib Tun Hj Abdul Razak, Prime Minister of Malaysia in the presence of the Chief Minister of Sabah, YAB Datuk Musa Hj Aman. The event was attended by more than 7,000 people from the surrounding communities.

24 March 2012

PETRONAS Chemicals F1 Cocktail Reception

PCG organised an F1 Cocktail Reception prior to F1 race day. The event was attended by PCG customers.

13-15 April 2012 C

Motivational Programme for Primary School Students

PETRONAS Chemicals Olefins, PETRONAS Chemicals Glycols and PETRONAS Chemicals Derivatives (formerly known as OPTIMAL Chemicals Malaysia Sdn Bhd) organised motivational talks for primary school students.

17-18 May 2012 D

Asia Petrochemicals Industry Conference 2012

PCG was the main sponsor for the Asia Petrochemicals Industry Conference (APIC) 2012 organised by the Malaysian Petrochemicals Association at the Kuala Lumpur Convention Centre.

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Calendar of Events

23 May 2012 E

PCG Annual General Meeting

PCG held its 14th Annual General Meeting at the Royale Chulan Hotel, Kuala Lumpur which was attended by over 1,500 shareholders.

29-30 May 2012

Invest Malaysia 2012

PCG participated in Invest Malaysia 2012 conference where selected public listed companies were showcased to promote Malaysia as an attractive marketplace in ASEAN.

24 June 2012 F

Standard Chartered KL Marathon 2012

A team of 40 runners from PCG participated in the Standard Chartered KL Marathon 2012. The proceeds were pledged to the National Autism Society of Malaysia and Eco Knights.

16 July 2012 G

ecoCare Programme

PCG planted 500 mangrove seedlings of *Rizophora Mucronata* species along Kertih River and released around 2,000 *Lates Calcarifer* fry fishes into the river, marking a milestone for the ecoCare programme (PCG's signature environmental Corporate Social Responsibility programme).

11 September 2012 H

PCG Hari Raya Open House

PCG organised a Hari Raya Open House to foster stronger relations amongst stakeholders and employees. The event was attended by more than 800 stakeholders and staff.


PETRONAS CHEMICALS GROUP BERHAD
Annual General Meeting
The Royale Chulan Hotel Kuala Lumpur

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PETRONAS

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Calendar of Events

11 September 2012 I

PCG Wins Best Strategic CSR Award in Malaysia

PCG was listed as among the top three organisations with the Best Strategic Corporate Social Responsibility programmes in Malaysia at the 2nd Annual Southeast Asia Institutional Investor Corporate Awards.

13 September 2012 J

PCG Open House at Sipitang, Sabah

PCG organised an open house in Sipitang in conjunction with local festivities. The event helped to cultivate a sense of goodwill amongst PCG, the people of Sipitang and contractors for SAMUR Project.

22 September 2012 K

Community Engagement Session in Labuan

PETRONAS Chemicals Methanol held a community engagement session with stakeholders in Labuan.

26 September 2012 L

PCG Shareholders Visit to Kertih, Terengganu

PCG hosted a group of individual shareholders at its facilities in Kertih, Terengganu.

7 October 2012 M

Beach Cleaning Event

PETRONAS Chemicals Ethylene and PETRONAS Chemicals Polyethylene (formerly known as Polyethylene Malaysia Sdn Bhd) held a beach cleaning event at Pantai Bukit Tampin, Kemasik resulting in a total garbage collection of 1.5 tonnes. The event was held in collaboration with Majlis Perbandaran Kemaman, Terengganu and Universiti Malaysia Terengganu.

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Calendar of Events

1 November 2012 (N)

Refuse, Reduce and Reuse (3R)

Awareness Campaign at Bintulu, Sarawak

ASEAN Bintulu Fertilizer organised a 3R Awareness Campaign in collaboration with New World Suite, Bintulu Development Authority, Natural Resources Environment Board and Pejabat Daerah Bintulu.

3 November 2012 (O)

River Care Event ("Program Cintai Sungai")

PETRONAS Chemicals MTBE organised its River Care event, aimed at enhancing public awareness of the need to preserve rivers and their surrounding environment.

5-7 November 2012 (P)

Bio-Malaysia Conference 2012

PCG participated in Bio-Malaysia Conference 2012 organised by Malaysian Biotechnology Corporation Sdn Bhd. The event was held at the Kuala Lumpur Convention Centre.

6 November 2012 (Q)

Back to School Programme, Sipitang, Sabah

PCG donated school essentials to deserving students from local schools in Sipitang, Sabah.

24 November 2012 (R)

Community Programme at Gurun, Kedah

PETRONAS Chemicals Fertiliser Kedah held its community programme at Gurun aimed at enhancing its relationship with members of the surrounding local community.

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Our Governance

The Right Formula

MONO-ETHYLENE GLYCOL (MEG) is a key feedstock in the polyester value chain and is primarily used in the production of fibres for textiles.

Statement on Corporate Governance

The Board of Directors (the Board) is committed to high standards of corporate governance and strives to ensure that it is practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.

In this Statement, the Board reports on the manner the Group has adopted and applied the principles and best practices as set out in the Malaysian Code on Corporate Governance 2012 (MCCG 2012) and the governance standards prescribed in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad throughout the year under review.

A) BOARD OF DIRECTORS

Principal responsibilities of the Board

The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. To discharge the Board's stewardship responsibilities, the Board has assumed the following principal responsibilities:-

i) Review and approve annual corporate plan, which includes overall corporate strategy, operational plan, marketing plan, human resources plan, financial plan and budget, risk management plan and information technology plan;

ii) Oversee the conduct of business, and to evaluate whether the business is being properly managed;

iii) Identify principal risks and ensure the implementation of appropriate systems to monitor and manage these risks;

iv) Manage succession planning and appointment of senior management, including ensuring senior management personnel are of sufficient calibre;

v) Develop and implement an investor relations programme or shareholders' communications policy;

vi) Review the adequacy and integrity of internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines; and

vii) Review and approve financial statements.

Board Composition and Balance

The Board currently has nine (9) members, comprising one (1) Executive Director and eight (8) Non-Executive Directors. Three (3) of the Non-Executive Directors fulfill the criteria of independence as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The proportion of one third Independent Non-Executive Directors provides effective check and balance in the functioning of the Board.

The Board members are persons of high calibre and are professionals in their respective fields. Together, the Board members bring a wide range of business and financial experience, skills and technical expertise that are vital to the Board's successful stewardship of the Company and the Group. The Board also believes that the structure of the Board satisfactorily reflect the interest of the shareholders with representation of minority interest through Independent Directors. Profile of each Director is presented on page 38 to page 43 of this Annual Report.

The Board practices a clear division of duties and responsibilities between the Chairman, President/Chief Executive Officer (CEO) and Non-Executive Directors to ensure a balance of power and authority in the Board. The Chairman is primarily responsible for the orderly conduct and function of the Board whilst the President/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group's strategies and policies. The President/CEO is assisted by the Management Committee in managing the business on a day-to-day basis, which he consults regularly. The Management Committee ensures effective systems, controls and resources are in place to execute business strategies and decisions taken by the President/CEO and/or the Board.

The Non-Executive Directors have the necessary calibre to ensure that the strategies proposed by the Management are fully deliberated and examined, taking into account the long-term interest of the shareholders and stakeholders. They contribute to the formulation of policy and decision-making through their expertise and experience. They also provide guidance and promote professionalism and competence among management and employees.

The Independent Non-Executive Directors do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with any companies within the Group except for Mr Dong Soo Kim who has been engaged by PETRONAS, the holding company, to provide coaching to selected plant personnel. Accordingly, the Company believes that the engagement does not compromise the independence of Mr Dong Soo Kim's judgement. The Independent Non-Executive Directors play a significant role in providing unbiased and independent views, advice and judgement taking into account the interest of relevant stakeholders including minority shareholders of the Company.

Ms Vimala a/p V.R. Menon, Chairman of the Board Audit Committee has been appointed as the representative of the Board to whom any concerns pertaining to the Group may be conveyed by shareholders and other stakeholders.

Board Meetings

The Board meets at least quarterly with additional meetings convened as and when necessary. Board meetings for each financial year are scheduled in advance to facilitate the Directors to plan ahead and fit the Board meetings into their respective schedules.

Statement on Corporate Governance

The Board has a formal schedule of matters reserved at Board Meetings which includes corporate plans, annual budgets, operational and financial performance reviews, major investments and financial decisions, management performance assessment, changes to the management and control structure within the Group, including key policies and procedures and delegated authority limits. The Board Audit Committee's reports and the Nomination and Remuneration Committee's reports are also presented and discussed at Board Meetings. All proceedings of Board meetings are duly recorded in the minutes of each meeting and signed minutes of each Board meeting are properly kept by the Company Secretary.

During the Financial Year Ended 31 December 2012, the Board met a total of six (6) times. Details of attendance of the Board members are as follows:-

	Name of Directors	No. of meetings attended
1	Datuk Wan Zulkiflee bin Wan Ariffin	6 out of 6
2	Dr Abd Hapiz bin Abdullah	5 out of 6
3	Vimala a/p V.R. Menon	6 out of 6
4	Ching Yew Chye	6 out of 6
5	Dong Soo Kim	6 out of 6
6	Ir Kamarudin bin Zakaria	6 out of 6
7	Md Arif bin Mahmood	5 out of 6
8	Ir Pramod Kumar Karunakaran	4 out of 6
9	Rashidah binti Alias @ Ahmad	6 out of 6

Supply of Information

Prior to each Board meeting, the agenda and a set of Board papers encompassing qualitative and quantitative information relevant to the business of the meeting are circulated to all Directors on a timely basis. This enables the Directors to have sufficient time to peruse the Board papers and seek clarifications or further details from the Management or the Company Secretary before each meeting to ensure preparedness for the meeting. Urgent papers may be presented and tabled at meetings under supplemental agenda.

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

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

Board Committees

To assist the Board in discharging its duties, the Board has established two Board Committees whose compositions are in accordance with the best practices as prescribed by the MCCG 2012. The functions and Terms of Reference of the Board Committees, as well as authority delegated by the Board to these Board Committees, are reviewed and updated from time to time.

a) Board Audit Committee

The Board Audit Committee is made up of three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. In line with good corporate governance, the Executive Director is not a member of the Board Audit Committee.

The Board Audit Committee reviews quarterly and annual financial statements, announcements on quarterly results, internal audit reports and ensures that the internal control system and management information system are in compliance with the Company's policies and procedures, applicable laws and regulations. The Board Audit Committee also monitors the effective implementation of programmes to ensure compliance to the Company's Risk Management Policy and ensures that principal risks are identified and monitored and appropriate measures are undertaken to manage these risks.

The report on the Board Audit Committee is presented on page 138 to page 141 and the summary of the Terms of References of the Board Audit Committee are included on page 146 to page 147 of this Annual Report.

b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee is made entirely of Independent Non-Executive Directors as per the requirement of the MCCG 2012.

The Nomination and Remuneration Committee undertakes the following functions:-

i) Periodically assess the performance of the Board;

ii) Recommend candidates to fill vacancies on the Board or to stand for election to the Board;

iii) Assist the Board in defining and assessing qualifications for Board membership and to identify qualified individuals;

iv) Review and recommend to the Board appropriate corporate governance policies and procedures for the Company;

v) Monitor compliance with corporate governance standards;

vi) Recommend the remuneration framework and policy of Directors and key management and determine the remuneration package for each Director and key management, as applicable;

vii) Recommend incentive compensation plans for the Board; and

viii) Review and recommend to the Board of any proposal to change the organisational structure of the Company and the management system of the Group.

Statement on Corporate Governance

During the Financial Year Ended 31 December 2012, the Nomination and Remuneration Committee met four (4) times and the attendance of the members are as follows:-

Name of Members	No. of meetings attended
Ching Yew Chye	4 out of 4
Vimala a/p V.R. Menon	4 out of 4
Dong Soo Kim	4 out of 4

Directors' Training

All the Directors have attended the Mandatory Accreditation Programme as required under the Main Market Listing Requirements. The Directors are regularly updated on the Group's businesses and the competitive and regulatory environment in which the Group operates. As an integral part of orientation programme for new directors, the Company provides briefings on the Group's operations and financial performance as well as site visits to the Group's facilities.

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

Re-election of Directors

In accordance with Article 93 of the Articles of Association of the Company, at every Annual General Meeting (AGM), one-third of the Directors shall retire from office by rotation and may offer themselves for re-election. The Articles of Association also provide that all Directors are subject to retirement by rotation at least once in every three (3) years and shall be eligible for re-election. Directors who are appointed by the Board during the financial year are subject to re-election by shareholders at the next AGM held following their appointments.

B) DIRECTORS' REMUNERATION

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

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

The fees for Non-Executive Directors are determined by the Board and subject to the approval of the shareholders of the Company at AGM. Meeting allowances for all the Non-Executive Directors are determined by the Board.

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

Name of Directors	Directors' Fee (RM)	Board Meeting Allowances* (RM)	Audit Committee Meeting Allowance* (RM)	Nomination and Remuneration Meeting Allowance* (RM)	Total (RM)
Executive Director:-					
Dr Abd Hapiz Bin Abdullah	Nil	Nil	Nil	Nil	Nil
Non-Executive Directors:-					
Datuk Wan Zulkiflee bin Wan Ariffin	108,000	28,000	Nil	Nil	136,000^
Vimala a/p V.R. Menon	72,000	24,500	21,000	14,000	131,500
Ching Yew Chye	72,000	24,500	21,000	14,000	131,500
Dong Soo Kim	216,000	24,500	21,000	14,000	275,500
Ir Kamarudin bin Zakaria	72,000	21,000	Nil	Nil	93,000^
Md Arif bin Mahmood	72,000	18,000	10,000	Nil	100,000^
Ir Pramod Kumar Karunakaran	72,000	15,000	Nil	Nil	87,000^
Rashidah binti Alias @ Ahmad	72,000	21,000	Nil	Nil	93,000
Total	**756,000**	**176,500**	**73,000**	**42,000**	**1,047,500**

* Meeting allowances are based on the number of meetings attended by the Directors.
^ Fees paid and payable to PETRONAS

During the year, Dr Abd Hapiz bin Abdullah, the President/CEO and an Executive Director of the Company, received total remuneration paid by the Company amounting to RM2,006,419. As an executive director, he is not entitled to receive any Board meeting attendance fees.

The Directors' fees and meeting allowances for the Non-Independent Non-Executive Directors who are also employees of PETRONAS and holding positions of Vice President and above are paid directly to PETRONAS. The presence and participation of the Non-Independent Non-Executive Directors who are employees of PETRONAS give the Board a deeper insight into PETRONAS' operations with greater accountability for the Group's performance, both financial and operational.

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

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

Statement on Corporate Governance

C) RELATIONSHIPS WITH SHAREHOLDERS

Communications between the Company and its investors

The Board recognises the importance of effective communications with the Company's shareholders and other stakeholders including the general public. Information on the Group's business activities and financial performance is disseminated timely through announcements to Bursa Malaysia Securities Berhad, postings on the Company's website, press releases, issuance of Annual Report and where required, press conferences.

The President/CEO together with the Chief Financial Officer and the Company's Investor Relations Unit conducts regular dialogues with its institutional shareholders and analysts, and holds quarterly analysts briefings to further explain the Group's quarterly financial results. This is to promote better understanding of the Group's financial performance and operations. Periodically, visits to the Group's facilities or plants are also organised to facilitate better appreciation and insight into the Group's business and operations.

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 Securities Berhad, analysts briefings and quarterly results of the Group are also made available on the website and this helps to promote accessibility of information to the Company's shareholders and all other market participants.

Annual General Meeting (AGM)

The AGM is the principal forum of open dialogue with shareholders. At each AGM, shareholders are encouraged and given sufficient opportunity to raise questions on issues pertaining to the Annual Report, resolutions being proposed and the business of the Company or the Group in general. The Board, senior management, external auditors and other advisors, as applicable are present at AGM to provide answers and clarifications to shareholders.

The notice and agenda of AGM together with Form of Proxy are given to shareholders at least 21 days before AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxy 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.

D) ACCOUNTABILITY AND AUDIT

Financial reporting

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

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements is set out on page 149 of this Annual Report.

Related Party Transactions

All related party transactions including recurrent related party transactions are reviewed by the Board Audit Committee and reported to the Board.

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

The Statement on Risk Management and Internal Control includes an overview of the Group's policies and procedures on related party transactions, including recurrent related party transactions, as set out on page 135 of this Annual Report.

Risk Management and Internal Control

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

The Statement on Risk Management and Internal Control which provides an overview of the state of internal controls within the Group is set out on page 130 to page 137 of this Annual Report.

Relationship with External Auditors

Through the Board Audit Committee, the Company maintains a professional and transparent relationship with its external auditors, Messrs KPMG Desa Megat & Co. The Board Audit Committee regularly meets the external auditors without the presence of the Management. As the need arises, the external auditors will highlight to both the Board Audit Committee and the Board on matters that warrant their attention. The role of the Board Audit Committee in relation to the external auditors is described in the Board Audit Committee Report on page 138 to page 141 of this Annual Report.

The Malaysian Code of Corporate Governance 2012

The Board is committed and strives to observe the principles and recommendations of the new Malaysian Code of Corporate Governance 2012 (MCCG 2012) which was issued on 29 March 2012, of which observance is on voluntary basis.

The Company has adopted all recommendations of the MCCG 2012 except for the following:-

1. Recommendation 2.1 – The Board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent. The chair of the Nominating Committee should be the senior independent director.

   The Nomination and Remuneration Committee is chaired by an Independent Director Mr Ching Yew Chye who is not the senior independent director identified by the Board. The senior independent director, Ms Vimala a/p V.R. Menon, is currently the Chairman of the Board Audit Committee. The Company elects to have different chairmanships in Board Audit Committee and Nomination and Remuneration Committee so as to leverage on the different perspectives and dynamics which emanates from such arrangements, as well as to ensure that each independent director has equitable roles and responsibilities respectively. The Company intends to maintain the current arrangement.

Statement on Corporate Governance

2. Recommendation 2.2 – The gender diversity policies and targets and the measures taken to meet the targets.

   The Company believes that individuals with diverse backgrounds on board of directors could improve board functioning and the decision making process. Harnessing strength from a variety of backgrounds, experiences and perspectives allows the Board to bring a more diverse perspective in its deliberation. Ultimately, board diversity is about providing complementary views that lead to better board decisions. Currently, there are two female directors on the Board of the Company.

3. Recommendation 2.3 – The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors.

   The remuneration of the directors is competitive and attractive as it has been benchmarked against the industry. A formal written policy and procedures for directors' remuneration are currently being developed.

4. Recommendation 3.1 – The Board should undertake an assessment of the independence of its independent directors annually.

   Performance assessment of directors is being undertaken on yearly basis. Moving forward, specific assessment of the "independence" of the Independent Directors will be included in the annual performance assessment.

5. Recommendation 3.5 – The Board must comprise a majority of independent directors where the Chairman of the Board is not an independent board member.

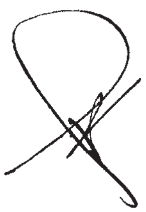
   The Chairman of the Company is currently a Non-Independent Non-Executive Director. This is premised on the high level of integration and dependency on PETRONAS' business. The Company may consider revising the composition of the directors progressively in view of the complexity of the Group's business and high competition for suitable talent.

6. Recommendation 5.2 – The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors.

   The Company continuously reviews and monitors the suitability and independence of external auditors. As part of the annual audit exercise, the Company also obtains assurance from the external auditors confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. A formal written policy and procedures to assess the suitability and independence of external auditors are currently being developed.

This statement is made in accordance with the resolution of the Board of Directors dated 25 February 2013.

Datuk Wan Zulkiflee bin Wan Ariffin
Chairman



Dr Abd Hapiz bin Abdullah
President/Chief Executive Officer

E) ADDITIONAL COMPLIANCE INFORMATION

1. Non-Audit Fee

The amount of non-audit fees paid and payable to the external auditors of the Company for the financial year ended 31 December 2012 was RM530,000 (RM735,000 for 9 months ended 31 December 2011).

2. Sanction/Penalties

During the financial year, there were no sanctions or material penalties imposed on the Company, Directors or Management by the relevant regulatory bodies.

3. Material Contracts

There were no material contracts or loans entered into by the Company or its subsidiaries involving directors' or major shareholders' interests, either still subsisting at the end of the Financial Year Ended 31 December 2012 or entered into since the end of the previous period, except as disclosed in the audited financial statements.

Statement on Risk Management and Internal Control

Internal control is an integral part of PETRONAS Chemicals Group's objectives, risk and control continuum. The Board recognises that the Group operates in a dynamic business environment in which the internal control system must be responsive in order to be able to support its business objectives. Hence, the Board continues with its commitment to maintain a firm system of internal control throughout the Group which is in compliance with Bursa Malaysia Securities Berhad Listing Requirements and the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. The Group also embraces PETRONAS's shared values of loyalty, integrity, professionalism and cohesiveness which provide the foundation for effective internal control structure.

The Board is pleased to provide the following statement on risk management and control frameworks that are embedded into the organisation's culture, processes and structures.

Board's Accountability

The Board acknowledges the importance of maintaining a sound system of internal control and a robust risk management practice for good corporate governance with the objective of safeguarding the shareholder's investment and the Group's assets. The Board affirms its overall responsibility for reviewing the adequacy and the integrity of the Group's internal control system and management information system, which ensures compliance with applicable laws, regulations and guidelines.

In view of the limitations that are inherent in any internal control system, this system is designed to manage, rather than eliminate the risk of failure of achieving the Group's objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatements or losses.

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

Risk Management

Risk management is regarded by the Board to be an integral part of the Group's organisational processes, with the objective of maintaining a sound internal control system and ensuring its continuing adequacy and integrity. A Risk Governance Framework, Risk Management Policy and Risk Agenda are in place to guide the implementation of Risk Management strategies and initiatives to institutionalise risk management as a business culture throughout the Group.

The Risk Management Department is entrusted with the responsibility of ensuring effective risk governance and implementation in the Group. Risk Management Oversight comprising Risk Management Committee, Plant and Facilities Risk Management Committee and Commercial Risk Management Committee are in place to actively oversee and to ensure seamless integration of risk management into the Group's business processes.

The risk profiles of the Group have been established based on enterprise risk management concept with principal risks identified and regular reviews of key risk indicators and risk treatments at appropriate committees. Dedicated risk owners are identified for each of the Group's principal risk and are responsible to manage the existing control measures, monitor and track key risk indicators and identify additional risk mitigation actions, as required.

In ensuring effective implementation of the Group's Risk Governance Framework, risk assurance exercises are conducted periodically throughout the Group. The performance gap closures identified are presented to the Risk Management Committee and included in the Group's Strategic Risk Plan, as appropriate.

The Group also establishes its Risk Appetite and corresponding operational risk tolerance limits for plant operations and marketing activities. Critical business decisions are subjected to risk assessment to facilitate effective decision making. Pursuant to the implementation of the Malaysia's Competition Act 2010 (the Act) effective 1 January 2012, all marketing agreements have been reviewed, in close collaboration with PETRONAS Corporate Legal Department, to ensure compliance to the Act.

During the year under review, the Risk Management Department also collaborated with PETRONAS Finance Risk Management Department to enhance credit risk mitigation through integrated management of customers' master data. Credit exposure is closely tracked as a monitoring and control tool to guide credit risk decisions.

The Group also subscribed to the following risk mitigation processes as laid out by PETRONAS:-

- PETRONAS Health Safety Environment Management System (HSEMS) to manage HSE risk and ensure that operations are in tandem with HSE regulatory requirements and industry best practices. In ensuring effective implementation of HSEMS, a Mandatory Control Framework was deployed to measure compliance against PETRONAS mandatory HSE requirements. Arising gap closure plans have been duly incorporated within the HSEMS implementation plan.
- Plant and Facilities Risk Management (PFRM) practices to embed risk assessment, risk treatment, monitoring and reporting of risks that are relevant to plant and facilities environment.
- PETRONAS Downstream Business Operational Governance framework which specifies governance structure in managing operational risks with emphasis on risk based operations, clear ownership assignment, structured decision making and visible leadership at all levels.
- Contractor Risk Assessment (CoRA) to ensure systematic identification, assessment and mitigation of contractors' related risks which are critical to their performance. CoRA is undertaken as part of the procurement process prior to selection of contractor.

Statement on Risk Management and Internal Control

- Business Continuity Management System to ensure effective recovery of the value chain subsequent to any business interruptions. As part of the wider integrated value chain, the Group is collaborating with other businesses within PETRONAS to ensure readiness in managing business continuity.

The Group will continue its focus in the implementation of key Risk Management strategies and initiatives towards its Risk Agenda to institutionalise Risk Management as a business culture throughout the Group.

Internal Audit

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

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

The interests of the Group in associated companies and jointly controlled entities are primarily served through representation on the board of directors of the respective companies. Internal controls of associated companies and jointly controlled entities may be reviewed through shareholders' audit or upon specific request by the Board Audit Committee.

Other Key Elements of Internal Control Systems

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

- **Board of Directors**

  The Board meets at least quarterly and has set a schedule of matters, which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The President/Chief Executive Officer (CEO) leads the management in presentation of board papers and ensures management provides comprehensive explanation of pertinent issues. In arriving at any decision requiring Board's approval as set out in the Limits of Authority manual on recommendation by the Management, thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group's activities and its operations on a regular basis.

  The President/CEO reports to the Board on significant changes in the business and external environments which are relevant to the business. The Chief Financial Officer provides the Board with quarterly performance reports and related financials of the Group.

- **Board Audit Committee**

  The Board has delegated the duty of reviewing and monitoring the effectiveness of the Group's system of internal controls to the Board Audit Committee.

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

  The Board Audit Committee meets at least quarterly and has full and unimpeded access to the internal and external auditors and all employees of the Group.

  Further information relating to the activities of the Board Audit Committee is set out in the Board Audit Committee's report as presented on page 138 to page 141 of this annual report.

- **Organisation Structure and Management Committees**

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

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

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

- **Limits of Authority**

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

- **Financial Control Framework**

  The Group has implemented a Financial Control Framework to ensure key internal controls are adequate and effective at all times. The framework requires the documentation of key processes and a structured assessment process to identify control gaps and the required mitigation action. Annually, each key process owner at various management levels is required to provide formal confirmation on level of compliance to key controls for their respective business areas. The Financial Control Framework thus provides further assurance on the quality of the Group's financial reports.

Statement on Risk Management and Internal Control

- **Corporate Financial Policy**

  The Group has adopted PETRONAS Corporate Financial Policy which sets forth the policy for financial management activities embedding the principles of financial risk management. The Corporate Financial Policy governs financial risk management practices across the Group. It prescribes a framework in which financial risk exposure are identified and managed.

- **Business Plan and Budget**

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

  Detailed operating and capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the Management Committee. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods.

  The Group's strategic direction is also reviewed through a rigorous assessment process taking into account changes in market conditions and significant business risks.

- **Tender Committee**

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

- **Employees Performance Management**

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

- **Operating Procedures and Guidelines**

  The Group has developed Operating Procedures and Guidelines which covers business planning, capital expenditure, financial operation, performance reporting, plant operations, supply chain management, human resource management, information system and Health, Safety and Environment. These manuals define the policies and procedures for day-to-day operations and act as guidelines to the proper measures to be undertaken in a given set of circumstances. These policies and procedures are also reviewed on a regular basis to ensure continuing relevance and effectiveness.

- **Information and Communications Technology**

  Information and Communications Technology is extensively deployed in the Group to automate work processes, where possible and to efficiently collect key business information. The Group continues to enhance its information and communication systems in ensuring that it can act as an enabler to improve business processes, work productivity and decision making throughout the Group. System reviews are conducted periodically to confirm adequate controls are in place to ensure adherence to the Group's business objectives, policies and procedures.

Related Party Transaction (RPT) and Conflict of Interest (COI)

The Group has established policies and procedures with regards to RPT and COI to ensure full compliance to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

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

(i) Directors and officers of the Company and its Group shall not enter into transactions with related parties unless these transactions are carried out on normal commercial terms and are not to the detriment of the Company's minority shareholders;

(ii) All sourcing and sales of PETRONAS Chemicals Group's products, general merchandise and/or shared facilities/services shall be based on market/industry negotiated pricing terms and conditions and/or pricing formulas quoted against international price benchmarks;

(iii) Whenever practicable and/or possible, at least two (2) other contemporaneous transactions with third parties for substantially similar products/services and/or quantities, other than that which are proprietary in nature or unique to the PETRONAS Group, will be used as comparison to determine whether the price and terms offered to/by the related parties are fair and reasonable and comparable to those offered to/by third parties, bearing in mind, market forces for the demand and supply of the products/services and its impact on pricing, quality, delivery schedules, preferential terms and conditions, and on the urgency that the products/services are required. Nonetheless, in the event that such quotation or comparative pricing from third parties cannot be obtained, the transactions' prices will be reviewed to ensure that the RPTs/Recurring RPTs (RRPT) are within normal commercial terms and not detrimental to the company's minority shareholders;

(iv) RPTs/RRPTs will be reviewed by the Board Audit Committee prior to the approval by either the Board or the shareholders. In the case of transaction/contract entered into by the subsidiary companies, the RPTs/RRPTs will be endorsed by the Board and subsequently approved by the subsidiary company's Board. If a Director or a related party has an interest in a transaction, he or she will abstain from any deliberation and decision-making at the Board or subsidiary company's Board (as the case may be) in respect of the said transactions;

(v) The Board Audit Committee is responsible to ensure that the policies and procedures relating to RPTs/RRPTs and COI situations are sufficient to ensure that RPTs/RRPTs are carried out on normal commercial terms and not to the detriment of the Company's minority shareholders. The Board has the overall responsibility to ensure compliance to the established guidelines and procedures to approve and monitor RPTs/RRPTs and COI situations. The Board and/or Board Audit Committee may also appoint individuals and Committees to examine the RPTs/RRPTs, as deemed appropriate;

Statement on Risk Management and Internal Control

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

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

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

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

The details of the RRPTs incurred during the financial year that were waived by Bursa Malaysia Securities Berhad are presented on page 137 of this annual report.

Management's Accountability

Management is accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control as prescribed above. Periodically, the President/CEO and the Chief Financial Officer have provided the Board with assurance that the Group risk management and internal control system is operating adequately and effectively, in all material aspects, to ensure achievement of corporate objectives.

Weaknesses in Internal Control that Result in Material Losses

There were no material losses incurred during the current financial year as a result of weaknesses in internal control. Management continues to take measures to strengthen the internal control environment. Accordingly, the Board is satisfied that the Group risk management and internal control system is adequate and effective.

The internal control systems discussed in this statement do not apply to associated companies and jointly controlled entity which falls under the control of their majority shareholders. Nonetheless, the interest of the group is safeguarded through the representatives on the board of the associated companies and jointly controlled entity and through the review of management accounts received.

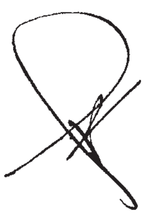
Review of this Statement

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide (RPG) 5 issued by Malaysian Institute of Accountants (MIA) for inclusion in the annual report of the Group for the Financial Year Ended 31 December 2012 and reported to the Board that nothing has come to their attention that cause them to believe that the statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and effectiveness of risk management and internal controls within the Group.

RPG 5 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and management thereon.

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 25 February 2013

Datuk Wan Zulkiflee bin Wan Ariffin
Chairman



Dr Abd Hapiz bin Abdullah
President/Chief Executive Officer

Recurrent Related Party Transactions that were waived by Bursa Securities from complying with the requirement of paragraph 10.09 of the Main Market Listing Requirements

Transacting Parties		**Integrated Operations of Our Group**	**For Year Ended 31.12.2012 RM'000**
PCG Group and PETRONAS and its subsidiaries (PETRONAS Group)	(i)	Supply of fuel and feedstock (such as ethane, propane, butane, dry gas, naphtha, natural gas) by PETRONAS Group	6,483,143
	(ii)	Supply of utilities, electricity and water by PETRONAS Group	404,391
	(iii)	Upgrading and pipeline works on the Labuan Gas Terminal by PETRONAS Chemicals Methanol Sdn Bhd	Nil
	(iv)	Grant to PETRONAS Group for the right of usage of facilities and passage of commodities to facilitate the receipt and distribution of petrochemicals and related products	539
	(v)	Provision of operating and maintenance services by PETRONAS Group	3,648
	(vi)	Purchase of marine diesel oil from PETRONAS Group	1,356
		Services rendered within the PETRONAS Group	
	(vii)	Provision of vessel screening services by PETRONAS Maritime Sdn Bhd	207
	(viii)	Provision of freight, transportation and warehousing services by MISC Berhad and its subsidiaries (MISC Group)	51,214
		Others	
	(ix)	Sales of Petrochemical products and other related products to PETRONAS Group	1,353,402

Board Audit Committee Report

from left to right:

Vimala a/p V.R. Menon

Ching Yew Chye

from left to right:

Dong Soo Kim

Md Arif bin Mahmood

The Board Audit Committee is pleased to present its report for the Financial Year Ended 31 December 2012 in compliance with paragraph 15.15 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Composition

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

1) Vimala a/p V.R. Menon – Chairman
   (Independent Non-Executive Director)
2) Ching Yew Chye
   (Independent Non-Executive Director)
3) Dong Soo Kim
   (Independent Non-Executive Director)
4) Md Arif bin Mahmood
   (Non-Independent Non-Executive Director)

In compliance with the Malaysian Code on Corporate Governance and paragraph 15.09 (1)(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all four (4) Board Audit Committee members are Non-Executive Directors including three (3) Independent Directors who fulfill the criteria of independence as defined in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Chairman of the Board Audit Committee, Ms Vimala a/p V.R. Menon is a member of the Malaysian Institute of Accountants and also a Fellow of the Institute of Chartered Accountants in England and Wales. In this regard, the Company is in compliance with paragraph 15.09(c)(i) under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad which requires at least one member of the Board Audit Committee to be a qualified accountant. Ms Vimala a/p V.R. Menon is also the senior independent director.

Terms of Reference

The summary terms of reference of the Board Audit Committee as set out on page 146 to page 147 of the Annual Report are consistent with the Listing Requirements and the Malaysian Code on Corporate Governance. All the requirements under the terms of reference are fully complied with.

Meetings

The Board Audit Committee met six (6) times during the Financial Year Ended 31 December 2012 and details of attendance of the Board Audit Committee members are as follows:-

Name of Members	No. of meetings attended
Vimala a/p V.R. Menon	6 out of 6
Ching Yew Chye	6 out of 6
Dong Soo Kim	6 out of 6
Md Arif bin Mahmood	5 out of 6

By invitation, the President/Chief Executive Officer (CEO), Chief Financial Officer, Head of Risk Management, internal auditors and external auditors are invited to attend Board Audit Committee meetings to appropriately brief and furnish the members of Board Audit Committee with relevant information and clarification to relevant items on the agenda.

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

The Board Audit Committee meets at least quarterly with additional meetings convened as and when necessary. Board Audit Committee meetings for each financial year are scheduled in advance to facilitate the Directors to plan ahead and fit the Board Audit Committee meetings into their respective schedules.

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

Summary of Activities of the Board Audit Committee

During the Year Ended 31 December 2012, the Board Audit Committee carried out the following activities in discharging its functions and duties:-

External Audit

a) Reviewed and recommended the terms of engagement and fees structure of external auditors for Board's approval.

b) Reviewed and approved the external auditors audit plan and scope for the year under review.

c) Reviewed the external audit report.

d) Reviewed the independence and objectivity of the external auditors and the effectiveness of services provided.

Internal Audit

a) Reviewed annual internal audit plan to ensure adequacy of resources, competencies and coverage of entities based on risk assessment.

b) Reviewed internal audit reports on the effectiveness and adequacy of governance, risk management, operational and compliance processes.

c) Reviewed the adequacy and effectiveness of agreed corrective actions undertaken by management on all significant and secondary issues raised.

Board Audit Committee Report

d) Reviewed the adequacy of resources and competencies of staff within the Internal Audit Unit to execute the internal audit plan.

e) Reviewed quarterly the status of agreed corrective actions for internal audit issues.

Financial Results

a) Reviewed the quarterly financial results prior to the approval by the Board, to ensure compliance to the Main Market Listing Requirements, the applicable financial reporting standards as well as other relevant legal and regulatory requirements. The review and discussion were conducted with the President/CEO and the Chief Financial Officer of the Company.

b) Reviewed the audited financial statements for the year under review prior to the approval by the Board, to ensure that they were prepared in accordance with the provisions of the Companies Act, 1965 and the applicable financial reporting standards. The review and discussions were conducted with the President/CEO and the Chief Financial Officer of the Company.

c) Reviewed the relevant corporate governance and internal controls statements for the annual report in relation to the audited financial statements, prior to the approval by the Board, to ensure that they were prepared in compliance to relevant regulatory requirements and guidelines.

d) Reviewed the impact of the implementation of Malaysian Financial Reporting Standards.

Corporate Governance

a) Reviewed the impact of relevant regulatory changes and ensured compliance by the Company and the Group.

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

a) Reviewed the policies and procedures relating to RPTs/RRPTs and conflicts of interests situations, with the objective of ensuring that all RPTs/RRPTs are carried out on normal commercial terms and are not to the detriment of the Company's minority shareholders.

b) Ensured that the policies and procedures includes methods and processes to identify, evaluate, monitor, report, approve and disclose accurately and completely, in a timely and orderly manner such situations and transactions.

c) Reviewed RPTs/RRPTs for approval or endorsement by the Board to ensure compliance to the Company's policies and procedures on RPT.

The Statement on Risk Management and Internal Control includes an overview of the Group's policies and procedures on RPTs, including RRPTs, as set out on page 135 of this Annual Report.

Risk Management

a) Reviewed and endorsed all policies, frameworks, guidelines and other key components of risk management for implementation within the Company and throughout the Group.

b) Reviewed and endorsed corporate risk profile for the Group.

c) Reviewed the progress of ongoing risk management activities to identify, evaluate, monitor and manage critical risks including the Company's Business Continuity Management Policy and Framework.

Internal Audit Department

The internal audit function of the Group reports directly to the Board Audit Committee to ensure impartiality and independence.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business processes within the Group. The Board Audit Committee has full access to internal auditors and received reports on all audits performed.

In the year under review, internal audits were carried out as per the internal audit plan duly approved by the Board Audit Committee. The Board Audit Committee reviewed the resulting reports on the following audits during the year under review:-

- Audit on PETRONAS Chemicals MTBE Sdn Bhd/Polypropylene Malaysia Sdn Bhd on plant operations and maintenance activities
- Audit on PETRONAS Chemicals LDPE Sdn Bhd (formerly known as PETLIN (Malaysia) Sdn Bhd) on plant operations and maintenance activities
- Shareholders' Audit on Malaysia NPK Fertilizer Sdn Bhd on overall management and governance
- Shareholders' Audit on BASF PETRONAS Chemicals Sdn Bhd on overall management and governance
- Shareholders' Audit on Idemitsu SM (Malaysia) Sdn Bhd on overall management and governance
- Audit on PETRONAS Chemicals Marketing Sdn Bhd on overall management and commercial activities
- Audit on Sabah Ammonia Urea (SAMUR) Project on project documentation and procurement activities
- Audit on PETRONAS Chemicals Methanol Sdn Bhd on plant operations and maintenance activities
- Audit on PETRONAS Chemicals Aromatics Sdn Bhd (formerly known as Aromatics Malaysia Sdn Bhd) on plant operations and maintenance activities

Subsequent to the Board Audit Committee review, the resulting reports from the audits were forwarded to the Management with the agreed corrective actions. The Management is responsible for ensuring that agreed corrective actions are taken within the required time frame and reports to the Board Audit Committee quarterly on the status of audit issues resolutions.

The total costs incurred for the internal audit function of the Company and the Group for the financial year was RM1,843,310.

Reporting to the Exchange

The Board Audit Committee did not see any matter in breach of the Main Market Listing Requirements that warrants reporting to Bursa Malaysia Securities Berhad.

Vimala a/p V.R. Menon
Chairman
Board Audit Committee

Board Charter

1. Introduction

The Board of Directors (the Board) is committed to high standards of corporate governance and strives to ensure that it is practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.

2. Objective

The Board Charter demonstrates that the Board remains fully resolved and committed to employing the principles of integrity, transparency and professionalism to ensure the practice of good corporate governance will safeguard and enhance shareholders' value, and at the same time protect the interests of its stakeholders.

3. Roles of Board

The Board shall actively strive and be collectively responsible to promote the success of the Group by directing and supervising its business.

In addition to fulfilling its commitment for increased shareholders' value, the Board endeavours to uphold the interests of the Group's customers, employees, suppliers and to the communities where it operates, bearing in mind the circumstances and requirements for successful business. The Board reviews and decides matters related to the overall Group strategy and financial matters.

The duties, powers and functions of the Board are governed by the Articles of Association of the Company, the Companies Act 1965, and other regulatory guidelines and requirements that are in force.

(a) Board of Directors

The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. To discharge the Board's stewardship responsibilities, the Board has assumed the following principal roles and responsibilities:-

i) Review and approve annual corporate plan, which includes overall corporate strategy, marketing plan, human resources plan, financial plan and budget, risk management plan and information technology plan;

ii) Oversee and review the performance of the business, and to evaluate whether the business is being properly managed;

iii) Identify principal risks and ensure the implementation of appropriate systems to manage these risks;

iv) Ensure that there is an appropriate succession plan for members of the Board and senior management;

v) Develop and implement an investor relations program or shareholders' communications policy;

vi) Review the adequacy and integrity of internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives, and guidelines; and

vii) Review and approve financial statements.

(b) Chairman

The Chairman of the Board is a Non-Independent Non-Executive Member of the Board who is primarily responsible for the orderly conduct and function of the Board.

There is a clear division of roles and responsibilities between the Chairman and the President/CEO.

(c) President/Chief Executive Officer

The President/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group's strategies and policies. He is assisted by the Management Committee in managing the business on day to day basis, which he consults regularly.

(d) Board Committees

As part of efforts to ensure the effective discharge of its duties, the Board has delegated certain functions to certain Committees with its own Terms of Reference. The Chairman of the Committees will report to the Board on the decision or outcome of the committee meetings.

The Board shall establish the following Board Committees with its own specific terms of reference:-

i) Audit Committee

ii) Nomination and Remuneration Committee

No Alternate Director can be appointed as a member of these Committees. All Board Committees shall be established in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

4. Board Functions

(a) Ethics & Compliance

The Board has adopted the PETRONAS Code of Conduct and Business Ethics (PETRONAS COBE) that seeks to ensure that the Company's or Group's Directors, group employees and third parties which perform work or services for the Company and/or Group will act ethically and remain above board at all times, and that their individual behaviour is in line with PETRONAS Shared Values i.e. Loyalty, Professionalism, Integrity and Cohesiveness. PETRONAS COBE also includes appropriate communication and feedback channels which facilitate whistleblowing.

(b) Risk Management

The Board acknowledges the importance of maintaining a sound system of internal control and a robust risk management practice for good corporate governance with the objective of safeguarding the shareholders' investment and the Group's assets. For this purpose, the Board has adopted a Risk Governance Framework, Risk Management Policy and Risk Agenda.

(c) Environment

The Board acknowledges the need to safeguard and minimise the impact to the environment in the course of achieving the Company's objectives. The Board's agenda reflects the commitment to economic support for longer term sustainability with a focus on the positive impact on the environment, community and society.

Board Charter

(d) Stakeholder Communication

The Board acknowledges the need for effective Investor Relations and Communication with shareholders and to provide them with all relevant information affecting the Company. Hence, the Board adopts an open and transparent policy.

5. Processes of Boards

(a) Board Meetings

The Board shall meet at least quarterly with additional meetings convened as and when necessary. Prior to each Board Meeting, the agenda and a set of Board papers encompassing qualitative and quantitative information relevant to the business of the meeting are distributed to all Directors on a timely basis.

In convening the Board Meetings, all procedures shall meet the requirements of a valid Board Meeting and shall follow the Company's Articles of Association. All proceedings in Board Meetings are recorded as minutes and signed by the Chairman in accordance with the provisions of the Companies Act 1965.

(b) Financial Reporting/ Non-Financial Reporting

The Board is committed to provide a fair and objective assessment of the Group's financial position and prospects of the Group and ensures that the financial statements are a reliable source of information for shareholders and other stakeholders.

(c) Board Decision

Presentations and briefings by the Management and relevant external consultants, where applicable, are also held at Board Meetings to advise the Board. Relevant information and clarification are furnished to the Board in order for the Board to arrive at a considered decision.

6. Ensuring Efficiency

(a) Access of Information

The Company shall provide all Directors with timely and quality information and in the form and manner appropriate for them to discharge their duties effectively. Where necessary, the Directors whether as a full board or in their independent capacity may seek independent professional advice at the company's expense in furtherance of their duties.

The Directors have direct access to the key management and have unrestricted access to any information relating to the Group to enable them to discharge their duties.

The Directors also have direct access to the advice and services of the Company Secretary and are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of the Directors.

(b) Succession Planning

The Board strives to ensure that all key management positions within the Company are filled with candidates with sufficient calibre.

(c) Directors' Evaluation

Performance assessment of the directors is being undertaken on yearly basis.

(d) Directors' Compensation

The remuneration packages are aligned with the business strategy and long term objectives of the Company.

(e) Training and Development

The Board shall ensure compliance with Bursa Malaysia Securities Berhad mandatory accredited programme for newly-appointed Directors. The Directors shall also keep abreast with the development and changes in the industries in which the Group operates, as well as corporate governance and financial updates. The Directors are able to assess further training program needs on an on-going basis.

The Board shall undertake a continuous educational and training programme to update Board Members on new developments in risks control, laws, regulations and other business and management-related subjects which may affect the Company's business and compliance requirements.

Approved by the Board on 25 February 2013.

Summary of Board Audit Committee's Terms of Reference

Objective

To provide independent oversight of the Company's financial reporting and internal control systems and to ensure adequate and effective checks and balances within the Company and the Group.

Composition

The Board Audit Committee shall comprise only non-executive directors with at least three (3) members, where majority shall be independent directors. The committee shall be chaired by an independent director. At least one (1) member should have accounting expertise and experience in the field of finance.

Rights

The Board Audit Committee in performing its duties shall have authority to investigate any matter within its terms of reference and given adequate resources to perform its duties. The Board Audit Committee shall have full and unrestricted access to any information or persons within the Company and the Group as well as direct communication channels with external auditors and person(s) carrying out the internal audit functions or activities.

Duties and Functions

Duties of Board Audit Committee amongst others are to:-

- **External Audit**
  - Review and recommend to the Board, the appointment of external auditors and their fees.
  - In the event of resignation or dismissal of external auditors, to review and consider any questions in relation to the resignation or dismissal before making recommendations to the Board.
  - Review the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved.
  - Review the external auditors' management letter and management's responses.
  - Establish direct communication channels with the external auditors to ensure full transparency of the audit processes and its findings.
  - Ensure that there are proper checks and balances in place so that the provision of non audit services, if any does not interfere with the exercise of independent judgment of the external auditors.
- **Internal Audit**
  - Ensure independence and authority of the internal audit function and that all audits are carried out with impartiality, proficiency and due professional care.
  - Review the internal audit plan, audit reports and consider the findings of internal audits and management's responses.

- Review the adequacy of the scope, functions, competency and resources of the internal audit function.
- Direct and, where appropriate, supervise any special project or investigation considered necessary.

• **Financial Reporting Review**
  - Review the quarterly and yearly financial statements prior to approval by the Board.
  - Ensure fair and transparent reporting and prompt publication of the financial accounts.

• **Internal Control**
  - Review the adequacy and effectiveness of internal controls systems.

• **Risk Management**
  - Review the adequacy and effectiveness of risk management practices and procedures.
  - Review on quarterly basis, the risk profile of the Group.

• **Related Party Transaction**
  - Review all related party transactions and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.

The Board Audit Committee shall hold regular meetings, at least quarterly and shall report to the Board. The Board Audit Committee shall also prepare periodic reports to the Board on work performed to fulfill its primary responsibilities.

The terms of reference and performance of the Board Audit Committee and each of its members will be reviewed by the Board periodically to ensure that the Board Audit Committee and its members have carried out their duties in accordance with the term of reference.

Summary of Nomination and Remuneration Committee's Terms of Reference

Objective

To assist the Board of Directors (the Board) in periodically assessing the performance of the Board and its sub-committees, recommending appropriate corporate governance policies and procedures for the Company, monitoring the compliance to Corporate Governance standards, identifying and assessing candidates to fill vacancies on the Board and recommending the remuneration framework of the Directors and key management personnel.

Composition

The Nomination and Remuneration Committee shall have at least three (3) members who are appointed by the Board from amongst the Directors of the Company and shall comprise exclusively of non-executive Directors, majority of whom are independent. The members of the Committee should be suitably knowledgeable in matters pertaining to corporate governance and executive compensation.

Rights

The Nomination and Remuneration Committee in performing its duties within the scope of its assigned duties is authorised to seek any information it requires from Company's employees, officers and external parties. The Committee may engage external consultants and other advisers or otherwise obtain such independent legal or other professional services it requires, at the expense of the Company. The Committee will be provided with sufficient resources by the Board to undertake its duties including access to the Company Secretariat.

Duties and Responsibilities

Duties of Nomination and Remuneration Committee amongst others are:

- **Board Effectiveness Evaluation**
  - Evaluate the effectiveness of the Board as a whole, the effectiveness of the sub-committees of the Board and the contribution of each individual Director, including its structure, compositions, skill mix and size and recommend necessary adjustment to the Board.
  - Provide oversight of the performance and effectiveness of the self-evaluation process for the Board and its committees.

- **Board Membership**
  - Oversee and report to Board the development of a succession plan for the President/CEO and Senior Management.
  - Investigate and recommend prospective Directors, as required, to provide an appropriate balance of knowledge, experience and capability on the Board of Directors.
  - To develop and monitor compliance of membership qualifications for the Board of Directors and all Board Committees, including defining specific criteria for the independence of Directors and Committees.

- **Performance Management**
  - Conduct an annual review and evaluation of the President/CEO and senior management's performance as measured against the goals and objectives of the Company.
  - Recommend to the Board the appropriate framework and remuneration policy, incentive compensation plans and any performance related pay schemes for Directors and top management, as applicable.

Statement of Directors' Responsibility

(in relation to the Financial Statements)

The financial statements of the Group and of the Company as set out on pages 152 to 236 of this Annual Report are properly drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and of the results of its operations and cash flows for the year ended on that date.

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

- appropriate accounting policies have been used and consistently applied;
- reasonable and prudent judgements and estimates have been made;
- all Malaysian Financial Reporting Standards and the Companies Act, 1965 in Malaysia have been followed; and
- prepared on a going concern basis.

The Directors are responsible for ensuring that the accounting and other records and registers required by the Companies Act, 1965 in Malaysia to be retained by the Group have been properly kept in accordance with the provisions of the said Act.

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

The Right Formula

UREA

is essential for increasing crops yields in the agriculture industry. It is used in direct application to crops in granular form or as a component in a compound fertiliser.

Financial Statements

Directors' Report

For the year ended 31 December 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

The principal activities of subsidiaries, associates and jointly controlled entity are stated in Note 27 to the financial statements.

There has been no significant change in the nature of these activities during the financial year.

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	3,837	2,623
Attributable to:		
Owners of the Company	3,518	2,623
Non-controlling interests	319	–

DIVIDENDS

During the financial year, the Company:

(i) as proposed in last year's report, paid a single tier final dividend of 8 sen per ordinary share amounting to RM640 million in respect of the financial period ended 31 December 2011 on 26 June 2012;

(ii) paid a single tier interim dividend of 8 sen per ordinary share amounting to RM640 million in respect of the financial year ended 31 December 2012 on 16 October 2012.

The Directors propose a single tier final dividend of 14 sen per ordinary share amounting to RM1,120 million in respect of the financial year ended 31 December 2012 for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2013.

RESERVES AND PROVISIONS

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

Directors' Report (continued)

For the year ended 31 December 2012

DIRECTORS OF THE COMPANY

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

Datuk Wan Zulkiflee bin Wan Ariffin
Dr Abd Hapiz bin Abdullah
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

In accordance with Article 93 of the Company's Articles of Association, Datuk Wan Zulkiflee bin Wan Ariffin, Ir Kamarudin bin Zakaria and Md Arif bin Mahmood retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

No director is to retire in accordance with Article 99 of the Company's Articles of Association, at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS

The Directors in office at the end of the financial year who have interests in the shares of the Company and of its related corporations (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company pursuant to Section 134(12)(c) of the Companies Acts, 1965) other than wholly owned subsidiaries as recorded in the Register of Directors' Shareholdings are as follows:-

	Number of ordinary shares of RM0.10 each in the Company			
Name	**Balance at 1.1.2012**	**Bought**	**Sold**	**Balance at 31.12.2012**
Direct interest in the Company				
Datuk Wan Zulkiflee bin Wan Ariffin	20,000	–	–	20,000
Dr Abd Hapiz bin Abdullah	20,000	–	–	20,000
Vimala a/p V.R. Menon	20,000	–	–	20,000
Ching Yew Chye	20,000	–	–	20,000
Dong Soo Kim	20,000	–	–	20,000
Ir Kamarudin bin Zakaria	35,000	–	–	35,000
Md Arif bin Mahmood	20,000	–	–	20,000
Ir Pramod Kumar Karunakaran	6,000	–	–	6,000
Rashidah binti Alias @ Ahmad	6,000	–	–	6,000

Directors' Report (continued)

For the year ended 31 December 2012

DIRECTORS' INTERESTS (continued)

Name	Number of ordinary shares of RM0.10 each Balance at 1.1.2012	Bought	Sold	Balance at 31.12.2012
Indirect interest in the Company				
Ching Yew Chye	30,000	–	–	30,000[1]
Ir Kamarudin bin Zakaria	8,000	–	–	8,000[2]

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

Name	Number of ordinary shares of RM0.50 each Balance at 1.1.2012	Bought	Sold	Balance at 31.12.2012
Direct interest in Malaysia Marine and Heavy Engineering Holdings Berhad				
Datuk Wan Zulkiflee bin Wan Ariffin	10,000	–	–	10,000

DIRECTORS' BENEFITS

Since the end of the previous financial period, except for Mr Dong Soo Kim who has been engaged by PETRONAS, the Holding Company, to provide coaching to selected plant personnel, no other Director of the Company has received or become entitled to receive any benefit (other than amount of emoluments benefits included in the aggregate received or due and receivable by the Directors or the fixed salary of a full time employee of the Company or of the related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

Directors' Report (continued)

For the year ended 31 December 2012

OTHER STATUTORY INFORMATION

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

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to realise, in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

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

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

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

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

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

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

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

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

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except as disclosed in Note 37 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2012 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG Desa Megat & Co., have indicated their willingness to accept re-appointment.

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

Datuk Wan Zulkiflee bin Wan Ariffin **Dr Abd Hapiz bin Abdullah**

Kuala Lumpur,
Date: 25 February 2013

Statement by Directors

In the opinion of the Directors, the financial statements set out on pages 157 to 235, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as at 31 December 2012 and of their financial performance and cash flows for the financial year ended on that date.

In the opinion of the Directors, the information set out in Note 39 on page 236 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

Datuk Wan Zulkiflee bin Wan Ariffin **Dr Abd Hapiz bin Abdullah**

Kuala Lumpur,
Date: 25 February 2013

Statutory Declaration

I, Wan Shamilah binti Wan Muhammad Saidi, the officer primarily responsible for the financial management of PETRONAS Chemicals Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 157 to 236, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Wan Shamilah binti Wan Muhammad Saidi at Kuala Lumpur
in Wilayah Persekutuan on 25 February 2013.

BEFORE ME:

PESURUHJAYA SUMPAH
W 565
AISHAH BT SHAHUL HAMEED
PJK
MALAYSIA
No. 68 Jalan Tun Perak
50050 Kuala Lumpur, Malaysia

Statements of Financial Position

As at 31 December 2012

		Group			Company		
	Note	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
ASSETS							
Property, plant and equipment	3	**11,697**	12,295	12,639	**44**	14	–
Investments in subsidiaries	4	**–**	–	–	**14,490**	13,978	13,378
Investments in associates	5	**613**	651	875	**532**	532	532
Investment in jointly controlled entity	6	**55**	71	70	**87**	87	87
Intangible assets	7	**12**	26	25	**–**	–	–
Long term receivables	8	**28**	54	64	**77**	279	895
Deferred tax assets	9	**661**	484	623	**–**	–	–
TOTAL NON-CURRENT ASSETS		**13,066**	13,581	14,296	**15,230**	14,890	14,892
Trade and other inventories	10	**1,237**	1,341	1,173	**–**	–	–
Trade and other receivables	11	**2,036**	1,671	2,308	**472**	387	2,254
Current tax assets		**119**	122	124	**–**	–	–
Fund and other investments	12	**–**	–	10	**–**	–	–
Cash and cash equivalents	13	**9,307**	9,380	8,904	**3,592**	4,758	4,149
		12,699	12,514	12,519	**4,064**	5,145	6,403
Assets classified as held for sale	14	**155**	–	–	**93**	–	–
TOTAL CURRENT ASSETS		**12,854**	12,514	12,519	**4,157**	5,145	6,403
TOTAL ASSETS		**25,920**	26,095	26,815	**19,387**	20,035	21,295
EQUITY							
Share capital	15	**800**	800	800	**800**	800	800
Reserves	16	**19,511**	17,292	16,636	**18,500**	17,157	17,541
Total equity attributable to owners of the Company		**20,311**	18,092	17,436	**19,300**	17,957	18,341
Non-controlling interests	17	**1,595**	1,550	1,406	**–**	–	–
TOTAL EQUITY		**21,906**	19,642	18,842	**19,300**	17,957	18,341

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statements of Financial Position (continued)

As at 31 December 2012

		Group			Company		
	Note	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
LIABILITIES							
Borrowings	18	**–**	241	3,282	**–**	–	2,920
Deferred tax liabilities	9	**1,040**	1,259	1,245	**1**	3	–
Other long term liabilities and provisions	19	**576**	430	467	**–**	–	–
TOTAL NON-CURRENT LIABILITIES		**1,616**	1,930	4,994	**1**	3	2,920
Trade and other payables	20	**2,161**	1,984	2,368	**86**	145	30
Borrowings	18	**–**	2,152	407	**–**	1,920	–
Current tax payables		**222**	387	204	**–**	10	4
		2,383	4,523	2,979	**86**	2,075	34
Liabilities classified as held for sale	14	**15**	–	–	**–**	–	–
TOTAL CURRENT LIABILITIES		**2,398**	4,523	2,979	**86**	2,075	34
TOTAL LIABILITIES		**4,014**	6,453	7,973	**87**	2,078	2,954
TOTAL EQUITY AND LIABILITIES		**25,920**	26,095	26,815	**19,387**	20,035	21,295

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2012

	Note	Group 1.1.2012 to 31.12.2012 RM Mil	Group 1.4.2011 to 31.12.2011 RM Mil	Company 1.1.2012 to 31.12.2012 RM Mil	Company 1.4.2011 to 31.12.2011 RM Mil
Revenue	21	**16,599**	11,887	**2,761**	1,801
Cost of goods sold		**(10,935)**	(7,454)	**–**	–
Gross profit		**5,664**	4,433	**2,761**	1,801
Selling and distribution expenses		**(676)**	(410)	**–**	–
Administration expenses		**(558)**	(353)	**(229)**	(110)
Other expenses		**(459)**	(96)	**(131)**	(1)
Other income		**375**	341	**306**	194
Operating profit	22	**4,346**	3,915	**2,707**	1,884
Financing costs	23	**(82)**	(97)	**(57)**	(75)
Share of profit after tax and non-controlling interests of equity accounted associates and jointly controlled entity		**286**	273	**–**	–
Profit before taxation		**4,550**	4,091	**2,650**	1,809
Tax expense	24	**(713)**	(1,017)	**(27)**	(33)
PROFIT FOR THE YEAR/PERIOD		**3,837**	3,074	**2,623**	1,776
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		**(2)**	3	**–**	–
Share of other comprehensive income of equity accounted associates and jointly controlled entity		**(23)**	35	**–**	–
		(25)	38	**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**3,812**	3,112	**2,623**	1,776

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income (continued)

For the year ended 31 December 2012

		Group		Company	
	Note	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
Profit attributable to:					
Owners of the Company		**3,518**	2,783	**2,623**	1,776
Non-controlling interests		**319**	291	**–**	–
PROFIT FOR THE YEAR/PERIOD		**3,837**	3,074	**2,623**	1,776
Total comprehensive income attributable to:					
Owners of the Company		**3,493**	2,821	**2,623**	1,776
Non-controlling interests		**319**	291	**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		**3,812**	3,112	**2,623**	1,776
Basic earnings per ordinary share (RM)	25	**0.44**	0.35	**–**	–

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2012

Group	Share Capital (Note 15) RM Mil	Share Premium RM Mil	Foreign Currency Translation Reserve RM Mil	Merger Reserve (Note 16) RM Mil	Other Reserves RM Mil	Retained Profits RM Mil	Total RM Mil	Non-controlling Interests RM Mil	Total Equity RM Mil
	Attributable to owners of the Company								
	Non-Distributable					*Distributable*			
Balance at 1 April 2011	800	8,071	–	(204)	61	8,708	17,436	1,406	18,842
Foreign currency translation differences for foreign operations	–	–	3	–	–	–	3	–	3
Share of other comprehensive income of equity accounted associates and jointly controlled entity	–	–	–	–	35	–	35	–	35
Total other comprehensive income for the period	–	–	3	–	35	–	38	–	38
Profit for the period	–	–	–	–	–	2,783	2,783	291	3,074
Total comprehensive income for the period	–	–	3	–	35	2,783	2,821	291	3,112
Redemption of Redeemable Preference Shares by a subsidiary	–	–	–	–	11	(11)	–	(36)	(36)
Dividends to owners of the Company (Note 26)	–	–	–	–	–	(2,160)	(2,160)	–	(2,160)
Dividends to non-controlling interests	–	–	–	–	–	–	–	(109)	(109)
Others	–	–	–	–	(5)	–	(5)	(2)	(7)
Total contribution from/ (distribution to) owners	–	–	–	–	6	(2,171)	(2,165)	(147)	(2,312)
Balance at 31 December 2011	800	8,071	3	(204)	102	9,320	18,092	1,550	19,642

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statement of Changes in Equity (continued)

For the year ended 31 December 2012

	Attributable to owners of the Company								
	Non-Distributable					Distributable			
Group	Share Capital (Note 15) RM Mil	Share Premium RM Mil	Foreign Currency Translation Reserve RM Mil	Merger Reserve (Note 16) RM Mil	Other Reserves RM Mil	Retained Profits RM Mil	Total RM Mil	Non-controlling Interests RM Mil	Total Equity RM Mil
Balance at 1 January 2012	800	8,071	3	(204)	102	9,320	18,092	1,550	19,642
Foreign currency translation differences for foreign operations	–	–	(2)	–	–	–	(2)	–	(2)
Share of other comprehensive income of equity accounted associates and jointly controlled entity	–	–	–	–	(23)	–	(23)	–	(23)
Total other comprehensive income for the year	–	–	(2)	–	(23)	–	(25)	–	(25)
Profit for the year	–	–	–	–	–	3,518	3,518	319	3,837
Total comprehensive income for the year	–	–	(2)	–	(23)	3,518	3,493	319	3,812
Redemption of Redeemable Preference Shares by a subsidiary	–	–	–	–	10	(10)	–	(54)	(54)
Dividends to owners of the Company (Note 26)	–	–	–	–	–	(1,280)	(1,280)	–	(1,280)
Dividends to non-controlling interests	–	–	–	–	–	–	–	(220)	(220)
Others	–	–	–	–	6	–	6	–	6
Total contribution from/ (distribution to) owners	–	–	–	–	16	(1,290)	(1,274)	(274)	(1,548)
Balance at 31 December 2012	800	8,071	1	(204)	95	11,548	20,311	1,595	21,906

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company				
	Non-Distributable			Distributable	
Company	**Share Capital (Note 15) RM Mil**	**Share Premium RM Mil**	**Merger Relief (Note 16) RM Mil**	**Retained Profits RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2011	800	8,071	7,176	2,294	18,341
Profit/Total comprehensive income for the period	–	–	–	1,776	1,776
Dividends (Note 26)	–	–	–	(2,160)	(2,160)
Total contribution from owners/ Balance at 31 December 2011	800	8,071	7,176	1,910	17,957
Balance at 1 January 2012	**800**	**8,071**	**7,176**	**1,910**	**17,957**
Profit/Total comprehensive income for the year	**–**	**–**	**–**	**2,623**	**2,623**
Dividends (Note 26)	**–**	**–**	**–**	**(1,280)**	**(1,280)**
Total contribution from owners/ Balance at 31 December 2012	**800**	**8,071**	**7,176**	**3,253**	**19,300**

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2012

	Group		Company	
	1.1.2012 to 31.12.2012 RM Mil	**1.4.2011 to 31.12.2011 RM Mil**	**1.1.2012 to 31.12.2012 RM Mil**	**1.4.2011 to 31.12.2011 RM Mil**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	**16,243**	12,644	**75**	35
Cash paid to suppliers and employees	**(10,650)**	(7,910)	**(270)**	(44)
	5,593	4,734	**(195)**	(9)
Interest income received	**304**	220	**153**	122
Taxation paid	**(1,257)**	(595)	**(39)**	(24)
Net cash generated from/(used in) operating activities	**4,640**	4,359	**(81)**	89
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in investment in a subsidiary	**–**	–	**(686)**	(12)
Dividends received from:				
– associates	**348**	532	**348**	528
– subsidiaries	**–**	–	**2,455**	3,225
Purchase of property, plant and equipment	**(964)**	(424)	**(32)**	(1)
Redemption of preference share in a subsidiary	**–**	–	**81**	54
Proceeds from finance lease receivables	**12**	9	**–**	–
Proceeds from disposal of securities	**–**	10	**–**	–
Net cash (used in)/generated from investing activities	**(604)**	127	**2,166**	3,794
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to:				
– PETRONAS	**(824)**	(1,390)	**(824)**	(1,390)
– others (third parties)	**(456)**	(770)	**(456)**	(770)
– non-controlling interests of subsidiaries	**(220)**	(346)	**–**	–
Payment to non-controlling interests on redemption of shares	**(54)**	(36)	**–**	–
Balance carried forward	**(1,554)**	(2,542)	**(1,280)**	(2,160)

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Statements of Cash Flows (continued)

For the year ended 31 December 2012

	Note	Group		Company	
		1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
CASH FLOWS FROM FINANCING ACTIVITIES (continued)					
Balance brought forward		**(1,554)**	(2,542)	**(1,280)**	(2,160)
Drawdown of borrowings		**–**	285	**–**	–
Repayment of:					
– PETRONAS loans and advances		**(1,920)**	(1,000)	**(1,920)**	(1,000)
– Islamic financing facilities		**(274)**	(66)	**–**	–
– term loans		**(166)**	(93)	**–**	–
– other facilities		**(16)**	(443)	**–**	–
– finance lease liabilities		**(68)**	(51)	**–**	–
Interest expenses paid to:					
– PETRONAS		**(76)**	(55)	**(76)**	(55)
– others (third parties)		**(28)**	(24)	**–**	–
Long term receivables and advances to subsidiaries		**–**	–	**–**	(113)
Loan repayment by subsidiaries		**–**	–	**13**	48
Interest income on advances to subsidiaries		**–**	–	**12**	6
Net cash used in financing activities		**(4,102)**	(3,989)	**(3,251)**	(3,274)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(66)**	497	**(1,166)**	609
DECREASE/(INCREASE) IN DEPOSITS RESTRICTED		**114**	(31)	**–**	–
NET FOREIGN EXCHANGE DIFFERENCE		**(7)**	(21)	**–**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**9,266**	8,821	**4,758**	4,149
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		**9,307**	9,266	**3,592**	4,758

	Note	31.12.2012 RM Mil	31.12.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil
CASH AND CASH EQUIVALENTS					
Cash and bank balances and deposits	13	**9,307**	9,380	**3,592**	4,758
Less: Deposits restricted	13	**–**	(114)	**–**	–
		9,307	9,266	**3,592**	4,758

The notes set out on pages 166 to 236 are an integral part of these financial statements.

Notes to The Financial Statements

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the Companies Act, 1965 in Malaysia. These are the Group's and the Company's first financial statements prepared in accordance with MFRS and MFRS1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

In the previous years, the financial statements of the Group and of the Company were prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia. The financial impacts on transition to MFRS are disclosed in Note 38.

The Group and the Company have early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

The Malaysian Accounting Standards Board ("MASB") has issued other new and revised MFRS, amendments and IC interpretations (collectively referred to as "pronouncement") which are not yet effective and therefore, have not been implemented by the Group and the Company in these financial statements as set out in Note 34. New pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 35.

The financial statements were authorised for issue by the Board of Directors on 25 February 2013.

1.2 Comparative figures

The Group and the Company have changed its financial year end from 31 March to 31 December effective from the previous reporting period. Consequently, the current financial statements are for a period of 12 months from 1 January 2012 to 31 December 2012. The comparatives figures are for the previous 9 months period from 1 April 2011 to 31 December 2011.

1.3 Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis except that, as disclosed in Note 2 below, certain items are measured at fair value.

1.4 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The Group and the Company's financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency, and has been rounded to the nearest million unless otherwise stated.

Notes to The Financial Statements (continued)

1. BASIS OF PREPARATION (continued)

1.5 Use of estimates and judgments

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

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

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

(i) Note 3 : Property, Plant and Equipment;
(ii) Note 9 : Deferred Tax;
(iii) Note 10 : Trade and Other Inventories;
(iv) Note 19 : Other Long Term Liabilities and Provisions

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 April 2011 (the transition date to MFRS framework), unless otherwise stated.

2.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries that were acquired from PETRONAS are consolidated using the merger method of accounting. Other subsidiaries are consolidated using the acquisition method of accounting.

Under the merger method of accounting, the results of entities or businesses under common control are accounted for as if the acquisition had occurred at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts in the consolidated statement of financial position. The difference between the cost of acquisition and the nominal value of the shares acquired together with the share premium are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within the Group.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from intercompany transactions are also eliminated unless cost cannot be recovered.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 30 September 2009

For acquisition on or after 30 September 2009, the Group measures goodwill as the excess of the aggregate of consideration transferred, amount recognised for any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, the difference is recognised immediately in the profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions before 30 September 2009

As part of its transition to MFRS, the Group elected not to restate those business combinations that occurred before the designated date of 30 September 2009. Goodwill arising from acquisitions before 30 September 2009 has been carried forward from the previous FRS framework as at the date of transition.

Non-controlling interests

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

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

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

Loss of Control

When control of a subsidiary is lost, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

(ii) Associates

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

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

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

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transactions costs.

(iii) Jointly controlled entity

The Group has interests in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in the jointly controlled entity is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.1(ii).

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Property, plant and equipment and depreciation

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

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

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

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

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

Leasehold land is depreciated over the lease period of 30 to 99 years. The estimated useful lives of other property, plant and equipment are as follows:

Buildings	14 – 50 years
Plant and equipment	5 – 67 years
Office equipment, furniture and fittings	5 – 7 years
Computer software and hardware	5 years
Motor vehicles	3 – 5 years

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

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

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Leased assets

(i) Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group or the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability, if not settled, is included in the statement of financial position as borrowings.

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

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

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

(ii) Operating lease

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

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

2.4 Investments

Long term investments in subsidiaries, associates and jointly controlled entity are stated at cost less impairment loss, if any, in the Company's financial statements.

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

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Intangible assets

Intangible assets are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses, if any.

Amortisation for intangible assets is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives.

The estimated useful life for the current and comparative years is 10 years.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

2.6 Financial instruments

(i) Financial assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Purchases or sales that require delivery of financial assets within a timeframe established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date i.e. the date that the Group or the Company commits to purchase or sell the financial asset.

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

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

Subsequent measurement

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

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group or the Company, including separated embedded derivatives, unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with gains or losses recognised in the profit or loss. The methods used to measure fair values are stated in Note 2.6(v).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortised cost, using the effective interest rate method (Note 2.6(vi)), less impairment losses.

Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or loans and borrowings as appropriate. The Group and the Company determine the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

Fair value adjustments on loans and advances due from subsidiaries at initial recognition, if any, are recognised as cost of investment in the subsidiaries.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group or the Company that do not meet the hedge accounting criteria as defined by MFRS 139, *Financial Instruments: Recognition and measurement.*

Financial liabilities at fair value through profit or loss are carried on the statement of financial position at fair value with gains or losses recognised in the profit or loss.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(ii) Financial liabilities (continued)

Loans and borrowings
Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method.

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

(iii) Derivative financial instruments

Initial recognition and subsequent measurement
The Group uses derivative financial instruments such as interest rate and foreign currency swaps, forward rate contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the profit or loss.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not categorised as at fair value through profit or loss. Contracts are assessed for embedded derivatives when the Group or the Company becomes a party to them, including at the date of a business combination.

Embedded derivatives are measured at fair value at each statement of financial position date. Any gains or losses arising from changes in fair value on embedded derivatives during the year that do not qualify for hedge accounting are taken directly to the profit or loss.

(iv) Offsetting of financial instruments

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

(v) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models. Where fair value cannot be reliably estimated for equity instruments that do not have active market, assets are carried at cost less impairment losses.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(vi) Amortised cost of financial instruments

Amortised cost is computed using the effective interest rate method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(vii) Derecognition of financial instruments

Financial assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss.

Financial liabilities

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

2.7 Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair values through profit or loss, investment in subsidiaries and investment in associates) are assessed at the end of each reporting year to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Loans and receivables

For loans and receivables carried at amortised cost, individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment (continued)

(ii) Other assets

The carrying amounts of other assets, other than inventories, deferred tax assets and non-current assets classified as held for sale are reviewed at each reporting date to determine whether there is any indication of impairment. The carrying amounts are reviewed frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

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

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

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

2.8 Inventories

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

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

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Non-current assets held for sale

Non-current assets and/or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or all the assets and liabilities in a disposal group) are re-measured in accordance with the Group's applicable accounting policies. Thereafter, on initial classification as held for sale, the assets or disposal group are measured at the lower of carrying amount and fair value less cost to sell. Any differences are charged to the profit or loss.

Property, plant and equipment and investment properties once classified as held for sale are not depreciated.

2.11 Provisions

A provision is recognised if, as a result of a past event, the Group or the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in Note 19.

2.12 Employee benefits

(i) Short term employee benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss as incurred.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates that have been enacted or substantively enacted at the end of each reporting year, and any adjustment to tax payable in respect of previous financial years.

(ii) Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the end of each reporting year between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on statutory tax rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14 Foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in the profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Foreign currency transactions (continued)

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia are translated into Ringgit Malaysia at the exchange rates approximating those ruling at the reporting date. The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

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

2.15 Revenue

Revenue from sale of petrochemicals products and their related-products are recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Dividend income is recognised on the date the right to receive payment is established.

Revenue from services rendered is recognised in the profit or loss based on the actual and estimated throughput volume and port charges.

2.16 Interest income

Incomes arising from assets yielding interest are recognised on a time proportion basis that takes into account the effective yield on the assets.

2.17 Finance costs

Finance costs comprise interest payable on borrowings and profit share margin on Islamic financing facilities, as well as any accretion in provision due to the passage of time.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than borrowing cost directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial year of time to get ready for their intended use or sale), which are capitalised as part of the cost of those assets.

The capitalisation of borrowing cost as part of the cost of a qualifying asset commences when expenditures for the asset is being incurred, borrowing cost are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing cost is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Notes to The Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Basic earnings per ordinary share

The Group presents basic earnings per share date for its ordinary shares.

Basic earnings per share ("EPS") is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

2.19 Operating segment

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

3. PROPERTY, PLANT AND EQUIPMENT

Group 31.12.2012	At 1.1.2012 RM Mil	Additions RM Mil	Disposals/ write offs RM Mil	Transfers/ reclass RM Mil	Translation exchange differences RM Mil	Reclassified as assets held for sale RM Mil	At 31.12.2012 RM Mil
At cost:							
Leasehold land	291	–	–	–	–	–	291
Buildings	1,311	2	–	1	–	(1)	1,313
Plant and equipment	20,860	42	(24)	242	(6)	(171)	20,943
Office equipment, furniture and fittings	151	1	(39)	(38)	–	(3)	72
Computer software and hardware	126	1	(4)	58	–	–	181
Motor vehicles	36	–	–	–	–	–	36
Projects-in-progress	481	784	(26)	(332)	–	–	907
	23,256	830	(93)	(69)^	(6)	(175)	23,743

^ Includes transfer to inventories of RM76,717,891 and transfer from intangible assets of RM8,081,600.

Notes to The Financial Statements (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group 31.12.2012	At 1.1.2012 RM Mil	Charge for the year RM Mil	Disposals/ write offs RM Mil	Impairment losses RM Mil	Transfers/ reclass RM Mil	Translation exchange differences RM Mil	Reclassified as assets held for sale RM Mil	At 31.12.2012 RM Mil
Accumulated depreciation and impairment losses								
Leasehold land	**59**	**5**	–	–	–	–	–	**64**
Buildings	**469**	**26**	–	**3**	**(17)**	–	–	**481**
Plant and equipment	**10,192**	**1,063**	**(20)**	**129**	**2**	**(3)**	**(87)**	**11,276**
Office equipment, furniture and fittings	**112**	**6**	**(32)**	–	**(35)**	–	**(3)**	**48**
Computer software and hardware	**96**	**13**	**(5)**	–	**40**	–	–	**144**
Motor vehicles	**33**	**1**	**(1)**	–	–	–	–	**33**
	10,961	**1,114**	**(58)**	**132***	**(10)^**	**(3)**	**(90)**	**12,046**

^ Includes transfer to inventories of RM12,713,124 and transfer from intangible assets of RM2,508,279.

* Impairment losses for the year relates to the Group's decision to discontinue its vinyl business as disclosed in Note 37.

Included in the accumulated depreciation and impairment losses of plant and equipment and buildings is impairment losses carried forward as at 31.12.2012 of RM132 million (31.12.2011: Nil).

Group 31.12.2011	At 1.4.2011 RM Mil	Additions RM Mil	Disposals/ write offs RM Mil	Transfers/ reclass RM Mil	Translation exchange differences RM Mil	At 31.12.2011 RM Mil
At cost:						
Leasehold land	291	–	–	–	–	291
Buildings	1,253	13	–	45	–	1,311
Plant and equipment	20,714	35	(231)	334	8	20,860
Office equipment, furniture and fittings	144	4	–	3	–	151
Computer software and hardware	120	1	(3)	8	–	126
Motor vehicles	35	1	–	–	–	36
Projects-in-progress	389	505	(20)	(393)	–	481
	22,946	559	(254)	(3)	8	23,256

Notes to The Financial Statements (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group 31.12.2011	At 1.4.2011 RM Mil	Charge for the period RM Mil	Disposals/ write offs RM Mil	Transfers/ reclass RM Mil	Translation exchange differences RM Mil	At 31.12.2011 RM Mil
Accumulated depreciation and impairment losses						
Leasehold land	56	3	–	–	–	59
Buildings	451	18	–	–	–	469
Plant and equipment	9,573	773	(157)	–	3	10,192
Office equipment, furniture and fittings	108	4	–	–	–	112
Computer software and hardware	86	11	(1)	–	–	96
Motor vehicles	33	1	(1)	–	–	33
	10,307	810	(159)	–	3	10,961

Group	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Net book value:			
Leasehold land	**227**	232	235
Buildings	**832**	842	802
Plant and equipment	**9,667**	10,668	11,141
Office equipment, furniture and fittings	**24**	39	36
Computer software and hardware	**37**	30	34
Motor vehicles	**3**	3	2
Projects-in-progress	**907**	481	389
	11,697	12,295	12,639

Included in the property, plant and equipment of the Group are plant and equipment with net book value of RM266 million (31.12.2011: RM358 million; 1.4.2011: RM390 million) under finance lease arrangement.

Notes to The Financial Statements (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Security

Net book value of property, plant and equipment that have been pledged as security for loan facilities of the Group as set out in Note 18 are as follows:

	Group		
	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Net book value of property, plant and equipment:			
Pledged to secure borrowings of the Group	–	1,647	1,754

Full repayment of the loan facilities has been made during the financial year.

Others

Certain subsidiaries within the Group were involved in notional sales of a beneficial interest in specific property, plant and equipment ("sukuk assets") with a carrying amount of RM2,389 million (31.12.2011: RM2,418 million; 1.4.2011: RM2,596 million) to a special purpose vehicle ("SPV") owned by PETRONAS, pursuant to an issuance of Islamic Trust Certificate. The SPV leased the beneficial interest in the sukuk assets to PETRONAS and were subsequently sub-leased by PETRONAS to the subsidiaries. This structure does not represent a collaterisation and there is no transfer of registered title of the sukuk assets.

Company 31.12.2012	At 1.1.2012 RM Mil	Additions RM Mil	Disposals/ write offs RM Mil	At 31.12.2012 RM Mil
At cost:				
Motor vehicles	1	–	–	1
Computer software and hardware	–	–^	–	–
Projects-in-progress	13	30	–	43
	14	30	–	44

	At 1.1.2012 RM Mil	Charge for the year RM Mil	Disposals/ write offs RM Mil	At 31.12.2012 RM Mil
Accumulated depreciation and impairment losses:				
Motor vehicles	–	–#	–	–
Computer software and hardware	–	–^	–	–
Projects-in-progress	–	–	–	–
	–	–	–	–

Notes to The Financial Statements (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company 31.12.2011	At 1.4.2011 RM Mil	Additions RM Mil	Disposals/ write offs RM Mil	At 31.12.2011 RM Mil
At cost:				
Motor vehicles	–	1	–	1
Projects-in-progress	–	13	–	13
	–	14	–	14

	At 1.4.2011 RM Mil	Charge for the period RM Mil	Disposals/ write offs RM Mil	At 31.12.2011 RM Mil
Accumulated depreciation and impairment losses:				
Motor vehicles	–	–#	–	–
Projects-in-progress	–	–	–	–
	–	–	–	–

	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Net book value:			
Motor vehicles	**1**	1	–
Projects-in-progress	**43**	13	–
	44	14	–

^ During the financial year, there were additions to and depreciation charged for computer hardware and software amounting to RM45,200 and RM6,027 respectively. The net book value as at 31 December 2012 was RM39,173.

During the financial year, there was depreciation charged for motor vehicles of RM92,329 (31.12.2011: RM82,000). The net book value as at 31 December 2012 was RM230,823.

Notes to The Financial Statements (continued)

4. INVESTMENTS IN SUBSIDIARIES

	Company		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Investments in unquoted shares at cost	**14,583**	13,978	13,378
Reclassified as assets held for sale	**(93)**	–	–
	14,490	13,978	13,378

Investment in Phu My Plastics and Chemical Company Limited ("PMPC") of RM93 million has been reclassified as assets held for sale pursuant to the decision to discontinue the Group's vinyl business as disclosed in Note 37.

In the previous financial period, the Company waived its right to demand repayment of a loan from a subsidiary amounting to RM642 million. Hence, the loan had been accounted for as an equity instrument in the subsidiary and had increased the cost of investment in subsidiaries by the same amount.

Details of subsidiaries are stated in Note 27 to the financial statements.

5. INVESTMENTS IN ASSOCIATES

	Group			Company		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Investments in unquoted shares at cost	**551**	551	551	**532**	532	532
Merger adjustment	**(80)**	(80)	(80)	**–**	–	–
	471	471	471	**532**	532	532
Share of post-acquisition profits and reserves	**142**	180	404	**–**	–	–
	613	651	875	**532**	532	532
Summary of financial information on associates:						
Total assets (100%)	**2,305**	2,447	3,066	**1,988**	2,181	2,836
Total liabilities (100%)	**671**	726	781	**492**	591	675
Revenue (100%)	**4,389**	4,502	4,800	**4,325**	4,437	4,736
Profit (100%)	**751**	689	1,677	**744**	685	1,691

Details of associates are stated in Note 27 to the financial statements.

Notes to The Financial Statements (continued)

6. INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Group			Company		
	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Investment in unquoted shares at cost	**87**	87	87	**87**	87	87
Merger adjustment	**(70)**	(70)	(70)	**–**	–	–
	17	17	17	**87**	87	87
Share of post-acquisition profits and reserves	**38**	54	53	**–**	–	–
	55	71	70	**87**	87	87
Summary of financial information on jointly controlled entity:						
Total assets (100%)	**517**	530	430	**517**	530	430
Total liabilities (100%)	**333**	292	197	**333**	292	197
Revenue (100%)	**574**	531	497	**574**	531	497
(Loss)/Profit (100%)	**(41)**	12	(8)	**(41)**	12	(8)

Details of jointly controlled entity are stated in Note 27 to the financial statements.

7. INTANGIBLE ASSETS

Group 31.12.2012	At 1.1.2012 RM Mil	Additions RM Mil	Transfer RM Mil	Reclassified as assets held for sale RM Mil	Translation exchange differences RM Mil	At 31.12.2012 RM Mil
At cost:						
– Licence	**23**	**–**	**–**	**–**	**–**	**23**
– Others	**16**	**–**	**(8)**	**(7)**	**(1)**	**–**
	39	**–**	**(8)**	**(7)**	**(1)**	**23**

Notes to The Financial Statements (continued)

7. INTANGIBLE ASSETS (continued)

Group 31.12.2012	At 1.1.2012 RM Mil	Charge for the year RM Mil	Transfer RM Mil	Reclassified as assets held for sale RM Mil	Translation exchange differences RM Mil	At 31.12.2012 RM Mil
Accumulated amortisation:						
– Licence	**8**	**3**	**–**	**–**	**–**	**11**
– Others	**5**	**1**	**(3)**	**(3)**	**–**	**–**
	13	**4**	**(3)**	**(3)**	**–**	**11**

31.12.2011	At 1.4.2011 RM Mil	Additions RM Mil	Transfer RM Mil	Translation exchange differences RM Mil	At 31.12.2011 RM Mil
At cost:					
– Licence	23	–	–	–	23
– Others	12	–	3	1	16
	35	–	3	1	39

	At 1.4.2011 RM Mil	Charge for the period RM Mil	Transfer RM Mil	Translation exchange differences RM Mil	At 31.12.2011 RM Mil
Accumulated amortisation:					
– Licence	6	2	–	–	8
– Others	4	1	–	–	5
	10	3	–	–	13

	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Net book value:			
– Licence	**12**	15	17
– Others	**–**	11	8
	12	26	25

Notes to The Financial Statements (continued)

8. LONG TERM RECEIVABLES

		Group			Company		
	Note	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Loans and advances due from subsidiaries	8.1	**–**	–	–	**77**	279	895
Others		**28**	54	64	**–**	–	–
		28	54	64	**77**	279	895

8.1						
Loans and advances due from subsidiaries						
Receivable within twelve months (Note 11)	**–**	–	–	**369**	315	235
Receivable after twelve months	**–**	–	–	**77**	279	895
	–	–	–	**446**	594	1,130

Included in the Company's loans and advances due from subsidiaries are loan amounts totalling RM446 million (31.12.2011: RM594 million; 1.4.2011: RM1,020 million), which bear interest at average effective rates ranging from 1.23% to 3.50% per annum (31.12.2011: 1.10% to 4.38% per annum; 1.4.2011: 1.16% to 5.00% per annum).

During the year, the Company had written off outstanding balance from a subsidiary amounting to RM122 million pursuant to the decision to discontinue the Group's vinyl business as disclosed in Note 37.

Notes to The Financial Statements (continued)

9. DEFERRED TAX

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

Group

31.12.2012	At 1.1.2012 RM Mil	Charged/ (credited) to profit or loss RM Mil	Reclassification RM Mil	At 31.12.2012 RM Mil
Deferred tax liabilities				
Property, plant and equipment	**2,103**	**(172)**	**(13)**	**1,918**
Others	**3**	**(3)**	**1**	**1**
	2,106	**(175)**	**(12)**	**1,919**
Deferred tax assets				
Property, plant and equipment	**(26)**	**6**	**13**	**(7)**
Unused reinvestment allowances	**(10)**	**1**	**–**	**(9)**
Unused investment tax allowances	**(999)**	**(406)**	**–**	**(1,405)**
Unused tax losses	**(85)**	**1**	**–**	**(84)**
Unabsorbed capital allowances	**(194)**	**193**	**–**	**(1)**
Others	**(17)**	**(16)**	**(1)**	**(34)**
	(1,331)	**(221)**	**12**	**(1,540)**
Net deferred tax	**775**	**(396)**	**–**	**379**

31.12.2011	At 1.4.2011 RM Mil	Charged/ (credited) to profit or loss RM Mil	At 31.12.2011 RM Mil
Deferred tax liabilities			
Property, plant and equipment	2,188	(85)	2,103
Others	3	–	3
	2,191	(85)	2,106
Deferred tax assets			
Property, plant and equipment	(26)	–	(26)
Unused reinvestment allowances	(10)	–	(10)
Unused investment tax allowances	(1,119)	120	(999)
Unused tax losses	(85)	–	(85)
Unabsorbed capital allowances	(315)	121	(194)
Others	(14)	(3)	(17)
	(1,569)	238	(1,331)
Net deferred tax	622	153	775

Notes to The Financial Statements (continued)

9. DEFERRED TAX (continued)

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

Group	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Deferred tax assets			
Deferred tax liabilities	**780**	657	620
Deferred tax assets	**(1,441)**	(1,141)	(1,243)
	(661)	(484)	(623)
Deferred tax liabilities			
Deferred tax liabilities	**1,139**	1,449	1,571
Deferred tax assets	**(99)**	(190)	(326)
	1,040	1,259	1,245

No deferred tax has been recognised for the following items:

	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Unabsorbed capital allowances	**747**	570	329
Unused tax losses	**526**	492	420
	1,273	1,062	749

Notes to The Financial Statements (continued)

9. DEFERRED TAX (continued)

The unabsorbed capital allowances and unused tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the respective subsidiary can utilise the benefits.

Company 31.12.2012	At 1.1.2012 RM Mil	Credited to profit or loss RM Mil	At 31.12.2012 RM Mil
Deferred tax liabilities			
Others	**3**	**(2)**	**1**
	3	**(2)**	**1**

31.12.2011	At 1.4.2011 RM Mil	Charged to profit or loss RM Mil	At 31.12.2011 RM Mil
Deferred tax liabilities			
Others	–	3	3
	–	3	3

10. TRADE AND OTHER INVENTORIES

	Group		
	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Petrochemical products:			
– Raw materials	**73**	25	139
– Finished goods	**613**	634	457
Store, spares and others	**551**	682	577
	1,237	1,341	1,173

During the financial year, impairment losses on stores and spares amounting to RM58 million (31.12.2011: Nil) includes RM50 million relating to the Group's decision to discontinue its vinyl business as disclosed in Note 37.

Notes to The Financial Statements (continued)

11. TRADE AND OTHER RECEIVABLES

	Group			Company		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Trade receivables*	**1,425**	1,250	1,631	**–**	–	–
Amount due from subsidiaries						
– Non trade^	**–**	–	–	**448**	333	2,214
Amount due from PETRONAS						
– Trade	**2**	5	5	**–**	–	–
– Non trade	**2**	2	6	**–**	1	–
Amount due from associates						
– Trade	**133**	140	195	**–**	32	28
– Non trade	**–**	32	28	**–**	–	–
Amount due from related companies						
– Trade	**165**	143	358	**–**	–	–
– Non trade	**5**	4	3	**–**	–	–
Other receivables, deposits and prepayments	**307**	102	89	**24**	21	12
	2,039	1,678	2,315	**472**	387	2,254
Less: Impairment losses						
– Trade receivables	**(2)**	(6)	(6)	**–**	–	–
– Other receivables, deposits and prepayments	**(1)**	(1)	(1)	**–**	–	–
	2,036	1,671	2,308	**472**	387	2,254

* Included in trade receivables is an amount due from corporate shareholders of subsidiaries of RM37 million (31.12.2011: RM27 million; 1.4.2011: RM72 million).

^ Included in amount due from subsidiaries is a non trade amount of loans and advances due from subsidiaries of RM369 million (31.12.2011: RM315 million; 1.4.2011: RM235 million).

During the year, the Company had written off outstanding balance from a subsidiary amounting to RM122 million pursuant to the decision to discontinue the Group's vinyl business as disclosed in Note 37.

12. FUND AND OTHER INVESTMENTS

	Group			Company		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Current						
Other unquoted securities	**–**	–	10	**–**	–	–

Notes to The Financial Statements (continued)

13. CASH AND CASH EQUIVALENTS

	Group			Company		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Cash and bank balances	**29**	45	46	**–**	–	–
Deposits with licensed financial institutions	**8,712**	8,566	8,279	**3,592**	4,758	4,149
Deposits with other corporations	**566**	769	579	**–**	–	–
	9,307	9,380	8,904	**3,592**	4,758	4,149

Included in the cash and bank balances are interests bearing bank balances amounting to RM28 million (31.12.2011: RM44 million; 1.4.2011: RM38 million).

Included in deposits with licensed banks in the previous financial periods was an amount that was required to be maintained by the Group as part of the covenants for the secured USD term loans and Islamic financing facilities as disclosed in Note 18. Full repayments have been made on the term loans and Islamic financing facilities during the financial year. The amounts maintained in the respective periods were as follows:

	Group		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Restricted deposits	–	114	83

The status of the utilisation of listing proceeds of RM3,640 million raised from the Public Issue in 2010 as at the end of the reporting date is as follows:

	Proposed utilisation RM Mil	**Actual utilisation RM Mil**	**Transfer RM Mil**	**Balance at 31 December 2012 RM Mil**	**Intended timeframe for utilisation from the date of listing**
Expansion of business and synergistic growth acquisitions	**2,344**	**(698)**	**1,221**	**2,867**	Within 5 years
Working capital requirement and general corporate purposes	**1,200**	**–**	**(1,200)**	**–**	Within 2 years
Estimated listing expenses	**96**	**(75)**	**(21)**	**–**	Within 1 year
Total	**3,640**	**(773)**	**–**	**2,867**	

Notes to The Financial Statements (continued)

14. ASSETS CLASSIFIED AS HELD FOR SALE

The Group has initiated a divestment process for the sale of its interest in a subsidiary pursuant to the decision to discontinue the Group's vinyl business as disclosed in Note 37.

	Note	Group 31.12.2012 RM Mil	Company 31.12.2012 RM Mil
Assets classified as held for sale			
Property, plant and equipment	14.1	**85**	**–**
Investment in subsidiary	4	**–**	**93**
Intangible assets	14.2	**4**	**–**
Inventories	14.3	**23**	**–**
Receivables, deposits and prepayments	14.4	**43**	**–**
		155	**93**
Liabilities classified as held for sale			
Payables and accruals		**7**	**–**
Borrowings	14.5	**8**	**–**
		15	**–**

14.1	Note	Group 31.12.2012 RM Mil
Property, plant and equipment held for sale comprise the following:		
Property, plant and equipment:		
– Cost	3	**175**
– Accumulated depreciation	3	**(90)**
		85

14.2		RM Mil
Intangible assets held for sale comprise the following:		
Other intangible assets:		
– Cost	7	**7**
– Accumulated depreciation	7	**(3)**
		4

Notes to The Financial Statements (continued)

14. ASSETS CLASSIFIED AS HELD FOR SALE (continued)

14.3
The inventories held for sale comprise finished goods, stores and spares are carried at cost.

14.4
Receivables, deposits and prepayments are stated at cost.

14.5
Borrowings comprise an unsecured USD term loan which bears average interest rate of 1.89% and repayable within the next twelve months.

15. SHARE CAPITAL

	Group and Company		
	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Authorised:			
15,000,000,000 ordinary shares of RM0.10 each	**1,500**	1,500	1,500
Issued and fully paid:			
8,000,000,000 ordinary shares of RM0.10 each	**800**	800	800

16. RESERVES

Merger reserve (Group)

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

Merger relief (Company)

Merger relief of the Company is premium arising from issuance of shares for the acquisition of subsidiaries that fulfilled the conditions of Section 60(4) of the Companies Act, 1965.

17. NON-CONTROLLING INTERESTS

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

Notes to The Financial Statements (continued)

18. BORROWINGS

	Group			Company		
	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Current						
Secured						
Term loans (USD)	–	169	162	–	–	–
Islamic financing facilities	–	40	65	–	–	–
	–	209	227	–	–	–
Unsecured						
Term loans (USD)	–	7	7	–	–	–
Revolving credits (RM)	–	–	132	–	–	–
Revolving credits (USD)	–	16	–	–	–	–
PETRONAS loans and advances	–	1,920	–	–	1,920	–
Others	–	–	41	–	–	–
	–	1,943	180	–	1,920	–
	–	2,152	407	–	1,920	–
Non-current						
Secured						
Term loans (USD)	–	–	75	–	–	–
Islamic financing facilities	–	233	273	–	–	–
	–	233	348	–	–	–
Unsecured						
Term loans (USD)	–	8	14	–	–	–
PETRONAS loans and advances	–	–	2,920	–	–	2,920
	–	8	2,934	–	–	2,920
	–	241	3,282	–	–	2,920
	–	2,393	3,689	–	1,920	2,920

Notes to The Financial Statements (continued)

18. BORROWINGS (continued)

Term loans

USD loans are from a combination of banks which bear interest rates of 1.02% to 1.22% (31.12.2011: 0.94% to 1.02%; 1.4.2011: 0.92% to 1.69%) per annum.

Islamic financing facilities

Islamic securities bear profit margin of 5.58% (31.12.2011: 5.30% to 5.58%; 1.4.2011: 5.03% to 6.00%) per annum.

Revolving credits

Revolving credits are unsecured and bear interest rates of 3.63% to 3.80% (31.12.2011: 3.28% to 3.34%; 1.4.2011: 2.79% to 3.61%) per annum.

Loans and advances

PETRONAS loans and advances bear interest rates of 3.95% to 4.03% (31.12.2011: 3.79% to 4.03%; 1.4.2011: 1.18% to 3.95%) per annum.

During the financial year, full repayment have been made on all borrowings except for an unsecured term loan amounting to RM8 million which has been reclassified as liabilities held for sale (Note 14) pursuant to the decision to discontinue the Group's vinyl business as disclosed in Note 37.

19. OTHER LONG TERM LIABILITIES AND PROVISIONS

Group	**Note**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Finance lease liabilities	19.1	**308**	413	437
Provisions	19.2	**255**	–	–
Other payables		**13**	17	30
		576	430	467

Notes to The Financial Statements (continued)

19. OTHER LONG TERM LIABILITIES AND PROVISIONS (continued)

19.1 Finance lease liabilities

	31.12.2012			31.12.2011			1.4.2011		
	Minimum Lease Payments RM Mil	Interest RM Mil	Principal RM Mil	Minimum Lease Payments RM Mil	Interest RM Mil	Principal RM Mil	Minimum Lease Payments RM Mil	Interest RM Mil	Principal RM Mil
Less than 1 year	**55**	**17**	**38**	68	23	45	68	15	53
Between 1 to 2 years	**55**	**15**	**40**	68	21	47	68	15	53
Between 2 to 5 years	**193**	**38**	**155**	204	47	157	204	43	161
More than 5 years	**123**	**10**	**113**	234	25	209	285	62	223
	426	**80**	**346**	574	116	458	625	135	490

Finance lease liabilities amounting to RM67 million was derecognised during the financial year following the Group's decision to discontinue its vinyl business as disclosed in Note 37.

19.2 Provisions

Provisions for decommissioning activities and onerous contracts have been made in relation to the decision to discontinue the Group's vinyl business as disclosed in Note 37.

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

Provision for onerous contracts relate to termination of contractual obligation for committed charges.

The provisions have been made based on present value of estimated decommissioning amount and present value of negotiated settlement amount payable over a period of 7 years using a discount rate of 10.94%.

	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Less than 1 year	**152**	–	–
Between 1 to 2 years	**172**	–	–
Between 2 to 5 years	**62**	–	–
More than 5 years	**21**	–	–
	407	–	–

Notes to The Financial Statements (continued)

20. TRADE AND OTHER PAYABLES

	Group			Company		
	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil	31.12.2012 RM Mil	31.12.2011 RM Mil	1.4.2011 RM Mil
Trade payables	**207**	204	242	**–**	–	–
Other payables*	**850**	654	595	**45**	28	14
Amount due to PETRONAS						
– Trade	**373**	501	706	**–**	–	–
– Non trade	**151**	217	69	**13**	105	16
Amount due to related companies						
– Trade	**377**	372	557	**–**	–	–
– Non trade	**51**	7	6	**28**	12	–
Amount due to associates	**–**	29	6	**–**	–	–
Provisions**	**152**	–	–	**–**	–	–
Dividend payable to non-controlling interests	**–**	–	187	**–**	–	–
	2,161	1,984	2,368	**86**	145	30

* Included in other payables is the current portion of finance lease liabilities amounting to RM38 million (31.12.2011: RM45 million, 1.4.2011: RM53 million).

** Included in provisions is the current portion of provision for decommissioning activities and onerous contracts amounting to RM152 million (31.12.2011: Nil, 1.4.2011: Nil).

21. REVENUE

	Group		Company	
	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
Sales of chemical products	**16,556**	11,858	**–**	–
Dividend income	**–**	–	**2,761**	1,801
Others	**43**	29	**–**	–
	16,599	11,887	**2,761**	1,801

Notes to The Financial Statements (continued)

22. OPERATING PROFIT

		Group		Company	
	Note	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
Included in operating profit are the following charges:					
Auditors' remuneration					
– statutory audit*		**1**	1	**–**	–
Amortisation of intangible assets	7	**4**	3	**–**	–
Depreciation of property, plant and equipment	3	**1,114**	810	**–**	–
Net loss on foreign exchange		**45**	55	**9**	1
Property, plant and equipment written off	3	**35**	38	**–**	–
Rental of plants, machineries, equipment and motor vehicles		**12**	8	**–**	–
Rental of land and buildings		**16**	14	**12**	8
Staff costs					
– wages, salaries and others		**642**	518	**135**	66
– contributions to Employee's Provident Fund		**92**	78	**17**	11
Impairment losses on:					
– trade receivables		**–**	1	**–**	–
– property, plant and equipment	3	**132**	–	**–**	–
– inventories	10	**58**	–	**–**	–
Loss on disposal of property, plant and equipment		**–**	4	**–**	–
Inventories written off		**16**	–	**–**	–
Loans to a subsidiary written off	8	**–**	–	**122**	–
and credits:					
Net gain on foreign exchange		**39**	86	**–**	13
Dividend income					
– subsidiaries		**–**	–	**2,445**	1,269
– associates		**–**	–	**316**	532
Interest income					
– Others		**307**	220	**153**	126
– Subsidiaries		**–**	–	**4**	28
Management fee		**–**	–	**148**	27
Derecognition of finance lease liabilities	19	**67**	–	**–**	–

* The auditors' remuneration for the Company is RM112,700 (31.12.2011: RM106,400).

Notes to The Financial Statements (continued)

23. FINANCING COST

Interest expense/profit margin of financial liabilities that are not at "fair value through profit or loss":

	Group		Company	
	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
Term Loans (USD)	**3**	6	**–**	–
Islamic financing facilities (RM)	**22**	15	**–**	–
Revolving credits (RM)	**–**	1	**–**	–
PETRONAS loans and advances	**57**	75	**57**	75
	82	97	**57**	75

24. TAX EXPENSE

	Group		Company	
	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
Current tax expense				
– Current year tax	**1,126**	880	**29**	32
– Over provision in respect of prior years	**(17)**	(16)	**–**	(2)
	1,109	864	**29**	30
Deferred tax expense				
– Origination and reversal of temporary differences	**(449)**	181	**(2)**	3
– Under/(Over) provision in respect of prior years	**53**	(28)	**–**	–
	(396)	153	**(2)**	3
	713	1,017	**27**	33

Notes to The Financial Statements (continued)

24. TAX EXPENSE (continued)

A reconciliation of income tax applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

Group	%	1.1.2012 to 31.12.2012 RM Mil	%	1.4.2011 to 31.12.2011 RM Mil
Profit before taxation	100	**4,550**	100	4,091
Taxation at Malaysian statutory tax rate	25	**1,138**	25	1,023
Non-deductible expenses	2	**113**	1	59
Income not subject to tax	–	**–**	–	(5)
Losses not available for set-off/carried forward	1	**23**	1	30
Effects of unabsorbed capital allowance and unabsorbed tax losses unrecognised	1	**28**	1	20
Tax incentives	(12)	**(550)**	–	(1)
Others	(2)	**(75)**	(2)	(65)
	15	**677**	26	1,061
Under/(Over) provision in prior years		**36**		(44)
Tax expense		**713**		1,017

Company	%	1.1.2012 to 31.12.2012 RM Mil	%	1.4.2011 to 31.12.2011 RM Mil
Profit before taxation	100	**2,650**	100	1,809
Taxation at Malaysian statutory tax rate	25	**663**	25	452
Non-deductible expenses	1	**31**	–	2
Income not subject to tax	(26)	**(690)**	(25)	(450)
Losses not available for set-off/carried forward	1	**23**	2	31
	1	**27**	2	35
Over provision in prior years		**–**		(2)
Tax expense		**27**		33

The corporate tax rate for the years of assessment is 25%. Consequently, deferred tax assets and liabilities are measured using these tax rates.

Notes to The Financial Statements (continued)

25. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

	Group	
	1.1.2012 to 31.12.2012	**1.4.2011 to 31.12.2011**
In RM millions		
Profit for the year/period attributable to shareholders of the Company	**3,518**	2,783
In thousands of shares		
Number of shares issued at 31 December	**8,000,000**	8,000,000
In RM		
Basic earnings per ordinary share	**0.44**	0.35

Diluted earnings per ordinary share

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

26. DIVIDENDS

Group/Company 1.1.2012 to 31.12.2012	**Sen per share**	**Total amount RM Mil**	**Date of payment**
Final ordinary for period ended 31.12.2011	8	**640**	26 June 2012
Interim ordinary for year ended 31.12.2012	8	**640**	16 October 2012
		1,280	

After the financial year end, the following dividends were proposed by the Directors. The dividends will be recognised in subsequent financial year upon approval by the owners of the Company.

	Sen per share	**Total amount RM Mil**
Final ordinary – single tier	14	1,120

1.4.2011 to 31.12.2011	**Sen per share**	**Total amount RM Mil**	**Date of payment**
Final ordinary for year ended 31.3.2011	19	1,520	25 August 2011
Interim ordinary for period ended 31.12.2011	8	640	22 December 2011
		2,160	

Notes to The Financial Statements (continued)

27. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

The Group includes the following subsidiaries, associates and jointly controlled entity:

	Effective ownership interest (%)			
Name of Company	**31.12.2012**	**31.12.2011**	**1.4.2011**	**Principal activities**
Subsidiaries				
PETRONAS Chemicals Derivatives Sdn. Bhd. ("PETRONAS Chemicals Derivatives", formerly known as OPTIMAL Chemicals (Malaysia) Sdn. Bhd.)*	**100**	100	100	Manufacturing and marketing of ethylene oxide derivatives, propylene derivative products and related chemical products
PETRONAS Chemicals Glycols Sdn. Bhd. ("PETRONAS Chemicals Glycols")*	**100**	100	100	Manufacturing and marketing of ethylene oxide, ethylene glycol and other related by-products
PETRONAS Chemicals MTBE Sdn. Bhd. ("PETRONAS Chemicals MTBE")	**100**	100	100	Manufacturing and selling of methyl tertiary butyl ether (MTBE) and its derivatives
PETRONAS Chemicals Marketing Sdn. Bhd. ("PETRONAS Chemicals Marketing")	**100**	100	100	Marketing of petrochemical products
PETRONAS Chemicals Methanol Sdn. Bhd. ("PETRONAS Chemicals Methanol")	**100**	100	100	Processing of natural gas into methanol and sale of methanol
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd. ("PETRONAS Chemicals Fertiliser Kedah")*	**100**	100	100	Production and sale of urea, ammonia and methanol
Polypropylene Malaysia Sdn. Bhd. ("Polypropylene Malaysia")	**100**	100	100	Manufacturing and marketing of polypropylene and its derivatives
PETRONAS Chemicals Ammonia Sdn. Bhd. ("PETRONAS Chemicals Ammonia")*	**100**	100	100	Production and sale of ammonia, syngas and carbon monoxide
Vinyl Chloride (Malaysia) Sdn. Bhd. ("Vinyl Chloride (Malaysia)")*	**100**	100	100	Manufacturing, marketing and distribution of vinyl chloride monomer (VCM) and polyvinyl chloride
Kertih Port Sdn. Bhd. ("Kertih Port")*	**100**	100	100	Owning, operating and managing the Kertih Marine Facilities
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd. ("PETRONAS Chemicals Fertiliser Sabah")	**100**	100	–	Producing, manufacturing, buying and selling of petrochemicals products

Notes to The Financial Statements (continued)

27. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY (continued)

	Effective ownership interest (%)			
Name of Company	**31.12.2012**	**31.12.2011**	**1.4.2011**	**Principal activities**
Subsidiaries				
PETRONAS Chemicals Trading (Labuan) Ltd ("PETRONAS Chemicals Trading (Labuan)")	**100**	100	–	Marketing of petrochemical products
PETRONAS Chemicals Polyethylene Sdn. Bhd. ("PETRONAS Chemicals Polyethylene", formerly known as Polyethylene Malaysia Sdn. Bhd.)	**100**	100	100	Manufacturing and sale of polyethylene
Phu My Plastics and Chemicals Co. Ltd. ("Phu My")**	**93.11**	93.11	93.11	Manufacturing, buying, importing, distributing, selling and exporting of polyvinyl chloride (PVC) resin and other related chemical products
PETRONAS Chemicals Olefins Sdn. Bhd. ("PETRONAS Chemicals Olefins")*	**88**	88	88	Manufacturing and marketing of ethylene, propylene and other hydrocarbon by-products
PETRONAS Chemicals Ethylene Sdn. Bhd. ("PETRONAS Chemicals Ethylene")	**87.50**	87.50	87.50	Manufacturing and sale of ethylene
ASEAN Bintulu Fertilizer Sdn. Bhd. ("ASEAN Bintulu Fertilizer")	**63.47**	63.47	63.47	Production and sale of ammonia and urea
PETRONAS Chemicals Aromatics Sdn. Bhd. ("PETRONAS Chemicals Aromatics", formerly known as Aromatics Malaysia Sdn. Bhd.)	**70**	70	70	Production of paraxylene, benzene and other by-products
PETRONAS Chemicals LDPE Sdn. Bhd. ("PETRONAS Chemicals LDPE", formerly known as Petlin (Malaysia) Sdn. Bhd.)*	**60**	60	60	Manufacturing and marketing of low-density polyethylene pellets
Associates				
BASF PETRONAS Chemicals Sdn. Bhd. ("BASF PETRONAS Chemicals")	**40**	40	40	Manufacturing and marketing of acrylic, oxo and butanediol products
Kertih Terminals Sdn. Bhd. ("Kertih Terminals")	**40**	40	40	Provision of bulk chemical storage and handling services
Idemitsu SM (Malaysia) Sdn. Bhd. ("Idemitsu SM")*	**30**	30	30	Manufacturing and marketing of ethylbenzene, styrene monomer, toluene and benzene toluene (BT) mixture

Notes to The Financial Statements (continued)

27. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY (continued)

	Effective ownership interest (%)			
Name of Company	**31.12.2012**	**31.12.2011**	**1.4.2011**	**Principal activities**
Associates				
Malaysian NPK Fertilizer Sdn. Bhd. ("Malaysian NPK Fertilizer")*	**20**	20	20	Manufacturing and sale of NPK fertilizer products
Jointly Controlled Entity				
BP PETRONAS Acetyls Sdn. Bhd. ("BP PETRONAS Acetyls")*	**30**	30	30	Manufacturing of acetic acid

* Audited by firms of auditors other than KPMG Desa Megat & Co
** Audited by a member firm of KPMG International

All the companies are incorporated in Malaysia except for Phu My which is incorporated in Vietnam.

28. COMMITMENTS

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

	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Property, plant and equipment			
Approved and contracted for	**3,786**	3,583	274
Approved but not contracted for	**904**	511	340
	4,690	4,094	614

29. CONTINGENT LIABILITIES (UNSECURED) – COMPANY

During the financial year, the Group decided to discontinue its vinyl business as part of portfolio optimisation. Arising from this, in January 2013, a subsidiary company discontinued its operations. The provision relating to the cessation of business for the subsidiary has been included in provision for decommissioning activities and onerous contracts of RM407 million.

The Company may be required to extend the necessary financial support to meet the subsidiary's payment obligations for decommissioning and other related expenses. In the event the subsidiary is unable to meet any of these obligations, the amounts that would be provided as financial support to the subsidiary, if any, may be written off by the Company as it is unlikely they will be repaid. As the discontinuation activities at the subsidiary are still at preliminary stages, the required amounts for financial support and potential timing for disbursement are yet to be determined or agreed. As such, the Company recognises a contingent liability with regards to the potential financial support to be provided.

Notes to The Financial Statements (continued)

30. RELATED PARTIES DISCLOSURES

(a) Key management personnel compensation

	Company	
	1.1.2012 to 31.12.2012 RM'000	1.4.2011 to 31.12.2011 RM'000
Directors		
– Fees	**632**	444

In addition to the above, the Company also paid compensation for the services of certain key management personnel amounting to RM2,006,419 (31.12.2011: RM948,949).

(b) Significant transactions with related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

Group		Transactions amount for the year/period	
	Note	1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
PETRONAS:			
Purchase of processed gas and natural gas		**(3,789)**	(2,353)
Fees for representation in the Board of Directors*	30.1	**–**	–
Management fees**		**(7)**	(5)
Retainer fee		**(15)**	(19)
Interest expense		**(57)**	(75)
Information, communication and technology charges		**(24)**	(16)
Rental of office space		**(13)**	(9)
Supply chain and management services		**(6)**	(3)

Notes to The Financial Statements (continued)

30. RELATED PARTIES DISCLOSURES (continued)

(b) Significant transactions with related parties (continued)

Group	Note	Transactions amount for the year/period 1.1.2012 to 31.12.2012 RM Mil	1.4.2011 to 31.12.2011 RM Mil
Subsidiaries of PETRONAS:			
Sales of petrochemical products		**1,353**	794
Purchase of heavy naphtha		**(2,494)**	(1,428)
Purchase of processed gas and natural gas		**(200)**	(140)
Purchase of petroleum products		**(4)**	(9)
Purchase of utilities and materials and supplies		**(404)**	(212)
Training and development related costs		**(17)**	(6)
Purchase of warehouse and transportation services		**(51)**	(47)
Provision of operating and maintenance services		**(4)**	(3)
Purchase of marine diesel		**(1)**	(1)
Provision of vessel screening services and other related services	30.2	**–**	–
Associates and jointly controlled entity of the Group:			
Sales of petrochemical products		**1,759**	1,275
Leasing of pipeline capacity		**(12)**	(6)
Purchase of petrochemical products		**(17)**	(12)
Purchase of warehouse and transportation services		**(144)**	(107)

Note 30.1
Fees for representation in the Board of Directors are RM416,000 (31.12.2011: RM374,000).

Note 30.2
Provision of vessel screening services and other related services is RM207,000 (31.12.2011: RM150,000).

Notes to The Financial Statements (continued)

30. RELATED PARTIES DISCLOSURES (continued)

(b) Significant transactions with related parties (continued)

Group	Transactions amount for the year/period	
	1.1.2012 to 31.12.2012 RM Mil	**1.4.2011 to 31.12.2011 RM Mil**
Corporate shareholders of the Group[1]		
Sales of petrochemical products	**839**	477
Management fee	**(1)**	(1)
Commission paid	**(25)**	(14)
Government related entities		
Sales of petrochemical products	**125**	128
Interest income	**96**	69
Purchase of electricity	**(97)**	(64)

[1] The terms and conditions for the above transactions are based on normal trade terms. All the amounts outstanding are unsecured and expected to be settled with cash. The balances may also be subjected to interest charge up to 3% per annum (31.12.2011: 3% per annum).

Company	Transactions amount for the year/period	
	1.1.2012 to 31.12.2012 RM'000	**1.4.2011 to 31.12.2011 RM'000**
PETRONAS:		
Fees for representation in the Board of Directors*	**(416)**	(374)
Interest expense	**(56,705)**	(74,898)
Fund management fees	**(720)**	–
Subsidiaries:		
Interest income	**4,043**	28,167
Dividend income	**2,445,182**	1,269,210
Other income	**147,792**	26,542
Associates:		
Dividend income	**316,000**	532,000
Government related entities		
Interest income	**47,123**	27,332

* Fees paid directly to ultimate holding company in respect of directors who are appointees of the ultimate holding company.

** Management fees paid to ultimate holding company relates to payment for services of certain key management personnel of the Group.

Notes to The Financial Statements (continued)

30. RELATED PARTIES DISCLOSURES (continued)

(b) Significant transactions with related parties (continued)

Information regarding outstanding balances arising from related party transactions are disclosed in Note 8, Note 11, Note 18 and Note 20.

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

31. OPERATING SEGMENTS

For management purposes, the Group has three reportable segments, as described below, which are the Group and the Company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group and the Company's reportable segments:

- Olefins and Derivatives – activities include the supply and trading, manufacturing, marketing and transportation of a wide range of olefin and polymer products, which are used as basic feedstock for other products, to intermediate products including basic and high performance chemicals.
- Fertilisers and Methanol – activities include producing and selling methanol and a range of nitrogen, phosphate and compound fertilisers.
- Others – other businesses that supports the petrochemicals' business operations.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Performance is measured based on segment profit after tax as included in the internal management reports that are reviewed by the President/Chief Executive Officer, who is the Group's chief operating decision maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Transfer prices between operating segments are established in a manner similar to transactions with third parties.

Segment assets
The total of segment assets are measured based on all assets of a segment, as included in the internal management reports that are reviewed by the President/Chief Executive Officer. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities
The Group segment liabilities are measured and managed on a group basis and are not allocated to operating segments.

Notes to The Financial Statements (continued)

31. OPERATING SEGMENTS (continued)

31.12.2012	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,081	1,696	60	–	3,837
Included in the measure of segment profit are:					
Revenue from external customers	11,958	4,598	43	–	16,599
Inter-segment revenue	7	241	37	(285)	–
Depreciation and amortisation	(751)	(355)	(12)	–	(1,118)
Interest income	87	66	154	–	307
Financing costs	(26)	–	(56)	–	(82)
Share of profit of associates and jointly controlled entity	253	(11)	44	–	286
Tax expense	(801)	135	(47)	–	(713)
Segment assets	12,330	9,053	4,719	(182)	25,920
Included in the measure of segment assets are:					
Investments in associates	494	28	91	–	613
Investment in joint controlled entity	–	55	–	–	55
Additions to non-current assets other than financial instruments and deferred tax assets	146	653	31	–	830

Notes to The Financial Statements (continued)

31. OPERATING SEGMENTS (continued)

31.12.2011	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,300	824	(50)	–	3,074
Included in the measure of segment profit are:					
Revenue from external customers	8,804	3,054	29	–	11,887
Inter-segment revenue	5	167	24	(196)	–
Depreciation and amortisation	(535)	(269)	(9)	–	(813)
Interest income	63	30	127	–	220
Financing costs	(22)	–	(75)	–	(97)
Share of profit of associates and jointly controlled entity	240	–	33	–	273
Tax expense	(726)	(253)	(38)	–	(1,017)
Segment assets	11,681	7,200	7,296	(82)	26,095
Included in the measure of segment assets are:					
Investments in associates	521	26	104	–	651
Investment in joint controlled entity	–	71	–	–	71
Additions to non-current assets other than financial instruments and deferred tax assets	254	291	14	–	559

Notes to The Financial Statements (continued)

31. OPERATING SEGMENTS (continued)

Geographical information

In presenting information on the basis of geographical information, revenue is based on geographical location of customers. Assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including long term receivables, investment in associates and jointly controlled entity) and deferred tax assets.

	Revenue RM Mil	Non-current assets RM Mil
31.12.2012		
Malaysia	**6,964**	**11,709**
Asia:		
– China	**3,288**	**–**
– Others	**6,050**	**89**
Rest of the world	**297**	**–**
Reclassified as assets held for sale (Note 14)	**–**	**(89)**
	16,599	**11,709**
31.12.2011		
Malaysia	4,898	12,220
Asia:		
– China	2,197	–
– Others	4,463	101
Rest of the world	329	–
	11,887	12,321

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(i) Loans and receivables ("L&R");

(ii) Fair value through profit or loss ("FVTPL");
– Held for trading ("HFT"); or
– Designated upon initial recognition ("DUIR");

(iii) Loans and borrowings ("L&B").

Group		**31.12.2012**				**31.12.2011**				**1.4.2011**			
	Note	**L&R/ (L&B) RM Mil**	**FVTPL – DUIR RM Mil**	**FVTPL – HFT RM Mil**	**Total carrying amount RM Mil**	**L&R/ (L&B) RM Mil**	**FVTPL – DUIR RM Mil**	**FVTPL – HFT RM Mil**	**Total carrying amount RM Mil**	**L&R/ (L&B) RM Mil**	**FVTPL – DUIR RM Mil**	**FVTPL – HFT RM Mil**	**Total carrying amount RM Mil**
Financial assets													
Long term receivables*	8	**15**	**–**	**–**	**15**	39	–	–	39	36	–	–	36
Fund and other investments	12	**–**	**–**	**–**	**–**	–	–	–	–	–	10	–	10
Trade and other receivables*	11	**1,809**	**–**	**–**	**1,809**	1,649	–	1	1,650	2,275	–	3	2,278
Cash and cash equivalents	13	**9,307**	**–**	**–**	**9,307**	9,380	–	–	9,380	8,904	–	–	8,904
		11,131	**–**	**–**	**11,131**	11,068	–	1	11,069	11,215	10	3	11,228
Financial liabilities													
Borrowings	18	**–**	**–**	**–**	**–**	(2,393)	–	–	(2,393)	(3,689)	–	–	(3,689)
Other long term liabilities*	19	**(308)**	**–**	**–**	**(308)**	(413)	–	–	(413)	(437)	–	–	(437)
Trade and other payables*	20	**(1,916)**	**–**	**(1)**	**(1,917)**	(1,979)	–	(1)	(1,980)	(2,362)	–	(4)	(2,366)
		(2,224)	**–**	**(1)**	**(2,225)**	(4,785)	–	(1)	(4,786)	(6,488)	–	(4)	(6,492)

* These balances exclude non-financial instruments balances which are not within the scope of MFRS 139, *Financial Instruments: Recognition and Measurement.*

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(i) Loans and receivables ("L&R");

(ii) Loans and borrowings ("L&B").

Company	Note	31.12.2012 L&R/ (L&B) RM Mil	31.12.2012 Total carrying amount RM Mil	31.12.2011 L&R/ (L&B) RM Mil	31.12.2011 Total carrying amount RM Mil	1.4.2011 L&R/ (L&B) RM Mil	1.4.2011 Total carrying amount RM Mil
Financial assets							
Trade and other receivables	11	**472**	**472**	387	387	2,254	2,254
Cash and cash equivalents	13	**3,592**	**3,592**	4,758	4,758	4,149	4,149
Long term receivables	8	**77**	**77**	279	279	895	895
		4,141	**4,141**	5,424	5,424	7,298	7,298
Financial liabilities							
Borrowings	18	–	–	(1,920)	(1,920)	(2,920)	(2,920)
Trade and other payables*	20	**(86)**	**(86)**	(145)	(145)	(30)	(30)
		(86)	**(86)**	(2,065)	(2,065)	(2,950)	(2,950)

* These balances exclude non-financial instruments balances which are not within the scope of MFRS 139, *Financial Instruments: Recognition and Measurement.*

Financial risk management

The Group and the Company are exposed to various financial risks that are particular to its core business of petrochemical. These risks, which arise in the normal course of the Group's and the Company's business, comprise credit risk, liquidity risk and market risks relating to interest rates, foreign currency exchange rates and commodity prices.

The Group adopts PETRONAS Group Risk Management Framework and Guideline that sets the foundation for the establishment of effective risk management across the Group.

The Group and the Company's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit/Company adopts appropriate measures to mitigate these risks in accordance with the business unit's/Company's view of the balance between risk and reward.

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from its receivables from customers and funds and other investments. Credit risks are controlled by individual operating units in line with PETRONAS Group Risk Management Framework and Guideline. The Company's exposure to credit risk arises principally from amount due from subsidiaries.

Receivables

The Group minimises credit risk by entering into contracts with highly credit rated counterparties. Potential counterparties are subject to credit assessment and approval prior to any transaction being concluded and existing counterparties are subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group and the Company's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group further mitigates and limits risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit or bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions. The Group's significant concentration of credit risk for receivables at the end of the reporting date by business is as follows:

	Group		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Olefins and Derivatives	**1,315**	1,293	1,786
Fertilisers and Methanol	**463**	302	440
Others	**31**	54	49
	1,809	1,649	2,275

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Receivables (continued)

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The Group and the Company use ageing analysis to monitor the credit quality of the receivables.

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

	Group			Company		
At net	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Current	**1,692**	1,474	2,160	**–**	32	28
Past due 1 to 30 days	**30**	45	20	**–**	–	–
Past due 31 to 60 days	**1**	13	1	**–**	–	–
Past due 61 to 90 days	**–**	–	1	**–**	–	–
Past due more than 90 days	**–**	–	1	**–**	–	–
	1,723	1,532	2,183	**–**	32	28

With respect to the Group and the Company's receivables, there are no indications as of the reporting date that the receivables will not meet their payment obligations.

Fund and other investment

The Group adopts PETRONAS Group Treasury Investment Guideline that defines the parameters within which the investment activities shall be undertaken in order to achieve the Group and the Company's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters. In accordance with the guideline, investments are only allowed with highly credit rated counterparties.

The treasury function undertakes a credit risk management activity similar to the credit management and monitoring procedures for receivables.

As at the reporting date, all the Group and the Company investments are in domestic market.

The fund and other investments are unsecured. However, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group and the Company's business activities may not be available. In managing its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group and the Company's operations and to mitigate the effects of fluctuations in cash flows.

The Group and the Company's financial liabilities comprise trade and other payables and borrowings.

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

Maturity analysis

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

Group	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
31.12.2012							
Financial liabilities							
Finance lease liabilities	**346**	**5.00**	**426**	**55**	**55**	**193**	**123**
Trade and other payables	**1,878**	**–**	**1,878**	**1,878**	**–**	**–**	**–**
Fair value through profit/loss – held for trading derivative liabilities	**1**	**–**	**1**	**1**	**–**	**–**	**–**
	2,225		**2,305**	**1,934**	**55**	**193**	**123**
31.12.2011							
Financial liabilities							
Finance lease liabilities	458	5.00	574	68	68	204	234
Trade and other payables	1,934	–	1,934	1,934	–	–	–
Fair value through profit/loss – held for trading derivative liabilities	1	–	1	1	–	–	–
Secured term loans – USD floating rate loan	169	1.29	174	174	–	–	–
Unsecured term loans – USD floating rate loan	15	1.81	15	7	8	–	–
Unsecured revolving credits – USD	16	3.40	16	16	–	–	–
Secured Islamic financing facilities – RM	273	5.58	312	56	116	140	–
PETRONAS loans and advances	1,920	3.98	1,998	1,998	–	–	–
	4,786		5,024	4,254	192	344	234

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

Maturity analysis (continued)

Group

	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
1.4.2011							
Financial liabilities							
Finance lease liabilities	490	5.00	625	68	68	204	285
Trade and other payables	2,122	–	2,122	2,122	–	–	–
Dividend payables	187	–	187	187	–	–	–
Fair value through profit/loss – held for trading derivative liabilities	4	–	4	4	–	–	–
Secured term loans – USD floating rate loan	237	1.29	241	165	76	–	–
Unsecured term loans – USD floating rate loan	21	1.81	22	7	15	–	–
Unsecured revolving credits – USD	132	3.12	133	133	–	–	–
Unsecured bankers acceptance – RM	41	3.10	41	41	–	–	–
Secured Islamic financing facilities – RM	338	5.58	388	84	55	249	–
PETRONAS loans and advances	2,920	3.98	3,086	55	3,031	–	–
	6,492		6,849	2,866	3,245	453	285

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

Maturity analysis

Company

	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
31.12.2012							
Financial liabilities							
Trade and other payables	**86**	–	**86**	**86**	–	–	–
	86		**86**	**86**	–	–	–
31.12.2011							
Financial liabilities							
PETRONAS loans and advances	1,920	3.98	1,998	1,998	–	–	–
Trade and other payables	145	–	145	145	–	–	–
	2,065		2,143	2,143	–	–	–
1.4.2011							
Financial liabilities							
PETRONAS loans and advances	2,920	3.98	3,086	55	3,031	–	–
Trade and other payables	30	–	29	29	–	–	–
	2,950		3,115	84	3,031	–	–

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes arising from financial instruments that the Group and the Company are exposed to include interest rates and foreign currency exchange rates that could adversely affect the value of the Group and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group and the Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

In managing interest rate risk, the Group maintains a balanced portfolio of fixed and floating rate instruments. All interest rate exposures are monitored and managed proactively based on adopted PETRONAS Group Risk Management Framework and Guideline.

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Interest rate risk (continued)

The interest rate profile of the Group and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	Group			Company		
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**	**1.4.2011 RM Mil**
Fixed rate instruments						
Financial assets	**9,307**	9,378	8,906	**3,967**	4,958	4,349
Financial liabilities	**(347)**	(746)	(1,005)	**–**	–	–
	8,960	8,632	7,901	**3,967**	4,958	4,349
Floating rate instruments						
Financial assets	**–**	–	–	**79**	284	820
Financial liabilities	**–**	(2,105)	(3,178)	**–**	(1,920)	(2,920)
	–	(2,105)	(3,178)	**79**	(1,636)	(2,100)

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

Foreign exchange risk

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

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

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign exchange risk (continued)

The Group and the Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

Group	31.12.2012 Denominated in		31.12.2011 Denominated in		1.4.2011 Denominated in	
	USD RM Mil	EURO RM Mil	USD RM Mil	EURO RM Mil	USD RM Mil	EURO RM Mil
Financial assets						
Cash and cash equivalents	**601**	**–**	181	–	404	–
Trade and other receivables*	**1,467**	**2**	1,194	2	1,336	16
Other financial assets	**77**	**–**	80	–	4	–
	2,145	**2**	1,455	2	1,744	16
Financial liabilities						
Borrowings*	**(169)**	**–**	(338)	–	(451)	–
Trade and other payables*	**(140)**	**(2)**	(292)	(7)	(200)	(4)
	(309)	**(2)**	(630)	(7)	(651)	(4)
Net exposure	**1,836**	**–**	825	(5)	1,093	12

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

Company	31.12.2012 Denominated in		31.12.2011 Denominated in		1.4.2011 Denominated in	
	USD RM Mil	EURO RM Mil	USD RM Mil	EURO RM Mil	USD RM Mil	EURO RM Mil
Financial assets						
Trade and other receivables	**175**	**–**	174	–	1	–
Long term receivables	**77**	**–**	78	–	290	–
	252	**–**	252	–	291	–
Financial liabilities						
Trade and other payables	**–**	**–**	(1)	–	–	–
	–	**–**	(1)	–	–	–
Net exposure	**252**	**–**	251	–	291	–

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

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

Fair value

The carrying amounts in respect of cash and cash equivalents, fund and other investments, trade and other receivables, and trade and other payables approximate fair values due to the short nature of these financial instruments.

The aggregate fair values of the other financial assets and financial liabilities measured at amortised cost, together with the carrying amounts are as follows:

Group		**31.12.2012**		**31.12.2011**		**1.4.2011**	
	Note	**Carrying amount RM Mil**	**Fair value RM Mil**	**Carrying amount RM Mil**	**Fair value RM Mil**	**Carrying amount RM Mil**	**Fair value RM Mil**
Receivables							
Long term receivables	8	**15**	**15**	39	39	36	36
Loans and borrowings							
Term loans	18	–	–	184	184	258	258
Islamic financing facilities	18	–	–	273	285	338	354
Revolving credit	18	–	–	16	16	132	132
Bankers' acceptance	18	–	–	–	–	41	41
PETRONAS loans and advances	18	–	–	1,920	1,920	2,920	2,920
Other Long Term Liabilities							
Finance lease liabilities	19	**308**	**308**	413	413	437	437

Company		**31.12.2012**		**31.12.2011**		**1.4.2011**	
	Note	**Carrying amount RM Mil**	**Fair value RM Mil**	**Carrying amount RM Mil**	**Fair value RM Mil**	**Carrying amount RM Mil**	**Fair value RM Mil**
Receivables							
Long term receivables	8	**77**	**77**	279	279	895	895
Loans and borrowings							
PETRONAS loans and advances	18	–	–	1,920	1,920	2,920	2,920

The carrying amounts of other financial assets and liabilities are not materially different to their fair values.

Notes to The Financial Statements (continued)

32. FINANCIAL INSTRUMENTS (continued)

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

Group	31.12.2012				31.12.2011			
	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Financial instruments at fair value through profit or loss								
– Held for trading	**–**	**–**	**(3)**	**(3)**	–	–	(3)	(3)
Loans and receivables	**307**	**–**	**15**	**322**	220	–	56	276
Financial liabilities at amortised cost	**–**	**(82)**	**16**	**(66)**	–	(97)	(22)	(119)
	307	**(82)**	**28**	**253**	220	(97)	31	154

Company	31.12.2012				31.12.2011			
	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Loans and receivables	**157**	**–**	**(9)**	**148**	154	–	11	165
Financial liabilities at amortised cost	**–**	**(57)**	**–**	**(57)**	–	(75)	–	(75)
	157	**(57)**	**(9)**	**91**	154	(75)	11	90

Others relates to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses and fair value gains or losses.

33. CAPITAL MANAGEMENT

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

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

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

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Group is required to maintain consolidated shareholders' equity to or not less than 25% of the issued and paid-up capital and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

Notes to The Financial Statements (continued)

34. NEW AND REVISED PRONOUNCEMENTS NOT YET IN EFFECT

The following new and revised MFRSs and amendments (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board will become effective in future financial reporting periods and have not been adopted by the Group and the Company:

Effective for annual periods beginning on or after 1 January 2013

MFRS 10	*Consolidated Financial Statements*
MFRS 11	*Joint Arrangements*
MFRS 12	*Disclosure of Interests in Other Entities*
MFRS 13	*Fair Value Measurement*
MFRS 119	*Employee Benefits (2011)*
MFRS 127	*Separate Financial Statements (2011)*
MFRS 128	*Investments in Associates and Joint Ventures (2011)*
Amendments to MFRS 1	*First–time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 7	*Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 10	*Consolidated Financial Statements: Transition Guidance*
Amendments to MFRS 11	*Joint Arrangements: Transition Guidance*
Amendments to MFRS 12	*Disclosure of Interests in Other Entities: Transition Guidance*
Amendments to MFRS 101	*Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 116	*Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 132	*Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
Amendments to MFRS 134	*Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 132	*Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

Effective for annual periods beginning on or after 1 January 2015

MFRS 9	*Financial Instruments (2009)*
MFRS 9	*Financial Instruments (2010)*
Amendments to MFRS 7	*Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

Initial application of these pronouncements for the Group and the Company will be effective from the annual period beginning:

- 1 January 2013 for pronouncements that are effective for annual periods beginning on or after 1 January 2013.
- 1 January 2014 for pronouncements that are effective for annual period beginning on or after 1 January 2014.
- 1 January 2015 for pronouncements that are effective for annual period beginning on or after 1 January 2015.

The adoption of the above pronouncements except for MFRS 9, MFRS 10 and MFRS 11, are not expected to have material impact on the financial statements of the Group and of the Company in the period of initial application.

Notes to The Financial Statements (continued)

34. NEW AND REVISED PRONOUNCEMENTS NOT YET IN EFFECT (continued)

Material impacts of initial application of MFRS 9, MFRS 10 and MFRS 11 are discussed below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost. It is expected that the Group's investment in unquoted shares will be measured at fair value through other comprehensive income.

The adoption of MFRS 9 will result in a change in accounting policy. The Group will assess the financial impact of adopting MFRS 9 in the following financial year.

MFRS 10, *Consolidated Financial Statements*

MFRS 10 introduces a new single control model to determining which investees should be consolidated. MFRS 10 supersedes MFRS 127, *Consolidated and Separate Financial Statements* and IC Interpretation 112, *Consolidation – Special Purpose Entities*. There are three elements to the definition of control in MFRS 10: (i) power by investor over an investee, (ii) exposure, or rights, to variable returns from investor's involvement with the investee, and (iii) investor's ability to affect those returns through its power over the investee.

The Group is currently re-evaluating its involvement with investees under the new control model. The impact of adoption of MFRS 10 will be reflected in the financial statements for the year ending 31 December 2013.

MFRS 11, *Joint Arrangements*

MFRS 11 establishes the principles for classification and accounting for joint arrangements and supersedes MFRS 131, *Interests in Joint Ventures*. Under MFRS 11, a joint arrangement may be classified as joint venture or joint operation. Interest in joint venture will be accounted for using the equity method whilst interest in joint operation will be accounted for using the applicable MFRSs relating to the underlying assets, liabilities, income and expense items arising from the joint operations.

The Group is currently re-evaluating its interests in joint arrangements under the new standard. The impact of adoption of MFRS 11 will be reflected in the financial statements for the year ending 31 December 2013.

35. PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

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

Effective for annual years beginning on or after 1 January 2013

Amendments to MFRS 1	*First–time Adoption of Malaysian Financial Reporting Standards – Government Loans*
Amendments to IC Interpretation 2	*Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)*
IC Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*

36. HOLDING COMPANY

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

Notes to The Financial Statements (continued)

37. SIGNIFICANT EVENTS

Discontinuation of vinyl business

During the financial year, the Group announced its plan to discontinue its vinyl business as part of portfolio optimisation. Subsequently in January 2013, the Group ceased operations at its vinyl chloride monomer ("VCM") and polyvinyl chloride ("PVC") plants in Kertih.

The major associated costs are as follows:

	Note	Group RM Mil
Provision for plant decommissioning	19	295
Provision for onerous contracts	19	80
Derecognition of lease liabilities	19	(67)
Impairment losses on:		
– property, plant and equipment	3	132
– inventories	10	50
		490

In relation to the above, the Group is also undertaking a divestment process of its vinyl business in Vietnam. The related assets and liabilities have been reclassified as held for sale as disclosed in Note 14.

38. EXPLANATION OF TRANSITION TO MFRS

As stated in Note 1.1, these are the first financial statements of the Group and of the Company prepared in accordance with MFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements of the Group and of the Company for the year ended 31 December 2012, the comparative information presented in these financial statements for the period ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 April 2011 (the Group's date of transition to MFRS).

The transition to MFRS does not have any significant financial impact to the separate financial statements of the Company.

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

An explanation of how the transition from previous FRS to MFRS has affected the Group's statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and cash flows is set out as follows:

(i) Reconciliation adjustments to the statement of financial position

Group		1.4.2011			31.12.2011		
	Note	FRS RM Mil	Effect of transition to MFRS RM Mil	MFRS RM Mil	FRS RM Mil	Effect of transition to MFRS RM Mil	MFRS RM Mil
ASSETS							
Property, plant and equipment	(v,b)	13,057	(418)	12,639	12,646	(351)	12,295
Investments in associates		875	–	875	651	–	651
Investment in jointly controlled entity		70	–	70	71	–	71
Intangible assets	(v,a)	2,142	(2,117)	25	2,016	(1,990)	26
Long term receivables		64	–	64	54	–	54
Deferred tax assets		623	–	623	484	–	484
TOTAL NON-CURRENT ASSETS		16,831	(2,535)	14,296	15,922	(2,341)	13,581
Trade and other inventories		1,173	–	1,173	1,341	–	1,341
Trade and other receivables		2,308	–	2,308	1,671	–	1,671
Current tax assets		124	–	124	122	–	122
Fund and other investments		10	–	10	–	–	–
Cash and cash equivalents		8,904	–	8,904	9,380	–	9,380
TOTAL CURRENT ASSETS		12,519	–	12,519	12,514	–	12,514
TOTAL ASSETS		29,350	(2,535)	26,815	28,436	(2,341)	26,095

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(i) Reconciliation adjustments to the statement of financial position (continued)

Group

	Note	1.4.2011 FRS RM Mil	1.4.2011 Effect of transition to MFRS RM Mil	1.4.2011 MFRS RM Mil	31.12.2011 FRS RM Mil	31.12.2011 Effect of transition to MFRS RM Mil	31.12.2011 MFRS RM Mil
EQUITY							
Share capital		800	–	800	800	–	800
Reserves	(v,e)	18,778	(2,142)	16,636	19,272	(1,980)	17,292
Total equity attributable to owners of the Company		19,578	(2,142)	17,436	20,072	(1,980)	18,092
Non-controlling interests		1,406	–	1,406	1,550	–	1,550
TOTAL EQUITY		20,984	(2,142)	18,842	21,622	(1,980)	19,642
LIABILITIES							
Borrowings		3,282	–	3,282	241	–	241
Deferred tax liabilities	(v,f)	1,638	(393)	1,245	1,620	(361)	1,259
Other long term liabilities and provisions		467	–	467	430	–	430
TOTAL NON-CURRENT LIABILITIES		5,387	(393)	4,994	2,291	(361)	1,930
Trade and other payables		2,368	–	2,368	1,984	–	1,984
Borrowings		407	–	407	2,152	–	2,152
Current tax payable		204	–	204	387	–	387
TOTAL CURRENT LIABILITIES		2,979	–	2,979	4,523	–	4,523
TOTAL LIABILITIES		8,366	(393)	7,973	6,814	(361)	6,453
TOTAL EQUITY AND LIABILITIES		29,350	(2,535)	26,815	28,436	(2,341)	26,095

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(ii) Reconciliation adjustments to the statement of profit or loss and other comprehensive income for the period ended 31 December 2011

Group	Note	FRS RM Mil	Effect of transition to MFRS RM Mil	MFRS RM Mil
Revenue		11,887	–	11,887
Cost of goods sold	(v,b)	(7,522)	68	(7,454)
Gross profit		4,365	68	4,433
Selling and distribution expenses		(410)	–	(410)
Administration expenses	(v,a)	(479)	126	(353)
Other expenses		(96)	–	(96)
Other income		341	–	341
Operating profit		3,721	194	3,915
Financing costs		(97)	–	(97)
Share of profit after tax and non-controlling interests of equity accounted associates and jointly controlled entity		273	–	273
Profit before taxation		3,897	194	4,091
Tax expense	(v,a)	(985)	(32)	(1,017)
PROFIT FOR THE PERIOD		2,912	162	3,074
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Foreign currency translation differences for foreign operations		3	–	3
Share of other comprehensive income of associates and jointly controlled entity		35	–	35
		38	–	38
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,950	162	3,112

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(ii) Reconciliation adjustments to the statement of profit or loss and other comprehensive income for the period ended 31 December 2011 (continued)

Group	Effect of transition to MFRS		
	FRS RM Mil	MFRS RM Mil	MFRS RM Mil
Profit attributable to:			
Owners of the Company	2,621	162	2,783
Non-controlling interests	291	–	291
PROFIT FOR THE PERIOD	2,912	162	3,074
Total comprehensive income attributable to:			
Owners of the Company	2,659	162	2,821
Non-controlling interests	291	–	291
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,950	162	3,112
Basic earnings per ordinary share (RM)	0.33	0.02	0.35

(iii) Reconciliation adjustments to the statement of changes in equity

The effect of the selection of MFRS 1 transitional exemptions from 1 April 2011 to 31 December 2011 can be reconciled as follows:

	Note	Reserves RM Mil
Impact as at 1.4.2011	(v,e)	2,142
Movement during the period		(162)
Impact as at 31.12.2011	(v,e)	1,980

(iv) Reconciliation adjustments to the statement of cash flows for the period ended 31 December 2011

The adoption of MFRS does not result in material differences to the Group's statement of cash flows.

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(v) Notes to reconciliations

a) Retrospective application of MFRS 3, *Business Combinations*

MFRS 1 provides the option to apply MFRS 3 prospectively from the date of transition or retrospectively from a designated date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would otherwise require restatement of all business combinations prior to the date of transition. Where MFRS 3 is applied retrospectively from a designated date, MFRS 127, *Consolidated and Separate Financial Statements* shall be applied from the same date.

The Group has elected to apply MFRS 3 retrospectively from 30 September 2009. As such, all business combinations subsequent to 30 September 2009 are accounted for in compliance with MFRS 3 and MFRS 127 which include among others, the following requirements applicable to the Group:

- When a business combination is achieved in stages (i.e. step acquisition), the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss; and
- Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity and therefore previously-recognised goodwill, if any, shall be taken to retained profits.

The impact from electing the above transitional exemption is summarised as follows:

	Note	As at 1.4.2011 RM Mil	As at 31.12.2011 RM Mil
Consolidated statement of financial position			
Decrease in intangible assets	(i)	(2,117)	(1,990)
Decrease in deferred tax liabilities	(v,f)	373	341
Adjustment to retained earnings	(v,e)	(1,744)	(1,649)

	Note	1.4.2011 to 31.12.2011 RM Mil
Consolidated statement of profit or loss and other comprehensive income		
Administration expenses:		
Decrease in amortisation	(ii)	(126)
Adjustment to profit before taxation		(126)
Increase in tax expense	(ii)	32
Adjustment to profit for the period		(94)

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(v) Notes to reconciliations (continued)

b) Fair value of property, plant and equipment as deemed cost

The Group measures its property, plant and equipment under the cost model whereby the carrying amount of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Upon transition to MFRS, the Group elected to apply the optional exemption to use the fair value at the date of transition for certain items of property, plant and equipment as deemed cost. The aggregate fair value of these property plant and equipment was determined to be RM38 million compared to the carrying amount of RM456 million under MFRS at 1 April 2011.

The impact arising from the change is summarised as follows:

	Note	As at 1.4.2011 RM Mil	As at 31.12.2011 RM Mil
Consolidated statement of financial position			
Decrease in property, plant and equipment	(i)	(418)	(351)
Decrease in deferred tax liabilities	(v,f)	20	20
Adjustment to retained earnings	(v,e)	(398)	(331)

	Note	1.4.2011 to 31.12.2011 RM Mil
Consolidated statement of profit or loss and other comprehensive income		
Cost of revenue		
Decrease in depreciation	(ii)	(68)
Adjustment to profit before taxation		(68)

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(v) Notes to reconciliations (continued)

c) Cumulative currency translation differences deemed as zero

In preparing the financial statements of the Group, assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia, are translated into Ringgit Malaysia at the exchange rate approximating those ruling at the reporting date. The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In accordance with the optional exemptions of MFRS 1, the amount of foreign currency translation reserve has been deemed to be zero at transition date of 1 April 2011.

The impact arising from the change is summarised as follows:

	Note	As at 1.4.2011 RM Mil	As at 31.12.2011 RM Mil
Consolidated statement of financial position			
Increase in foreign currency translation reserve	(v,e)	(3)	(3)
Adjustment to retained earnings		(3)	(3)

d) Prospective application of MFRS 121, *The Effects of Changes in Foreign Exchange Rates*

MFRS 121 requires assets and liabilities of foreign operations to be translated to the presentation currency at closing rate at the end of reporting period including goodwill and fair value adjustments. The Group has elected not to apply MFRS 121 retrospectively to goodwill and fair value adjustments arising from business combinations that occurred before 1 April 2011. As such, the carrying amounts of goodwill and fair value adjustments at 1 April 2011 are fixed and not subsequently re-translated.

There is no financial impact to the Group's statement of financial position and retained profits as a result of electing the above transitional exemption.

Notes to The Financial Statements (continued)

38. EXPLANATION OF TRANSITION TO MFRS (continued)

(v) Notes to reconciliations (continued)

e) Reserves

The changes that affected the reserves are as follows:

	Note	As at 1.4.2011 RM Mil	As at 31.12.2011 RM Mil
Retained earnings			
Intangible assets	(v,a)	(1,744)	(1,649)
Property, plant and equipment	(v,b)	(398)	(331)
Foreign currency translation reserve	(v,c)	(3)	(3)
Decrease in retained earnings		(2,145)	(1,983)
Foreign currency translation reserve			
Retained earnings	(v,c)	3	3
Increase in foreign currency translation reserve		3	3
Decrease in reserves	(i),(iii)	(2,142)	(1,980)

f) Deferred tax liabilities

The changes that affected the deferred tax liabilities are as follows:

	Note	As at 1.4.2011 RM Mil	As at 31.12.2011 RM Mil
Intangible assets	(v,a)	373	341
Property, plant and equipment	(v,b)	20	20
Decrease in deferred tax liabilities	(i)	393	361

g) Non-controlling interests

The adoption of MFRS does not result in material differences to the Group's non-controlling interests.

Notes to The Financial Statements (continued)

39. DISCLOSURE OF REALISED AND UNREALISED PROFIT

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2012, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	31.12.2012 RM Mil	**31.12.2011 RM Mil**	**31.12.2012 RM Mil**	**31.12.2011 RM Mil**
Total retained profits of the Company and its subsidiaries:				
– realised	**15,423**	13,359	**3,263**	1,900
– unrealised	**(386)**	(782)	**(10)**	10
	15,037	12,577	**3,253**	1,910
Total retained profits from associated companies:				
– realised	**264**	312	**–**	–
– unrealised	**(21)**	(53)	**–**	–
	243	259	**–**	–
Total retained profits from jointly controlled entity:				
– realised	**77**	95	**–**	–
– unrealised	**(16)**	(21)	**–**	–
	61	74	**–**	–
Total realised and unrealised	**15,341**	12,910	**3,253**	1,910
Less: Consolidation adjustments	**(3,793)**	(3,590)	**–**	–
Total group retained profits as per consolidated accounts	**11,548**	9,320	**3,253**	1,910

The determination of realised and unrealised profits is based on the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purposes.

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the financial statements of PETRONAS Chemicals Group Berhad, which comprise the statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 157 to 235.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

(b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 27 to the financial statements.

(c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Independent Auditors' Report (continued)

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

Other Reporting Responsibilities

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 39 on page 236 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Other Matter(s)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG Desa Megat & Co

KPMG Desa Megat & Co.
Firm Number: AF 0759
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/14(J)
Chartered Accountant

Petaling Jaya, Selangor
Date: 25 February 2013

List of Properties

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area (sq metre unless otherwise stated)	Age of Plant & building (Years)	NBV as at 31.12.2012 (RM'000)
1	**PETRONAS Chemicals Derivatives Sdn Bhd *(formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd)*, PETRONAS Chemicals Olefins Sdn Bhd and PETRONAS Chemicals Glycols Sdn Bhd (each a 1/3 part owner)**					2,789,947
	H.S.(D) 3385, PT No. 10535, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 29 August 2060	30.08.2000	Industrial land – TNB sub-station	3,886	11	
	H.S.(D) 3316, PT No. 9015, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 29 August 2060	30.08.2000	Industrial land – Waste water and treatment substation	260,469	11	
	Pajakan Negeri No. Hakmilik 7594, No. Lot 8068, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 29 August 2060	30.08.2000	Industrial land – Plant for production of ethylene derivatives	611,075	11	
2	**PETRONAS Chemicals Methanol Sdn Bhd**[2] Country Lease No. 205350607, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan Leasehold for 99 years, expiring on 31 December 2082	31.08.2004	Industrial land – Plant for production of methanol	18 hectares (14 hectares owned by PETRONAS Methanol)	4	1,657,311
3	**PETRONAS Chemicals Methanol Sdn Bhd** No. 206291590, Kg. Rancha-Rancha, Wilayah Persekutuan Labuan Lease for 51 years, expiring on 30 December 2043	1.06.1992	Industrial land – Plant for production of methanol and administration office	34 acres	28	425,053
4	**PETRONAS Chemicals MTBE Sdn Bhd**[1] H.S.(D) 9688 P.T. No. 4538, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang Leasehold for 66 years, expiring 14 July 2058	17.11.1992	Industrial land – Plant for production of MTBE	36 hectares	19	363,279

List of Properties

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area (sq metre unless otherwise stated)	Age of Plant & building (Years)	NBV as at 31.12.2012 (RM'000)
5	**PETRONAS Chemicals MTBE Sdn Bhd**[1] H.S.(D) 34911, No. P.T. 15128, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang Leasehold for 99 years, expiring 8 January 2100	9.01.2001	Industrial land – Propane dehydrogenation plant	34 acres	12	627,640
6	**PETRONAS Chemicals MTBE Sdn Bhd**[1] H.S.(D) 34912, No.P.T. 15129, Mukim Sungai Karang, Daerah Kuantan, Negeri Pahang Leasehold for 99 years, expiring 8 January 2100	9.01.2001	Emergency response building	15 acres	7	11,666
7	**Polypropylene Malaysia Sdn Bhd**[1] H.S. (D) 9686, No. Lot P.T. 4536, Mukim Sungai Karang Daerah Kuantan, Negeri Pahang Leasehold of 66 years, expiring on 14 July 2058	15.07.1992	Industrial land – Plant for production of polypropylene	20 hectares	15	12,036
8	**PETRONAS Chemicals Fertiliser Kedah Sdn Bhd**[1] Pajakan Negeri No. Hakmilik 1010, No. Lot 10750 Bandar Gurun, Daerah Kuala Muda, Kedah Leasehold for 99 years expiring on 22 April 2102	1.11.1999	Commercial/industrial land – Plant for production of urea and ammonia	699,100	14	763,732
9	**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	1.04.1983	Mixed zone/town land – Plant for production of urea and ammonia	38 hectares	28	854,879
10	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2233, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	1,141	8	228

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area (sq metre unless otherwise stated)	Age of Plant & building (Years)	NBV as at 31.12.2012 (RM'000)
11	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2234, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	1,188	8	232
12	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2235, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	1,082	8	219
13	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2236, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	993	8	211
14	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2237, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	1,482	8	263
15	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2238, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	1,221	8	237
16	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2239, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – Dwelling house	1,191	8	232
17	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2266, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – vacant land	1,074	N/A	203

List of Properties

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area (sq metre unless otherwise stated)	Age of Plant & building (Years)	NBV as at 31.12.2012 (RM'000)
18	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2275, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – vacant land	1,115	N/A	207
19	**ASEAN Bintulu Fertilizer Sdn Bhd** No.321, Lot 2276, Block 26, Kemena Land District, Bintulu, Sarawak Leasehold for 60 years, expiring on 8 May 2046	8.02.2005	Mixed zone/town land – vacant land	926	N/A	186
20	**PETRONAS Chemicals Ethylene Sdn Bhd** Pajakan Negeri No. Hakmilik 6282, No. Lot 8075, Daerah Kemaman, Mukim Kertih, Negeri Terengganu Leasehold of 51 years, expiring on 16 June 2052	2.04.1993	Industrial land – Plant for production of ethylene/ polyethylene	567,800	18	575,495
21	**PETRONAS Chemicals Ethylene Sdn Bhd** Pajakan Negeri No. Hakmilik 3939, No. Lot 5217, Daerah Kemaman, Mukim Kertih, Negeri Terengganu Leasehold of 60 years, expiring on 23 October 2054	31.05.1995	Industrial land – Storage facility for water	191,200	18	12,207
22	**PETRONAS Chemicals Ammonia Sdn Bhd**(1) Pajakan Negeri No. Hakmilik 7588, No. Lot 8066, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 19 August 2060	19.08.2000	Industrial land – Plant for production of ammonia and any other related gas	98,490	13	515,285

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area (sq metre unless otherwise stated)	Age of Plant & building (Years)	NBV as at 31.12.2012 (RM'000)
23	**PETRONAS Chemicals Ammonia Sdn Bhd** PN 3331*, Lot 5276, Mukim Kerteh Daerah Kemaman, Negeri Terengganu (*Please note that the State Authority will provide the new lot number upon the finalisation of the subdivision of land) Leasehold of 60 years, expiring on 8 January 2055	1.12.2011	Industrial land – KIPC Shared Facilities which includes the Administrative, Laboratory and Workshop buildings	96,208	1	33,497
24	**PETRONAS Chemicals LDPE Sdn Bhd *(formerly known as PETLIN (Malaysia) Sdn Bhd)*** Pajakan Negeri No. Hakmilik 7593, No. Lot 8073, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 19 August 2060	20.08.2000	Industrial land – Plant for production of LDPE	184,700	12	406,660
25	**Kertih Port Sdn Bhd** Pajakan Negeri No. Hakmilik 4695, No. Lot 7120, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 5 March 2060	2.08.2000	Industrial land – Operations of Kertih Port (Jetty and marine related facilities)	43,100	13	395,182
26	**Kertih Port Sdn Bhd** Pajakan Negeri No. Hakmilik 4696, No. Lot 7121, Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 60 years, expiring on 5 March 2060	2.08.2000	Industrial land – Gas and oil pipelines (Washroom & Waste Disposal Facilities)	41,400	13	471
27	**Kertih Port Sdn Bhd** Pajakan Negeri No. Hakmilik 6280, No. Lot 8077 Mukim Kertih, Daerah Kemaman, Negeri Terengganu Leasehold of 51 years, expiring on 16 June 2052	31.03.1993	Industrial land – administration complex and other related facilities	58,570	18	19,436

List of Properties

No.	Name of registered owner/ Beneficial owner: Lot. no./Leasehold period	Acquisition date	Existing use	Land area (sq metre unless otherwise stated)	Age of Plant & building (Years)	NBV as at 31.12.2012 (RM'000)
28	**Vinyl Chloride (Malaysia) Sdn Bhd** Pajakan Negeri No. Hakmilik 3331, No. Lot 5276, Daerah Kemaman, Mukim Kertih, Negeri Terengganu Leasehold of 60 years, expiring on 8 January 2055	1.09.1998	Industrial land – Integrated PVC manufacturing plant	187,958	12	4,308
	Pajakan Negeri No. Hakmilik 7394, No. Lot 6058, Daerah Kemaman, Mukim Kertih, Negeri Terengganu Leasehold of 60 years, expiring on 18 December 2056	1.09.1998	Industrial land – Integrated PVC manufacturing plant	121,400	12	

(1) *A sukuk issue by PETRONAS Global Sukuk Ltd. in August 2009 involved a notional sale of a beneficial interest in specific fixed assets (the fixed assets) by PETRONAS Chemicals MTBE Sdn Bhd, Polypropylene Malaysia Sdn Bhd, PETRONAS Chemicals Ammonia Sdn Bhd and PETRONAS Chemicals Fertiliser Kedah Sdn Bhd (the Relevant Subsidiaries) to PETRONAS Global Sukuk Ltd. pursuant to 4 purchase agreements between each Relevant Subsidiary and PETRONAS Global Sukuk Ltd. PETRONAS Global Sukuk Ltd. leased the beneficial interest in the fixed assets to PETRONAS pursuant to a lease agreement, and such beneficial interest in the fixed assets was subsequently sub-leased by PETRONAS to the Relevant Subsidiaries pursuant to 4 sub-lease agreements between each Relevant Subsidiary and PETRONAS. This structure did not represent a collaterialisation and there is no transfer of registered title of the fixed assets. The sukuk investors have no recourse to the fixed assets except to exercise the purchase undertaking and oblige PETRONAS to purchase the beneficial interest in the fixed assets at a specified price at the redemption date or upon a dissolution event. The Relevant Subsidiaries may then exercise their rights under the sale undertaking granted by PETRONAS to oblige PETRONAS to sell the beneficial interest in the fixed assets to the Relevant Subsidiaries at the price of RM1.00. The scheduled redemption date for the sukuk is 12 August 2014.*

(2) *PETRONAS Chemicals Methanol and Sabah Energy are currently the joint registered owners of the said land, PETRONAS Chemicals Methanol owns 14.403 hectares and Sabah Energy owns 4.051 hectares of the said land. In a sale and purchase agreement dated 15 March 2007, PETRONAS Chemicals Methanol purchased from Sabah Energy, an area measuring approximately 35.6 acres which is equivalent to 32/41 portion of the said land (45.6 acres or equivalent to 18.454 hectares in area). The transfer of PETRONAS Chemicals Methanol's undivided portion of the said land has been registered. The said land is currently pending subdivision into separate and divisional plots (including PETRONAS Chemicals Methanol's undivided portion).*

Analysis of Shareholdings

As at 13 March 2013

Size of Holdings	No. of Shareholders	% of Total Shareholders	No. of Shares	% of Total Shareholdings
Less than 100	82	0.28	759	0.00
100 – 1,000	9,264	31.65	8,414,261	0.11
1,001 – 10,000	16,396	56.01	69,033,778	0.86
10,001 – 100,000	2,895	9.89	81,470,054	1.02
100,001 to less than 5% of issued shares	632	2.17	1,734,102,248	21.68
5% and above of issued shares	2	0.00	6,106,978,900	76.33
Total	29,271	100.00	8,000,000,000	100.00

List of Directors' Shareholdings in the Company (PETRONAS Chemicals Group Berhad)

No.	Name	No. of Shares	% of Total Shareholdings
1	Datuk Wan Zulkiflee bin Wan Ariffin (shares held under own name)	20,000	0.00
2	Dr Abd Hapiz bin Abdullah (shares held under Mayban Nominees (Tempatan) Sdn Bhd)	20,000	0.00
3	Vimala a/p V.R. Menon (shares held under own name)	20,000	0.00
4	Ching Yew Chye (shares held under own name)	20,000	0.00
5	Kim Dong Soo (shares held under own name)	20,000	0.00
6	Ir Kamarudin bin Zakaria (shares held under own name)	35,000	0.00
7	Md Arif bin Mahmood (shares held under own name)	20,000	0.00
8	Ir Pramod Kumar Karunakaran (shares held under own name)	6,000	0.00
9	Rashidah binti Alias @ Ahmad (shares held under own name)	6,000	0.00

Classification of Shareholders

Category of Shareholders	No. of Shareholders		% of Shareholders		No. of Total Shareholdings		% of Total Shareholdings	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
Individual	23,224	216	79.34	0.74	125,278,447	2,415,141	1.57	0.03
Body Corporate								
Banks/Finance companies	87	2	0.30	0.01	875,379,100	163,000	10.94	0.00
Investment trusts/ foundation/charities	3	0	0.01	0.00	470,000	0	0.01	0.00
Other types of companies	427	11	1.46	0.04	32,133,300	6,401,500	0.40	0.08
Government Agencies/ Institutions	8	0	0.03	0.00	25,294,000	0	0.32	0.00
Nominees	4,726	567	16.14	1.93	6,366,846,922	565,618,590	79.58	7.07
Others	0	0	0.00	0.00	0	0	0.00	0.00
Total	28,475	796	97.28	2.72	7,425,401,769	574,598,231	92.82	7.18

List of Thirty Largest Shareholders

No.	Name	No. of Shares	%
1	CARTABAN NOMINEES (TEMPATAN) SDN BHD PETROLIAM NASIONAL BERHAD (STRATEGIC INV)	5,148,000,000	64.35
2	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	958,978,900	11.99
3	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	272,446,500	3.41
4	AMANAHRAYA TRUSTEES BERHAD SKIM AMANAH SAHAM BUMIPUTERA	221,394,600	2.77
5	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	78,980,900	0.99
6	LEMBAGA TABUNG HAJI	70,210,900	0.88
7	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	58,868,122	0.74
8	VALUECAP SDN BHD	57,774,000	0.72
9	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	51,350,600	0.64
10	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM WAWASAN 2020	43,619,200	0.55
11	CARTABAN NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR EASTSPRING INVESTMENTS BERHAD	39,031,800	0.49
12	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	36,410,900	0.46
13	MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	35,484,200	0.44
14	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.A.E.)	30,502,500	0.38
15	CARTABAN NOMINEES (ASING) SDN BHD GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION PTE LTD FOR GOVERNMENT OF SINGAPORE (C)	27,078,100	0.34
16	LEMBAGA TABUNG ANGKATAN TENTERA	23,779,000	0.30
17	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (NORGES BK LEND)	21,380,200	0.27
18	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	18,846,100	0.24

No.	Name	No. of Shares	%
19	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A.)	17,871,809	0.22
20	AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM DIDIK	16,276,900	0.20
21	CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED (A/C 1125250001)	14,080,000	0.18
22	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	12,682,000	0.16
23	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND	12,182,800	0.15
24	AMSEC NOMINEES (TEMPATAN) SDN BHD AMTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)	11,590,300	0.14
25	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR J.P. MORGAN BANK (IRELAND) PUBLIC LIMITED COMPANY	11,004,644	0.14
26	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	10,415,700	0.13
27	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND ZVMY FOR MALAYSIA MSCI INDEX COMMON TRUST FUND	10,318,800	0.13
28	HSBC NOMINEES (ASING) SDN BHD BNY BRUSSELS FOR CITY OF NEW YORK GROUP TRUST	9,801,200	0.12
29	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AMERICAN INTERNATIONAL ASSURANCE BERHAD	8,451,000	0.11
30	PERTUBUHAN KESELAMATAN SOSIAL	8,164,300	0.10

List of Substantial Shareholders

No.	Name	No. of Shares	% of Total Shareholdings
1	PETROLIAM NASIONAL BERHAD SHARES HELD UNDER CARTABAN NOMINEES (TEMPATAN) SDN BHD	5,148,000,000	64.35
2	EMPLOYEES PROVIDENT FUND BOARD SHARES HELD UNDER CITIGROUP NOMINEES (TEMPATAN) SDN BHD	958,978,900	11.99

Corporate Directory

Wholly Owned Subsidiaries

Kertih Port Sdn Bhd

Lot 3633, Kawasan Bukit Tengah,
KM 105 Jln Kuantan-Kuala Terengganu,
24300 Kertih, Kemaman, Terengganu.
Tel : 609 830 5648/5796
Fax : 609 830 5618/5639

PETRONAS Chemicals Ammonia Sdn Bhd

Kompleks Pentadbiran
Petrokimia PETRONAS,
KM 105, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 5000
Fax : 609 830 5222

PETRONAS Chemicals Derivatives Sdn Bhd
(formerly known as OPTIMAL Chemicals (Malaysia) Sdn Bhd)

Administration Building,
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 7700
Fax : 609 830 7797

PETRONAS Chemicals Fertiliser Kedah Sdn Bhd

KM 3, Jalan Jeniang,
P.O.Box 22,
08300, Gurun, Kedah.
Tel : 604 466 6666
Fax : 604 468 5200

PETRONAS Chemicals Fertiliser Sabah Sdn Bhd

Level 15, Tower 1,
PETRONAS Twin Towers,
Kuala Lumpur City Centre,
50088, Kuala Lumpur.
Tel : 603 2331 9574
Fax : 603 2051 1501

PETRONAS Chemicals Glycols Sdn Bhd

Administration Building,
PETRONAS Petroleum Industry Complex
KM 106, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 7700
Fax : 609 830 7797

PETRONAS Chemicals Marketing Sdn Bhd

Level 15, Tower 1,
PETRONAS Twin Towers,
Kuala Lumpur City Centre,
50088, Kuala Lumpur.
Tel : 603 2051 4224
Fax : 603 2051 4943

PETRONAS Chemicals Methanol Sdn Bhd

Kawasan Perindustrian Rancha-Rancha,
P.O.Box 80079,
87010, Federal Territory Labuan.
Tel : 6087 451 688
Fax : 6087 453 688

PETRONAS Chemicals MTBE Sdn Bhd

Lot 111/112,
Kawasan Perindustrian Gebeng,
26080, Kuantan, Pahang.
Tel : 609 585 6700
Fax : 609 583 4090/4743

PETRONAS Chemicals Polyethylene Sdn Bhd
(formerly known as Polyethylene Malaysia Sdn Bhd)

Lot 3834,
Kawasan Bukit Tengah, KM 105,
Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 2000
Fax : 609 827 3940

PETRONAS Chemicals Trading (Labuan) Ltd

Level 15, Tower 1,
PETRONAS Twin Towers,
Kuala Lumpur City Centre,
50088 Kuala Lumpur.
Tel : 603 2331 9102
Fax : 603 2331 1501

Polypropylene Malaysia Sdn Bhd

Lot 111/112,
Kawasan Perindustrian Gebeng,
26080, Kuantan, Pahang.
Tel : 609 585 6700
Fax : 609 583 4090/4743

Vinyl Chloride (Malaysia) Sdn Bhd

Kompleks Pentadbiran
Petrokimia PETRONAS,
KM 105, Jalan Kuantan-Kuala Terengganu
24300, Kertih, Kemaman, Terengganu.
Tel : 609 870 5000
Fax : 609 830 5533

Partly Owned Subsidiaries

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

PETRONAS Chemicals Aromatics Sdn Bhd
(formerly known as Aromatics Malaysia Sdn Bhd)

c/o PETRONAS Penapisan (T) Sdn Bhd,
KM 105 Jalan Kuantan-Kuala Terengganu,
24300 Kertih, Kemaman, Terengganu.
Tel : 609 830 3007
Fax : 609 830 3188

PETRONAS Chemicals Ethylene Sdn Bhd

Lot 3834, Kawasan Bukit Tengah,
KM 105, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 2000
Fax : 609 827 3940

PETRONAS Chemicals LDPE Sdn Bhd
(formerly known as PETLIN (Malaysia) Sdn Bhd)

Lot 9719,
PETRONAS Petroleum Industry Complex,
KM 105, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 5068
Fax : 609 830 5858/5990

PETRONAS Chemicals Olefins Sdn Bhd

Administration Building,
PETRONAS Petroleum Industry Complex,
KM 106, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 7700
Fax : 609 830 7797

Phu My Plastics & Chemicals Co Ltd

PETRONAS Tower B (Tower B),
Royal Centre, 235 Nguyen Van Cu Street,
Nguyen Cu Trinh Ward,
District 1, Ho Chi Minh City, Vietnam.
Tel : 848 3830 9966/9977 (ext 2000)
Fax : 848 3833 5858

Associates

BASF PETRONAS Chemicals Sdn Bhd

Jalan Gebeng 2/1,
Kawasan Perindustrian Gebeng,
26080, Kuantan, Pahang.
Tel : 609 585 5000
Fax : 609 583 4623

Idemitsu SM (Malaysia) Sdn Bhd

PLO 408, Off Jalan Pekeliling,
Pasir Gudang Industrial Estate,
81700, Pasir Gudang, Johor.
Tel : 607 252 5350
Fax : 607 252 8281

Kertih Terminals Sdn Bhd

Tingkat 1, Kompleks Pentadbiran KPSB,
Lot 3633 Kawasan Bukit Tengah,
KM 105, Jalan Kuantan-Kuala Terengganu,
24300, Kertih, Kemaman, Terengganu.
Tel : 609 830 5788
Fax : 609 830 5665

Malaysian NPK Fertilizer Sdn Bhd

P.O.Box 24,
08300, Gurun, Kedah.
Tel : 604 468 4075
Fax : 604 468 4079

Jointly Controlled Entity

BP PETRONAS Acetyls Sdn Bhd

Kompleks Pentadbiran
Petrokimia PETRONAS,
24300 Kertih, Kemaman, Terengganu.
Tel : 609 830 5300
Fax : 609 830 5321

Notice of Annual General Meeting

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. to transact the following businesses:-

Agenda

As Ordinary Business

1. To receive the Audited Financial Statements for the Financial Year Ended 31 December 2012 together with the Reports of the Directors and Auditors thereon. **(Resolution 1)**

2. To approve the payment of final dividend of 14 sen per ordinary share, tax exempt under the single tier tax system in respect of the Financial Year Ended 31 December 2012. **(Resolution 2)**

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

   (a) Datuk Wan Zulkiflee bin Wan Ariffin **(Resolution 3)**

   (b) Ir Kamarudin bin Zakaria **(Resolution 4)**

   (c) Md Arif bin Mahmood **(Resolution 5)**

4. To approve the increase of the Directors' fees from RM1,000,000 per annum to RM1,500,000 per annum and the payment of Directors' fees for the Financial Year Ended 31 December 2012 in excess of the current annual limit. **(Resolution 6)**

5. To re-appoint Messrs KPMG Desa Megat Co. as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 7)**

As Special Business

6. To consider and, if thought fit, to pass the following Special Resolution: **(Resolution 8)**

   PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

   "THAT the alterations, modifications, additions or deletions to the Articles of Association of the Company contained in the Appendix I of the Annual Report be and are hereby approved."

7. To transact any other business of which due notice has been given.

Notice of Dividend Entitlement and Payment

NOTICE IS ALSO HEREBY GIVEN THAT subject to the approval of the members at the 15th Annual General Meeting of the Company to be held on Wednesday, 22 May 2013 at 10.30 a.m, a final dividend of 14 sen per ordinary share, tax exempt under the single tier tax system in respect of the Financial Year Ended 31 December 2012, will be paid on 25 June 2013 to shareholders whose names appear in the Register of Depositors on 7 June 2013.

A depositor shall qualify for entitlement only in respect of:-

(a) Shares transferred into the Depositor's Securities Account before 4.00 p.m. on 7 June 2013 in respect of ordinary transfers.

(b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

Noryati Mohd Noor
Kang Shew Meng
Company Secretaries

Kuala Lumpur
26 April 2013

Notes:-

1. Only depositors whose names appear in the Record of Depositors as at Tuesday, 14 May 2013 shall be regarded as members and entitles to attend, speak and vote at the Meeting.

2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy may but need not be a member of the Company, an advocate, an approved company auditor, or a person approved by the Registrar.

   Where a member of the Company appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.

3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, it may appoint at least one proxy but not more than two proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

4. The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under its common seal, or under the hand of its officer or its duly authorised attorney.

5. If the instrument appointing a proxy is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the instrument appointing a proxy is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with the instrument appointing a proxy.

6. The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia at least 48 hours before the meeting, or if the meeting is adjourned at least 48 hours before the time fixed for the adjourned meeting.

7. Explanatory notes on Special Business:-
   Special Resolution – Proposed Amendments to the Articles of Association of the Company
   The proposed Special Resolution is made to comply with the changes in Bursa Malaysia Securities Berhad Main Market Listing Requirements. Further information on the Proposed Amendments to the Articles of Association is set out in Appendix I to the Annual Report.

Appendix I

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

The existing Articles of Association of the Company ("the existing Articles") is proposed to be amended by the relevant alterations, modifications, deletions and/or additions, wherever the affected existing Articles are reproduced herein with the Proposed Amendments to the Articles of Association of the Company alongside with it:

Article No.	Existing Articles		Proposed Articles		Rationale(s)
2	Interpretation		Interpretation		
	WORDS	MEANINGS	WORDS	MEANINGS	
	New Provision	New Provision	**Exempt Authorised Nominee**	**An authorised nominee defined under Central Depositories Act which is exempted from compliance with the provisions of subsection 25A (1) of the Central Depositories Act.**	To define the words **"Exempt Authorised Nominee"** appear in the proposed amended Article 77
	New Provision	New Provision	**Omnibus Account**	**Means an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners.**	To define the words **"Omnibus Account"** appear in the proposed amended Article 77
	New Provision	New Provision	**Share Issuance Scheme**	**A scheme involving a new issuance of shares to the employees.**	To define the words "Share Issuance Scheme" appear in the proposed amended Article 3(2)(a)
3(2)(a)	<u>Issue of Shares</u> No director shall participate in an issue of shares or options to employees of the Company unless the shareholders in general meeting have approved of the specific allotment to be made to such Director.		<u>Issue of Shares</u> No director shall participate in ~~an issue of shares or options to employees~~ **a Share Issuance Scheme** of the Company unless the shareholders in general meeting have approved of the specific allotment to be made to such Director.		Pursuant to Para 7.03 of the Listing Requirements

Article No.	Existing Articles	Proposed Articles	Rationale(s)
77(1)	<u>**Instrument appointing proxy to be in writing**</u> The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation either under its common seal, or the hand of its officer or its duly authorised attorney. An instrument appointing a proxy to vote at a meeting shall be deemed to include the power to demand or join in demanding a poll on behalf of the appointor. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy without limitation and the provisions of Section 149(1) (b) of the Act shall not apply to the Company.	<u>**Instrument appointing proxy to be in writing**</u> The instrument appointing a proxy shall be in writing under the hands of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation either under its common seal, or the hand of its officer or its duly authorised attorney. An instrument appointing a proxy to vote at a meeting shall be deemed to include the power to demand or join in demanding a poll on behalf of the appointor. **There shall be no restriction as to the qualification of the proxy.** A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy without limitation and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. **A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the Member to speak at a meeting.**	Pursuant to Para 7.21A(1) and 7.21A(2)
77(4)	New Provision	<u>**Appointment of Multiple Proxies**</u> **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.**	Pursuant to Para 7.21 of the Listing Requirements

PETRONAS CHEMICALS GROUP BERHAD
(Company No 459830-K)

Proxy Form

No. of shares held	

I/We ____
(Full Name in Capital Letters)

of ____
(Full Address)

being a *Member/Members of PETRONAS CHEMICALS GROUP BERHAD, do hereby appoint ____________________

____
(Full Name in Capital Letters)

of ____
(Full Address)

or failing him ____
(Full Name in Capital Letters)

of ____
(Full Address)

or failing him, the CHAIRMAN OF MEETING, as *my/our proxy to attend and vote for *me/us and on *my/our behalf at the 15th Annual General Meeting of the Company to be held at Tamingsari Ballroom, The Royale Chulan Hotel Kuala Lumpur 5, Jalan Conlay, 50450 Kuala Lumpur, Malaysia on Wednesday, 22 May 2013 at 10.30 a.m. Kuala Lumpur, Malaysia and at any adjournment thereof and to vote as indicated below:-

No.	Resolutions	For	Against
ORDINARY BUSINESS			
1.	Receipt of Audited Financial Statements for the Financial Year Ended 31 December 2012 together with the Reports of the Directors and Auditors thereon		
2.	Approval of payment of final dividend		
3.	Re-election of Datuk Wan Zulkiflee bin Wan Ariffin as Director		
4.	Re-election of Ir Kamarudin bin Zakaria as Director		
5.	Re-election of Md Arif bin Mahmood as Director		
6.	Approval of increase of Directors' fees and payment of Directors' fees		
7.	Re-appointment of Messrs KPMG Desa Megat & Co. as Auditors and authority to the Directors to fix their remuneration		
SPECIAL BUSINESS			
8	To consider and, if thought fit, to pass the following Special Resolution: Proposed Amendments To The Articles Of Association Of The Company		

Please indicate with an "X" in the space provided above on how you wish your votes to be casted. If no specific direction as to voting is given, your proxy will vote or abstain from voting at his discretion.

Signed this ________ day of ____________ 2013

____
Signature of Member/Common Seal

*Strike out whichever not applicable.

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Affix
Stamp

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House,
Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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