PETRONAS

PETRONAS CHEMICALS GROUP BERHAD

Governance and Financial Report 2019

Well Positioned. Sustainable Tomorrow

ABOUT THIS REPORT

We are proud to present PETRONAS Chemicals Group Berhad's (PCG) combined Governance and Financial reporting publication.

Scope and Boundary

PCG's Governance and Financial Report (GFR) reporting scope covers the period from 1 January 2019 to 31 December 2019 unless otherwise stated. The boundary is limited to PCG and the principal activities of its subsidiaries, joint operation, joint ventures and associates.

Our GFR is to be read in conjunction with our Integrated Report 2019 (IR) and Corporate Governance Report (CG Report) which are both accessible online at www.petronaschemicals.com

Disclosures

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

Our GFR also includes our Audited Financial Statements consisting of Directors' Report, Financial Statements, Notes to the Financial Statements and our Independent Auditors' Report. The GFR provides detailed governance and financial disclosures to our shareholders, investors, analysts and other interested parties.

Reporting Framework

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

Our Financial reporting has been prepared in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS), MMLR by Bursa Malaysia and CA 2016.

Futher details of PETRONAS Chemicals Group Berhad can be found on www.petronaschemicals.com

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DATUK MD ARIF MAHMOOD
Chairman

CHAIRMAN'S CORPORATE GOVERNANCE OVERVIEW

Dear Shareholders,

Good governance is paramount in an evolving corporate landscape and even more compelling in today's increasingly challenging business world. As a Board, we place trust and integrity at the forefront of the Company's core values. We set the highest standards of governance, ethics, integrity and transparency and hold the management accountable for these standards being followed throughout the organisation.

As a Company, we are committed to delivering long-term success and sustainable value for all our stakeholders. Our corporate best practices are world class and institutional frameworks are robust to ensure our products and services are secure and stable. We embed good governance practices that leads to enhanced accountability, strong risk and performance management, transparency and effective leadership.

This Corporate Governance Overview is prepared in accordance with the relevant requirements, guidelines and practices of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia), Malaysian Code on Corporate Governance 2017 (MCCG 2017), Companies Act 2016 (CA 2016) and Corporate Governance Guide (3rd Edition) by Bursa Malaysia Berhad, in addition to benchmarking against the Asean Corporate Governance Scorecard (ASEAN CG Scorecard).

The Board's governance oversight is guided by its commitment to its responsibilities and governance objectives. The Board leverages its diversity, encourages and respects the different perspectives and attributes of Board members in order for it to attain an appropriate balance of skill, experience, knowledge and independence to fulfil its governance role.

My role as Chairman of the Board is very well supported by members drawn from different business sectors and fields. They bring with them a wealth of experience in managing sustainable business growth driven by principles of governance, integrity and transparency. Their wide-ranging backgrounds that include petrochemicals at the global level, strategic planning, economics, engineering, finance, audit and project management; they collectively represent a formidable leadership and strong independent viewpoints and valuable insights in aiding the Board's decision-making process.

Their invaluable contribution and that of the executive team, have helped us to continue upholding the high standards of governance expected of the Group. This is imperative given the need to maintain with consistent vigour, our oversight role over the strategic, operational and compliance risks Group-wide.

During the year under review, we strengthened our commitment towards doing business responsibly by enhancing our internal governance practices. PCG has adopted most of the MCCG 2017's recommendations including the step-ups, which include adoption of the nine-year tenure policy for our Independent Non-Executive Directors (INEDs), adoption of Framework on External Auditors, establishment of the Board Risk Committee (BRC) to oversee the Company's risk management framework and policies and adoption of integrated reporting based on a globally recognised framework. In order to strengthen our internal governance, we had also revised PCG's Policy and Guideline on Related Party Transactions (RPTs) and Conflict of Interest Situations to ensure that all RPTs are carried out effectively and efficiently on normal commercial terms and not to the detriment of the minority shareholders. The terms of reference of the Board Audit Committee (BAC) was also reviewed during the year to allow the BAC to be more focused with internal control and financial reporting functions, following the establishment of BRC in February 2019. Throughout this Integrated Report, we have provided investors and other stakeholders with an insight into the governance activities and ethical practices which have supported our performance during the year.

Following the recent amendment to the Malaysian Anti-Corruption Commission Act 2009 (MACC Act 2009) to impose corporate liability on companies for failure to prevent bribery and corruption which would come into force on 1 June 2020, the Company has taken proactive actions to equip our Directors with their understanding on their liability and penalty imposed under this new Section 17A of the MACC Act 2009, as well as the adequate procedures in place to prevent occurrence of bribery and corruption.

It will be our unwavering commitment in the year ahead, to strengthen our governance processes to ensure that we are aligned with best practices and that our approach to disclosure is timely and transparent.

DATUK MD ARIF MAHMOOD
CHAIRMAN

BOARD COMPOSITION, PROFILES AND STRUCTURE

Board Skills and Experience Matrix

H EN P F R
M O EX

DATUK MD ARIF MAHMOOD
Chairman
Non-Independent
Non-Executive Director

Nationality: Malaysian

Age: 57

Gender: Male

Date of Appointment: 1 May 2015

Length of Service: 4 years and 10 months

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Masters of Business Administration, Massachusetts Institute of Technology, United States of America (USA)
> Bachelor of Science in Electrical Engineering (summa cum laude), Boston University, USA

PRESENT DIRECTORSHIPS:
> PETRONAS Chemicals Group Berhad
> PETRONAS Dagangan Berhad

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

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

Board Skills and Experience Matrix

M R O EN EX

DATUK SAZALI HAMZAH
Managing Director/Chief Executive Officer (MD/CEO)
Non-Independent
Executive Director

Nationality: Malaysian

Age: 53

Gender: Male

Date of Appointment: 8 May 2014

Length of Service: 5 years and 2 months

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Chartered Fellow of the Institution of Chemical Engineers (IChemE)
> Bachelor of Chemicals Engineering, Lamar University, USA
> Advanced Management Programme, the Wharton School, University of Pennsylvania, USA
> Senior Management Program, London Business School, London, United Kingdom (UK)

PRESENT DIRECTORSHIPS:

Listed entities:
> PETRONAS Chemicals Group Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Vice President, Downstream Business, PETRONAS
> Board member of Institution of Chemical Engineers UK, Malaysian Branch
> Chairman/Director of various companies within PETRONAS

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

BOARD EXPERIENCE:

C	T	H	P	O
Global Petrochemical Consultancy	Information Technology	Human Resource	Corporate Planning and Development	Operations

Board Skills and Experience Matrix

P M F R EC EX

DATUK TOH AH WAH
Senior Independent Director

Nationality: Malaysian

Age: 62

Gender: Male

Date of Appointment: 13 June 2014

Length of Service: 5 years and 8 months

ACADEMIC/PROFESSIONAL QUALIFICATION:
> Bachelor of Commerce, Concordia University, Canada

PRESENT DIRECTORSHIPS:

Listed entities:
> PETRONAS Chemicals Group Berhad
> Carlsberg Brewery Malaysia Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Chairman of Nomination and Remuneration Committee (NRC), PCG
> Member of Board Audit Committee (BAC), PCG
> Chairman of Board, Carlsberg Brewery Malaysia Berhad (Carlsberg Malaysia)
> Member of Board Audit & Risk Management Committee, Carlsberg Malaysia
> Chairman of Board Nomination Committee, Carlsberg Malaysia
> Chairman of Board Remuneration Committee, Carlsberg Malaysia
> Trustee of CHOICE Foundation

PAST EXPERIENCE:
> Director, CTBAT International Company Limited (Hong Kong)
> Independent Non-Executive Director, Tien Wah Press Holdings Berhad
> Managing Director (MD), British American Tobacco Malaysia Berhad
> Area Director of the Indonesian Cluster and the Regional Project Manager of British American Tobacco Asia Pacific Region Limited, Hong Kong
> MD/Chief Executive Officer, Pakistan Tobacco and Area Director, South Asia Area (covering Pakistan, Bangladesh and Sri Lanka)
> MD, British American Tobacco New Zealand
> Business Development Director China for British American Tobacco Asia Pacific North
> Various senior management positions with British American Tobacco (Malaysia) Berhad

Board Skills and Experience Matrix

P M R F EX

YEOH SIEW MING
Independent Non-Executive Director

Nationality: Malaysian

Age: 52

Gender: Female

Date of Appointment: 15 May 2019

Length of Service: Less than 1 year

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Fellow Member of Association of Chartered Certified Accountants
> Member of the Malaysian Institute of Accountants
> Member of Malaysian Institute of Certified Public Accountants

PRESENT DIRECTORSHIPS:

Listed entities:
> PETRONAS Chemicals Group Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Chairman of BAC, PCG
> Member of NRC, PCG
> Member of Board Risk Committee (BRC), PCG
> Training Faculty of Deloitte University Asia Pacific
> Member of Sunway College Academic and Industry Advisory Board

PAST EXPERIENCE:
> Partner of Deloitte South East Asia
> License liquidator for voluntary and court appointed liquidations and conflict resolutions.
> Served in the following committees in Deloitte South East Asia
– Partners' Admission Committee
– Board Nomination Committee
– Compensation Committee for South East Asia CEO and Chairman of the Board
– Operational Excellence Committee
> Facilitator of Unleash Global Innovation Lab for United Nation's Sustainable Development Goals
> Council Member of Malaysian Institute of Certified Public Accountants
> Held various management positions throughout her career with Deloitte

M Commercial and Marketing

EN Engineering

EC Economics

F Finance/Audit

R Risk Management

EX Industry Experience

BOARD COMPOSITION, PROFILES AND STRUCTURE

Board Skills and Experience Matrix

C R P O
M EN EX

WARREN WILLIAM WILDER
Independent Non-Executive Director

Nationality: American

Age: 62

Gender: Male

Date of Appointment: 1 July 2018

Length of Service: 1 year and 7 months

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Masters of Business Administration (MBA) Finance, University of Chicago, USA
> Bachelors of Chemical Engineering (Honours), University of Washington, Seattle, USA

PRESENT DIRECTORSHIPS:
Listed entities:
> PETRONAS Chemicals Group Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Chairman of BRC, PCG

PAST EXPERIENCE:
> Vice President of Chemicals, Saudi Aramco
> President and Chief Executive Officer, Polymer, Crackers of Reliance Industries Ltd
> Managing Director and Chief Executive Director of Titan Chemicals
> Senior Vice President of Olefins, Polyethylene of Westlake Chemical
> Vice President of Koch Industries
> Manager of Planning and Analysis of Union Pacific Corporation
> Refinery Process Engineer, Marine Fuels and Marine Lubricant Sales Coordination, Ship Chartering, Crude Oil Coordinator in Exxon Corporation

Board Skills and Experience Matrix

T H O P M
EN EC F R EX

DR ZAFAR ABDULMAJID MOMIN
Independent Non-Executive Director

Nationality: Singaporean

Age: 61

Gender: Male

Date of Appointment: 1 July 2018

Length of Service: 1 year and 7 months

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Doctor of Philosophy in Business (General Management), Singapore Management University, Singapore
> Master of Business Administration, Kellogg School of Management, Northwestern University, Chicago, USA
> Master of Science in Mechanical Engineering, Purdue University, USA
> Bachelor of Mechanical Engineering, College of Engineering, Pune University, India

PRESENT DIRECTORSHIPS:
Listed entities:
> PETRONAS Chemicals Group Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Member of BAC, PCG
> Member of NRC, PCG
> Member of BRC, PCG
> Adjunct Associate Professor, College of Business, Nanyang Technological University, Singapore
> Adjunct Associate Professor, Malaysia Institute for Supply Chain Innovation (MIT/MISI Initiative), Malaysia

PAST EXPERIENCE:
> Independent Non-Executive Director, Mapletree Logistics Trust (Singapore)
> Board Director, Center for Non-Profit Leadership (Singapore)
> Partner and Managing Director (MD), The Boston Consulting Group (Singapore, Dubai); Head of Asia Pacific Industrial Goods Practice, Pioneering Partner of Dubai/Abu Dhabi Offices.
> Partner & MD, A.T. Kearney (Singapore); Head of Asia Pacific Automotive Practice
- Senior Partner & MD of L.E.K Consulting (Singapore); Head of Southeast Asia
- Executive Vice President, Alghanim Industries (Kuwait); CXO roles across functions and business units
- Various general management positions at United Technologies Corporation, Otis Asia Pacific Operations (Singapore)
- Various technical management positions at General Motors (USA)

BOARD EXPERIENCE:

C	T	H	P	O
Global Petrochemical Consultancy	Information Technology	Human Resource	Corporate Planning and Development	Operations

Board Skills and Experience Matrix

O M EN R EX

NOOR ILIAS MOHD IDRIS
Non-Independent
Non-Executive Director

Nationality: Malaysian

Age: 54

Gender: Male

Date of Appointment: 15 May 2019

Length of Service: Less than 1 year

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Degree in Mechanical Engineering, University of Wollongong, Australia
> Alumni of Advanced Management Program, Harvard Business School, Boston, USA

PRESENT DIRECTORSHIPS:

Listed entities:
> PETRONAS Chemicals Group Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Member of BRC, PCG
> Vice President, Group Project Delivery, PETRONAS
> Chairman of PETRONAS Global Technical Solutions Sdn Bhd
> Director and Chief Executive Officer of PETRONAS Technical Services Sdn Bhd

PAST EXPERIENCE:
> Director of Primesourcing International Sdn Bhd
> Held various positions within PETRONAS Group of companies covering areas of Engineering, Research and Project Management

Board Skills and Experience Matrix

P M F EC R EX

FREIDA AMAT
Non-Independent
Non-Executive Director

Nationality: Malaysian

Age: 51

Gender: Female

Date of Appointment: 31 July 2015

Length of Service: 4 years and 7 months

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Fellow of the Association of Chartered Certified Accountants (FCCA)
> Member of the Malaysian Institute of Accountants
> Bachelor of Science in Economics majoring in Accounting and Finance, The London School of Economics and Political Science, University of London, United Kingdom
> Senior Management Development Programme, INSEAD

PRESENT DIRECTORSHIPS:

Listed entities:
> PETRONAS Chemicals Group Berhad

Other public company:
Nil

PRESENT APPOINTMENTS:
> Member of BAC, PCG
> Head, Finance Group & Corporate Services, Group Finance PETRONAS
> Director of various companies within PETRONAS

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

M	EN	EC	F	R	EX
Commercial and Marketing	Engineering	Economics	Finance/Audit	Risk Management	Industry Experience

BOARD COMPOSITION, PROFILES AND STRUCTURE

COMPANY SECRETARIES:

HASNIZAINI MOHD ZAIN
Company Secretary

Nationality: Malaysian

Age: 45

Gender: Female

DESCRIPTION OF ROLES:
> Responsible for PCG's legal affairs and company secretarial services
> Sits on the Board of several PETRONAS companies

GFR Further details about Hasnizaini Mohd Zain can be found on page 13.

KANG SHEW MENG
Company Secretary

Nationality: Malaysian

Age: 59

Gender: Male

DESCRIPTION OF ROLES:
> He is a Joint Company Secretary of PCG since 2010 and acts as an advisor to the Board particularly with regard to compliance to the regulatory requirements.

ACADEMIC/PROFESSIONAL QUALIFICATIONS:
> Fellow of the Institute of Chartered Secretaries and Administrators
> Master in Law (International Business Law) from Staffordshire University
> Diploma in Commerce (Business Management)

Additional Information of the Board of Directors:

- Family Relationship: Save as disclosed, none of the Directors has any family relationship with any Director and/or major shareholder of PCG.
- Conflict of Interests Save as disclosed, none of the Directors has any conflict of interests with PCG.
- Conviction for Offences: None of the Directors has any conviction for offences, other than traffic offences, if any, for
- the past 5 years.
- Public Sanction or Penalty: None of the Directors has any sanction or penalty imposed on them by any regulatory bodies during the financial year ended 31 December 2019.

MANAGEMENT
COMMITTEE PROFILE

DATUK SAZALI HAMZAH
Managing Director/Chief Executive Officer

Nationality: Malaysian

Age: 53

Gender: Male

DESCRIPTION OF ROLES:

> Responsible for the overall operational, commercial, financial and sustainable management of PCG and its subsidiaries
> Sits on the Board of PCG and several PETRONAS companies

EXPERIENCE MATRIX:

1990

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

2003

> Selected as a member of PETRONAS Corporate Strategic Study and Implementation, and led a change programme to enhance plant performance and operational excellence

2010

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

2012

> Appointed as MD/CEO of PETRONAS Penapisan (Melaka) Sdn Bhd

2014

> Appointed as President/CEO of PCG
> A member of PETRONAS Downstream Executive Leadership Team

2015

> Appointed as Result Manager for the Technology Workstream of PETRONAS' Project CACTUS

2016

> Appointed as PETRONAS Vice President and remains as MD/CEO of PCG

QUALIFICATIONS:

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

Datuk Sazali has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

MANAGEMENT COMMITTEE PROFILE

RASHIDAH ALIAS
Chief Financial Officer

Nationality: Malaysian

Age: 47

Gender: Female

DESCRIPTION OF ROLES:

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

EXPERIENCE MATRIX:

> 1994 Joined Arthur Andersen in Audit & Advisory
> 1998 Joined PETRONAS and held various positions in corporate planning, accounting and shared services; and managed specialised assignments involving initial public offerings, corporate bond issuance, corporate strategy implementation and groupwide process transformation
> 2010 Appointed as Senior General Manager, Finance & Accounts Services
> 2013 Appointed as Senior General Manager, Group Treasury
> 2016 Appointed as Chief Financial Officer of PCG

QUALIFICATIONS:

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

Rashidah has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. She has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

MAHADZIR RANI
Chief Manufacturing Officer

Nationality: Malaysian

Age: 52

Gender: Male

DESCRIPTION OF ROLES:

> Responsible for PCG's overall operational excellence
> Sits on the Board of several PETRONAS companies

EXPERIENCE MATRIX:

> 1991 Joined PETRONAS Penapisan (Terengganu) Sdn Bhd and held various positions including Executive (Instrument) and Executive (System & Control)
> 1997 Joined Aromatics Malaysia Sdn Bhd as a Senior Project Engineer
> 2000 Returned to PETRONAS Penapisan (Terengganu) Sdn Bhd as Manager (Instrument Engineering), later assuming managerial roles in maintenance and HSE
> 2009 Appointed as Senior Manager of MTBE Assets at MTBE/Polypropylene (M) Sdn Bhd
> 2011 Appointed as Head of Plant at PETRONAS Chemicals Fertiliser Kedah Sdn Bhd
> 2014 Appointed as Head of Plant at PETRONAS Chemicals Methanol Sdn Bhd
> 2017 Appointed as Head of Manufacturing, PCG

QUALIFICATION:

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

Mahadzir has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

SHAMSAIRI MOHD IBRAHIM
Chief Commercial Officer

Nationality: Malaysian

Age: 53

Gender: Male

DESCRIPTION OF ROLES:

> Responsible for PCG's overall commercial excellence. He is the CEO of PETRONAS Chemicals Marketing Sdn Bhd and PETRONAS Chemicals Marketing (Labuan) Ltd
> Sits on the Board of several PETRONAS companies
> PETRONAS Skill Group Advisor for Marketing and Trading

EXPERIENCE MATRIX:

> 1991 Joined Malaysia LNG Sdn Bhd as a Marketing Executive
> 1999 Joined Malaysian International Trading Corporation (Japan) Sdn Bhd and held various positions including Marketing Executive, Materials and Supply Executive, and Manager of Japan Operations Centre
> 2004 Returned to Malaysia LNG Sdn Bhd and held various managerial roles including Manager of Japan Operations – Sales & Marketing Department, and Senior Manager of Marketing & Trading Sector 2 (Korea and Taiwan)
> 2008 Joined OPTIMAL Group of Companies as Head of Business – Olefins and Derivatives Department
> 2011 Joined PCG as Head of Commercial – Olefins & Derivatives, later becoming Head of Marketing & Sales – Olefins & Derivatives
> 2017 Appointed as Head of Commercial, PCG

QUALIFICATIONS:

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

Shamsairi has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

AKBAR MD THAYOOB
Head of Strategic Planning & Ventures

Nationality: Malaysian

Age: 56

Gender: Male

DESCRIPTION OF ROLES:

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

EXPERIENCE MATRIX:

> 1987 Joined PETRONAS where he assumed various project engineering and corporate planning roles
> 1999 Seconded to Phu My Plastic & Chemicals Co Ltd, Vietnam as Deputy General Director; and appointed as the General Director/CEO in 2004
> 2008 Appointed as CEO of PETLIN (M) Sdn Bhd
> 2010 Appointed as Head of Office of the Executive Vice President, PETRONAS Downstream Business
> 2012 Appointed as Head of Retail Business, PETRONAS Dagangan Berhad
> 2014 Appointed as Head of Commercial at PCG
> 2017 Appointed as Head of Strategic Planning and Ventures, PCG

QUALIFICATIONS:

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

Akbar has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

MANAGEMENT COMMITTEE PROFILE

JAMILAH UJANG
Head of Human Resource Management

Nationality: Malaysian

Age: 46

Gender: Female

DESCRIPTION OF ROLES:

> Responsible for PCG's talent strategies, development and management, as well as human resource services

EXPERIENCE MATRIX:

- > 1997 Joined PETRONAS Gas Berhad as a Chemist
- > 2001 Joined Gas District Cooling (M) Sdn Bhd as a Quality Assurance Executive, and held various roles in manpower planning and capability development
- > 2005 Joined PETRONAS Carigali Sdn Bhd, and held managerial roles in talent development and talent sourcing
- > 2012 Appointed as Senior Manager (Capability – Petroleum Engineering & Drilling) and held various managerial roles in people management, leadership and employee performance management in PETRONAS Upstream Business
- > 2016 Returned to PETRONAS Carigali Sdn Bhd as HR Business Partner for Malaysia Asset Division
- > 2017 Appointed as HR Business Partner for Development & Production Division, PETRONAS Carigali
- > 2019 Appointed as HR Business Partner for Upstream Operation 1, PETRONAS Carigali
- > 2020 Appointed as Head of Human Resource Management, PCG

QUALIFICATION:

> Bachelor of Science (Hons) in Chemistry, Universiti Malaya

Jamilah has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. She has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

CH'NG GUAN HOW
Chief Innovation & Technology Officer

Nationality: Malaysian

Age: 50

Gender: Male

DESCRIPTION OF ROLES:

> Responsible for PCG's innovation excellence, research & development, technology venture and product stewardship functions towards delivery of innovative customer application solutions

EXPERIENCE MATRIX:

- > 1994 Joined Polyethylene Malaysia Sdn Bhd (PEMSB), and held various positions including Polymer Technologist, Technical Service Engineer, Compound Application Technologist and Export Sales Manager
- > 2002 Joined PETLIN (M) Sdn Bhd as Product Manager and Senior Commercial Manager
- > 2008 Appointed as Head of Strategy & Portfolio, Oil & Petrochemicals Business, Group Strategic Planning, PETRONAS
- > 2010 Appointed as Head of Strategic Planning & Brand, Office of VP Downstream Marketing, PETRONAS
- > 2013 Appointed as MD/CEO of PLI China and Head of Greater China Region (PLI Group Global Leadership Team) in PETRONAS Lubricants International Group
- > 2017 Appointed as Chief Innovation & Technology Officer of PCG

QUALIFICATIONS:

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

Ch'ng has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

HASNIZAINI MOHD ZAIN
Head of Legal and Corporate Secretariat

Nationality: Malaysian
Age: 45
Gender: Female

DESCRIPTION OF ROLES:

> Responsible for PCG's legal affairs and company secretarial services
> Sits on the Board of several PETRONAS companies

EXPERIENCE MATRIX:

> 2000 Joined Messrs. Badri Kuhan Yeoh & Ghani as an Advocate & Solicitor; then moved to Bank Islam as Deputy Manager, Industrial Relations
> 2006 Joined PETRONAS as a Legal Officer in Corporate Services & Technology
> 2010 Appointed as Legal Counsel, Corporate Services & Technology
> 2011 Appointed as Legal Counsel, Downstream Marketing & Special Project
> 2013 Appointed as Senior Legal Counsel, Refining & Trading
> 2014 Appointed as Head of Legal & Corporate Secretariat for PETRONAS Dagangan Berhad
> 2018 Appointed as Head of Legal & Corporate Secretariat, PCG

QUALIFICATIONS:

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

Hasnizaini has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. She has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

NORFAILA HASSAN
Head of Corporate Affairs & Administration

Nationality: Malaysian
Age: 47
Gender: Female

DESCRIPTION OF ROLES:

> Responsible for planning, development and implementation of all PCG's corporate and product branding, stakeholder and media management, communication and reputation management

EXPERIENCE MATRIX:

> 1997 Joined Leo Burnett Advertising as an Executive Client Servicing for various industries ranging from FMCG, automotive to retail, etc including PETRONAS
> 2000 Joined PETRONAS Dagangan Berhad and held various positions in advertising and promotion unit and e-business project implementation
> 2006 Appointed as Head of Brand Communication at PETRONAS and held various managerial positions in the areas of Brand Strategy, Brand Performance and Brand Management for the Downstream Marketing operating units
> 2015 Appointed as Head of Group Strategic Communications for PETRONAS Lubricants International Group
> 2016 Returned to PETRONAS as Head of Brand Management, Downstream Business
> 2020 Appointed as Head of Corporate Affairs & Administration, PCG

QUALIFICATION:

> Bachelor of Mass Communication (Hons) majoring in Advertising, Institut Teknologi MARA

Norfaila has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. She has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

MANAGEMENT COMMITTEE PROFILE

MOHD ZAKIR JAAFAR
Head of Project Directorate

Nationality: Malaysian

Age: 49

Gender: Male

DESCRIPTION OF ROLES:

> Responsible for the delivery and execution of PCG's key projects

EXPERIENCE MATRIX:

- > 1993 Joined PETRONAS Methanol (Labuan) Sdn Bhd as Shift Superintendent
- > 2000 Appointed as Project Engineer in the Second Ethylene Cracker Project
- > 2003 Joined the OPTIMAL Group of Companies and held various positions including EOG Utilities Specialist and Improvement Leader
- > 2006 Returned to PETRONAS Methanol (Labuan) Sdn Bhd and held various managerial roles including Head of Project Management and Senior Manager of Technical Services
- > 2009 Appointed as Head of SAMUR Project, PCG
- > 2012 Appointed as Head of Project Management, PETRONAS Chemicals Fertiliser Sabah Sdn Bhd
- > 2014 Appointed as Head of Project Services at the Project Directorate department and later assumed the position of Head of Front-End Engineering
- > 2019 Appointed as Head of Project Directorate, PCG

QUALIFICATION:

> Bachelor of Chemical & Bio Process Engineering, University of Bath, UK

Mohd Zakir has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

FAUZAMSAARI GERAN
Head of Health, Safety & Environment

Nationality: Malaysian

Age: 47

Gender: Male

DESCRIPTION OF ROLES:

> Responsible for PCG's overall HSE performance, process safety and sustainable development

EXPERIENCE MATRIX:

- > 1995 Joined MTBE/Polypropylene (M) Sdn Bhd and held various positions including Executive (Mechanical) and Executive (Rotating)
- > 2005 Joined ASEAN Bintulu Fertilizer Sdn Bhd and held various managerial roles including Manager (Mechanical), Senior Manager (Engineering), and Senior Manager (Maintenance)
- > 2014 Appointed as Senior Manager (Technical Services) at PETRONAS Chemicals Ammonia Sdn Bhd
- > 2020 Appointed as Head of Health, Safety & Environment, PCG

QUALIFICATION:

> Bachelor of Science in Mechanical Engineering, University of Oklahoma, USA

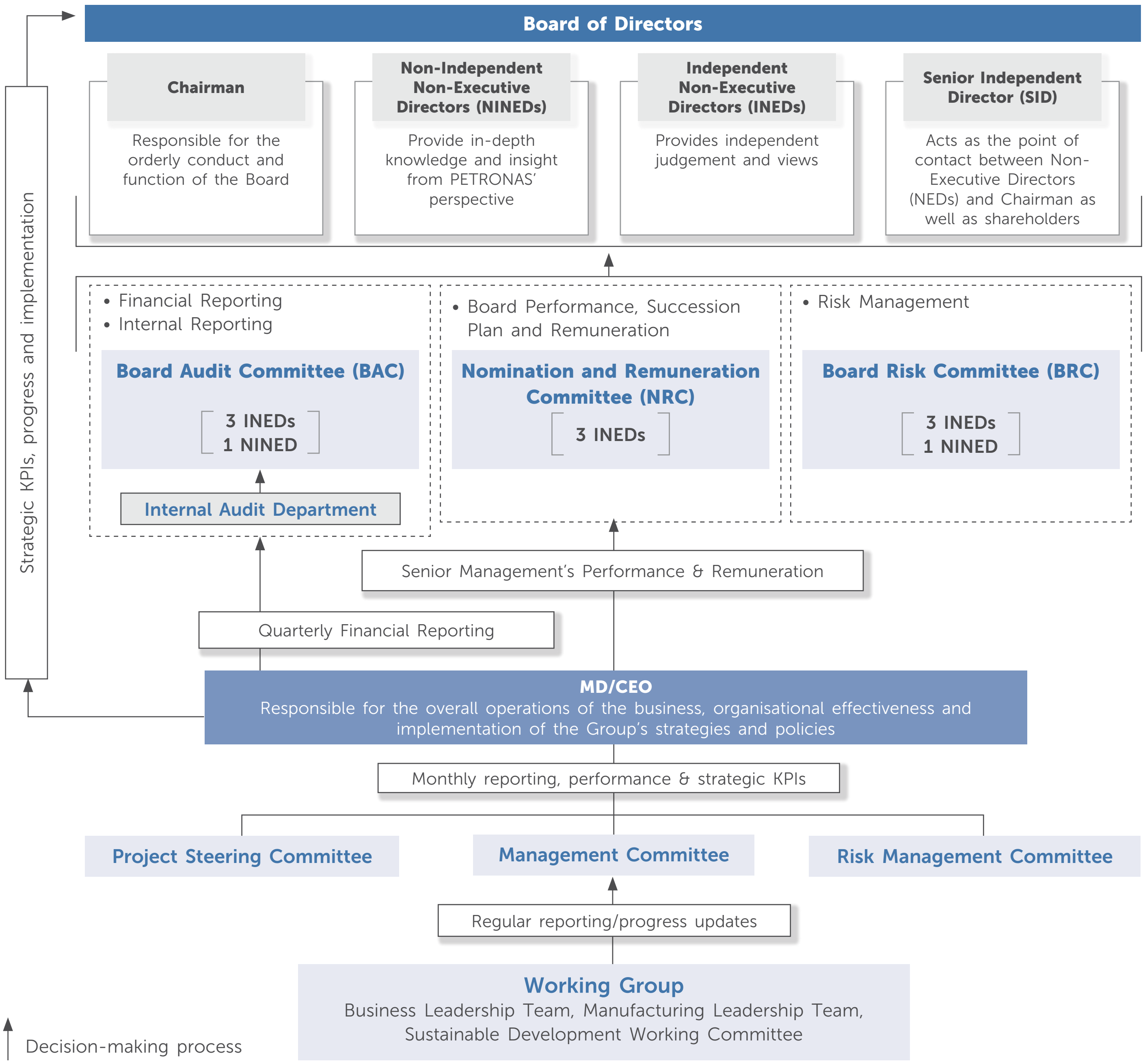
Fauzamsaari has no family relationship with any director and/or major shareholder of PCG, nor any conflict of interest with the Group. He has not been convicted for any offence within the past five years, other than traffic offences, if any, nor had any public sanctions or penalty imposed by any regulatory body during the financial year.

CORPORATE GOVERNANCE
OVERVIEW STATEMENT

We are committed to continue doing things the right way and strengthen our governance processes to ensure that we are aligned with best practices and that our approach to disclosure remains timely and transparent. In view thereof, we are pleased to present our application of the principles and recommendations of the MCCG 2017, throughout this Corporate Governance Overview Statement (CG Statement). This CG Statement shall be read together with the Corporate Governance Report published in the Company's website at www.petronaschemicals.com. Testimony of our commitment in ensuring transparency and accountability is proven when we were recognised with the following awards for governance during the year under review:

Date	Event	Award
30 November 2019	2018 National Annual Corporate Report Awards (NACRA)	• Integrated Reporting Award (Gold) • Industry Excellence Award for Companies listed on the mainboard for Industrial Products and Services (Gold)
31 July 2019	MSWG-Asean Corporate Governance Awards 2018	Top 3 Industry Excellence Award for Industrial Products and Services Award

Our Governance Structure



HOW THE BOARD OPERATES

The Board Charter

In discharging the Board's duties and responsibilities effectively, the Board is guided by its Board Charter, a document which sets out the principles and guidelines that are to be applied by the Board. The delegation of authority as set out in the Board Charter is clear and ensures that the line of authority is in line with the legal and regulatory requirements.

The Board Charter will be reviewed and updated from time to time to reflect relevant changes to the policies, procedures and processes as well as amendments to rules and regulations to ensure the document remains relevant and consistent with the applicable rules and regulations and recommended best practices.

The Board Charter is available on the Company's corporate website, www.petronaschemicals.com together with the Terms of References (TOR) of all Board Committees.

The Board's Responsibilities and Duties

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

In discharging its functions, the main roles and responsibilities of the Board are as follows:

- To review, approve and monitor the annual corporate plan, which includes overall corporate strategy, marketing plan, human resources plan, financial plan and budget, risk management plan and information technology plan;
- To ensure that appropriate policies are in place, adopted effectively and are regularly reviewed in light of changing circumstances;
- To review and approve financial statements.
- To review and manage principal risks and adequacy of PCG's internal control systems including systems for compliance with applicable laws, regulations, rules and guidelines;
- To ensure that there is an appropriate succession plan for members of the Board and the Senior Management; and
- To be accountable to its shareholders, and to some extent, accountability towards a wider range of stakeholders affected by PCG's decisions such as employees, suppliers, customers, the local community and the state/country where PCG is operating.

The above roles and responsibilities are clearly set out in the Board Charter.

Board Balance and Composition

The Board comprises eight Directors as at the date of this report, one of whom is an Executive Director and seven are Non-Executive Directors (NEDs). 25% of the Directors are women. All Board members are persons of high integrity and calibre with diverse professional backgrounds, sound knowledge and understanding of the Company's business. The Board has determined that four of the Non-Executive Directors (NEDs) are independent, in line with the requirements of Paragraph 15.02 of the MMLR of Bursa Malaysia. At the same time, the Board strives to adopt Practice 4.1 of MCCG 2017 in ensuring that majority of its composition comprises Independent Directors. The Board is also of the view that all INEDs exercise independent judgement at all times.

BOARD OF DIRECTORS

NINEDs
- Datuk Md Arif Mahmood
- Noor Ilias Mohd Idris
- Freida Amat

Executive Director
- Datuk Sazali Hamzah

INEDs
- Datuk Toh Ah Wah (SID)
- Warren William Wilder
- Dr Zafar Abdulmajid Momin
- Yeoh Siew Ming

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

Board Skills and Diversity

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

Skills

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

Length of Service

0 to 2 YEARS	4 to 7 YEARS
4 Directors	4 Directors

During the year, the Board saw changes to its composition with the retirement of Ching Yew Chye, Vimala V.R. Menon and resignation of Zakaria Kasah as Directors. The newly appointed Directors, Yeoh Siew Ming and Noor Ilias Mohd Idris were appointed as INED and NINED respectively in May 2019. Their retirement/ resignation and appointments were announced to Bursa Malaysia accordingly.

In considering new appointments to the Board, the Board through the NRC, takes into account corporate leadership skills, experience and expertise required to advance the strategic direction of the Company. The NRC ensures that the Board has the right balance of skills, experience, independence and business knowledge necessary to discharge its responsibilities in keeping with the highest standards of governance while providing meaningful contributions to the business of the Company.

Directors are required to notify the Chairman before accepting any new directorships and to indicate the time expected to be spent on their new appointment. In any given circumstances, in accordance with Bursa Malaysia's MMLR, Directors are expected to serve in not more than 5 listed issuers. In addition, all of the Directors of PCG have not appointed any alternates.

Separate roles of Chairman and MD/CEO

The positions of Chairman and MD/CEO are held separately by Datuk Md Arif Mahmood and Datuk Sazali Hamzah, respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the MD/CEO's responsibility to manage the Company's business. The role of the Chairman includes:

- Ensures appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the Board as a whole. In this regard the Chairman acts as the main representative of the Company alongside the MD/CEO at shareholders' meetings and on other occasions where key or major actions are taken or statements are made in the name of the Company.
- Leads in the creation of an effective corporate governance system, including the establishment of Board Committee structures and their terms of reference (TOR).
- Ensures appropriate procedures are in place to govern the Board's operation, decisions are taken on a sound and well-informed basis including discussions on all strategic and critical issues, dissenting views can be freely expressed and discussed and leads efforts to address the Board's developmental needs.

Separation in the role of the Chairman and the MD/CEO is imperative as both roles have different expectations and serve distinct primary audiences.

The respective roles and responsibilities of the Chairman and MD/CEO can be viewed under the Board Charter in the Company's corporate website, www.petronaschemicals.com.

Senior Independent Director

The SID acts as a point of contact between the INEDs and the Chairman on sensitive issues and is available for confidential discussion with other NEDs who may have concerns which they believe have not been considered by the Board as a whole. He has also been identified as a designated contact to whom shareholders' concerns or queries may be raised, as an alternative to the formal channel of communication with shareholders.

Pursuant to the retirement of Ms Vimala V.R Menon as an Independent Director as well as the SID of PCG, upon recommendation by the NRC, the Board has appointed Datuk Toh Ah Wah as the new SID. The appointment is in line with the best practice recommended by the ASEAN CG Scorecard, which is used as a benchmark by the Company in its effort to maintain the highest standards of good governance. Based on his experience with the Board and seniority amongst the INEDs, Datuk Toh Ah Wah satisfies the prescribed criteria, and is the most appropriate candidate for the role of SID. His familiarity with the operations throughout the years and on the workings of the Board as well as his involvement with NRC and BAC have also provided him with in-depth experience on the respective member's individual roles and forte. Datuk Toh Ah Wah also has significant influence within the Board and was able to deliver his role as a SID of PCG.

Separation of Powers between the Board and Management

The MD/CEO is assisted by the Management Committee, Project Steering Committee and Risk Management Committee in managing the business on a day-to-day basis, which he consults regularly.

The Management Committee ensures that effective systems, controls and resources are in place to execute business strategies and decisions taken by the Board and/or the MD/CEO. These committees report the performance and strategic KPIs on monthly basis to the MD/CEO, whilst progress and updates are reported regularly by the working group within the business units.

Board Diversity

We believe that a truly diverse and inclusive Board will leverage differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and gender, in order to ensure that the Company retains its competitive advantage. The Board also supports the country's aspirational target of 30% representation of women directors. To-date, there are 13 women serving as directors on the board of the PCG Group of companies. Several prominent and suitable qualified women have also been identified and included in the directors' pool for possible nomination as part of the succession plan for PCG directors. In this regard, the NRC is empowered to review and evaluate the composition and performance of the Board annually, as well as assessing qualified candidates to occupy Board positions.

The Board continues to focus on diversity when assessing new candidates for Board memberships. In its effort to create and maintain a diverse Board, the Board would:

(a) Review succession plans to ensure an appropriate focus on diversity;

(b) Identify specific factors for consideration in the recruitment and selection process;

(c) Adhere to the recruitment and sourcing process that seeks to include diverse candidates, including women in any director search.

(d) Assess the appropriate mix of diversity including gender, age, skills, experience and expertise required on the Board and address gaps, if any.

A copy of the Board Diversity Policy is available at the Company's corporate website, www.petronaschemicals.com.

Independence

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

(a) independent from Management and free from any business or other relationship which could interfere with independent judgement or the ability to act in the best interests of the Company.

(b) not involved in the day-to-day operations of the Company other than when collective Board approval is required. This mitigates the risk of undue influence from third parties and allows INEDs to exercise fair judgement.

(c) declare their interest or any possible conflict of interest in any matter tabled prior to the commencement of Board meetings. Directors are able to ascertain their involvement in any proposal as the papers are disseminated to them at least five days before each meeting. In a situation where there is conflict of interest, Directors are required to recuse themselves and abstain from deliberation to allow unbiased and free discussion and decision making.

In line with the exemplary practice as recommended by the MCCG 2017, the Company has adopted a tenure policy whereby an INED's total tenure on the Board is capped at nine years.

Board Appointment Process

The Company maintains a formal and transparent procedure for the appointment of new directors. Nomination of NINEDs is made by PETRONAS, being the majority shareholder of the Company. Search for potential INEDs may also be made through engagement of a professional recruitment firm or recommendations from existing Board members in identifying suitable qualified candidates to fill the vacant positions. In its selection of suitable candidates, the NRC adheres to the guidelines stipulated in the Board Succession Framework and Board Selection Criteria. All potential candidates are first considered by the NRC, taking into account mix of skills, competencies, experience, integrity, personal attributes and time commitment required to effectively discharge his or her role as a director. Diversity in terms of age and gender are also considered during the selection process.

PROCESS FLOW FOR APPOINTMENT OF A DIRECTOR

1. Circumstances giving rise to the appointment of Directors
2. The NRC deliberates selection criteria combining competencies and attributes required
3. Search for candidates
4. Assess and shortlist the potential candidates in consultation with the NRC
5. Interview shortlisted candidates/consultation with chairman of the Board
6. Deliberation by the NRC on the suitability of the candidate
7. PCG Board's Approval
8. Onboarding Programme
9. Continuous training and annual performance assessment

Directors' Re-election and Re-appointment

In accordance with the MMLR and Article 107 of the Company's Constitution, one-third of the Directors of the Company for the time being shall retire by rotation at an AGM of the Company provided always that all Directors, shall retire from office at least once in every three years but shall be eligible for re-election at the AGM. A Director retiring at the AGM shall retain office until the close of the meeting whether adjourned or not. Whilst according to Article 100 of the Company's Constitution and the CA 2016, Directors appointed to fill a casual vacancy or as an addition to the Board of Directors shall hold office only until the conclusion of the next AGM and shall be eligible for re-election.

Taking into consideration the relevant requirements, the Directors' rotation list was presented to the NRC for endorsement prior to recommendation to the Board and the affected Directors are required to give their consent on their re-election prior to PCG's Board meeting.

Board Meetings and Attendance

The Board is of the opinion that the provision of the CA 2016 and MMLR are sufficient to ensure adequate commitment by the Directors to perform their duties; and that each Director is able to commit sufficient time to the Company without it being formally regulated. The Directors' commitment in discharging their duties and responsibilities is reflected by their attendance at the Board and Board Committees' meetings held during the year under review. The Board is satisfied with the level of commitment given by the Directors toward fulfilling their roles and responsibilities. A high level of flexibility has been demonstrated with Board members able to accommodate the Company according to its needs. The Board also agreed for the Directors to notify the Company Secretary of their directorships in other companies for disclosure to the Board at Board meetings.

The Board schedules its meetings at least quarterly. Additional meetings are held to discuss specific issues that require deliberation in between the scheduled meetings. The meetings of the Board and its Committees for the financial year 2019 were pre-scheduled in November 2018 to facilitate the Directors in planning ahead and incorporate the meeting dates into their respective schedules. It also served to provide the members with ample notice of the meetings. The Board has a formal schedule of matters reserved at Board meetings which includes corporate plans and strategies, annual budgets, operational and financial performance reviews, major investments and financial decisions, the Senior Management's performance assessment, changes to the Management and control structure within the Group, including key policies and procedures and limits of authority. The agenda of Board meetings is drawn up upon consultation between the Chairman, MD/CEO and the Company Secretary.

A total of seven Board meetings were held during the year. Aside from Board meetings, urgent matters were also decided via 11 Directors' Circular Resolutions. In discharging their responsibilities, during each Board and Board Committees meeting, the INEDs were inquisitive in the quest for better understanding of items being discussed, vocal during discussions and judicious in the decision-making process. They were impartial in their views, with the Company's and stakeholders' best interests at the forefront of every major decision. Although the minimum quorum for Board meeting is three, Board meetings are mostly attended by all Directors. While the decision of the Board and Board Committees only require a majority of votes of the directors, all decisions made are on consensus basis. In the case of a tied vote, the Chairman has a second or casting vote (if applicable). During the year under review, the Chairman did not need to use his casting vote to pass any resolution. Resolutions in writing signed by all of the Directors shall be valid and effectual as if it had been passed at a Board meeting. During the year under review, all Circular Resolutions are signed by all Directors.

The respective Chairmen of the NRC, BAC and BRC also update the Board on the proceedings of their respective Committee meetings. All proceedings of Board meetings are duly recorded in the minutes of meeting and the signed minutes of each Board meeting are properly kept by the Company Secretary. The minutes of each Board meeting are circulated in a timely manner to all Directors for their perusal prior to the minutes being tabled for confirmation at the next Board meeting. The Directors may request for clarification or raise comments on the minutes prior to their confirmation.

All Directors complied with the minimum attendance requirement of at least 50% of Board meetings held during the financial year 2019 pursuant to the MMLR.

Directors must immediately declare if they have any interest in transactions that are to be entered into directly or indirectly with the Company. They must disclose the extent and nature of their interest at a Board meeting or as soon as practicable after they become aware of the conflict of interest. They must abstain from participating in the deliberation and Board decision on the matter as he/she is an interested party.

Relevant members of the Senior Management and external advisers may be invited to attend Board meetings to report and advise the Board on matters pertinent to their respective areas of responsibility. In the event a Director is unable to attend a meeting, his/her views are sought in advance and put to the meeting to facilitate a comprehensive discussion. Each Director therefore makes himself/herself available to fellow Directors and may contribute to all major decisions that the Board has to make.

Board meetings are convened immediately following the finalisation of the Company's quarterly and annual results for the Board to review and approve prior to announcements to Bursa Malaysia.

Details of attendance of each Director on the Board, Board Committees and 21st Annual General Meeting for the financial year ended 31 December 2019 are as follows:

Name of Directors	Meeting Attended/Held				
	Board	BAC	NRC	BRC	AGM
Non-Independent Non-Executive					
Datuk Md Arif Mahmood	7/7	–		–	1/1
Executive Director					
Datuk Sazali Hamzah	7/7	–		–	1/1
Independent Non-Executive Directors					
Datuk Toh Ah Wah	7/7	4/4	4/4	–	1/1
Yeoh Siew Ming (appointed on 15 May 2019)	3/3	3/3	1/1	3/3	N/A
Warren William Wilder	7/7	–	–	3/3	1/1
Dr Zafar Abdulmajid Momin	7/7	3/3	2/2	3/3	1/1
Non-Independent Non-Executive Directors					
Noor Ilias Mohd Idris (appointed on 15 May 2019)	3/3	–	–	3/3	N/A
Freida Amat	7/7	4/4	–	–	1/1
Director who has retired/resigned since the last report					
Ching Yew Chye (retired on 29 April 2019)	1/3	0/1	2/2	–	1/1
Zakaria Kasah (resigned on 15 May 2019)	2/4	–	–	–	1/1
Vimala V.R. Menon (retired on 13 August 2019)	5/6	3/3	3/3	2/2	1/1

- The meeting attendance is calculated based on the attendance from the date of appointment to the date of resignation/retirement.
- Yeoh Siew Ming and Noor Ilias Mohd Idris were appointed as Directors on 15 May 2019

Board Committees

As part of its efforts to ensure the effective discharge of its duties, the Board has delegated certain functions to certain Committees with their own Terms of Reference. On 25 February 2019, the Board approved the formation of the Board Risk Committee (BRC), in line with the MCCG 2017 Step Up Practice 9.3.

Pursuant to the establishment of the BRC, the BAC's functions on risk management were undertaken by the BRC.

GFR *The Chairman of all the Committees will report to the Board on the decision or outcome of the Committee meetings. The reports of the NRC, BAC and BRC are set out on pages 27-39 of this CG Statement.*

Board Strategic Conversation

The Board Strategic Conversation with the Management Committee of PCG was held from 22-23 October 2019 to provide the Board with updates on market outlook and external environment analysis that facilitated the Board's deliberation on the Group's strategies and future growth plans.

Supply and Access to Information

Prior to each Board meeting, the agenda and a set of Board papers encompassing qualitative and quantitative information relevant to the business of the meeting are circulated to all Directors five business days prior to the meeting dates. This enables the Directors to have sufficient time to peruse the Board papers and seek clarification or further details from the Management or the Company Secretary before each meeting to ensure preparedness and Board Committee for the meeting.

Any Director may request any matters to be included in the agenda. Urgent papers may be presented and tabled at a meeting under the item "Any Other Business", upon endorsement by the MD/CEO and approval by the Chairman. The contents of the Board papers prepared are comprehensive and include objectives, background, critical issues, implications, risks assessment and mitigations, strategic fit, recommendations and other pertinent information to enable informed decision-making by the Board. The quality of information given to the Board is important as it leads to good decision-making. Presentations and briefings by the Management and relevant external advisors, where applicable, were also held at Board meetings to advise the Board. In this regard, relevant information was furnished and clarification was given to assist the Board in making a decision.

The Directors can access the Board papers online through a secured collaborative software and collaborate with other Board members and the Company Secretary electronically. This software eases the process of distribution of meeting papers and minimises leakage of sensitive information. The online accessibility facilitates the Directors to read and review documents or communicate with other Board members at any time. The Directors have direct access to the Management and have unrestricted access to any information relating to the Group to enable them to discharge their duties. The Directors also have direct access to the advice and services of the Company Secretary and are regularly updated on new statutory and regulatory requirements relating to the duties and responsibilities of the Directors. The Directors, whether as a full Board or in their individual capacity, may seek independent professional advice at the Company's expense in furtherance of their duties.

THE BOARD'S 2019 ACTIVITIES & PRIORITIES

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

OVERVIEW OF VARIOUS AGENDA ITEMS ON THE BOARD AND BOARD COMMITTEES MEETINGS 2019

F Financial
S Strategy
R Risk
C Corporate Governance and Compliance

Board
Board Audit Committee
Nomination and Remuneration Committee
Board Risk Committee

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dis

Jan

- Update on PCG Project
- Regulatory Update on Tax Legislation
- FY2019 Performance Planning and KPIs for MD/CEO and his direct reports
- Directors' Training

Feb

- Q4 2018 Business Performance and Audited Financial Statements
- Second Interim Dividend for FY2018
- Adoption of PETRONAS' Framework on External Auditors
- Funding Strategy for Project
- Q4 2018 Corporate Risk Profile Monitoring Update
- Update/Approval on Various PCG Projects
- FY2018 Annual (Integrated) Report Statements

- Establishment of BRC
- Adoption of a new Constitution
- Board Effectiveness Evaluation FY2018
- The convening of the Company's 21st AGM
- Directors' shareholding, directorship and movement in substantial shareholding
- Litigation/Arbitration Report

Mar

- Approval on PCG Project
- Proposed Manpower Tariff for MD/CEO

Apr

- Update on PCG Project(s)
- Power of Attorney for Registration of Trademark

May

- Q1 2019 Business Performance and Quarterly Report
- Q1 2019 Corporate Risk Profile & Risk Appetite Monitoring Update
- Update/Approval on various PCG Projects/ Agreements/RRPTs
- FY2019 Performance Review and KPIs for MD/ CEO and his direct reports
- Revision to Policies and Procedures for RPT and Conflict of Interest Situation
- Revision to BAC TOR
- Directors' shareholding, directorship and movement in substantial shareholding

Aug

- Q2 2019 Business Performance and Quarterly Report
- Interim Dividend FYE 31 December 2019
- Q2 2019 Corporate Risk Profile & Risk Appetite Monitoring Update
- Update/Approval on various PCG Projects/Agreements/RRPTs
- Provision of Indemnity & Directors Liability Insurance
- Change in composition of Board Committees
- Directors' shareholding, directorship and movement in substantial shareholding
- Litigation/Arbitration Report

Oct

- Update on various PCG Projects
- Board Strategic Conversation

Nov

- Q3 2019 Business Performance and Quarterly Report
- PCG Group Plans & Budget FY2020-2024 Funding strategy for Project
- Q3 2019 Corporate Risk Profile & Risk Appetite Monitoring Update
- Corporate Risk Profile FY2020
- New Risk Policy
- Update/Approval on various PCG Projects/ Agreements/RRPTs
- Update on Board/CEO/Management Succession Planning
- Annual Board Effectiveness Evaluation: Questionnaires
- Directors' shareholding, directorship and movement in substantial shareholding

2200 Minutes	**= +-37 Hours**
1010 Minutes	**= +-17 Hours**
465 Minutes	**= +-8 Hours**
285 Minutes	**= +-5 Hours**

Directors' Indemnity

PCG continues to provide and maintain indemnification for its Directors throughout the financial year as allowed under the CA 2016 to the extent it is insurable under the Directors' and Officers' Liability Insurance (D&O) procured by the Company. Directors and Officers are indemnified against any liability incurred by them in discharging their duties while holding office as Directors and Officers of the Company.

All Directors may opt to obtain D&O insurance to provide insurance protection (to the extent it is insurable) against unindemnified liabilities by the Company. The premium to be paid by all Directors is determined by the insurance company.

Succession Plan

The Board has a Board Succession Plan Framework to assist them in particular, the NRC, in ensuring the orderly identification and selection of new Non-Executive Directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, an unanticipated departure, the expansion of the size of the Board, or otherwise. Such structured succession plan addresses the composition and effectiveness of the Board. In addition to the succession plan for Directors, the NRC also reviewed the succession plan for the Senior Management of the Company.

Onboarding and Continuing Development Programme for Directors

All new Directors appointed to the Board receive a comprehensive onboarding programme, conducted by members of the Management Committee covering key areas of the business, an overview of the Group's financial risk management processes, the internal audit function, innovation and technology, and the corporate governance framework within the Group. Directors were also updated on ongoing and potential projects undertaken by the Group. This programme helps the new Directors to familiarise themselves with the Group's businesses. During the year, PCG conducted the onboarding programme for its two newly appointed Directors, Yeoh Siew Ming and Noor Ilias Mohd Idris in July 2019. The two newly appointed Directors have also attended the Mandatory Accreditation Programme as required under the MMLR of Bursa Malaysia.

In line with Paragraph 15.08 of the MMLR, the Directors acknowledged the importance and value of attending conferences, training programmes and seminars in order to keep themselves abreast with the development and changes in the industry in which the Group operates, as well as to update themselves on new statutory and regulatory requirements. During the year under review, the Directors 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. All members of the BAC have also fulfilled the requirement of practice 8.5 MCCG 2017 by attending the relevant accounting and auditing standards. In addition, the Directors also participated in plant visits at the BASF PETRONAS Chemicals Sdn Bhd and PETRONAS Chemicals MTBE Sdn Bhd in Gebeng, Kuantan in October 2019. The visits provided the Directors experiential learning and familiarisation on these two plants and project progress as well as being able to have a better understanding of the sites' performance and challenges. It also allowed better deliberation on strategies and execution of growth agenda for PCG's business.

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

No.	Director	Development Programme Attended	Date
1.	**Datuk Md Arif Mahmood**	• CeraWeek, Houston, Texas – Waves of Change: Charting the Energy Future	12 March 2019
		• PETRONAS Marketing Fast Forward Conference 2019	27 March 2019
		• 20th Asia Oil and Gas Conference (AOGC) 2019	23-25 June 2019
		• World Economic Forum (WEF) Malaysia Energy Roundtable: Shaping the Future of Malaysia's Energy Landscape	10 July 2019
		• World Economic Forum on Africa 2019, Cape Town	4-5 September 2019
		• Amazon Web Services Innovation Leaders Forum, Hanoi, Vietnam	25-26 September 2019
		• Special Guest at the Energy Markets Forum & Speaker on the New Silk Road CEO Winners Panel, Fujairah, UAE	1 October 2019
		• As a Speaker at 14th TCS Summit Asia Pacific 2019 Mastering Business 4.0TM: Harnessing Abundance and Ecosystems	30-31 October 2019
2.	**Datuk Sazali Hamzah**	• Marketing Fast Forward Conference 2019	27 March 2019
		• As a Speaker for Invitation to be Inspired 2019 Programme	17 April 2019
		• Panelist for Icon Talk: *"Graduan Pendidikan dan Latihan Teknik dan Vokasional (TVET): Cabaran Industri 4.0"*	25 April 2019
		• Speaker for Programme "My Personal Journey"	11 May 2019
		• 20th Asia Oil & Gas Conference (AOGC) 2019	23-25 June 2019
		• Top Leaders Dialogue 2019	5-6 August 2019
		• As a Speaker at Hazards Asia Pacific 2019 Symposium	24 September 2019
		• Plant Visit to BASF-PETRONAS Chemicals Sdn Bhd & PETRONAS Chemicals MTBE Sdn Bhd	22 October 2019
		• Top Leader Engagement Session with Puan Latheefa Koya, Chief Commissioner of the MACC: "Progressing Towards PETRONAS' Culture of Integrity	4 November 2019
		• Strategic Excellence (SE) Cohort 6 W1 – Sponsor for Strategic Business Project	11 November 2019 & 6 December 2019
3.	**Datuk Toh Ah Wah**	• Audit Committee Conference 2019 – Meeting The New Expectations	15 April 2019
		• 20th Asia Oil & Gas Conference (AOGC) 2019	23-25 June 2019
		• Demystifying the Diversity Conundrum: The Road to Business Excellence	5 July 2019
		• Integrated Reporting: Communicating Value Creation	16 October 2019
		• Plant Visit to BASF-PETRONAS Chemicals Sdn Bhd and PETRONAS Chemicals MTBE Sdn Bhd	22 October 2019
		• The Role of the Board in Risk Management of Legal Issues during M&A	5 September 2019
		• Corporate Governance & Anti-Corruption	31 October 2019
		• Audit Oversight Board Conversation with Audit Committees	8 November 2019
		• MFRS Updates for Public Listed Companies' Board Audit Committee Members	3 December 2019
4.	**Warren William Wilder**	• 20th Asia Oil & Gas Conference (AOGC) 2019 (As a Panel Speaker)	23-25 June 2019
		• Plant Visits to BASF-PETRONAS Chemicals Sdn Bhd and PETRONAS Chemicals MTBE Sdn Bhd	22 October 2019

No.	Director	Development Programme Attended	Date
5.	**Dr Zafar Abdulmajid Momin**	• PETRONAS Board Excellence: Best Practices	1 April 2019
		• 20th Asia Oil & Gas Conference (AOGC) 2019	23-25 June 2019
		• The Role of the Board in Risk Management of Legal Issues during M&A	5 September 2019
		• Plant Visits to BASF-PETRONAS Chemicals Sdn Bhd and PETRONAS Chemicals MTBE Sdn Bhd	22 October 2019
		• Updates on MFRS 9 and MFRS 15	14 November 2019
		• MFRS updates for Public Listed Companies' Board Audit Committee Members	3 December 2019
6.	**Yeoh Siew Ming**	• Independents Directors' Programme	27 June 2019
		• Mandatory Accreditation Programme	23-24 July 2019
		• Onboarding Programme for New Director	1 August 2019
		• 20th Asia Oil & Gas Conference (AOGC) 2019	23-25 June 2019
		• Cybersecurity for Audit Committee Members	26 June 2019
		• Panelist for a Forum Fighting Corruption – A New Era for Corporate Governance	18 July 2019
		• The Role of the Board in Risk Management	5 September 2019
		• Plant Visits to BASF-PETRONAS Chemicals Sdn Bhd and PETRONAS Chemicals MTBE Sdn Bhd	22 October 2019
		• Audit Oversight Board Conversation with Audit Committees	8 November 2019
		• Panelist for a forum Deloitte TaxMax	18 November 2019
		• MFRS updates for Public Listed Companies' Board Audit Committee Members	3 December 2019
7.	**Noor Ilias Mohd Idris**	• Mandatory Accredited Programme by ICLIF	23-24 July 2019
		• Onboarding Programme for New Director	1 August 2019
		• 20th Asia Oil & Gas Conference (AOGC) 2019	23-25 June 2019
		• Plant Visit to BASF-PETRONAS Chemicals Sdn Bhd and PETRONAS Chemicals MTBE Sdn Bhd	22 October 2019
		• Offshore Technology Conference (OTC) 2019	6-9 May 2019
		• Top Leaders Dialogue 2019	5-6 August 2019
		• Strategic Excellence (SE) Cohort 5 – Strategic Business Project	14 November 2019
		• International Project Management Conference (IPMC) 2020	30 November- 2 December 2020
		• Symposium Chair at SPE Decommissioning & Abandonment Symposium 2019	3-4 December 2019
8.	**Freida Amat**	• PETRONAS Board Excellence: Best Practices	1 April 2019
		• Audit Committee Conference 2019 – Meeting The New Expectations	15 April 2019
		• Cyber Security for Audit Committee Members	26 June 2019
		• PETRONAS Board Excellence: Effective Strategy for Stakeholders Management	8 July 2019
		• Top Leaders Dialogue 2019	5-6 August 2019
		• Tactical Excellence (TE) Cohort 25 – The Shark Tank Assessment	25 October 2019
		• MFRS Updates Training for CFOs (PETRONAS)	9 December 2019

Qualified and Competent Company Secretaries

The Company has two company secretaries who are qualified to act as company secretary in accordance with Section 235 of the CA 2016. The Secretaries of the Company are Hasnizaini Mohd Zain and Kang Shew Meng. Both act as advisors to the Board, particularly with regard to the Company's Constitution, policies and procedures and its compliance with regulatory requirements, codes, guideline and legislations.

The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented and subsequently communicated to the relevant Management for appropriate actions. The Company Secretaries constantly keep abreast with the evolving regulatory changes and developments in corporate governance through continuous training. During the year under review, Hasnizaini Mohd Zain attended the following trainings:

Name	Development Programme Attended	Date
Hasnizaini Mohd Zain	• Training on PETRONAS Corporate Privacy Policy, Master Guideline • Group Legal In-House Workshop on Negotiation • SSM National Conference 2019 • MCCG-Adoption of Practices For Meaningful Corporate Governance • Group Legal's In-House Workshop: Miscommunication at Work	15 February 2019 8-9 July 2019 23-24 July 2019 7 August 2019 30 September- 1 October 2019

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

Board Effectiveness Evaluation

The Board Effectiveness Evaluation (BEE) is to evaluate the performance of Board/Board Committees/Members of the Board as well as identifying any gaps or areas of improvement, where required. Every year, under the purview of the NRC, a formal evaluation is undertaken to assess the effectiveness of the following:

(a) The Board as a whole and the Board Committees

(b) Contribution of each individual Director

(c) Independence of Independent Directors

The BEE was conducted internally, focuses on maximising the effectiveness and performance of the Board and its Committees in the best interests of the Company. The Board will be engaging the services of an external consultant to perform the BEE exercise every five years beginning 2021.

Board Effectiveness Evaluation 2019

The Board, through the NRC reviewed the outcome of the 2019 BEE and noted that PCG continued to be led by an effective, committed and talented Board, helmed by a highly capable and progressive Chairman. The Board is committed to the highest standards of good governance and continues to be seen as an excellent Board with outstanding support from the Management. One of the key areas for improvement highlighted include the need for the Management to conduct frequent syndications with the Board to provide in-depth information particularly on key strategic issues prior to Board's deliberations.

Directors' Remuneration

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

The Board has established a formal and transparent Directors' Remuneration Framework which comprises retainer fees, meeting allowances and benefits in-kind. In compliance with Section 230(1) of the CA 2016, the resolution on the payment of the following Directors' fees from the 21st AGM until the conclusion of the next AGM will be tabled at the forthcoming AGM for shareholders' approval:

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

The Director's fees and meeting allowances for NINEDs who are also employees of PETRONAS are paid directly to PETRONAS. The fees and allowances for NEDs will remain until further review by the Board and are subject to the approval of the shareholders of PCG.

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

The breakdown of the detailed Directors' remuneration is disclosed in the Corporate Governance Report 2019, which is accessible to the public at PCG's corporate website, www.petronaschemicals.com.

Datuk Sazali Hamzah, the MD/CEO and Executive Director of the Company is not entitled to receive directors' fee or meeting allowances. He is an employee of PETRONAS, who is seconded to the Company. During the year, the Company pays PETRONAS the payroll costs and benefits of RM1,281,300 for his services.

Senior Management's Remuneration

The remuneration philosophy reflects the Group's commitment to be compliant with best practices in the areas of remuneration, retention and reward to ensure that the Group attracts and retains exceptional talent. The remuneration packages and incentives are regularly evaluated against market-related surveys.

PETRONAS Remuneration Philosophy and Guiding Principles

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

PAY FOR JOB & PERFORMANCE

COMPETITIVE WITHIN THE RELEVANT INDUSTRY

INTERNAL EQUITY

CONFORMANCE TO STATUTORY REQUIREMENTS

AFFORDABILITY OF THE COMPANY

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

NOMINATION AND REMUNERATION COMMITTEE REPORT

DATUK TOH AH WAH
Chairman

Members and their attendance

	Member	Attendance
1	**Datuk Toh Ah Wah** *Chairman, Independent Non-Executive Director*	No. of Meetings Attended: **4/4**
2	**Yeoh Siew Ming** *Independent Non-Executive Director* *(appointed as a member of NRC on 13 August 2019)*	No. of Meetings Attended: **1/1**
3	**Dr Zafar Abdulmajid Momin** *Independent Non-Executive Director*	No. of Meetings Attended: **2/2**
4	**Ching Yew Chye** *Independent Non-Executive Director* *(ceased as a member of NRC on 29 April 2019)*	No. of Meetings Attended: **2/2**
5	**Vimala V.R. Menon** *Independent Non-Executive Director* *(ceased as a member of NRC on 13 August 2019)*	No. of Meetings Attended: **3/3**

Terms of Reference

The Nomination and Remuneration Committee (NRC) is governed by its Terms of Reference (TOR), which are in line with the requirements of the MMLR and MCCG 2017. The TOR of the NRC are accessible to the public on PCG's corporate website at www.petronaschemicals.com.

Composition

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

The NRC was established to enhance the efficiency and transparency of the Company's governance process and to assist the Board in matters regarding, among others, the nomination and appointment of Directors and key management personnel. For practical purposes, PCG has opted to combine the nomination and remuneration committee into one committee. In carrying out its duties and responsibilities, the NRC has the following authority:

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

Role and Philosophy

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

NOMINATION AND REMUNERATION COMMITTEE REPORT

Meetings and Attendance

NRC convened four meetings during the financial year 2019. In addition, urgent decisions were approved via three NRC Circular Resolutions. The MD/CEO and the Head of Human Resource Management Division and any other persons deemed necessary by the NRC are invited to attend and be present for deliberations which require their input or advice. The Company Secretary acts as Secretary to the NRC.

The NRC meetings for the financial year 2019 were pre-scheduled in November 2018, to facilitate the members in planning ahead and incorporating the NRC meeting dates into their respective schedules. This also serves to provide the members with ample notice of the meetings. The agenda and a set of meeting papers encompassing information relevant to the business of the meeting were distributed to the NRC members via a secured collaborative software no less than five days from the date of each meeting. The online accessibility facilitates the NRC members to read and review documents or communicate with other NRC members at any time. The NRC's Circular Resolutions were also circulated via the secured collaborative software to the members of NRC for approval.

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

FUNCTIONS OF THE NRC AND RELATED ACTIVITIES IN 2019

Succession Plan and Appointment/Re-election of Directors

The NRC has the responsibility in ensuring appropriate succession planning of Directors and reviewing the Board's required mix of skills and experience, which includes review of the tenure of Independent Directors on the Board and proposals for retirement and/or re-election.

During the year under review, the NRC conducted the relevant process in assessing and nominating potential candidates to replace Vimala V.R Menon who was due for retirement in August 2019. A vigorous screening exercise was undertaken to ensure the candidate possessed the relevant qualification, skills and experience, particularly in accounting and finance to be considered for the position as BAC Chairman. Based on the NRC's recommendation, the Board approved the appointment of Yeoh Siew Ming as the new Independent Non-Executive Director on 15 May 2019. She was subsequently appointed as the BAC Chairman to replace Vimala V.R Menon in August 2019.

The composition of the NRC underwent changes in 2019 whereby, Ching Yew Chye, who did not seek for re-election at the 29th AGM held on 29 April 2019, retired as Director upon the conclusion of the meeting and ceased to be a member of Board Committees including NRC. Following thereto, Dr Zafar Abdulmajid Momin and Yeoh Siew Ming were appointed as members of the NRC on 30 April 2019 and 13 August 2019 respectively. While Vimala V.R. Menon who had attained her nine-year tenure, retired as Director on 13 August 2019 and ceased to be a member of the Board Committees on the same date.

Senior Management Succession Plan

The NRC is tasked with overseeing the development of a succession plan for the MD/CEO and Senior Management. During the year under review, NRC continued with its focus on the Senior Management positions of the Company and conducted all relevant reviews and assessment for the positions. The NRC is satisfied that there is sufficient talent pool as potential successors for PCG Senior Management and that for critical positions, external talents will be recruited if there are no suitable internal talents. The NRC also highlighted to the Board on the importance of an effective human capital planning and management which are vital in delivering the Company the best available talent for its future success.

Directors' Re-election and Re-appointment

Taking into consideration the relevant requirements, the Directors' rotation list was presented to the NRC for endorsement prior to recommendation to the Board and the affected Directors are required to give their consent on their re-election prior to PCG's Board meeting.

In line with Article 107 of the Constitution, Datuk Md Arif Mahmood and Datuk Toh Ah Wah are the Directors representing one-third and have been longest in office since their last election. They shall both retire at the forthcoming 22nd AGM of the Company. These Directors are recommended for re-election by the NRC and the Board and have given their consent for re-election at the AGM.

There were two new appointments during the year under review namely Yeoh Siew Ming and Noor Ilias Mohd Idris, both of whom shall retire and shall be considered for re-election pursuant to Article 100 of the Company's Constitution, at the forthcoming 22nd AGM. These Directors are recommended for re-election by the NRC and the Board and have given their consent for re-election at the AGM.

Company and MD/CEO and Senior Management Performance Appraisal

During the year under review, the NRC deliberated on the MD/CEO and the following Senior Management's 2019 scorecard and their performance against the set targets:

- Chief Financial Officer;
- Chief Manufacturing Officer;
- Chief Commercial Officer; and
- Head, Strategic Planning & Ventures.

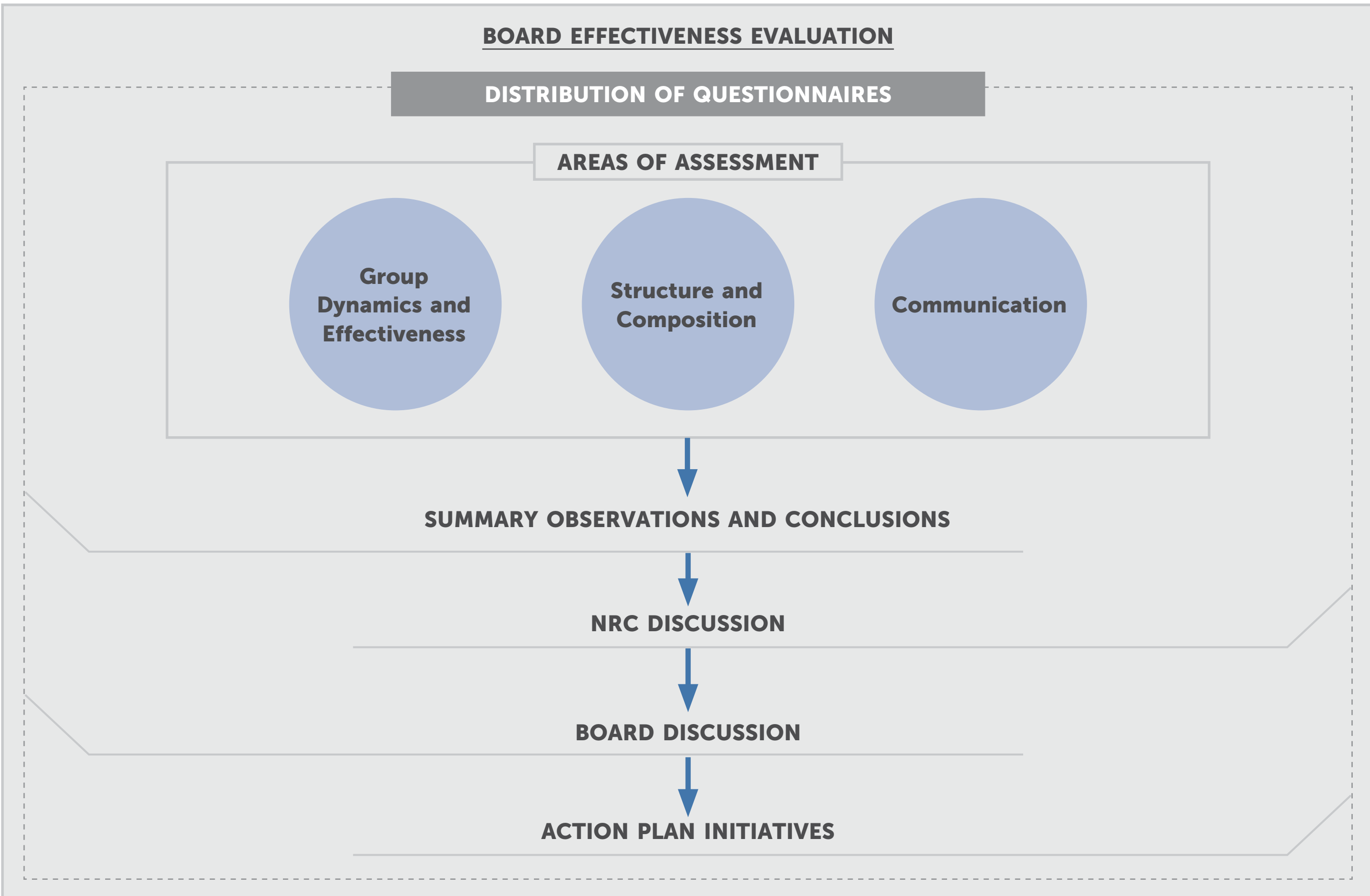
Board Effectiveness Evaluation (BEE)

During the year under review, the questionnaires of the BEE were revised in November 2019, in order to simplify the assessment process without losing the essence of the current areas of assessment. The key changes to the questionnaires included the inclusion of the following:

(i) A separate evaluation on the Chairman and the Managing Director/Chief Executive Officer (MD/CEO) under the Board Performance segment, in line with the best practices recommended by the Asean CG Scorecard; and

(ii) A new set of evaluation for the BRC under the Board Committee segment.

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



NOMINATION AND REMUNERATION COMMITTEE REPORT

Areas for Board Evaluation	
Group Dynamics and Effectiveness • Overall Board Effectiveness • Organisation of the Board • Composition of the Board • Looking Forward (Succession Planning & Development) • Communications with Shareholders	**Board/Board Committee Effectiveness** • Board Chairman Evaluation • MD/CEO Evaluation • Board Audit Committee • Nomination and Remuneration Committee • Board Risk Committee

Director Self/Peer Evaluation

Knowledge and Understanding on
- Role that a Board plays in governance and as Company Director
- Mission and Vision
- Strategic needs and development
- Market
- Critical success factors
- Business risk
- Performance measures
- International businesses
- Financial discussions
- Legal and compliance duties
- Risk management
- Board effectiveness
- Differentiate strategy/policy issues and operational matters

Skills and Experience
- Analytical skills
- Relevant functional insights
- Relevant industry insights

Preparation for Board Meetings
- Time commitment
- Contribution
- Pre-reading of all board papers

Independence
- Ability to speak openly and honestly

Building Relationship
- Board colleagues
- Board and Management
- Display confidence in other Directors' abilities
- Listen attentively to ideas

Professional Development
- On-going training and education

Board Effectiveness Evaluation 2019

The NRC reviewed the outcome of the 2019 BEE and noted that the Board is committed to the highest standards of good governance and continues to be seen as an excellent Board with strong support from the Management. Key take-aways included the need to focus more on growth strategies implemented by the Group.

The 2019 BEE revealed that the current composition of the Board is well-balanced, effective and equipped with the relevant skills and areas of expertise to steer PCG especially in its growth strategy.

NRC's Effectiveness Review and Performance

Based on the 2019 BEE findings, the Board believes that the NRC has played an excellent role in managing board transitions during the year which made a valuable contribution to the overall Board. The Board is satisfied with the performance and effectiveness of the NRC in providing sound advice and recommendations to the Board, particularly on succession planning for Directors and Senior Management.

Summary of Activities of the NRC

The following activities were carried out in 2019:

(a) Reviewed performance of the MD/CEO and Senior Management

(b) Reviewed the Directors' training requirements;

(c) Proposed composition of the Board Risk Committee;

(d) Reviewed and recommended the re-election of Directors at PCG's 21st AGM;

(e) Reviewed the NRC Report for inclusion in the 2018 Integrated Annual Report;

(f) Reviewed the evaluation of the assessment on the effectiveness of the Board as a whole, the Committees of the Board, as well as the contribution of each individual Director through a BEE exercise;

(g) Reviewed the succession planning for the CEO and Senior Management

(h) Reviewed the succession planning for INEDs;

(i) Reviewed the Board's Skills and Experience Matrix;

(j) Nominated the Senior Independent Director;

(k) Reviewed the BEE Questionnaires;

(l) Reviewed and recommended the re-election of Directors at PCG's 22nd AGM; and

(m) Reviewed the Performance Planning and Key Performance Indicators for the MD/CEO and his direct reports;

DATUK TOH AH WAH
CHAIRMAN,
NOMINATION AND REMUNERATION COMMITTEE

BOARD AUDIT COMMITTEE REPORT

YEOH SIEW MING
Chairman

Members and their attendance

1	**Yeoh Siew Ming** *Chairman* *Independent Non-Executive Director* *(appointed as a member on 15 May 2019 and BAC Chairman on 13 August 2019)*	No. of Meetings Attended: **3/3**
2	**Datuk Toh Ah Wah** *Senior Independent Non-Executive Director*	No. of Meetings Attended: **4/4**
3	**Dr Zafar Abdulmajid Momin** *Independent Non-Executive Director* *(appointed as a member on 30 April 2019)*	No. of Meetings Attended: **3/3**
4	**Freida Amat** *Non-Independent Non-Executive Director*	No. of Meetings Attended: **4/4**
5	**Ching Yew Chye** *(ceased as a member of BAC on 29 April 2019)*	No. of Meetings Attended: **0/1**
6	**Vimala V.R Menon** *(ceased as a member of BAC on 13 August 2019)*	No. of Meetings Attended: **3/3**

Terms of Reference

The TOR of the Board Audit Committee (BAC) sets out the authority, duties and responsibilities of the BAC and are accessible on PCG's corporate website at www.petronaschemicals.com. The TOR was revised during the year following the establishment of BRC, whereby the BAC's functions on risk management were carved out and placed under the purview of the BRC and other parts were also amended to fill any gaps or areas for improvement based on the latest corporate governance requirements.

Composition

The Chairman of the BAC, Yeoh Siew Ming and Freida Amat are both qualified accountants. Yeoh Siew Ming, who was appointed to the Board on 15 May 2019 is a Fellow of the Association of Chartered Certified Accountants (ACCA), member of the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountants, whilst Freida Amat is a Fellow of the ACCA and also a member of the MIA. In this regard, the Company is in compliance with the MMLR which requires at least one member of the BAC to be a qualified accountant.

At the outset of 2019, BAC consisted of five members including its Chairman. However, during the year, the following changes were made to the BAC composition:

- Cessation of Ching Yew Chye as a member following his retirement as a Director on 29 April 2019;
- Appointment of Dr Zafar Abdulmajid Momin as a member on 30 April 2019;
- Appointment of Yeoh Siew Ming as a member on 15 May 2019; and
- Cessation of Vimala V.R Menon as Chairman/member on 13 August 2019 following her retirement as a Director on the same date, and the re-designation of Yeoh Siew Ming as a Chairman effective the same date.

Nevertheless, the composition remains in compliance with the MMLR and the MCCG 2017, where all four BAC members are Non-Executive Directors including three Independent Directors, who fulfil the criteria of independence as defined in the MMLR.

BAC members acknowledged the need for continuous education trainings. During the year under review, all members of the BAC attended training on the developments in accounting and auditing standards, practices and rules, in line with Practice 8.5 of the MCCG 2017.

BOARD AUDIT COMMITTEE REPORT

Meetings and Attendance

BAC conducted four meetings during the financial year 2019. Aside from the said meetings, urgent decisions were also approved via three BAC Circular Resolutions. The BAC meetings for the financial year 2019 were pre-scheduled in November 2018 to allow the Directors to plan ahead and incorporate the meeting dates into their respective schedules. This also serves to provide the members ample notice of the meetings. The BAC meets at least quarterly with additional meetings convened as and when necessary. During the year, attendance at all BAC meetings met the requisite quorum as stipulated in the BAC TOR.

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

The Head of IAD presents the internal audit reports to the BAC. In this regard, relevant members of the Management are invited to apprise the BAC on specific issues arising from the audit findings. The external auditors also attend the BAC meeting to present the external audit plan for the year as well as the outcome of the statutory audit conducted on the Company and its subsidiaries. In addition, the BAC met with the external auditors twice during the year under review (i.e. on 24 February 2019 and 8 August 2019), without the presence of the Management.

The agenda and meeting papers encompassing qualitative and quantitative information relevant to the business of the meetings distributed to the BAC members via a secured collaborative software no less than five days prior to the date of each meeting. The BAC's Circular Resolution were also circulated to the BAC members via this software for approval. Deliberations during the BAC meetings include performance review of the Company, interim financial reporting to Bursa Malaysia, year-end statutory audits, assessment of Related Party Transactions (RPTs) and Recurrent Related Party Transactions (RRPTs) proposed to be entered into by the Company and its subsidiaries, status of open audit findings together with the agreed corrective actions.

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

<table>
<tr><th>BAC's ACTIVITIES IN 2019</th></tr>
<tr><td>1. Financial Reporting</td></tr>
<tr><td>(a) Reviewed the quarterly results for announcements to Bursa Malaysia before recommending the same for approval by the Board upon being satisfied that it had complied with applicable approved MFRS issued by the Malaysian Accounting Standards Board (MASB), MMLR and other relevant regulatory requirements</td></tr>
<tr><td>(b) Reviewed the Company and the Group's annual and quarterly management accounts</td></tr>
<tr><td>(c) Reviewed the audited financial statements of the Company and Group prior to submission to the Board for the Board's consideration and approval, upon the BAC being satisfied that, inter alia, the audited financial statements were drawn up in accordance with the provisions of the Companies Act 2016 and the applicable approved MFRS issued by the MASB</td></tr>
<tr><td>(d) Reviewed specific key areas affecting the Company and the Group's financial results, and endorsed recommendations made by the Management. The key areas deliberated include assessments on the following areas:
• Impairment indicators on property, plant and equipment and detailed impairment testing
• Recognition of deferred tax assets and the probability of future utilisation
• Implementation of MFRS 16 Leases and MFRS 123 Borrowings and its impact
• Foreign exchange exposures management
• Compliance with Shariah requirements of Security Commissions
• Carrying value of inventories and any write-off thereon
• Revenue and expenses recognition
• Recognition of acquisition of new business venture i.e. Da Vinci Group B.V. (DVG) following the requirement of accounting standards. This include initial purchase price allocation, harmonisation of accounting standards and review of identifiable net assets value on acquisition date
• Financing requirements for a joint-operation company
• New legislations and regulations impact
• Change in accounting policy on investment tax credits

The BAC had reviewed and deliberated the above key areas and is satisfied with the various actions taken by the Management in addressing the issues raised by the external auditors. The BAC noted that Management also had frequent engagements with the external auditors in improving the internal control processes for the Group</td></tr>
</table>

BAC's ACTIVITIES IN 2019	
2. Internal Control	
(a)	Reviewed the effectiveness of the system of internal controls, taking into account the findings from internal and external audit reports
(b)	Reviewed and endorsed the establishment of appropriate Line of Sight (LOS) on strategic and high impact operational matters immediately upon acquisition of DVG
3. Corporate Governance	
(a)	Adoption of Framework on External Auditors
(b)	Reviewed and endorsed the revision of the Company's Policy and Procedures on RPT/RRPT and Conflict of Interest Situation
(c)	Reviewed the BAC Report including Statement on Risk Management and Internal Control (SORMIC) for inclusion in the 2018 Integrated Report
(d)	Revision of BAC Terms of Reference
4. Internal Audit	
(a)	Reviewed and deliberated on reports of audits, recommendations and the relevant action plans to strengthen PCG's overall system of governance, risks and internal controls. The BAC also put forward some suggestions for improvement to reinforce the oversight role and to ensure that Management holds individuals accountable for their internal control, risks and governance responsibilities
(b)	Monitored the implementation of agreed corrective actions on audit findings until duly resolved on quarterly basis
(c)	Reviewed and approved the risk-based FY2020 Annual Audit Plan and budget to ensure comprehensiveness of audit coverage, resource and competencies to execute the internal audit functions effectively
(d)	Assessed the performance of IAD with regard to their ability to provide independent and objective assurance on the effectiveness of governance, risk and controls and to be in conformance with the recognised international standards
5. Related Party Transactions (RPT) and Conflict of Interest	
(a)	Reviewed all RPTs/RRPTs in accordance with the PCG Policies and Procedures on RPT/RRPT, to ensure the transactions are at all times carried out at arm's-length basis and are not to the detriment of minority shareholders
(b)	Revised the PCG Policy and Guideline and Procedures on Related Party Transactions and Conflict of Interest Situations
(c)	Reviewed and deliberated on the RPT/RRPT reports on quarterly basis
6. External Audit	
(a)	Reviewed with the external auditors, audit strategies and scope for the statutory audit of the Company and Group's financial statements for the financial year ended 31 December 2019
(b)	Reviewed with the external auditors the results of the statutory audit and the audit report
(c)	Reviewed the proposed fees for the statutory audits
(d)	Reviewed certain non-audit engagements provided by the external auditors and monitored the fees of total non-audit work carried out by the external auditors with the main objective of ensuring no impairment of independency or objectivity. In relation to this, the BAC noted the assurance provided by the external auditors confirming their independence throughout the financial year under review
(e)	Reviewed and adopted the Framework on External Auditors
(f)	During the year, PCG engaged the external auditors for certain non-audit services. Total fees paid to the external auditors are as follows:

BOARD AUDIT COMMITTEE REPORT

	2019		2018	
	Group RM'000	**Company RM'000**	**Group RM'000**	**Company RM'000**
Audit Fees				
• Statutory Audit	**2,900**	**177**	1,565	166
Total Statutory Audit	**2,900**	**177**	1,565	166
Non-audit Fees				
• Half-yearly Limited Review	**185**	**185**	181	181
• Review of the quarterly Consolidated Results Report for announcement to Bursa Malaysia	**30**	**30**	15	15
• Tax Services	**60**	**–**	66	–
• Review of Statement on Risk Management and Internal Control	**25**	**25**	26	26
• Review of MFRS 9	**103**	**3**	–	–
• Review of MFRS 16	**425**	**55**	–	–
• Review of Transfer Pricing	**44**	**–**	–	–
• Review on Divestment of Equity in a Subsidiary	**100**	**100**	–	–
• Review on Acquisition of a New Subsidiary	**1,075**	**1,075**	–	–
Total Non-audit Fees	**2,047**	**1,473**	288	222
Percentage of Non-audit Fees over Statutory Audit Fees	**71%**	**>100%**	18%	>100%

External Audit

In ensuring that the external auditors' independence is not impaired, the Audit Engagement Partner in charge of the Company will be rotated every seven years and is required to observe a cooling-off period of five years before being re-appointed (in line with the MIA's requirements. Internally, the external auditors conduct an Independent Partner Review in order to preserve their independence. The external auditors had also provided their written assurance to the BAC that in accordance with the terms of all relevant professional and regulatory requirements, they had been independent throughout the audit engagement.

The BAC had also carried out an assessment on the performance, suitability and independence of the external auditors based on the following four key areas, and will continue to do so on an annual basis:

- Quality of engagement team and services
- Adequacy of resources
- Quality of communication and interaction
- Independence, objectivity and professional scepticism

Annual Reporting

The BAC reviewed its report and the Statement on Risk Management and Internal Control for the financial year ended 31 December 2019 to ensure that they were prepared in compliance with the relevant regulatory requirements and guidelines.

Internal Audit Function

The BAC is supported by an in-house internal audit function, the IAD, in discharging its governance responsibilities stated in the BAC's TOR. The IAD undertakes a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes within the Group. The internal audit function of the Company is premised on the requirements of an 'independent and objective function'. The IAD has a reporting line direct to the BAC enabling it to be independent of Management so as to ensure objectivity. The reporting of the Head of IAD to the BAC and administratively to the MD/CEO further ensures impartiality and independence in execution of the role.

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

The BAC approves the internal audit plan and the key performance indicators of the Head of IAD and reviews IAD's annual budget and resource requirements. The Head of IAD communicates the results of internal audit engagements performed to the BAC as well as reports on IAD's performance against the approved internal audit plan on a quarterly basis.

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

The IAD continues to adopt a risk-based approach to ensure that the audit plan is prioritised based on the Group's key risks. In deriving the audit plan, the IAD gathers input from various sources including the risk profile of the Group, business plans and strategies, past audit issues and feedback from external auditors, BAC and the Management. In the year under review, the IAD performed reviews on various key business and risk areas of the Group as per the approved internal audit plan and presented the reports for the following audits to the BAC:

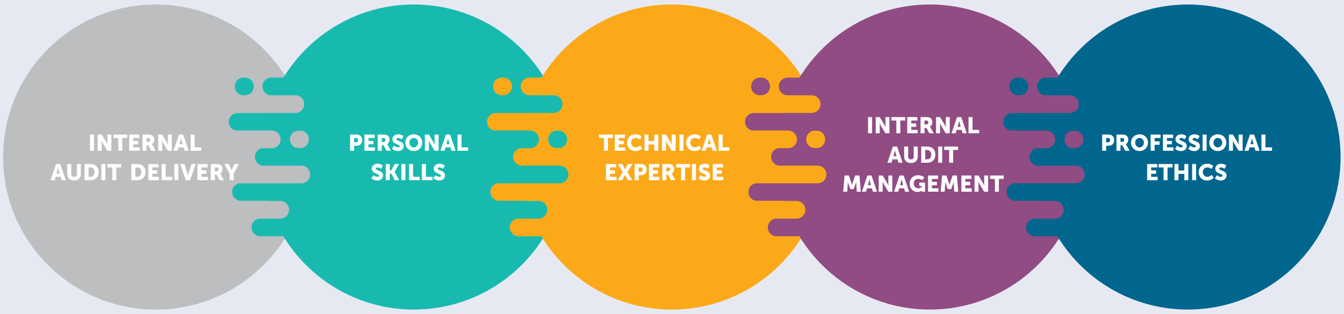
1. Audit on Execution of Isononanol Project
2. Audit on Turnaround Centralised Services Planning activities
3. Audit on Governance of projects under PCG Extended Value Chain
4. Audit on Management of Properties and Other Assets of PCG
5. Audit on Commercial (Olefins & Derivatives)
6. Audit on Commercial (Ammonia & Fertilisers)
7. Audit on PCG Inland Transport Safety
8. Audit on PCG Procurement
9. Audit on Operations of Representative Offices
10. Audit on PCG Travel Claims & Advances
11. Audit on PT PCM Kimia Indonesia
12. Audit on PC MTBE's PDH Plant Strategies & Initiatives and Gap Closure Management-Operations and Asset Management
13. Audit on Turnaround activities: PC Olefins, Glycols and Derivatives
14. Shareholder's Audit on BASF PETRONAS Chemicals Sdn Bhd's Production Acrylics Complex
15. Audit on PCG Manufacturing OER2
16. Audit on PC Fertiliser Sabah's Asset Management
17. Business Process Review on Kertih Terminals Sdn Bhd

BOARD AUDIT COMMITTEE REPORT

The internal audit reports highlighted to the BAC the key control issues, risks, positive observations and relevant recommendations for improvement, along with the agreed corrective actions. Subsequent to the BAC review, the internal audit reports were forwarded to the Management for the implementation of agreed corrective actions within the stipulated time frame. The status of implementation was tracked on monthly basis until duly resolved. All agreed corrective actions status were assessed and verified by IAD prior to submission and presentation to BAC on a quarterly basis.

The Group continues its commitment to equip the internal auditors with adequate knowledge to discharge their duties and responsibilities. Annually, internal auditors will be assessed via individual competency assessment to determine the learning and development needs to further enhance their competencies. The functional competencies assessment is part of PETRONAS capability development programme for internal auditors, which takes into consideration the core competencies as stipulated by Internal Audit Competency Framework issued by the Institute of Internal Auditors (IIA).

The core competencies include:



There are a total of 18 internal auditors across the Group as at 31 December 2019. The internal auditors have sufficient mix of knowledge, skills and competencies to execute the audit plan. The composition of the internal auditors and the corresponding professional status are as follows:

Professional Status	Percentage (%)	No. of staff
Professional accounting (MICPA, CA ANZ, ACCA), Certified Internal Auditor (CIA) or COSO Internal Control Certificate	44	8
Professional technical certification from regulatory bodies (DOSH, DOE)	12	2
Graduate (Bachelor's Degree)	44	8
Total no. of staff	100	18

The total costs incurred by the internal audit function of the Company and the Group for the financial year was RM7,453,722.

Related Party Transactions and Conflict of Interest Situations

During the year under review, the BAC reviewed the Guideline and Procedures on Related Party Transactions/Recurrent Related Party Transactions (RPTs/RRPTs) and Conflict of Interest (COI) situations (Guideline) and agreed to revise the Guideline to have more comprehensive processes in place in determining the RPTs/RRPTs. This Guideline lays out the principles and procedures which govern the activities on RPTs/RRPTs and COI situations across PCG Group in complying with the applicable MMLR and other laws and regulations. The BAC is satisfied that the revised Guideline has put in place adequate procedures and processes to identify, monitor and track all RPTs/RRPTs in a timely and orderly manner to ensure that the RPTs/RRPTs are at all times, carried out in the best interests of the Group, are fair, reasonable and on normal commercial terms and are not to the detriment of the minority shareholders. The BAC has, from time to time reviewed any RPT that have risen within the Group in accordance with the Guideline. The procedures and processes will also be reviewed from time to time based on the recommendations from the Management.

PCG forms part of the integrated oil and gas value chain of the PETRONAS Group. The transactions such as the supply of raw materials are vital to PCG's operations, and alternative supplies will not be readily available as the PETRONAS Group is a major supplier and at times, the sole supplier of such raw materials.

Due to the integrated nature of PCG's business operations with PETRONAS Group, the Company has been granted a waiver from complying with the requirement of Paragraph 10.09 of the MMLR of Bursa Malaysia including having to seek shareholders' approval in relation to the supply, sale, purchase, provision and usage of certain goods, services and facilities which form part of PETRONAS Group integrated operations. The waiver is of particular significance to ensure PCG does not experience any disruption to its operations. The RRPTs that were waived by Bursa Malaysia from complying with the requirement of Paragraph 10.09 of the MMLR are as follows:

Transacting Parties	Nature of transactions	For Year Ended 31 December 2019 RM '000
PCG Group and PETRONAS and its subsidiaries (PETRONAS Group)	**INTEGRATED OPERATIONS OF OUR GROUP**	
	i. Supply of fuel and feedstock (such as ethane, propane, butane, dry gas, naphtha, natural gas) by PETRONAS Group	4,116,145
	ii. Supply of utilities, electricity and water by PETRONAS Group	41,859
	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	Nil
	v. Provision of operating and maintenance services by PETRONAS Group	1,116
	vi. Purchase of marine diesel oil from PETRONAS Group	18,935
	SERVICES RENDERED WITHIN THE PETRONAS GROUP	
	vii. Provision of vessel screening services by MISC Maritime Services Sdn Bhd	126
	viii. Provision of freight, transportation and warehousing services by MISC Berhad and its subsidiaries (MISC Group)	366
	OTHERS	
	ix. Sales of petrochemical products and other related products to PETRONAS Group	693,501
	x. Supply of products from Pengerang Refining Company Sdn Bhd (PRC) to PCG Group	Nil
	xi. Supply of products by PCG Group to PRC	Nil

The BAC is satisfied that during the year under review, all the RPTs/RRPTs were fairly concluded on prevailing market rate/prices, had been carried out at arm's length basis and normal commercial terms/conditions, applicable industry norms and not detrimental to the interests of PCG and its minority shareholders. The RPTs/RRPTs were reported to the BAC on a quarterly basis.

BAC Effectiveness Review and Performance

For the year under review, the Board assessed the performance of the BAC through an annual BEE. The Board agreed that BAC continued to support the Board in reviewing financial and audit matters, contributing to the overall effectiveness of the decision making process by the Board for the Company and the Group. PCG Board is satisfied that the BAC has discharged its functions, duties and responsibilities in accordance with the BAC TOR.

Reporting to the Exchange

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

YEOH SIEW MING
CHAIRMAN,
BOARD AUDIT COMMITTEE

BOARD RISK COMMITTEE REPORT

WARREN WILLIAM WILDER
Chairman

Members and their attendance

1	**Warren William Wilder** *Chairman, Independent Non-Executive Director*	No. of Meetings Attended: **3/3**
2	**Yeoh Siew Ming** *Independent Non-Executive Director*	No. of Meetings Attended: **3/3**
3	**Dr Zafar Abdulmajid Momin** *Independent Non-Executive Director*	No. of Meetings Attended: **3/3**
4	**Noor Ilias Mohd Idris** *Non-Independent Non-Executive Director*	No. of Meetings Attended: **3/3**
5	**Vimala V.R. Menon** *Independent Non-Executive Director* *(ceased as a member of BRC on 13 August 2019)*	No. of Meetings Attended: **2/2**
6	**Zakaria Kasah** *Non-Independent Non-Executive Director* *(ceased as a member of BRC on 15 May 2019)*	No. of Meetings Attended: **0/0**

The Board Risk Committee (BRC) was established on 25 February 2019 to assist the Board in ensuring the Company has in place sound and robust risk management framework and such framework has been effectively implemented to enhance the Company's ability to achieve its strategic objectives especially in pursuing its growth agenda.

In carrying out its oversight responsibilities, each BRC member is to provide individual independent opinions to the fact-finding, analysis and decision making process of the BRC, based on their expertise, experience and industrial knowledge. The establishment of the BRC was timely and is in line with the Step-Up Practice 9.3 of the MCCG 2017.

Terms of Reference

The TOR of the BRC sets out the authority, duties and responsibilities of the BRC and are accessible on PCG's corporate website at www.petronaschemicals.com.

Composition

The BRC consists of four members whereby all are Non-Executive Directors including three Independent Directors. Members of the BRC shall possess sound judgment, objectivity, independent attitude, management experience, professionalism, integrity and knowledge of the industry. During the year under review, the following changes were made to the BRC composition:

1. Cessation of Zakaria Kasah as a member following his resignation as a Director on 15 May 2019
2. Cessation of Vimala V.R Menon as member on 13 August 2019 following her retirement as a Director on the same date
3. Appointment of Yeoh Siew Ming and Noor Ilias Mohd Idris as a member on 15 May 2019

Meetings and Attendance

BRC conducted three meetings during the financial year 2019 since its inception. Aside from the said meetings, urgent decisions were also approved via a BRC Circular Resolution. The BRC meetings for the financial year 2019 were scheduled immediately upon its establishment to allow the Directors to plan ahead and incorporate the meeting dates into their respective schedules. This also serves to provide the members ample notice of the meetings. The BRC meets quarterly in a year preceding Board meetings with additional meetings convened as and when necessary. During the year under review, attendance at all BRC meetings met the requisite quorum as stipulated in the TOR. The quorum for BRC meeting shall be two (2) members of whom at least one (1) is an Independent Director. The Company Secretary acts as a secretary to the BRC.

By invitation, the MD/CEO, Chief Financial Officer and Head of Risk Management Department (RMD) attend the BRC meetings to provide input and advice, appropriate information as well as clarification to relevant items on the agenda.

The Head of RMD presents the risk management reports including updates on risk monitoring and also the corporate risk profile to the BRC. Relevant members of the Management are invited to apprise the BRC on specific issues arising from the strategic proposals.

The agenda and meeting papers encompassing qualitative and quantitative information relevant to the business of the meetings were distributed to the BRC members via a secured collaborative software no less than five days prior to the date of each meeting. The BRC Circular Resolutions were also circulated to the BRC members via this software for approval.

Minutes of the BRC meeting are tabled for confirmation at the next BRC meeting, after which they are presented to the Board for notation.

BRC's Activities 2019

For the year 2019, the BRC had performed its oversight roles in the following key activities:

1. Corporate Risk Profile

   Reviewed and endorsed PCG Corporate Risk Profile for Board's approval. Subsequently on quarterly basis, the BRC deliberated on risk mitigations implementation and Key Risk Indicators to ensure adequacy and effectiveness of risk management practices. Additional mitigations to strengthen the management of risks were recommended for further action.

2. Emerging Risks

   Considered the emerging risks which manifest from internal or external environment that could potentially impact delivery of business objectives. The external factors include but not limited to geopolitical tensions, socio-economic issues, technology developments and environmental concerns. The emerging risks were then assessed to determine whether it should be included as one of the critical risks under the PCG Corporate Risk Profile.

3. Risk Appetite

   Deliberated and endorsed the development of risk appetite and its thresholds. Subsequently on quarterly basis, BRC reviewed any breach of risk appetite thresholds for specific action to ensure risks undertaken in pursuit of strategic and business objectives were consistently within the approved levels. In addition, the BRC reviewed reports on risk incident and deliberated on the adequacy and effectiveness of mitigations.

4. High Impact Business Matters

   Reviewed and deliberated on the risks related to high impact business matters such as projects' Final Investment Decisions, project financing and joint venture arrangement, in order to assess the feasibility and commerciality of these projects and investments.

5. Risk Policy

   Reviewed, deliberated and endorsed new risk policy for Board's approval to strengthen risk management practices, drive ownership and inculcate risk culture in becoming a risk resilient organisation.

Annual Reporting

The BRC reviewed this BRC Report for the financial year ended 31 December 2019 to ensure that they were prepared in compliance with the requirements and guidelines of the MMLR of Bursa Malaysia.

BRC Effectiveness Review and Performance

2019 saw for the first time an assessment on the performance of the BRC by the Board through an annual BEE. The Board agreed that the BRC is well structured and represented, with an appropriate mix of skills, expertise and experience, contributing to the overall effectiveness of the decision making process for the Company and the Group. PCG Board is satisfied that the BRC has effectively discharged its functions, duties and responsibilities in accordance with the BRC TOR.

WARREN WILLIAM WILDER
CHAIRMAN,
BOARD RISK COMMITTEE

MANAGEMENT COMMITTEES AND WORKING GROUP

Management Committee

The Management Committee (MC) was established to ensure effective systems, controls and resources are in place to execute business strategies and decisions taken by the Board and/or the MD/CEO.

Membership

DATUK SAZALI HAMZAH (CHAIRPERSON)
(MD/CEO)

Rashidah Alias *(Chief Financial Officer)*	**Shamsairi Ibrahim** *(Chief Commercial Officer)*	**Mahadzir Rani** *(Chief Manufacturing Officer)*
Akbar Md Thayoob *(Head, Strategic Planning & Ventures)*	**M Zakir Jaafar** *(Head, Project Directorate)*	**Ch'ng Guan How** *(Chief Innovation and Technology Officer)*
Jamilah Ujang *(Head, Human Resource Management)*	**Hasnizaini Mohd Zain** *(Head, Legal & Corporate Secretariat)*	**Norfaila Hassan** *(Head, Corporate Affairs & Administration)*
	Fauzamsaari Geran *(Head, Health, Safety & Environment)*	

Roles and Responsibilities

The MC is a sounding board to assist the MD/CEO in the Management of PCG's overall business.

The key roles and responsibilities of the MC are to discuss and provide direction in the following areas for the overall PCG Business:

- Annual business plans and budget
- High level performance tracking through the PCG Scorecard/Dashboard
- High impact high value investments including mergers and acquisitions and divestments
- Business development/projects involving inter business considerations and commitments
- Any other major decisions at PCG (to ensure alignment to PETRONAS Corporate strategies and PCG Group's objectives)
- Risk management and Governance to ensure business integrity and control
- Major issues that could impact Operational Excellence (OE), Health Safety Environment (HSE) & Sustainable Development
- Regulatory changes that may impact business
- Audit findings

Meetings

The MC holds regular meetings which are aligned with the scheduled Board meetings and is governed by its TOR.

Project Steering Committee (PSC)

PSC is a sounding board to assist the MD/CEO in the management of capital project investment for PCG.

Membership

Chaired by the MD/CEO, PSC comprises of selected MC and PETRONAS Group Senior Management.

Roles and Responsibilities

Provides strategic direction in the following areas:

- New business growth opportunities, for example investment in further downstream or derivatives of existing plant and diversification into specialty or bio-based chemicals
- Merger and acquisition
- Modification or change of existing assets for business growth
- New product development and R&D
- Portfolio review findings including project prioritisation and asset divestment

Meeting

Monthly sitting and special sitting will be called where necessary at the discretion of the Chairman whenever required.

Risk Management Committee (RMC)

Membership

Chaired by the MD/CEO, RMC comprises MC members and Senior Management members as determined by the MD/CEO.

Roles and responsibilities

The RMC is responsible in ensuring the implementation and effectiveness of PCG Group Risk Management activities.

Meetings

The RMC meets quarterly and as and when required and is governed by its TOR.

WORKING GROUP

Business Leadership Team (BLT)

Chaired by the Chief Commercial Officer, the BLT was established to discuss and deliberate on strategic direction on matters or areas involving inter business considerations and commitments prior to PSC 1 or MC. It also ensures proposals are in full alignment with PCG's vision and strategic direction. The BLT meets bi-monthly or as and when required and is governed by its TOR.

Manufacturing Leadership Team (MLT)

Chaired by the Chief Manufacturing Officer, the MLT was established to review and deliberate on HSE, Operational Excellence and Strategic Focus areas for endorsement by the MC, if necessary. It also ensures proposals are in full alignment with PCG's vision and strategic direction. The MLT meets at least once a month or as and when required and is governed by its TOR.

Sustainable Development Working Committee (SDWC)

Chaired by the Head, HSE, the SDWC was established to drive PCG's Sustainable Development (SD) strategy through amongst others, reviewing quarterly sustainable development information in terms of how the SD elements are managed, quantitative and qualitive data for each performance indicator and status of actions taken to support the sustainability agenda, prior to MC meetings. SDWC meets once in every three months or as and when required and is governed by its TOR.

RELATIONSHIP WITH SHAREHOLDERS

COMMUNICATING EFFECTIVELY WITH STAKEHOLDERS AND INVESTORS

The Board recognises the importance of conducting regular and effective dialogue with shareholders and investors. The two-way communication with our shareholders enables us to evaluate views and feedback that are incorporated into our decision making process. In the past year, the MD/CEO, Chief Financial Officer and other members of Senior Management met and engaged with existing and potential investors, as well as capital market representatives, in forums organised by the Company's Investor Relations Department. This resulted in better understanding of the Group's operational and financial performance, market dynamics as well as future plans. Visits to the Group's facilities or plants are also organised periodically to facilitate better appreciation of the Group's people, processes and products.

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

IR activities 2019

Quarterly Analyst briefings:

	Event	Date
4Q	**2018 Financial Results**	25 February 2019
1Q	**2019 Financial Results**	24 May 2019
2Q	**2019 Financial Results**	13 August 2019
3Q	**2019 Financial Results**	14 November 2019

Investor Engagement & Corporate events:

Event	Organiser	Date	Venue
1. CIMB Corporate Day	CGS-CIMB	3 January 2019	Kuala Lumpur
2. Invest Malaysia Kuala Lumpur 2019	Bursa Malaysia & Maybank	19 March 2019	Kuala Lumpur
3. Malaysia Macro and Policy Day	Macquarie	29 August 2019	Kuala Lumpur
4. Corporate Day	Jefferies, Kaf, Seagroatt & Campbell	8 May 2019	Singapore
5. Invest Asia Conference	Maybank Kim Eng & ICBC Bank	9 May 2019	Singapore
6. ASEAN Conference 2019	Macquarie	27 August 2019	Singapore

Plant Visits:

Event	Location/Plant	Date
Retail Shareholder Plant Visit	PETRONAS Fertiliser Kedah Sdn Bhd, Gurun, Kedah	10 July 2019
Analyst/Fund Manager Plant Visit	Pengerang Integrated Complex	6 March 2019
	Pengerang Integrated Complex	11 April 2019
	Kertih Integrated Petrochemical Complex	18 April 2019
	Pengerang Integrated Complex	17 July 2019
	Pengerang Integrated Complex	27 September 2019
	Pengerang Integrated Complex	16 October 2019

The Investor Relations (IR) department is headed by Zaida Alia Shaari, who holds a Certificate of Investor Relations (CIR) from the UK IR Society. She started her career in IR in 2012 when she headed the IR function in FGV Holding Berhad during its Initial Public Offering exercise. Prior to joining PCG in July 2017, she was the Head of IR for Malakoff Corporation Berhad. The IR department provides the communication channel through which the Management team and the investment community interact. The Head of IR is the focal contact person for analysts, fund managers, potential investors and other stakeholders when seeking information and updates on PCG.

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

ZAIDA ALIA SHAARI
Head of Investor Relations

Tel : 03-2392 3699
Email : zaidaalia.shaari@petronas.com

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

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

DATUK TOH AH WAH
Senior Independent Director

Email : petchem.sid@petronas.com

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

Annual General Meeting (AGM)

The AGM is the principal forum of open dialogue with shareholders. The notice and agenda of our 21st AGM together with Forms of Proxy were given to shareholders 30 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxies to attend and vote on their behalf. Each item of special business included in the notice of the AGM was accompanied by an explanatory statement on the effects of the proposed resolution.

During the AGM, the MD/CEO presented a comprehensive review of the Group's performance initiatives and value created for shareholders. This review was supported by a visual and graphical presentation of the key points and financial figures. At the AGM, shareholders were encouraged and given sufficient opportunity as well as time by the Board to raise questions pertaining to the Annual Report, resolutions being proposed and the business of the Company or the Group in general prior to seeking approval from members and proxies on the resolutions. The Board, Senior Management, external auditors and other advisors, were present at the AGM to provide answers and clarification to shareholders. Pursuant to Paragraph 8.29A of the MMLR, each resolution to be tabled at an AGM is to be voted by poll. At the 21st AGM, PCG has engaged Tricor Investor & Issuing House Services Sdn Bhd as the Poll Administrator and Boardroom Corporate Services Sdn Bhd as Independent Scrutineer for conduct of poll via e-Vote application. The Board encourages active participation by the shareholders and investors during the AGM. Attendance at the Company's AGM continues to be high as evidenced by the registration of 2,266 shareholders at the 21st AGM of the Company held on 29 April 2019. The minutes of the AGM are accessible to the public on PCG's corporate website at www.petronaschemicals.com.

INTEGRITY AND ETHICS

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

Code of Conduct and Business Ethics

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

RELATIONSHIP WITH SHAREHOLDERS

Anti-Bribery and Corruption Policy

With the adoption of the Anti-Bribery and Corruption Policy (ABC) policy, PCG also practices a zero tolerance policy against all forms of bribery and corruption. The ABC policy elaborates upon those principles and provides guidance to employees on how to deal with improper solicitation, bribery and other corrupt activities and issues that may arise in the course of conducting business. The ABC policy is also applicable to all employees, directors, contractors, sub-contractors, consultants, agents, representatives and others performing work or services for or on behalf of PCG.

The Company organised Integrity week from 23-27 September 2019 to share its leadership's vision and instill a culture of integrity with all employees. Among the activities organised were Leadership Talks in topics such as Integrity at Work. Anti Bribery and Corruption and CoBE.

For more information on the ABC policy, please refer to the Company's corporate website at www.petronaschemicals.com.

Whistleblowing Policy

The Company has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group's employees and members of the public to disclose any improper conduct in accordance with the procedures as provided under the policy. The policy and procedures are accessible to the public on the Company's corporate website at www.petronaschemicals.com. To lodge a report for any improper conduct, please email whistle@petronas.com. Further details on the Whistleblowing Policy can be found on page 56 under the Statement on Risk Committee and Internal Control.

Corporate Liability

Taking cognisance of the introduction of corporate liability in the recent amendment to the Malaysian Anti-Corruption Commission Act 2009 (MACC Act 2009), which would come into force on 1 June 2020, the Company has taken proactive actions to ensure that it has adequate procedures in place designed to prevent associated persons from undertaking conduct that would trigger the newly introduced Section 17A of the MACC Act 2009. The corporate liability provision criminalises a Company based on illegal actions taken by the employee, for the benefit of the company unless the Company can demonstrate presence of adequate procedures by the Company to prevent such illegal actions. The Company conducted a workshop on 10 February 2020 to brief on the adequate procedures that have been put in place by the Company, and to equip the Directors with the relevant understanding on the liability and penalty imposed for the offences, under Section 17A of the MACC Act 2009.

Trading on Insider Information

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

During the year under review, there were no trading activities undertaken by the Board nor the Principal Officers of the company.

Selection of Vendors

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

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

The tendering processes are as follows:

- **Tender Plan Approval**
- **Technical Evaluation**
- **Commercial Evaluation**
- **Award Recommendation**

Related Party Transactions and Conflict of Interest Situations

All RPTs including RRPTs entered into by the Company or its subsidiaries are reviewed by the BAC. During the year, the Board had revised the guideline and procedures on RPT and conflict of interest situations to strengthen its internal control. The Statement on Risk Management and Internal Control provides a comprehensive overview of the Group's policies and procedures on RPTs and RRPTs. Further details can be found on page 37 and 57 of this report.

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.

GFR *The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements is set out on page 61.*

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.

GFR *The Statement on Risk Management and Internal Control provides an overview of the risk management and internal controls within the Group and further details can be found on pages 46-58.*

RELATIONSHIP WITH EXTERNAL AUDITORS

External Auditors

Through the BAC, the Company maintains a professional and transparent relationship with its external auditors, KPMG PLT. The BAC met the external auditors twice during the financial year to review the scope and adequacy of the Group's audit process, financial results, annual financial statements and audit findings. The BAC also met the external auditors twice during the year under review without the presence of the Management. At the meeting, the external auditors highlighted to both the BAC and the Board on matters that warrant their attention.

Directors' Responsibility Statement

The Directors have provided assurance that the financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company and the Group as at the end of financial year and of the results and cash flow of the Group for the financial year as required by the CA 2016. The Statement of Responsibility by Directors for the audited financial statements of the Company and Group is as outlined on page 61. Details of the Company and the Group's financial statements for the financial year ended 31 December 2019 are set-out on pages 62-151.

Statement by the Board on Compliance

The Board has deliberated, reviewed and approved this Statement and is satisfied that the Group has fulfilled its obligations under the relevant paragraphs of the MMLR of Bursa Malaysia, CA 2016, MCCG 2017, Corporate Governance Guide – 3rd edition issued by Bursa Malaysia Berhad and other applicable laws and regulations throughout the financial year ended 31 December 2019.

Additional Compliance Information – Material Contracts

There were no material contracts or loans entered into by the Company or its subsidiaries involving Directors' or major shareholders' interests, either still subsisting at the end of the year ended 31 December 2019 or entered into since the end of the previous period, except as disclosed in the Audited Financial Statements.

This statement is made in accordance with the resolution of the Board of Directors dated 26 February 2020.

DATUK MD ARIF MAHMOOD
CHAIRMAN

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

PCG HAS A RISK MANAGEMENT FRAMEWORK AND INTERNAL CONTROL SYSTEMS IN PLACE TO ENSURE THE SMOOTH RUNNING OF OUR BUSINESS.

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

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

We believe our control systems are appropriate for the Group given the size, diversity and complexity of our operations. Our Board Committees and Board regularly review and monitor the adequacy and integrity of these controls to ensure the Group's compliance with applicable laws, regulations and guidelines while protecting shareholders' interest.

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

BOARD ACCOUNTABILITY

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

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

MANAGEMENT RESPONSIBILITY

The Management is accountable to the Board to ensure effective implementation of the risk management and controls. The Management formulates and endorses the risk management policy, frameworks and guidelines including their implementations across the Group. They review PCG's risks and recommend additional course of action to mitigate the identified risks.

The Management also assigns accountabilities and responsibilities at appropriate levels within PCG as well as ensures all the necessary resources are efficiently allocated to manage risks.

RISK MANAGEMENT

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

We continue to strengthen our risk management approach to safeguard our business and ensure the ability to respond to a crisis. Should the crisis prolong, the business continuity management ensures the continuous delivery of products and services to customers.

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

PCG Risk Policy

The Board has approved a new PCG Risk Policy to support PCG's two-pronged strategy; which is, sustain strength in basic petrochemicals and selectively diversify into derivatives, specialty chemicals and solutions. The new PCG Risk Policy anchors on PCG's commitment to become a risk resilient organisation with a stronger risk management culture and ownership within the organisation.

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

PETRONAS Chemicals Group is committed to become a risk resilient organisation.
PETRONAS Chemicals Group shall continuously strive to implement:

- Risk management best practices to protect and create value within the set boundaries.
- Risk based decision-making by providing a balanced and holistic view of exposure to achieve business objectives.

Managing risk is everyone's responsibility.

RISK GOVERNANCE AND OVERSIGHT

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

<table>
<tr><th colspan="3">RISK OVERSIGHT MODEL</th></tr>
<tr><td colspan="3">BOARD OF DIRECTORS
Responsible for the overall effective oversight of PCG Group's risk management to safeguard PCG reputation and deliver sustainable shareholders' value</td></tr>
<tr><td>BOARD COMMITTEE LEVEL</td><td colspan="2">BOARD RISK COMMITTEE
• Responsible for guidance and oversight of PCG Group risk management
• Reviews and endorses the Group's risk profile and risk appetite
• Deliberates risk assessment for high impact business matters</td></tr>
<tr><td>MANAGEMENT LEVEL</td><td colspan="2">RISK MANAGEMENT COMMITTEE (RMC)
Responsible for ensuring the implementation and effectiveness of PCG Group risk management practices</td></tr>
<tr><td>OPERATIONAL LEVEL</td><td>MANUFACTURING
Responsible for the manufacturing risk management</td><td>COMMERCIAL
Responsible for the commercial risk management</td></tr>
</table>

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

In line with PCG's growth strategy, a dedicated Board Risk Committee has been formed, comprising a majority of Independent Directors, with greater emphasis on deliberating risk and opportunities for high impact business decision papers such as mergers and acquisitions, divestments and key capital projects.

Risk Management Department, led by Head of Risk Management, is accountable to Risk Management Committee and responsible for the effective implementation of risk management across PCG Group of companies.

In addition to our risk governance and oversight structure, our risk management is supported by the 3 Lines of Defense Model that distinguishes the three levels which are involved in effective risk management.

1st LINE OF DEFENSE	2nd LINE OF DEFENSE	3rd LINE OF DEFENSE
Business Line (Risk Owner)	**Risk Management Department**	**Internal Audit and External Audit**
• To establish the identification, assessment, treatment and monitoring of risks	• To establish, implement and review risk management and control systems	• To provide an independent and objective assurance on the overall adequacy, integrity and effectiveness of risk management and internal control systems

PETRONAS RESILIENCY MODEL

PCG has adopted the PETRONAS Resiliency Model in managing risk with three key areas namely, Enterprise Risk Management (ERM), Crisis Management (CM) and Business Continuity Management (BCM). These are supported by risk frameworks and relevant guidelines to govern, guide and institutionalise risk management practices across the Group.

ERM is a structured and holistic approach to identify, assess, treat and monitor risks. The aim is to reduce the likelihood and impact of all identified risks in order to enhance the organisation's ability to achieve its strategic objectives.

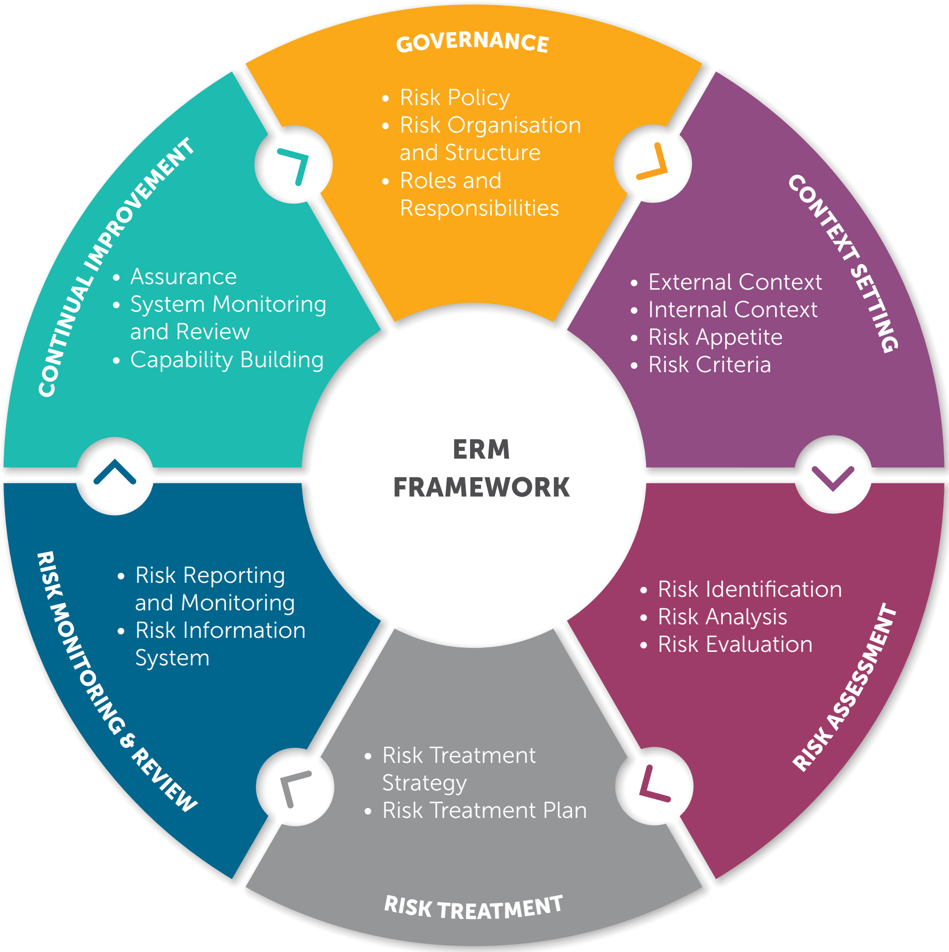
CM is a comprehensive set of processes that aims to prepare the organisation to respond and manage crises in the risk areas in order to protect and save people, environment, asset and reputation.

BCM is a holistic management process that aims to build the capability of an organisation to recover and continue delivery of products or services at acceptable predefined levels following a prolonged disruptive incident.

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

ENTERPRISE RISK MANAGEMENT

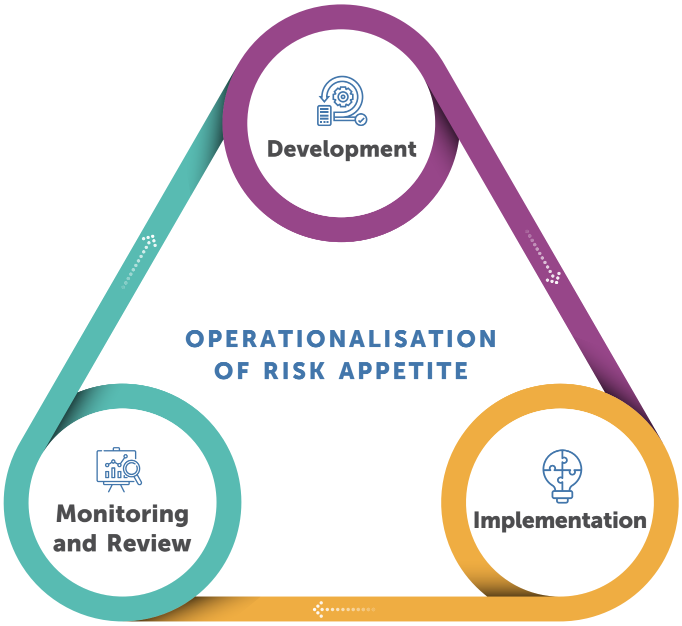
Our ERM Framework and relevant guidelines are generally aligned with the Principles and Guidelines of ISO 31000:2009 and provides a standard and consistent approach in implementing ERM across the organisation.



RISK APPETITE

Risk appetite for PCG is defined as the amount and type of risks that PCG is willing to take, accept or retain in pursuing its strategic and business objectives.

The PCG Risk Appetite is guided and operationalised as follows:



Development

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

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

OPERATIONAL	FINANCIAL SUSTAINABILITY	REPUTATION	COMPLIANCE
HSE 1. Fatality 2. Major fire 3. Major LOPC **Operational Excellence** 1. PUnexant **Project Delivery** 1. Delivery schedule 2. Cost escalation	1. Capital 2. Liquidity 3. Profitability 4. Credit rating	**Reputational Impact** 1. Conventional media negative mentions 2. Social media negative mentions	Comply with all the laws and regulations governing the conduct of our business.

PCG Risk Appetite Focus Areas and Risk Tolerance

Implementation

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

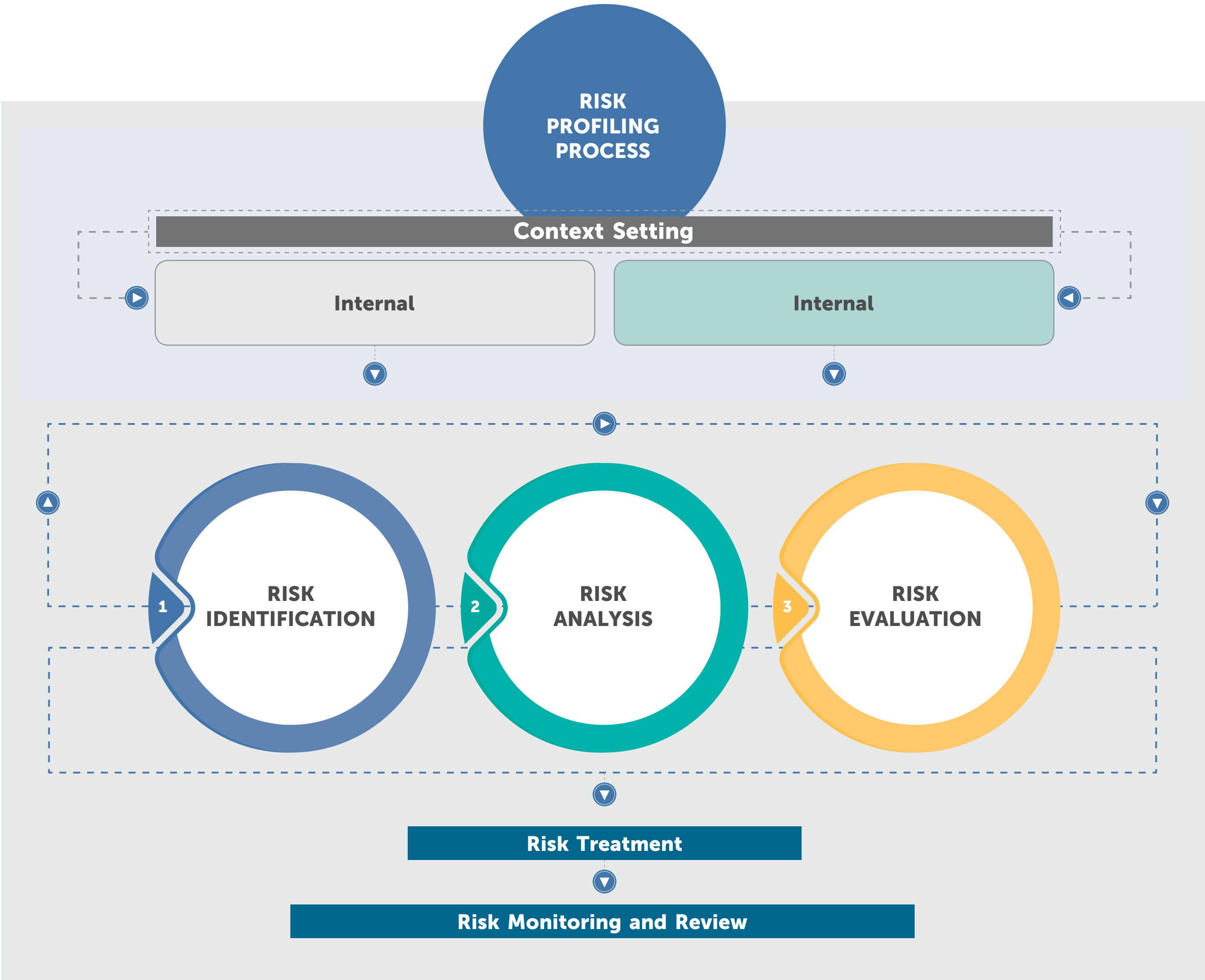
Monitoring and Review

Monitoring and review of risks are pivotal to ensure that PCG does not breach the established Risk Appetite. Regular monitoring and reporting were established to ensure any breach of the Risk Threshold is escalated to risk owner, Management and the Board, if required, on a timely basis for deliberation of specific action or decision.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK PROFILING PROCESS

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



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

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

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

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

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

STRATEGIC RISKS IN ANNUAL PLANNING

We continued our focus to integrate risk management into our strategic planning and intensified our continuous risk scanning efforts to identify emerging risks that could potentially impact delivery to our business objectives.

We conducted risk assessment during the Annual Plan and Budget sessions to ensure that our key strategies are robust and any business assumptions made are better understood, with associated risks well identified and managed.

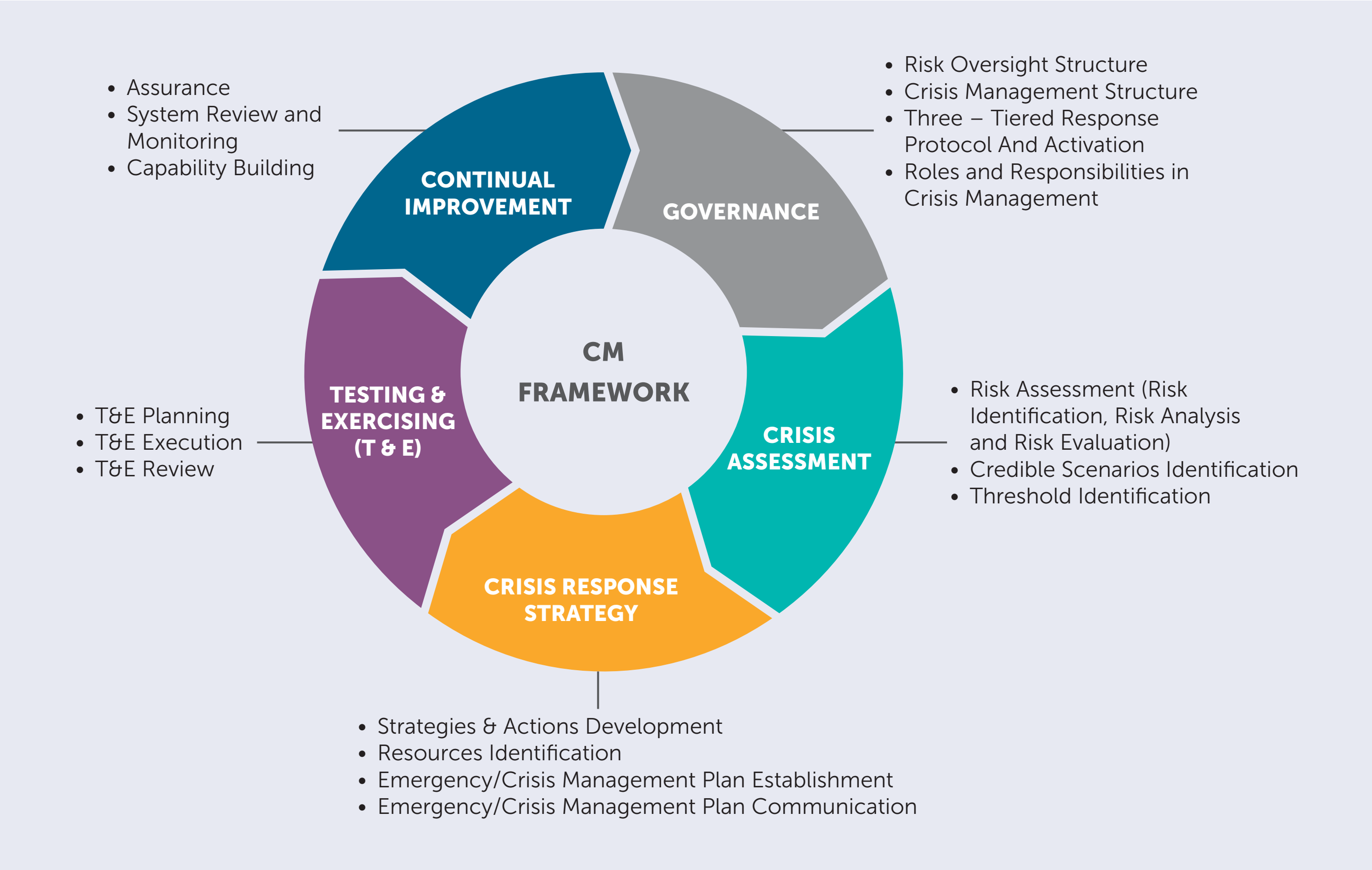
RISK ASSESSMENT IN DECISION MAKING

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

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

CRISIS MANAGEMENT

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

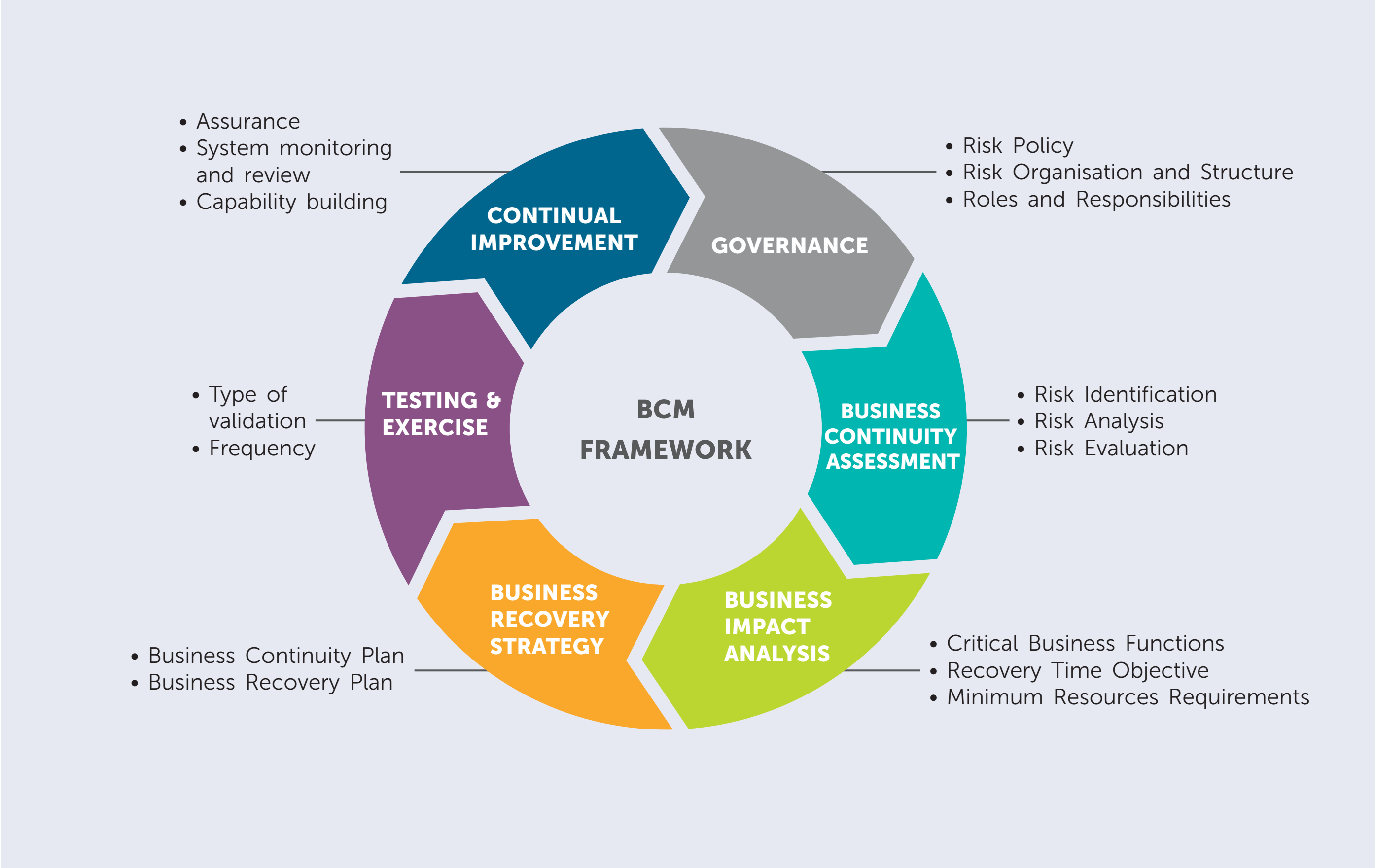


The CMP has also outlined a three-tiered response system based on severity of the crisis that provides clear demarcation of response control and required capability of emergency or crisis team members in order to protect and save people, the environment, assets and reputation.

SR *Further details on crisis management can be found on page 44 of our standalone Sustainability Report, which is available online at www.petronaschemicals.com.*

BUSINESS CONTINUITY MANAGEMENT

In the event of prolonged business disruption, we have a Business Continuity Management (BCM) Framework and Guidelines that provides a systematic approach and consistent BCM practices to ensure effective recovery and continuation of PCG business and operation.



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

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

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

CONTINUAL IMPROVEMENT UNDER OUR RISK MANAGEMENT FRAMEWORK

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

All PCG subsidiaries, apart from the newly acquired subsidiary, Da Vinci Group (DVG), are required to perform self-assessment and validation on their compliance to the requirement stipulated under risk frameworks and proposes gap closure actions, if any. PCG Risk Management Department also performed validation on agreed risk mitigations at PCG subsidiaries.

The RMC reviewed the risk assurance reports and monitors the appropriate corrective actions for timely closure. In addition, the status of our risk assurance progress and gap closures are reported to the RMC on a quarterly basis.

For 2019, PETRONAS Group Risk Management (GRM) also performed risk assurance exercise to determine PCG's compliance to risk frameworks and guidelines.

INTERNAL CONTROL

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

CONTROL ENVIRONMENT

- Demonstrates a commitment to integrity and ethical values
- Board of Directors demonstrates independence from the Management and exercises oversight of internal control performance
- Establishes structures, reporting lines and appropriate authorities and responsibilities
- Demonstrates commitment to attract, develop and retain competent workforce
- Holds individuals accountable for their internal control responsibilities

RISK ASSESSMENT

- Specifies objectives with sufficient clarity for risk identification and assessment
- Identifies and analyses risks relating to objectives for determining how the risks are to be managed
- Evaluates and considers potential for fraud in assessing risks
- Identifies and assesses changes that could significantly impact the system of internal control

CONTROL ACTIVITIES

- Selects and develops control activities to mitigate risks
- Selects and develops control activities through technology
- Deploys control activities through policies and procedures

MONITORING ACTIVITIES

- Selects, develops and performs ongoing and/or separate evaluations to ascertain the components of internal control are present and functioning
- Evaluates and communicates internal control deficiencies in timely manner

INFORMATION AND COMMUNICATION

- Obtains or generates and uses relevant, quality information to support the functioning of internal control
- Communicates internal control information internally
- Communicates internal control information externally

Assessment on the adequacy, efficiency and effectiveness of the internal control of joint ventures, joint operation and associate companies are performed under the purview of their respective established governing procedures. The interests of the Group are safeguarded through Group representatives to the respective Boards of joint venture, joint operation and associate companies, in addition to the regular review of management accounts and joint shareholders' audit. For DVG, the Group has established the appropriate Line of Sight (LOS) on the decision making in relation to strategic and high impact operational matters immediately upon completion of the acquisition.

Internal Audit

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

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

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

Audit Competencies

In 2019, all internal audit activities were performed by a team of 18 internal audit personnel from diverse work experiences and competencies, as follows:

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

Additionally, the internal audit team was also supported by Subject Matter Experts from relevant disciplines within the PETRONAS Group such as Turnaround Management, Asset Management, Process Safety and Transport Safety.

To date, 10 of our internal audit personnel have received professional certification from various professional bodies, such as accounting professional bodies, Institute of Internal Auditors, COSO and Malaysian Department of Safety and Health (DOSH).

Other Key Elements of Internal Control Systems

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

- **Board of Directors**

  The Board meets at least quarterly and has set a schedule of matters, which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The MD/CEO leads the Management in the presentation of Board papers which would include the Group Quarterly performance reports and related financial reports of the Group and provides detailed explanation of pertinent issues as well as its recommendation of issues resolutions. In arriving at any decision requiring Board's approval, as set out in the Limits of Authority manual, thorough deliberation and discussion by the Board is a prerequisite. The Board is also informed on the Group's activities and its operation on a regular basis and the risks associated to them. In addition, the Board is updated on the key risks arising from the changes in the business and external environment which may results in significant impact to 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 BAC.

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

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

  GFR *Further details on the BAC activities can be found on pages 32-33*

- **Organisation Structure and Management Committee**

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

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

  In addition, various functional committees have also been established across the Group to ensure the Group's activities and operations are properly aligned towards achieving the organisational goals and objectives.

- **Financial Control Framework**

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

Reasonable Assurance On The Reliability Of The Reported Financial Statement By Senior Management.
Establishment Of Adequate Internal Controls And Reporting Methods As Well As Proper Documentation Of All Processes.
Mandatory Self And Interdepartmental Test Of Controls.
Identification Of The Control Gaps And The Required Mitigation Action.

- **Limits of Authority**

  The Group has established Limits of Authority (LOA) which define the appropriate approving authority to govern and manage business decision process. The LOA sets out a clear line of accountability and responsibility which serves as a reference in identifying the approving authority for various transactions including matters that require Board's approval.

  It provides a framework of authority and accountability within the Group and facilitates decision-making at the appropriate level in the Group's hierarchy.

- **Group Policies**

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

- **Operating Procedures and Guidelines**

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

- **Business Plan and Budget**

  The Group undertakes an annual budgeting and forecasting exercise which includes development of business strategies for the next five years and the establishment of KPIs against which the overall performance of the Group, including the respective performance of business segments and companies within the Group, can be measured and evaluated. Detailed operating and capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the Management Committee. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods. The Group's strategic direction is also reviewed through a rigorous assessment process taking into account changes in market conditions and significant business risks.

- **Information and Communications Technology**

  Information and communications technology (ICT) 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 ICT systems in ensuring that the technology can act as an enabler to improve business processes including adherence to the Group's business objectives, policies and procedures whilst enhancing work productivity and decision-making throughout the Group.

- **Tender Committee**

  Tender Committees which comprise cross functional representatives have been established to carry out independent review on tender proposals and provide the oversight function on tendering activities for major purchases, ensuring activities are carried out in accordance with the established procedures and guidelines as well as approval by the relevant approving authorities as set out by the LOA.

- **Employees Performance Management**

  The Group selects talents for employment through a structured recruitment process. The leadership and technical competency of staff are continuously enhanced through a structured training and development programme. A performance management system is in place to facilitate wholesome assessment of staff performance, including individual objectives, leadership and behaviors on a periodic basis.

- **Whistleblowing Policy**

  The Group has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group employees and members of the public to disclose any improper conduct in accordance with the procedures as provided under the policy. Under the Whistleblowing Policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who whistle blows internally will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts, rules and procedures involved. The process is undertaken by PETRONAS' Whistleblowing Committee. The policy and procedures are accessible to the public for reference on the Company's official corporate website at www.petronaschemicals.com.

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

The Group has reviewed the policy and guidelines on RPT/RRPT and COI to ensure full compliance to the MMLR of Bursa Malaysia. The guidelines and procedures established a more comprehensive processes be put in place determining that RPTs/RRPTs are conducted on normal commercial terms, and not to the detriment of the Group's minority shareholders. Such methods include the review and disclosure procedures are listed as follows:

1	Directors and officers of the Company and its Group shall not enter into transactions with related parties unless these transactions are carried out on normal commercial terms and are not to the detriment of the Group's minority shareholders.
2	All sourcing and sales of PCG's products, general merchandise shared facilities shall be based on market negotiated pricing terms and conditions and/or pricing formulas quoted against international price benchmarks.
3	Whenever practicable, at least two other quotations should be sought, with organisations of similar standing.
4	All RPTs will be reviewed by the BAC prior to the approval by either the Board or the shareholders. All related party transactions will be reported to the BAC on a quarterly basis.
5	The BAC is responsible to ensure that the policies and procedures relating to RPTs/ RRPTs and COI situations are sufficient to ensure that RPTs/RRPTs are carried out on normal commercial terms and not to the detriment of the Group's minority shareholders.
6	On an annual basis, all Directors and any related party of the Group will declare in writing an annual declaration form, designed to elicit information about potential relationships and/or COI situations, involving their interest, either directly or indirectly. All Directors and any related party of the Group shall also notify in writing of any interest in RPT/RRPT or COI situation when it becomes known to them.
7	The Group's Legal and Corporate Secretariat performs reviews on all commercial contracts. System based records are maintained to capture the RPTs/RRPTs which have been entered into. Processes concerning negotiations, tendering and analysis carried out for transactions between related parties are appropriately documented and retained to support and evidence that such transactions have been carried out on normal commercial terms and are not detrimental to the Group's non-controlling interests.

Management's Accountability

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

Conclusion

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

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

Review of the Statement by External Auditors

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide (AAPG 3), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants (MIA) for inclusion in the integrated report of the Group for the year ended 31 December 2019, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the integrated report of the Group, in all material respects:

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

(b) is factually inaccurate.

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

This Statement on Risk Management and Internal Control is made in accordance with the resolution of the Board dated 26 February 2020.

YEOH SIEW MING
CHAIRMAN
BOARD AUDIT COMMITTEE

APPROACHING OUR FINANCIAL REPORT

FINANCIAL STATEMENTS DECODED

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

Statement of Profit or Loss and Other Comprehensive Income

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

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

Statement of Financial Position

This statement sums up the Group's economic resources (total assets), obligations (debts and other liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2019. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.

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

Statement of Cash Flows

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

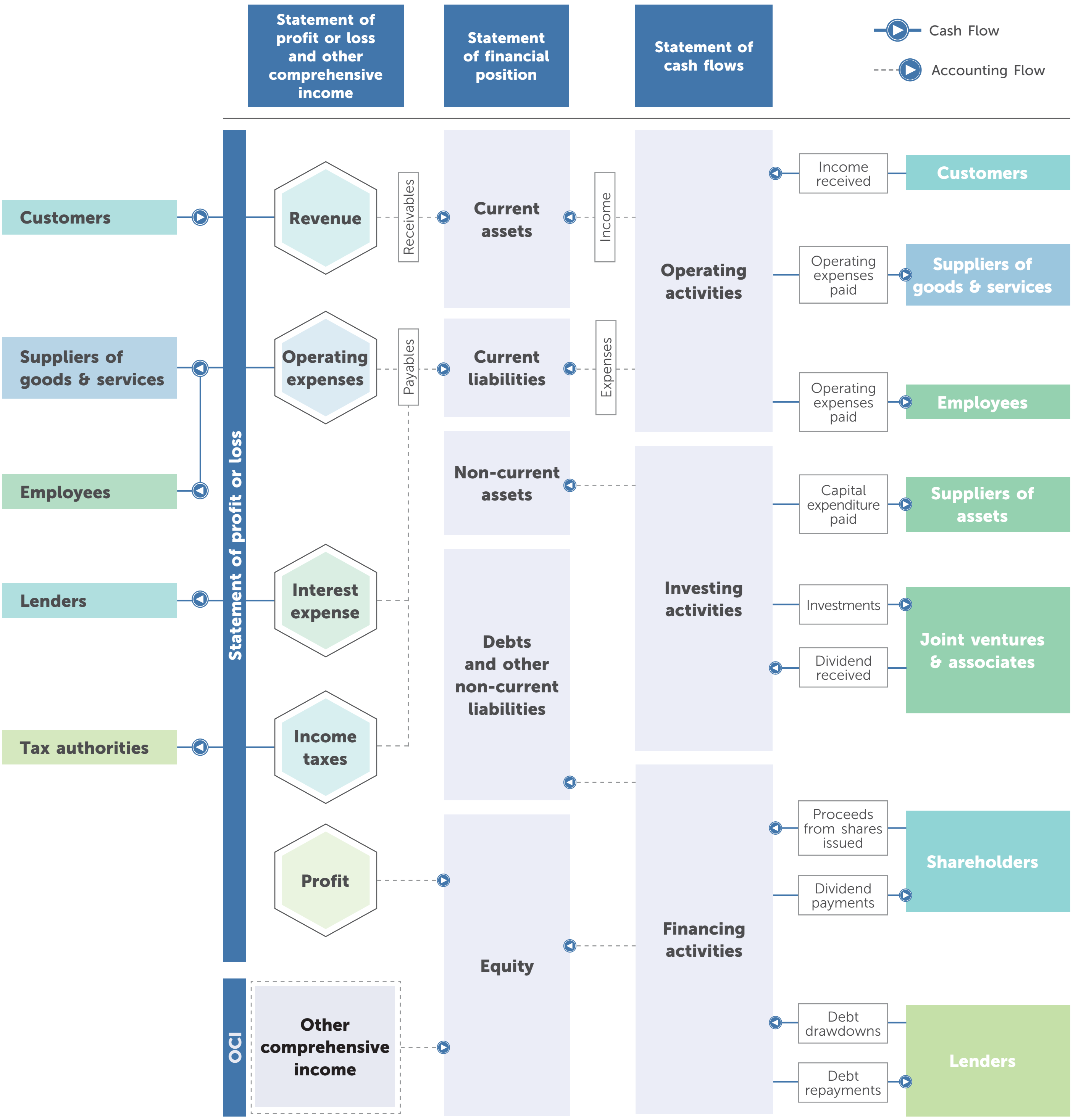
“Where the company gets its cash and how it spends it”

APPROACHING OUR FINANCIAL REPORT

Financial Statements Illustrated

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

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



STATEMENT OF DIRECTORS' RESPONSIBILITY

(in relation to the Financial Statements)

The financial statements of the Group and of the Company as set out on pages 67 to 151 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 2019 and of the results of its operations and cash flows for the year ended on that date.

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

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

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

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

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

The principal activities of subsidiaries, and nature of relationship of joint ventures and associates are stated in Note 27, Note 28 and Note 29 to the financial statements respectively and the Board of Directors deem such information included in the Company's Directors' Report by such reference and shall form part of the Company's Directors' Report.

ULTIMATE HOLDING COMPANY

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

SUBSIDIARIES

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

RESULTS

	Group RM Mil	Company RM Mil
Profit for the year	2,795	854
Attributable to:		
Shareholders of the Company	2,811	854
Non-controlling interests	(16)	–

DIVIDENDS

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

(i) In respect of the financial year ended 31 December 2018 as reported in the Directors' Report of that year, a second interim dividend of 18 sen per ordinary share amounting to RM1,440 million was declared on 25 February 2019 and was paid on 27 March 2019; and

(ii) In respect of the financial year ended 31 December 2019, a first interim dividend of 11 sen per ordinary share amounting to RM880 million was declared on 13 August 2019 and was paid on 13 September 2019.

The Directors have declared a second interim dividend of 7 sen per ordinary share amounting to RM560 million in respect of the financial year ended 31 December 2019 which is payable on 27 March 2020. The dividend will be recognised and accounted for in equity as an appropriation of retained profits in the subsequent financial year.

RESERVES AND PROVISIONS

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

DIRECTORS OF THE COMPANY

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

Datuk Md Arif bin Mahmood
Datuk Sazali bin Hamzah
Datuk Toh Ah Wah
Freida binti Amat
Warren William Wilder
Dr Zafar Abdulmajid Momin
Yeoh Siew Ming (appointed on 15 May 2019)
Noor Ilias bin Mohd Idris (appointed on 15 May 2019)
Vimala a/p V.R. Menon (retired on 13 August 2019)
Ching Yew Chye (retired on 29 April 2019)
Zakaria bin Kasah (resigned on 15 May 2019)

In accordance with Article 107 of the Company's Constitution, Datuk Md Arif bin Mahmood and Datuk Toh Ah Wah are due for retirement by rotation at the forthcoming Annual General Meeting (AGM) of the Company. Datuk Md Arif bin Mahmood and Datuk Toh Ah Wah, being eligible for re-election have given their consent for re-election at the forthcoming AGM.

In accordance with Article 100 of the Company's Constitution, Yeoh Siew Ming and Noor Ilias bin Mohd Idris, who were appointed as Directors during the year shall hold office until the conclusion of the forthcoming AGM, and being eligible, offer themselves for re-election.

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

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

DIRECTORS' INTERESTS

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

	Number of ordinary shares in the Company			
Name	**Balance at 1.1.2019/ date of appointment**	**Bought**	**Sold**	**Balance at 31.12.2019**
Datuk Md Arif bin Mahmood	20,000	–	–	20,000
Freida binti Amat	6,000	–	–	6,000
Noor Ilias bin Mohd Idris	6,000	–	–	6,000

None of the other Directors holding office at 31 December 2019 had any interest in the shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

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

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

INDEMNITY AND INSURANCE COSTS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors and Officers Liability Insurance in accordance with Section 289 of the Companies Act, 2016. The total insured limit for the Directors and Officers Liability Insurance effected for the Directors and Officers of PETRONAS Group was RM1,290 million (2018: RM1,290 million) per occurrence and in the aggregate. The insurance premium for the Company is RM25,224 (2018: RM21,706).

OTHER STATUTORY INFORMATION

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

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

(ii) any current assets which were unlikely to be realised in the ordinary course of business, 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 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.

OTHER STATUTORY INFORMATION (CONTINUED)

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2019 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

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

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

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

are disclosed in Note 32 to the financial statements.

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

SIGNIFICANT EVENTS

The significant events are as disclosed in Note 41 to the financial statements.

AUDITORS

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

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

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

Datuk Md Arif bin Mahmood
Director

Datuk Sazali bin Hamzah
Director

Kuala Lumpur,
Date: 26 February 2020

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 67 to 151, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial positions of the Group and of the Company as of 31 December 2019 and of their financial performance and cash flows for the financial year then ended on that date.

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

Datuk Md Arif bin Mahmood
Director

Datuk Sazali bin Hamzah
Director

Kuala Lumpur,
Date: 26 February 2020

STATUTORY DECLARATION

I, Rashidah binti Alias @ Ahmad, the officer primarily responsible for the financial management of PETRONAS Chemicals Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 67 to 151, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Rashidah binti Alias @ Ahmad, (MIA No. 40115), at Kuala Lumpur in Wilayah Persekutuan on 26 February 2020.

Before me:

Zainul Abidin Bin Ahmad
Commissioner of Oaths (No. W790)

Malaysia
26 February 2019

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		Group			Company	
	Note	31.12.2019 RM Mil	31.12.2018 restated RM Mil	1.1.2018 restated RM Mil	31.12.2019 RM Mil	31.12.2018 RM Mil
ASSETS						
Property, plant and equipment	3	**20,482**	19,080	20,792	**5,670**	4,459
Prepaid lease payments	4	**–**	28	42	**–**	–
Investments in subsidiaries	5	**–**	–	–	**21,824**	20,864
Investments in joint ventures and associates	6	**1,058**	1,232	1,192	**1,204**	1,204
Intangible assets	7	**584**	–	1	**–**	–
Long term receivables	8	**–**	29	113	**–**	–
Deferred tax assets	9	**971**	237	300	**–**	–
TOTAL NON-CURRENT ASSETS		**23,095**	20,606	22,440	**28,698**	26,527
Trade and other inventories	10	**1,658**	1,698	1,723	**12**	1
Trade and other receivables	11	**1,994**	2,668	2,370	**130**	280
Tax recoverable		**71**	64	55	**–**	2
Cash and cash equivalents	13	**12,045**	12,329	6,674	**3,221**	6,462
TOTAL CURRENT ASSETS		**15,768**	16,759	10,822	**3,363**	6,745
TOTAL ASSETS		**38,863**	37,365	33,262	**32,061**	33,272
EQUITY						
Share capital	14	**8,871**	8,871	8,871	**8,871**	8,871
Reserves	15	**21,062**	20,693	18,270	**20,128**	21,603
Total equity attributable to shareholders of the Company		**29,933**	29,564	27,141	**28,999**	30,474
Non-controlling interests	16	**605**	684	985	**–**	–
TOTAL EQUITY		**30,538**	30,248	28,126	**28,999**	30,474
LIABILITIES						
Borrowings	17	**1,875**	–	–	**1,875**	–
Lease liabilities		**627**	–	–	**396**	–
Deferred tax liabilities	9	**906**	1,320	949	**–**	1
Other long term liabilities and provisions	18	**1,699**	583	738	**34**	34
TOTAL NON-CURRENT LIABILITIES		**5,107**	1,903	1,687	**2,305**	35
Borrowings	17	**–**	2,072	–	**–**	2,072
Lease liabilities		**78**	–	–	**6**	–
Trade and other payables	19	**3,063**	3,001	3,322	**751**	691
Current tax payables		**77**	141	127	**–**	–
TOTAL CURRENT LIABILITIES		**3,218**	5,214	3,449	**757**	2,763
TOTAL LIABILITIES		**8,325**	7,117	5,136	**3,062**	2,798
TOTAL EQUITY AND LIABILITIES		**38,863**	37,365	33,262	**32,061**	33,272

The notes set out on pages 74 to 151 are an integral part of these financial statements.

STATEMENTS OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

		Group		Company	
	Note	2019 RM Mil	2018 restated RM Mil	2019 RM Mil	2018 RM Mil
Revenue	20	**16,370**	19,576	**997**	2,204
Cost of revenue		**(11,914)**	(12,702)	**–**	–
Gross profit		**4,456**	6,874	**997**	2,204
Selling and distribution expenses		**(878)**	(818)	**–**	–
Administration expenses		**(754)**	(694)	**(302)**	(245)
Other expenses		**(107)**	(200)	**(52)**	(471)
Other income		**523**	503	**234**	559
Operating profit	21	**3,240**	5,665	**877**	2,047
Financing costs	22	**(31)**	(17)	**(7)**	(6)
Share of (loss)/profit of equity-accounted joint ventures and associates, net of tax		**(54)**	108	**–**	–
Profit before taxation		**3,155**	5,756	**870**	2,041
Tax expense	23	**(360)**	(882)	**(16)**	(12)
Profit for the year		**2,795**	4,874	**854**	2,029
Other comprehensive (expense)/income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		**(112)**	166	**(9)**	42
Share of other comprehensive income of equity-accounted joint ventures and associates		**6**	36	**–**	–
Total other comprehensive (expense)/ income for the year		**(106)**	202	**(9)**	42
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,689**	5,076	**845**	2,071
Profit/(Loss) attributable to:					
Shareholders of the Company		**2,811**	4,788	**854**	2,029
Non-controlling interests		**(16)**	86	**–**	–
PROFIT FOR THE YEAR		**2,795**	4,874	**854**	2,029
Total comprehensive income/(expense) attributable to:					
Shareholders of the Company		**2,705**	4,991	**845**	2,071
Non-controlling interests		**(16)**	85	**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,689**	5,076	**845**	2,071
Basic earnings per ordinary share (sen)	24	**35.1**	59.9	**–**	–

The notes set out on pages 74 to 151 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Share capital (Note 14) RM Mil	Foreign currency translation reserve (Note 15) RM Mil	Merger reserve (Note 15) RM Mil	Other reserves (Note 15) RM Mil	Retained profits RM Mil	Total RM Mil	Non-controlling interests RM Mil	Total equity RM Mil
	Attributable to shareholders of the Company							
	Non-distributable				*Distributable*			
Balance at 1 January 2019	8,871	(77)	(204)	604	20,370	29,564	684	30,248
– Effect of adoption of MFRS 16	–	–	–	–	(11)	(11)	(1)	(12)
Balance at 1 January 2019 restated	8,871	(77)	(204)	604	20,359	29,553	683	30,236
Foreign currency translation differences	–	(108)	–	(4)	–	(112)	–	(112)
Share of other comprehensive income of equity-accounted joint ventures and associates	–	–	–	6	–	6	–	6
Total other comprehensive (expense)/ income for the year	–	(108)	–	2	–	(106)	–	(106)
Profit for the year	–	–	–	–	2,811	2,811	(16)	2,795
Total comprehensive (expense)/income for the year	–	(108)	–	2	2,811	2,705	(16)	2,689
Redemption of redeemable preference shares in subsidiaries	–	–	–	381	(381)	–	–	–
Additional shares issued to a non-controlling interest	–	–	–	–	–	–	5	5
Additional equity interest in a subsidiary	–	–	–	–	(5)	(5)	(5)	(10)
Dividends to shareholders of the Company (Note 25)	–	–	–	–	(2,320)	(2,320)	–	(2,320)
Dividends to non-controlling interests	–	–	–	–	–	–	(68)	(68)
Total transactions with owners of the Group	–	–	–	381	(2,706)	(2,325)	(68)	(2,393)
Acquisition of a subsidiary (Note 41 (ii))	–	–	–	–	–	–	6	6
Balance at 31 December 2019	8,871	(185)	(204)	987	20,464	29,933	605	30,538

The notes set out on pages 74 to 151 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Share capital (Note 14) RM Mil	Foreign currency translation reserve (Note 15) RM Mil	Merger reserve (Note 15) RM Mil	Other reserves (Note 15) RM Mil	Retained profits RM Mil	Total RM Mil	Non-controlling interests RM Mil	Total equity RM Mil
	Attributable to shareholders of the Company							
	Non-distributable				*Distributable*			
Balance at 1 January 2018 as previously reported	8,871	(244)	(204)	461	18,981	27,865	1,003	28,868
– Effect of change in accounting policy (Note 39)	–	–	–	–	(724)	(724)	(18)	(742)
Balance as at 1 January 2018 restated	8,871	(244)	(204)	461	18,257	27,141	985	28,126
Foreign currency translation differences	–	167	–	–	–	167	(1)	166
Share of other comprehensive income of equity-accounted joint ventures and associates	–	–	–	36	–	36	–	36
Total other comprehensive income for the year	–	167	–	36	–	203	(1)	202
Profit for the year	–	–	–	–	4,788	4,788	86	4,874
Total comprehensive income for the year	–	167	–	36	4,788	4,991	85	5,076
Redemption of redeemable preference shares in subsidiaries	–	–	–	107	(107)	–	–	–
Additional equity interest in subsidiaries	–	–	–	–	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company (Note 25)	–	–	–	–	(2,320)	(2,320)	–	(2,320)
Total transactions with owners of the Group	–	–	–	107	(2,675)	(2,568)	(386)	(2,954)
Balance at 31 December 2018	8,871	(77)	(204)	604	20,370	29,564	684	30,248

The notes set out on pages 74 to 151 are an integral part of these financial statements.

Company	Share capital (Note 14) RM Mil	Foreign currency translation reserve (Note 15) RM Mil	Merger relief (Note 15) RM Mil	Other reserves (Note 15) RM Mil	Retained profits RM Mil	Total equity RM Mil
	Attributable to shareholders of the Company					
	Non-distributable				***Distributable***	
Balance at 1 January 2019	**8,871**	**10**	**7,176**	**–**	**14,417**	**30,474**
Foreign currency translation differences	**–**	**(5)**	**–**	**(4)**	**–**	**(9)**
Profit for the year	**–**	**–**	**–**	**–**	**854**	**854**
Total comprehensive (expense)/ income for the year	**–**	**(5)**	**–**	**(4)**	**854**	**845**
Dividends to shareholders of the Company (Note 25)	**–**	**–**	**–**	**–**	**(2,320)**	**(2,320)**
Balance at 31 December 2019	**8,871**	**5**	**7,176**	**(4)**	**12,951**	**28,999**
Balance at 1 January 2018	8,871	–	7,176	–	14,749	30,796
Foreign currency translation differences	–	42	–	–	–	42
Profit for the year	–	–	–	–	2,029	2,029
Total comprehensive income for the year	–	42	–	–	2,029	2,071
Dividends to shareholders of the Company (Note 25)	–	–	–	–	(2,320)	(2,320)
Others	–	(32)	–	–	(41)	(73)
Balance at 31 December 2018	8,871	10	7,176	–	14,417	30,474

The notes set out on pages 74 to 151 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM Mil	2018 restated RM Mil	2019 RM Mil	2018 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**3,155**	5,756	**870**	2,041
Adjustment for:					
– depreciation and amortisation		**1,659**	1,619	**2**	3
– dividend income		**–**	–	**(997)**	(2,204)
– financing costs		**31**	17	**7**	6
– interest income		**(377)**	(315)	**(165)**	(204)
– loss on partial divestment of a subsidiary		**–**	160	**–**	49
– share of loss/(profit) of equity-accounted joint ventures and associates, net of tax		**54**	(108)	**–**	–
– other non-cash items		**(24)**	(99)	**44**	126
Operating profit/(loss) before changes in working capital		**4,498**	7,030	**(239)**	(183)
Change in trade and other inventories		**181**	(31)	**(11)**	(1)
Change in trade and other receivables		**803**	(292)	**120**	(14)
Change in trade and other payables		**26**	99	**49**	(79)
Cash generated from/(used in) operations		**5,508**	6,806	**(81)**	(277)
Interest income received		**377**	304	**165**	176
Taxation paid		**(341)**	(443)	**(15)**	(16)
Net cash generated from/(used in) operating activities		**5,544**	6,667	**69**	(117)
CASH FLOWS FROM INVESTING ACTIVITIES					
Dividends received from:					
– subsidiaries		**–**	–	**873**	2,080
– joint ventures and associates		**126**	124	**124**	124
Financial assistance to a subsidiary		**–**	–	**(20)**	(19)
Interest income from loans to a subsidiary		**–**	–	**–**	28
Investments in:					
– subsidiaries		**–**	–	**(1,341)**	(1,356)
– an associate		**–**	(21)	**–**	(21)
Loans to a subsidiary		**–**	–	**–**	(1,714)
Payment for acquisition of a subsidiary, net of cash acquired	41	**(769)**	–	**–**	–
Payment for transaction cost for acquisition of a subsidiary		***(30)**	–	**–**	–
Payment for settlement of forward foreign exchange contract		**(902)**	–	**(902)**	–
Proceeds from settlement of forward foreign exchange contract		**898**	–	**898**	–
Proceeds from disposal of property, plant and equipment		**1**	2	**–**	–
Proceeds from partial divestment, net of cash divested at Group/share of cash and cash equivalents retained as joint operation at Company		**–**	969	**–**	1,671
Purchase of property, plant and equipment	(i)	**(2,351)**	(2,913)	**(756)**	(742)
Redemption of preference shares in subsidiaries		**–**	–	**381**	1,347
Repayment of shareholders loans from a subsidiary		**–**	–	**–**	3,885
Net cash (used in)/generated from investing activities		**(3,027)**	(1,839)	**(743)**	5,283

* This includes among others, fees for professional services in respect of the acquisition transaction.

The notes set out on pages 74 to 151 are an integral part of these financial statements.

	Note	Group		Company	
		2019 RM Mil	2018 restated RM Mil	2019 RM Mil	2018 RM Mil
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to:					
– PETRONAS		**(1,493)**	(1,493)	**(1,493)**	(1,493)
– others (third parties)		**(827)**	(827)	**(827)**	(827)
– non-controlling interests		**(68)**	–	**–**	–
Drawdown of term loans, net of transaction costs		**1,895**	3,886	**1,895**	–
Repayment of term loan:					
– principal		**(2,071)**	–	**(2,071)**	–
– interest		**(58)**	(44)	**(58)**	(44)
Payment to a non-controlling interest on additional equity interest		**(10)**	(634)	**–**	–
Proceeds from shares issued to a non-controlling interest		**5**	–	**–**	–
Payment of lease liabilities:					
– principal		**(81)**	(49)	**(4)**	–
– interest		**(50)**	(7)	**(29)**	–
Net cash (used in)/generated from financing activities	26	**(2,758)**	832	**(2,587)**	(2,364)
Net cash flows from operating, investing and financing activities		**(241)**	5,660	**(3,261)**	2,802
Effect of foreign currency translation differences		**(5)**	(17)	**21**	–
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(246)**	5,643	**(3,240)**	2,802
NET FOREIGN EXCHANGE DIFFERENCES ON CASH HELD		**(38)**	12	**(1)**	31
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**12,329**	6,674	**6,462**	3,629
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	13	**12,045**	12,329	**3,221**	6,462

Total cash outflows for leases for the Group and the Company comprise payment of lease liabilities, short-term lease, low-value assets and variable lease payments amounting to RM162 million and RM33 million respectively.

(i) Acquisition of property, plant and equipment

During the financial year, the Group and the Company acquired property, plant and equipment with an aggregated cost of RM2,355 million (2018: RM3,186 million) and RM877 million (2018: RM932 million) respectively. Reconciliation of the acquisition cost in the property, plant and equipment as disclosed in Note 3 and Statements of Cash Flows is as follows:

	Note	Group		Company	
		2019 RM Mil	2018 RM Mil	2019 RM Mil	2018 RM Mil
Addition of property, plant and equipment excluding right-of-use assets	3	**2,355**	3,186	**877**	932
Adjustment for non-cash items:					
Accruals movement		**111**	(163)	**(15)**	(80)
Interest on term loan capitalised	3	**(59)**	(44)	**(59)**	(44)
Interest on lease liabilities capitalised	3	**(32)**	–	**(29)**	–
Depreciation on right-of-use assets capitalised	3	**(19)**	–	**(13)**	–
Others		**(5)**	(66)	**(5)**	(66)
Purchase of property, plant and equipment		**2,351**	2,913	**756**	742

The notes set out on pages 74 to 151 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 and the requirements of the Companies Act, 2016 in Malaysia.

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

As of 1 January 2019, the Group and the Company have adopted new MFRS, amendments to MFRS and IC Interpretation (collectively referred to as "pronouncements") that have been issued by Malaysian Accounting Standards Board (MASB) as described fully in Note 35.

MASB has also issued revised pronouncements which are not yet effective for the Group and the Company and therefore, have not been adopted for in these financial statements. These pronouncements including their impact on the financial statements in the period of initial applications are set out in Note 36. New pronouncement that are not relevant to the operations of the Group and of the Company are set out in Note 37.

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2020.

1.2 Basis of measurement

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

1.3 Functional and presentation currency

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

1.4 Use of estimates and judgments

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

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

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

(i) Note 2.13 : Taxation;
(ii) Note 3 : Property, plant and equipment; and
(iii) Note 18 : Other long term liabilities and provisions.

2. SIGNIFICANT ACCOUNTING POLICIES

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

At 1 January 2019, arising from the adoption of MFRS 16 *Leases*, there are changes to the accounting policies applied to contracts that contain a lease as compared to those adopted in previous financial years. The impacts arising from the changes are disclosed in Note 38.

The Group and the Company have also applied the amendments in relation to MFRS 123 *Borrowing Costs* arising from the Annual Improvements to MFRS Standards 2015 – 2017 Cycle ("the Annual Improvement"). The Annual Improvement clarifies that general borrowing includes specific borrowings which no longer have a qualifying asset. Accordingly, the Group and the Company have capitalised specific borrowing costs when the qualifying asset is no longer available. In previous financial years, the borrowing costs for specific borrowing, if any, were expensed off to profit or loss when the qualifying asset is no longer available. The changes in the accounting policies are disclosed in Note 35 (ii).

During the financial year, the Group changed its accounting policy on investment tax credit. In the previous financial years, all tax incentives were recognised as tax credits. In the current financial year, tax incentives with the features similar to government grant are recognised as deferred tax assets (subject to availability of future taxable profits) with a corresponding deferred income. The Group continues to account for tax incentives that do not have features similar to government grant as tax credits. The measurement of certain tax incentives using government grant method provides more relevant and fair information to the financial statements users. In addition, the accounting method will reflect the substance of the tax incentives. The change in accounting policy has been made retrospectively and the impacts on comparative information are disclosed in Note 39.

2.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries 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 investment includes transaction costs.

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

Subsidiaries that were acquired from PETRONAS upon Initial Public Offering (IPO) are consolidated using the merger method of accounting. Other subsidiaries are consolidated using the acquisition method of accounting.

Under the merger method of accounting, the results of entities or businesses under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented, or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts in the consolidated statements of financial position. The difference between the cost of acquisition and the nominal value of the shares acquired are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within the Group.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group. The identifiable assets acquired and the liabilities assumed are measured at their fair values at the acquisition date. The cost of the acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interest in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss.

Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired recognised directly in equity.

The Group measures goodwill as the excess of the cost of an acquisition and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-controlling interests

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

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

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

Loss of control

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

(ii) Joint arrangements

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

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

(iii) Associates

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

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

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

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

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

When the Group's interest in an associate decreases but does not result in loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets and liabilities.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Property, plant and equipment and depreciation

Recognition and measurement

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

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

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

Subsequent Cost

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

Depreciation

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

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

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

Buildings	14 – 66 years
Plant and equipment	3 – 67 years
Office equipment, furniture and fittings	5 – 7 years
Computer software and hardware	5 years
Motor vehicles	3 – 5 years

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

Derecognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Leases

The Group and the Company have applied MFRS 16 *Leases* using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated i.e. it is presented, as previously reported under MFRS 117 *Leases* and related interpretations.

Previous financial year

Leased assets

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

(i) Finance lease

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

Minimum lease payments made under finance leases were 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, were recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

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

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

(ii) Operating lease

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

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

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

(iii) Prepaid lease payments

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Leases (continued)

Current financial year

Definition of lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Company assess whether:

- the contract involves the use of an identified asset – this may be specified explicity or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Group and the Company allocate the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

(i) As a lessee

Recognition and initial measurement

The Group and the Company recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate is used.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- penalties for early termination of a lease unless the Group and the Company are reasonably certain not to early terminate the contract.

The Group and the Company exclude variable lease payments that linked to future performance or usage of the underlying asset from the lease liability.

Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Group and the Company assesses at lease commencement whether it is reasonably certain to exercise the extension options in determining the lease term.

The Group and the Company have elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group and the Company recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group and the Company present right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'lease liabilities' in the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Leases (continued)

(i) As a lessee (continued)

Subsequent measurement

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's and the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Group and the Company change its assessment of whether it will exercise purchase, extension or termination option. The Group and the Company will reassess whether it is reasonably certain to exercise the extension option if there is a significant change in circumstances within its control.

When the lease liability is remeasured as described in the above paragraph, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

When there is lease modification due to increase in scope of lease by adding the right-to-use one or more underlying assets, the Group or the Company assess whether the modification is accounted for as a separate lease or similar to reassessment of lease liability. The Group or the Company account for lease modification as a separate lease when the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments.

When there is lease modification due to decrease in scope, the Group or the Company decrease the carrying amount of the right-of-use asset and remeasure the lease liability to reflect the partial or full termination of the lease. The corresponding gain or loss shall be recognised in profit or loss. Lease liabilities are remeasured for all other lease modifications with corresponding adjustments to the right-of-use asset.

(ii) As a lessor

Recognition and initial measurement

When the Group or the Company act as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group and the Company make an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group and the Company apply MFRS 15 *Revenue from Contracts with Customers* to allocate the consideration in the contract based on the stand-alone selling price.

The Group and the Company recognise assets held under a finance lease in its statement of financial position and presents them as a receivables at an amount equal to the net investment in the lease. The Group and the Company use the interest rate implicit in the lease to measure the net investment in the lease.

When the Group or the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group or the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Leases (continued)

(ii) As a lessor (continued)

Subsequent measurement

The Group and the Company recognise lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

The Group and the Company recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group and the Company's net investment in the lease. The Group and the Company aim to allocate finance income over the lease term on a systematic and rational basis. The Group and the Company apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income. The net investment in the lease is subject to impairment requirements in MFRS 9 *Financial Instruments* (see Note 2.8).

2.4 Investments

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

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

2.5 Intangible assets

(i) Goodwill

Goodwill arising from business combinations is initially measured at cost as described in Note 2.1 (i). Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Other intangible assets

Other intangible assets comprise license from third party, trademark and patent are measured on initial recognition at cost.

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

Amortisation for other intangible assets are recognised in the profit or loss on a straight-line basis over the estimated economic useful life. The amortisation method and the useful life for other intangible assets are reviewed at each reporting date. Other intangible assets are assessed for impairment whenever there is an indication that it may be impaired.

The estimated useful life for the current and comparative year is 5-10 years.

Subsequent expenditure on other 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 recognised in profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments

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

(i) Financial assets

Recognition and initial measurement

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

Regular way purchases or sales of financial assets (purchases or sales under a contract whose terms require delivery of financial assets within a time frame established by regulation or convention in the marketplace concerned) are recognised on the trade date i.e. the date that the Group or the Company commits to purchase or to sell the financial assets.

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

Classification and subsequent measurement

Financial assets are classified as measured at fair value through profit or loss (FVTPL) and amortised cost, as appropriate.

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

Financial assets at fair value through profit or loss

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

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.7.

Amortised cost

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(ii) Financial liabilities

Recognition and initial measurement

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

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

Classification and subsequent measurement

Financial liabilities are classified as measured at fair value through profit or loss (FVTPL) and amortised cost, as appropriate.

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

Amortised cost

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

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

(iii) Financial guarantee contracts

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(iv) Hedge accounting

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

(v) Derivative financial instruments

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

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

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

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

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

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

(vi) Effective interest method

Amortised cost was computed using the effective interest method. This method used 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) Offsetting of financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

(viii) Amortised cost of financial instruments

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets where the effective interest rate is applied to the amortised cost (see Note 2.8 (i)).

(ix) Derecognition of financial instruments

Financial assets

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

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

Financial liabilities

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

2.7 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) 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 at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

(ii) Non-financial assets

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

When measuring the fair value of an asset or a liability, the Group or the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input).

The Group and the Company recognise transfer between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment

(i) Financial assets

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

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

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

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

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

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

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

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

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

(ii) Other assets

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment (continued)

(ii) Other assets (continued)

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

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

2.9 Inventories

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

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

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

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

2.11 Provisions

A provision is recognised if, as a result of a past event, the Group or the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Future operating losses are not provided for. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

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

Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plans

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

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

Such contributions are recognised as an expense in profit or loss as incurred.

2.13 Taxation

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

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the financial year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous financial years.

(ii) Deferred tax

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

Tax incentives with the features similar to government grant are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised, as deferred tax assets with a corresponding deferred income. Subsequently, the deferred income is amortised to profit or loss as other income on a systematic basis over the periods in which the related costs, for which the tax incentives are intended to compensate, are expensed to profit or loss. The Group continues to account for tax incentives that do not have features similar to government grant as tax credits.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Foreign currency transactions

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

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

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

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

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

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

2.15 Revenue

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

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

Other revenue comprises revenue from sales of specialty chemicals when or as it transfers control over a product or service to customer and revenue from port services rendered which is recognised based on the actual and estimated throughput volume and port charges.

2.16 Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Financing costs

Financing costs comprise interest payable on borrowings and lease liabilities 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 costs directly attributable to the acquisition, construction or production of qualifying assets (assets that necessarily take a substantial period of time to get ready for their intended use or sale), which are capitalised as part of the cost of those assets.

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

Previous financial year

In previous years, borrowing costs incurred subsequent to the completion of a specific qualifying asset were expensed off to profit or loss.

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.

Current financial year

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific qualifying asset, in which the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borowings, will be capitalised. Borrowings costs incurred subsequent to the completion a specific qualifying asset are included in the determination of the capitalisation rate.

2.18 Equity instruments

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

(i) Issuance expenses

Costs directly attributable to the issuance of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

2.19 Basic earnings per ordinary share

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

Basic earnings per share is calculated by dividing the profit and loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the financial year.

2.20 Operating segment

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

2.21 Government grants

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

3. PROPERTY, PLANT AND EQUIPMENT

Group 2019	At 1.1.2019 as previously reported RM Mil	Effect of adoption of MFRS 16 RM Mil	At 1.1.2019 as restated RM Mil	Acquisition of a subsidiary (Note 41 (ii)) RM Mil	Additions RM Mil
At cost:					
Own use					
Leasehold land	291	(291)	–	–	–
Buildings	1,847	25	1,872	34	2
Plant and equipment	28,597	(763)	27,834	21	52
Office equipment, furniture and fittings	348	–	348	1	–
Computer software and hardware	346	–	346	–	4
Motor vehicles	40	–	40	–	–
Project-in-progress	5,718	(2)	5,716	3	2,297
	37,187	(1,031)	36,156	59	2,355
Right-of-use					
Leasehold land	–	561	561	–	–
Building	–	1	1	–	–
Plant and equipment	–	771	771	–	330
Motor vehicles	–	8	8	–	6
Vessels	–	–	–	–	99
	–	1,341	1,341	–	435
	37,187	310	37,497	59	2,790

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Group 2019	At 1.1.2019 as previously reported RM Mil	Effect of adoption of MFRS 16 RM Mil	At 1.1.2019 as restated RM Mil	Charge for the year RM Mil
Accumulated depreciation and impairment losses:				
Own use				
Leasehold land	90	(90)	–	–
Buildings	697	8	705	46
Plant and equipment	16,877	(634)	16,243	1,459
Office equipment, furniture and fittings	151	–	151	39
Computer software and hardware	260	–	260	32
Motor vehicles	30	–	30	4
Project-in-progress	2	–	2	–
	18,107	(716)	17,391	1,580
Right-of-use				
Leasehold land	–	103	103	20
Building	–	–	–	–
Plant and equipment	–	610	610	56
Motor vehicles	–	–	–	4
Vessels	–	–	–	18
	–	713	713	98
	18,107	(3)	18,104	1,678

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3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2019	Disposals/ write-offs RM Mil	Transfer RM Mil	Translation exchange difference RM Mil	At 31.12.2019 RM Mil
At cost:				
Own use				
Leasehold land	–	–	–	–
Buildings	(1)	12	(1)	1,918
Plant and equipment	(3)	720	(1)	28,623
Office equipment, furniture and fittings	(3)	7	–	353
Computer software and hardware	(14)	26	–	362
Motor vehicles	(4)	–	–	36
Project-in-progress	(2)	(765)	(75)	7,174
	(27)	–	(77)	38,466
Right-of-use				
Leasehold land	–	–	(1)	560
Building	–	–	–	1
Plant and equipment	–	–	(4)	1,097
Motor vehicles	–	–	–	14
Vessels	–	–	(1)	98
	–	–	(6)	1,770
	(27)	–	(83)	40,236

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Group 2019	Disposals/ write-offs RM Mil	Impairment write back RM Mil	Translation exchange difference RM Mil	At 31.12.2019 RM Mil
Accumulated depreciation and impairment losses:				
Own use				
Leasehold land	-	-	-	-
Buildings	6	-	-	757
Plant and equipment	(9)	-	(1)	17,692
Office equipment, furniture and fittings	(3)	-	-	187
Computer software and hardware	(14)	-	-	278
Motor vehicles	(4)	-	-	30
Project-in-progress	-	(2)	-	-
	(24)	(2)	(1)	18,944
Right-of-use				
Leasehold land	-	-	-	123
Building	-	-	-	-
Plant and equipment	-	-	-	666
Motor vehicles	-	-	-	4
Vessels	-	-	(1)	17
	-	-	(1)	810
	(24)	(2)	(2)	19,754

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Included in the accumulated depreciation and impairment losses of property, plant and equipment are impairment losses carried forward of RM266 million (2018: RM268 million).

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

^ Included in the disposals/write-offs of property, plant and equipment were items amounting to RM3,236 million in relation to the divestment of 50% equity interest and shareholder loans in PPC.

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

Group 2018	At 1.1.2018 RM Mil	Charge for the year RM Mil	Disposals/ write-offs RM Mil	Impairment loss RM Mil	At 31.12.2018 RM Mil
Accumulated depreciation and impairment losses:					
Leasehold land	86	4	–	–	90
Buildings	653	44	–	–	697
Plant and equipment	16,457	1,489	(1,069)	–	16,877
Office equipment, furniture and fittings	116	42	(7)	–	151
Computer software and hardware	230	36	(6)	–	260
Motor vehicles	31	3	(4)	–	30
Projects-in-progress	–	–	–	2	2
	17,573	1,618	(1,086)	2	18,107

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	2019 RM Mil	2018 RM Mil
Carrying amount:		
Own use		
Leasehold land	**–**	201
Buildings	**1,161**	1,150
Plant and equipment	**10,931**	11,720
Office equipment, furniture and fittings	**166**	197
Computer software and hardware	**84**	86
Motor vehicles	**6**	10
Projects-in-progress	**7,174**	5,716
	19,522	19,080
Right-of-use		
Leasehold land	**437**	–
Lease properties	**1**	–
Plant and equipment	**431**	–
Motor vehicles	**10**	–
Vessels	**81**	–
	960	–
	20,482	19,080

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2019	At 1.1.2019 as previously reported RM 000	Effect of adoption of MFRS 16 RM 000	At 1.1.2019 as restated RM 000	Additions RM 000
At cost:				
Own use				
Office equipment, furniture and fittings	749	–	749	43
Computer software and hardware	17,933	–	17,933	20
Motor vehicles	677	–	677	–
Projects-in-progress	4,453,467	–	4,453,467	877,235
	4,472,826	–	4,472,826	877,298
Right-of-use				
Leasehold land	–	79,612	79,612	–
Plant and equipment	–	–	–	329,360
	–	79,612	79,612	329,360
	4,472,826	79,612	4,552,438	1,206,658

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Company 2019	At 1.1.2019 RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000
Accumulated depreciation:			
Own use			
Office equipment, furniture and fittings	455	153	–
Computer software and hardware	13,248	1,639	(189)
Motor vehicles	517	77	(369)
	14,220	1,869	(558)
Right-of-use			
Leasehold land	–	2,865	–
Plant and equipment	–	11,477	–
	–	14,342	–
	14,220	16,211	(558)

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3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2019	Disposals/ write-offs RM 000	Transfers RM 000	Translation exchange difference RM 000	At 31.12.2019 RM 000
At cost:				
Own use				
Office equipment, furniture and fittings	–	–	–	792
Computer software and hardware	(189)	917	(3)	18,678
Motor vehicles	(369)	–	–	308
Projects-in-progress	–	(7,843)	(48,279)	5,274,580
	(558)	(6,926)	(48,282)	5,294,358
Right-of-use				
Leasehold land	–	–	(823)	78,789
Plant and equipment	–	–	(3,009)	326,351
	–	–	(3,832)	405,140
	(558)	^(6,926)	(52,114)	5,699,498

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^ This is in relation to software development expenditure backcharged to subsidiaries.

Company 2019	Translation exchange difference RM 000	At 31.12.2019 RM 000
Accumulated depreciation:		
Own use		
Office equipment, furniture and fittings	–	608
Computer software and hardware	(1)	14,697
Motor vehicles	–	225
	(1)	15,530
Right-of-use		
Leasehold land	–	2,865
Plant and equipment	–	11,477
	–	14,342
	(1)	29,872

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3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

^ This was in relation to software programming cost expensed off in the previous year of RM19,895.

Company 2018	At 1.1.2018 RM 000	Interest in Joint Operation RM 000	Charge for the year RM 000	Disposals/ write-offs RM 000	Translation exchange difference RM 000	At 31.12.2018 RM 000
Accumulated depreciation:						
Office equipment, furniture and fittings	315	–	156	(16)	–	455
Computer software and hardware	10,317	53	2,960	(86)	4	13,248
Motor vehicles	440	–	77	–	–	517
	11,072	53	3,193	(102)	4	14,220

Company	2019 RM 000	2018 RM 000
Carrying amount:		
Own use		
Office equipment, furniture and fittings	**184**	294
Computer software and hardware	**3,981**	4,685
Motor vehicles	**83**	160
Projects-in-progress	**5,274,580**	4,453,467
	5,278,828	4,458,606
Right-of-use		
Leasehold land	**75,924**	–
Plant and equipment	**314,874**	–
	390,798	–
	5,669,626	4,458,606

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Project-in-progress

The additions to project-in-progress during the financial year include the following:

	Group		Company	
	2019 RM Mil	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Interest on term loan	**59**	44	**59**	44
Interest on lease liabilities	**32**	–	**29**	–
Depreciation of right–of–use assets	**19**	–	**14**	–
	110	44	**102**	44

The capitalisation rates used to determine the amount of the borrowing cost eligible for capitalisation for the Group and the Company are 3.94% (2018: 2.19%) and 4.00% (2018: 2.19%) respectively.

As a lessee

Depreciation of right-of-use assets

	Group	Company
2019	**RM Mil**	**RM Mil**
Capitalised in property, plant and equipment	**19**	**14**
Recognised in profit or loss	**79**	**–**
	98	**14**

Extension options

Certain lease contracts contain extension options exercisable by the Group before the end of the non-cancellable contract period. Where practicable, the Group includes extension options in leases contracts to provide operational flexibility.

The discounted potential future lease payments arising from extension options in certain lease contracts are not included in the lease liabilities due to the uncertainties in the terms of the extension. The Group is still in the midst of negotiating the terms as at the reporting date.

4. PREPAID LEASE PAYMENTS

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

As at 1 January 2019, the prepaid lease payments balance of RM28 million is reclassified as right-of-use assets following the adoption of MFRS 16 *Leases*.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 RM Mil	**2018 RM Mil**
Investments in unquoted shares, at cost	**22,436**	21,456
Less: Impairment losses	**(612)**	(592)
	21,824	20,864

The increase in investment in subsidiaries mainly relates to the formation of a subsidiary for the purpose of acquisition of a subsidiary as disclosed in Note 41 (ii).

Summarised financial information of non-controlling interests has not been included as the non-controlling interests of the subsidiaries are not individually material to the Group.

Details of subsidiaries are stated in Note 27.

6. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	Group		Company	
	2019 RM Mil	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Investments in unquoted shares, at cost	**1,073**	1,073	**1,204**	1,204
Share of post-acquisition profits and reserves	**(15)**	159	**-**	-
	1,058	1,232	**1,204**	1,204

Summarised financial information has not been included as the joint ventures and associates are not individually material to the Group.

Details of joint ventures and associates are stated in Note 28 and Note 29 respectively.

7. INTANGIBLE ASSETS

Group	At 1.1.2018 RM Mil	Addition/ charge for the year RM Mil	At 31.12.2018/ 1.1.2019 RM Mil	Addition/ charge for the year RM Mil	At 31.12.2019 RM Mil
Goodwill	–	–	–	**^583**	**583**
Other intangible assets					
– At cost	23	–	23	**1**	**24**
– Accumulated amortisation	22	1	23	**–**	**23**

	2019 RM Mil	2018 RM Mil
Carrying amount		
– Goodwill	**583**	–
– Other intangible assets	**1**	–
	584	–

^ Addition of goodwill relates to the acquisition of a subsidiary as disclosed in Note 41 (ii).

For the purpose of impairment testing, goodwill is allocated to specialty chemicals cash-generating unit which represents the lowest level within the Group and at which the goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount is the higher of fair value less cost of disposal.

As the acquisition is an arm's length transaction and there is no significant adverse events between the date of acquisition until the year end, the consideration paid represents the best evidence of the subsidiary's fair value less cost of disposal. The fair value measurement is categorised as a Level 2 fair value.

8. LONG TERM RECEIVABLES

Group	2019 RM Mil	2018 RM Mil
Prepayment	**–**	29

Upon adoption of MFRS 16 *Leases*, the prepayment in the previous financial year relating to use of pipeline have been reclassified to right-of-use assets under property, plant and equipment.

9. DEFERRED TAX

Recognised deferred tax assets/liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets			Liabilities		
	31.12.2019 RM Mil	**31.12.2018 RM Mil**	**1.1.2018 RM Mil**	**31.12.2019 RM Mil**	**31.12.2018 restated RM Mil**	**1.1.2018 restated RM Mil**
Property, plant and equipment	**62**	64	69	**(2,264)**	(2,385)	(2,412)
Unused reinvestment allowances	**–**	1	6	**–**	–	–
Unused investment tax allowances	**1,762**	581	799	**–**	–	–
Unused tax losses	**14**	25	195	**–**	–	–
Unabsorbed capital allowances	**461**	540	483	**–**	–	–
Pre–commencement expenses	**–**	–	115	**–**	–	–
Others	**41**	100	100	**(11)**	(9)	(4)
Tax assets/(liabilities)	**2,340**	1,311	1,767	**(2,275)**	(2,394)	(2,416)
Set off tax	**(1,369)**	(1,074)	(1,467)	**1,369**	1,074	1,467
Net tax assets/(liabilities)	**971**	237	300	**(906)**	(1,320)	(949)

continue below

Group	Net		
	31.12.2019 RM Mil	**31.12.2018 restated RM Mil**	**1.1.2018 restated RM Mil**
Property, plant and equipment	**(2,202)**	(2,321)	(2,343)
Unused reinvestment allowances	**–**	1	6
Unused investment tax allowances	**1,762**	581	799
Unused tax losses	**14**	25	195
Unabsorbed capital allowances	**461**	540	483
Pre-commencement expenses	**–**	–	115
Others	**30**	91	96
Tax assets/(liabilities)	**65**	(1,083)	(649)
Set off tax	**–**	–	–
Net tax assets/(liabilities)	**65**	(1,083)	(649)

continued from above

9. DEFERRED TAX (CONTINUED)

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

Group 2019	At 31.12.2018 RM Mil	Effect of adoption of MFRS 16 RM Mil	At 1.1.2019 as restated RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	Addition RM Mil	At 31.12.2019 RM Mil
Deferred tax assets						
Property, plant and equipment	64	–	64	(2)	–	62
Unused reinvestment allowances	1	–	1	(1)	–	–
Unused investment tax allowances	581	–	581	(54)	1,235	1,762
Unused tax losses	25	–	25	(11)	–	14
Unabsorbed capital allowances	540	–	540	(79)	–	461
Others	100	1	101	(60)	–	41
	1,311	1	1,312	(207)	1,235	2,340
Deferred tax liabilities						
Property, plant and equipment	(2,385)	2	(2,383)	119	–	(2,264)
Others	(9)	–	(9)	(2)	–	(11)
	(2,394)	2	(2,392)	117	–	(2,275)
	(1,083)	3	(1,080)	(90)	^1,235	65

^ This is in relation to recognition of investment tax allowance with a corresponding deferred income at a subsidiary upon receipt of approval from the authority.

9. DEFERRED TAX (CONTINUED)

Group 2018	At 31.12.2018 as previously reported RM Mil	Effect of change in accounting policy (Note 39) RM Mil	At 1.1.2018 restated RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2018 restated RM Mil
Deferred tax assets					
Property, plant and equipment	69	–	69	(5)	64
Unused reinvestment allowances	6	–	6	(5)	1
Unused investment tax allowances	799	–	799	(218)	581
Unused tax losses	195	–	195	(170)	25
Unabsorbed capital allowances	483	–	483	57	540
Pre-commencement expenses	115	–	115	(115)	–
Others	100	–	100	–	100
	1,767	–	1,767	(456)	1,311
Deferred tax liabilities					
Property, plant and equipment	(2,301)	(111)	(2,412)	27	(2,385)
Others	(4)	–	(4)	(5)	(9)
	(2,305)	(111)	(2,416)	22	(2,394)
	(538)	(111)	(649)	(434)	(1,083)

Unrecognised deferred tax assets

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

Group	2019 RM Mil	2018 RM Mil
Unused tax losses	**1,444**	1,350
Unused reinvestment allowances	**27**	21
	1,471	1,371

In accordance with the provision of Finance Act 2018 requirement, the unused tax losses and unused reinvestment tax allowances are available for utilisation in the next seven years from when it was incurred, for which, any excess at the end of the seventh year, will be disregarded. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the subsidiaries can utilise the benefits.

9. DEFERRED TAX (CONTINUED)

Company 2019	At 1.1.2019 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2019 RM Mil
Deferred tax liabilities			
Others	**1**	**(1)**	**–**

Company 2018	At 1.1.2018 RM Mil	Charged/ (Credited) to profit or loss (Note 23) RM Mil	At 31.12.2018 RM Mil
Deferred tax liabilities			
Others	1	–	1

10. TRADE AND OTHER INVENTORIES

	Group		Company	
	2019 RM Mil	2018 RM Mil	2019 RM Mil	2018 RM Mil
Petrochemical products				
– Raw materials	**16**	38	**–**	–
– Finished goods	**471**	752	**–**	–
Stores, spares and others	**1,171**	908	**12**	1
	1,658	1,698	**12**	1

11. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	**2019 RM Mil**	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Trade receivables	11.1	**1,464**	1,700	**–**	–
Amount due from PETRONAS	11.2				
– Non-trade		**35**	315	**–**	1
Amount due from subsidiaries	11.3				
– Non-trade		**–**	–	**28**	23
Amount due from joint ventures and associates	11.3				
– Trade		**203**	283	**–**	–
– Non-trade		**5**	2	**5**	2
Amount due from related companies	11.3				
– Trade		**105**	115	**–**	–
– Non-trade		**4**	16	**–**	9
Other receivables, deposits and prepayments	11.4	**171**	227	**97**	245
Derivative assets	12	**7**	10	**–**	–
		1,994	2,668	**130**	280

11.1 Included in trade receivables is an amount due from a corporate shareholder of a subsidiary of RM47 million (2018: RM116 million).

11.2 Included in amount due from PETRONAS is GST recoverable of RM32 million (2018: RM307 million) for the Group and RM Nil (2018: RM1 million) for the Company.

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

11.4 Included in other receivables of the Group and the Company are expenses due from a joint operator amounting to RM62 million (2018: RM62 million). The amount is receivable on demand.

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

12. DERIVATIVE ASSETS/(LIABILITIES)

Group	Note	2019 RM Mil	2018 RM Mil
Derivative assets			
Current			
Forward foreign exchange contracts		**7**	10
Included within:			
Trade and other receivables	11	**7**	10
Derivative liabilities			
Current			
Forward foreign exchange contracts		**(7)**	(8)
Included within:			
Trade and other payables	19	**(7)**	(8)

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

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 RM Mil	2018 RM Mil	2019 RM Mil	2018 RM Mil
Cash with PETRONAS Integrated Financial Shared Service Centre (IFSSC)				
– Conventional	**9,934**	10,023	**1,431**	4,278
– Islamic	**1,588**	2,067	**1,588**	2,067
Cash and bank balances	**523**	239	**202**	117
	12,045	12,329	**3,221**	6,462

The Group's and the Company's cash and bank balances are held in an In-House Account (IHA) managed by PETRONAS IFSSC to enable more efficient cash management for the Group and for the Company.

Included in cash with PETRONAS IFSSC and cash and bank balances for the Group and the Company are interest-bearing balances amounting to RM11,871 million (2018: RM12,314 million) and RM3,221 million (2018: RM6,462 million) respectively.

14. SHARE CAPITAL

	Group and Company	
	2019 RM Mil	**2018 RM Mil**
Issued and fully paid:		
8,000,000,000 ordinary shares with no par value	**8,871**	8,871

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

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

15. RESERVES

Merger reserve

Group

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

Company

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

Foreign currency translation reserve

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

Other reserves

Other reserves comprise primarily reserve created upon redemption of preference shares, gain or loss on the hedging instrument in the cash flow hedge that is determined to be an effective hedge and the Group's share of its joint venture and associate companies' reserves.

16. NON-CONTROLLING INTERESTS

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

17. BORROWINGS

	Group		Company	
	2019 RM Mil	2018 RM Mil	2019 RM Mil	2018 RM Mil
Non-current				
Term loans – secured	**1,875**	–	**1,875**	–
Current				
Term loan – unsecured	**–**	2,072	**–**	2,072

The secured term loans relate to project financing facility of a joint operation company amounting to USD914 million, net of transaction costs. The loans bear interest margin above 6-month LIBOR ranging from 0.80% to 1.74% per annum and are repayable from 2021 to 2034.

The loans are secured in the following manner:

(i) Completion guarantee from the ultimate holding company, PETRONAS on several and not joint basis which will be uplifted and terminated upon meeting all project completion requirements;

(ii) Cross-guarantee arrangement under an integrated borrowing structure due to the nature of the project with a related party as disclosed in Note 34; and

(iii) Charge over ordinary shares and the land lease rights of the said joint operation company.

The unsecured term loan in the previous year relates to a bridge loan facility of the said joint operation company amounting to USD1.0 billion. The bridge loan bore interest of LIBOR + 0.4% per annum and was fully repaid during the financial year.

18. OTHER LONG TERM LIABILITIES AND PROVISIONS

		Group			Company	
	Note	31.12.2019 RM Mil	31.12.2018 restated RM Mil	1.1.2018 restated RM Mil	2019 RM Mil	2018 RM Mil
Deferred income	18.1	**1,484**	420	526	**–**	–
Deferred consideration	18.2	**81**	–	–	**–**	–
Finance lease liabilities	18.3	**–**	42	88	**–**	–
Provisions	18.4	**110**	89	81	**34**	34
Other payables		**24**	32	43	**–**	–
		1,699	583	738	**34**	34

18.1 Deferred income

The Group's deferred income relates to tax incentives with the features similar to government grant.

During the financial year, the Group recognised deferred income amounting to RM1,235 million on upon receipt of approval for investment tax allowance at a subsidiary.

18.2 Deferred consideration

The Group's deferred consideration relates to the acquisition of a subsidiary as disclosed in Note 41 (ii) where final payment is expected to be paid in 2022.

18. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

18.3 Finance lease liabilities

Group	Note	2018		
		Minimum lease payments RM Mil	Interest RM Mil	Principal RM Mil
Less than 1 year	19.1	49	3	46
Between 1 to 5 years		45	3	42
		94	6	88

As at 1 January 2019, finance lease liabilities have been reclassified to lease liabilities following the adoption of MFRS 16 *Leases*.

18.4 Provisions

Group	Note	2019 RM Mil	2018 RM Mil
Non-current		**110**	89
Current	19	**8**	8
		118	97

The movements of provisions are as follows:

	RM Mil
At 1.1.2019	**97**
Provisions made	**16**
Provisions utilised	**(1)**
Unwinding of discount factor	**6**
At 31.12.2019	**118**

18. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

18.4 Provisions (continued)

The Group's provisions comprise:

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

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

The provisions have been made based on present value of estimated decommissioning amount payable over a period of 11 years (2018: 5 years) using a discount rate of 8.6% (2018: 8.6%).

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

The provision has been made based on present value of estimated decommissioning amount using a discount rate of 4.8% (2018: 4.8%).

Company	Note	2019 RM Mil	2018 RM Mil
Non-current		**34**	34
Current	19	**16**	18
		50	52

The movements of provisions are as follows:

	RM Mil
At 1.1.2019	**52**
Provisions made	**14**
Provisions utilised	**(20)**
Unwinding of discount factor	**4**
At 31.12.2019	**50**

The Company's provision comprises provision for financial assistance in relation to subscription of redeemable preference shares in a subsidiary to meet the subsidiary's obligation in respect of decommissioning activities and other related expenses. The provision has been made based on present value of estimated funding requirements for decommissioning costs and settlement of onerous contracts over a period of 11 years (2018: 5 years) using a discount rate of 8.6% (2018: 8.6%).

19. TRADE AND OTHER PAYABLES

		Group			Company	
	Note	31.12.2019 RM Mil	31.12.2018 restated RM Mil	1.1.2018 restated RM Mil	2019 RM Mil	2018 RM Mil
Trade payables		**140**	51	142	**–**	–
Other payables	19.1	**1,358**	1,628	1,940	**278**	437
Amount due to PETRONAS	19.2					
– Trade		**125**	303	439	**–**	–
– Non-trade		**150**	102	68	**20**	26
Amount due to subsidiaries	19.2					
– Non-trade		**–**	–	–	**4**	12
Amount due to related companies	19.2					
– Trade		**726**	604	402	**–**	–
– Non-trade		**543**	276	305	**433**	198
Amount due to joint ventures and associates	19.2					
– Trade		**4**	20	–	**–**	–
– Non-trade		**2**	1	–	**–**	–
Provisions	18.4	**8**	8	11	**16**	18
Derivative liabilities	12	**7**	8	15	**–**	–
		3,063	3,001	3,322	**751**	691

19.1 Included in other payables for the Group is the current portion of deferred income as per Note 18.1 amounting to RM152 million (31.12.2018: RM105 million, 1.1.2018: RM105 million) and the current portion of finance lease liabilities amounting to RM Nil (2018: RM46 million).

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

20. REVENUE

	Group		Company	
	2019 RM Mil	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Sales of petrochemical products, net	**16,112**	19,521	**–**	–
Dividend income	**–**	–	**997**	2,204
Others	**258**	55	**–**	–
	16,370	19,576	**997**	2,204

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

Nature of goods

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

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

Transaction price allocated to performance obligations

Most of the Group's contracts are based on master service agreement whereby the contracted volumes are agreed on annual basis. An insignificant amount of contracts have original contract period of more than one year.

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

21. OPERATING PROFIT

		Group		Company	
	Note	2019 RM Mil	2018 restated RM Mil	2019 RM Mil	2018 RM Mil
Included in operating profit are the following charges:					
Auditors' remuneration*		**5**	2	**2**	–
Amortisation of other intangible assets	7	**–**	1	**–**	–
Depreciation of property, plant and equipment	3	**1,659**	1,618	**2**	3
Loss on partial divestment of a subsidiary		**–**	160	**–**	49
Net loss on foreign exchange		**39**	–	**35**	123
Staff costs					
– wages, salaries and others		**1,021**	889	**149**	136
– contributions to Employees Provident Fund		**124**	121	**20**	18
Impairment loss on property, plant and equipment		**–**	2	**–**	–
Inventories					
– written down to net realisable value		**13**	9	**–**	–
– written-off		**34**	3	**–**	–
and credits:					
Amortisation of deferred income		**125**	106	**–**	–
Net gain on foreign exchange		**–**	35	**–**	–
Dividend income					
– subsidiaries		**–**	–	**873**	2,080
– joint ventures and associates		**–**	–	**124**	124
Interest income					
– others		**377**	315	**165**	176
– subsidiaries		**–**	–	**–**	28
Impairment write back on property, plant and equipment		**2**	–	**–**	–
Management fee		**–**	–	**62**	65

* The auditors' remuneration includes the following:

	Group		Company	
	2019 RM 000	2018 RM 000	2019 RM 000	2018 RM 000
Statutory audit fees				
– KPMG PLT	**1,298**	852	**162**	166
– Other auditors	**1,602**	713	**15**	–
Non-audit audit fees				
– KPMG PLT	**663**	181	**393**	181
– Other auditors	**1,384**	107	**1,080**	41
	4,947	1,853	**1,650**	388

22. FINANCING COSTS

	Group		Company	
	2019 RM Mil	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Unwinding of discount factor for other long term liabilities and provisions	**10**	15	**4**	4
Interest on lease liabilities	**18**	–	**–**	–
Financial guarantee fee on term loan	**3**	2	**3**	2
	31	17	**7**	6

23. TAX EXPENSE

	Group		Company	
	2019 RM Mil	**2018 Restated RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Current tax expenses				
Current year	**268**	456	**19**	13
Under/(Over) provision in prior year	**2**	(8)	**(2)**	(1)
	270	448	**17**	12
Deferred tax expenses				
Origination and reversal of temporary differences	**88**	424	**(1)**	–
Under provision in prior year	**2**	10	**–**	–
	90	434	**(1)**	–
	360	882	**16**	12

23. TAX EXPENSE (CONTINUED)

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

Group	%	2019 RM Mil	%	2018 restated RM Mil
Profit before taxation		**3,155**		5,756
Taxation at Malaysian statutory tax rate	**24**	**757**	24	1,381
Non-deductible expenses, net	**2**	**52**	4	234
Tax exempt income and incentives	**(2)**	**(62)**	(1)	(73)
Effect of lower tax rate under Global Incentive for Trading (GIFT)	**(14)**	**(441)**	(13)	(722)
Effect of net deferred tax benefits not recognised	**–**	**11**	–	7
Derecognition of previously recognised tax losses and reinvestment allowance	**–**	**13**	1	45
Others	**1**	**26**	–	8
	11	**356**	15	880
Under provision in prior year		**4**		2
Tax expense		**360**		882

Company	%	2019 RM Mil	%	2018 RM Mil
Profit before taxation		**870**		2,041
Taxation at Malaysian statutory tax rate	**24**	**209**	24	490
Non-deductible expenses	**8**	**66**	4	85
Tax exempt income	**(30)**	**(257)**	(28)	(562)
	2	**18**	–	13
Over provision in prior year		**(2)**		(1)
Tax expense		**16**		12

24. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for year ended 31 December 2019 was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

	Group	
	2019	**2018 restated**
In RM million		
Profit for the year attributable to shareholders of the Company	**2,811**	4,788
In millions of shares		
Number of shares issued at 31 December	**8,000**	8,000
In sen		
Basic earnings per ordinary share	**35.1**	59.9

Diluted earnings per ordinary share

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

25. DIVIDENDS

Company	Sen per share	Total amount RM Mil	Date of payment
2019			
Second interim dividend for financial year ended 31 December 2018	18	**1,440**	27 March 2019
First interim dividend for financial year ended 31 December 2019	11	**880**	13 September 2019
		2,320	
2018			
Second interim dividend for financial year ended 31 December 2017	15	1,200	21 March 2018
First interim dividend for financial year ended 31 December 2018	14	1,120	20 September 2018
		2,320	

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

	Sen per share	Total amount RM Mil
Second interim dividend for financial year ended 31 December 2019	**7**	560

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

26. NET CASH USED IN FINANCING ACTIVITIES

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

Group 2019	Borrowings RM Mil	Lease liabilities RM Mil	Dividend payable RM Mil
At 1.1.2019	**2,072**	**88**	**–**
– Effect of adoption of MFRS 16	**–**	**267**	**–**
At 1.1.2019 restated	**2,072**	**355**	**–**
Changes from financing cash flows			
Dividends paid to:			
– PETRONAS	**–**	**–**	**(1,493)**
– others (third parties)	**–**	**–**	**(827)**
– non-controlling interest	**–**	**–**	**(68)**
Repayment of term loans:			
– principal	**(2,071)**	**–**	**–**
– interests	**(58)**	**–**	**–**
Payment of lease liabilities:			
– principal	**–**	**(81)**	**–**
– interests	**–**	**(50)**	**–**
Drawdown of term loans, net of transaction costs	**1,895**	**–**	**–**
Total changes from financing cash flows	**(234)**	**(131)**	**(2,388)**
Other changes			
Acquisition of new leases	**–**	**435**	**–**
Financing costs	**58**	**50**	**–**
Effect of foreign currency translation difference	**(21)**	**(4)**	**–**
Dividends declared	**–**	**–**	**2,388**
Total other changes	**37**	**481**	**2,388**
At 31.12.2019	**1,875**	**705**	**–**

26. NET CASH USED IN FINANCING ACTIVITIES (CONTINUED)

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

Group 2018	Borrowings RM Mil	Finance lease liabilities RM Mil	Dividend payable RM Mil
At 1.1.2018	–	137	–
Changes from financing cash flows			
Dividends paid to:			
– PETRONAS	–	–	(1,493)
– others (third parties)	–	–	(827)
Repayment of interests on term loan	(44)	–	–
Payment of finance lease liabilities:			
– principal	–	(49)	–
– interests	–	(7)	–
Drawdown of term loan	3,886	–	–
Total changes from financing cash flows	3,842	(56)	(2,320)
Other changes			
Partial divestment of a subsidiary	(1,931)	–	–
Financing costs	44	7	–
Effect of foreign currency translation difference	117	–	–
Dividends declared	–	–	2,320
Total other changes	(1,770)	7	2,320
At 31.12.2018	2,072	88	–

26. NET CASH USED IN FINANCING ACTIVITIES (CONTINUED)

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

Company 2019	**Borrowings RM Mil**	**Lease liabilities RM Mil**	**Dividend payable RM Mil**
At 1.1.2019	**2,072**	**–**	**–**
– Effect of adoption of MFRS 16	**–**	**80**	**–**
At 1.1.2019 restated	**2,072**	**80**	**–**
Changes from financing cash flows			
Dividends paid to:			
– PETRONAS	**–**	**–**	**(1,493)**
– others (third parties)	**–**	**–**	**(827)**
Repayment of term loans:			
– principal	**(2,071)**	**–**	**–**
– interests	**(58)**	**–**	**–**
Payment of lease liabilities:			
– principal	**–**	**(4)**	**–**
– interests	**–**	**(29)**	**–**
Drawdown of term loan	**1,895**	**–**	**–**
Total changes from financing cash flows	**(234)**	**(33)**	**(2,320)**
Other changes			
Acquisition of new leases	**–**	**329**	**–**
Financing costs	**58**	**29**	**–**
Effect of foreign currency translation difference	**(21)**	**(3)**	**–**
Dividends declared	**–**	**–**	**2,320**
Total other changes	**(37)**	**355**	**2,320**
At 31.12.2019	**1,875**	**402**	**–**

Company 2018	**Borrowings RM Mil**	**Dividend payable RM Mil**
At 1.1.2018	–	–
Changes from financing cash flows		
Dividends paid to:		
– PETRONAS	–	(1,493)
– others (third parties)	–	(827)
Repayment of interests on term loan	(44)	–
Total changes from financing cash flows	(44)	(2,320)
Other changes		
Interest in Joint Operation	2,072	–
Financing costs	44	–
Dividends declared	–	2,320
Total other changes	2,116	2,320
At 31.12.2018	2,072	–

27. SUBSIDIARIES AND ACTIVITIES

Name of company	Effective ownership interest (%) 2019	2018	Country of incorporation	Principal activities
Subsidiaries of the Company				
PETRONAS Chemicals Ammonia Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into ammonia, syngas and carbon monoxide.
PETRONAS Chemicals Derivatives Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into ethylene oxide derivatives, propylene derivatives products and related chemical product.
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into urea, ammonia and methanol.
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	**100**	100	Malaysia	Production and sale of ammonia and urea.
PETRONAS Chemicals Glycols Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into ethylene oxide, ethylene glycol and other related by-products.
PETRONAS Chemicals Isononanol Sdn. Bhd.	**100**	100	Malaysia	Production and sale of processed chemicals and all petrochemicals and chemicals products. The company has not commenced operation during the financial year.
PETRONAS Chemicals Marketing Sdn. Bhd.	**100**	100	Malaysia	Marketing of petrochemical products.
PETRONAS Chemicals LDPE Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into low-density polyethylene.
PETRONAS Chemicals Methanol Sdn. Bhd.	**100**	100	Malaysia	Processing feedstock into methanol.
PETRONAS Chemicals MTBE Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into methyl tertiary butyl ether (MTBE), propylene and n-butane.
PETRONAS Chemicals Olefins Sdn. Bhd.	**100**	100	Malaysia	Processing of feedstock into ethylene, propylene and other hydrocarbon by-products.
PETRONAS Chemicals Polyethylene Sdn. Bhd.	**100**	100	Malaysia	Processing of ethylene into polyethylene.
PRPC Elastomers Sdn. Bhd.	**100**	100	Malaysia	The company has ceased operation and remained dormant thereafter.
Kertih Port Sdn. Bhd.	**100**	100	Malaysia	Owning, operating and managing Kertih Marine Facilities.
Polypropylene Malaysia Sdn. Bhd.	**100**	100	Malaysia	Production and sale of polypropylene and its derivatives. The company has ceased production.
Vinyl Chloride (Malaysia) Sdn. Bhd.	**100**	100	Malaysia	Production and sale of vinyl chloride monomer (VCM) and polyvinyl chloride (PVC). The company had ceased production.
PETRONAS Chemicals International B.V.**	**100**	–	Netherlands	Investment holding company.
PETRONAS Chemicals Ethylene Sdn. Bhd.	**87.50**	87.50	Malaysia	Processing of ethane into ethylene.

27. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

Name of company	Effective ownership interest (%)		Country of incorporation	Principal activities
	2019	2018		
Subsidiaries of the Company (continued)				
PETRONAS Chemicals Aromatics Sdn. Bhd.	**70**	70	Malaysia	Production and sale of paraxylene, benzene and other by-products.
ASEAN Bintulu Fertilizer Sdn. Bhd.	**63.47**	63.47	Malaysia	Processing of natural gas into urea and ammonia.
PCM Chemical India Private Limited*	**0.01**	0.01	India	Marketing and business promotional services. The company had ceased operation and remained dormant thereafter.
Subsidiaries of PETRONAS Chemicals Marketing Sdn. Bhd.				
PETRONAS Chemicals Marketing (Labuan) Ltd.	**100**	100	Malaysia	Marketing and trading of petrochemical products.
PCM (China) Company Limited*	**100**	100	China	Marketing of petrochemical products.
PCM (Thailand) Company Limited*	**^99.99**	^99.99	Thailand	Marketing of petrochemical products.
PT PCM Kimia Indonesia*	**^99.67**	^99.67	Indonesia	Marketing of petrochemical products.
Subsidiaries of PETRONAS Chemicals International B.V.				
Da Vinci Group B.V.*	**100**	–	Netherlands	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.
Subsidiaries of Da Vinci Group B.V.				
BRB Invest B.V.*	**100**	–	Netherlands	Investment holding company.
BRB LAC Invest B.V.*	**100**	–	Netherlands	Real estate company.
Subsidiaries of BRB Invest B.V.				
Karan B.V.*	**100**	–	Netherlands	Real estate company.
Subsidiaries of Karan B.V.				
BRB International B.V.*	**100**	–	Netherlands	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.

27. SUBSIDIARIES AND ACTIVITIES (CONTINUED)

Name of company	Effective ownership interest (%) 2019	2018	Country of incorporation	Principal activities
Subsidiaries of BRB International B.V.				
BRB North America, Inc.*	**100**	–	USA	Own-brand reselling of silicones.
BRB Silicones South Africa Pty Ltd.*	**100**	–	South Africa	Own-brand reselling of silicones.
BRB South America Representacao*	**100**	–	Brazil	Financial services.
BRB Central Eastern Europe Sp. z.o.o.*	**100**	–	Poland	Own-brand reselling of silicones, lube oil additives and chemicals.
BRB ST Kimyasal Sanayl ve Ticaret A.S.*	**100**	–	Turkey	Own-brand reselling of silicones.
BRB Real Estate Canada Inc.*	**100**	–	Canada	Real estate company.
BRB Singapore Pte. Ltd.*	**100**	–	Singapore	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.
CSL Silicones Inc.**	**100**	–	Canada	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.
Subsidiaries of BRB Singapore Pte. Ltd.				
BRB Malaysia Sdn. Bhd.*	**100**	–	Malaysia	Formulating and manufacturing of silicones.
Qingdao BRB Trading Co. Ltd.*	**100**	–	China	Own-brand reselling of silicones, lube oil additives and chemicals.
BRB Hong Kong Limited*	**100**	–	Hong Kong	Own-brand reselling of silicones, lube oil additives and chemicals.
Subsidiaries of BRB LAC Invest B.V.				
BRB Lube Oil Additives & Chemicals B.V.*	**100**	–	Netherlands	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.
Subsidiaries of BRB Lube Oil Additives & Chemicals B.V.				
BRB LAC Singapore Pte. Ltd*	**100**	–	Singapore	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.
Viscotech Asia Pte. Ltd.*	**65**	–	Singapore	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.

* Audited by firms of auditors other than KPMG PLT.
** Audited by a member firm of KPMG International.
^ Wholly-owned subsidiary of the Group as the remaining shareholding is also held by other subsidiary of the Company.

28. JOINT VENTURES AND NATURE OF RELATIONSHIP

The Group includes the following joint ventures:

Name of company	Effective ownership interest (%)		Country of incorporation	Nature of relationship
	2019	**2018**		
Viscotech GmbH	**50**	–	Germany	Own-brand reselling, formulating and manufacturing of silicones, lube oil additives and chemicals.
Kertih Terminals Sdn. Bhd.	**40**	40	Malaysia	Provides bulk chemical storage and handling services to the Group.
BP PETRONAS Acetyls Sdn. Bhd.	**30**	30	Malaysia	Purchases carbon monoxide feedstock from the Group for production and sale of acetic acid.

29. ASSOCIATES AND NATURE OF RELATIONSHIP

The Group includes the following associates:

Name of company	Effective ownership interest (%)		Country of incorporation	Nature of relationship
	2019	**2018**		
BASF PETRONAS Chemicals Sdn. Bhd.	**40**	40	Malaysia	Purchases propylene and n-butane feedstock from the Group for production, marketing and sale of acrylic, oxo and butanediol products.
Idemitsu SM (Malaysia) Sdn. Bhd.	**30**	30	Malaysia	Purchases ethylene feedstock from the Group for production, marketing and sale of styrene monomer.
Malaysian NPK Fertilizer Sdn. Bhd.	**20**	20	Malaysia	Purchases urea feedstock and utilities from the Group for production and sale of NPK fertiliser products.

30. INTEREST IN JOINT OPERATION

The Group's investment in PPC, jointly held with Aramco Overseas Company B.V. with equal shareholdings is accounted for as a joint operation in accordance with MFRS 11 *Joint Arrangements*.

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

31. CAPITAL COMMITMENTS

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

	Group		Company	
	2019 RM Mil	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Property, plant and equipment				
Approved and contracted for	**604**	1,028	**–**	–
Approved but not contracted for	**1,748**	1,438	**334**	23
	2,352	2,466	**334**	23
Investment in shares				
Approved but not contracted for	**–**	–	**132**	483
	2,352	2,466	**466**	506

32. RELATED PARTIES DISCLOSURES

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group's and the Company's related parties include subsidiaries, joint ventures, associates as well as the holding company and its related entities. The Group's and the Company's related parties also include the Government of Malaysia and its related entities as the holding company is wholly-owned by the Government of Malaysia.

(a) Key management personnel compensation

	Group and Company	
	2019 RM 000	**2018 RM 000**
Directors remuneration:		
– Fees	**–**	1,042
– Benefit-in-kind	**24**	21

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

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company have the following transactions with related parties during the financial year:

Group	Note	2019 RM Mil	2018 RM Mil
PETRONAS:			
Purchase of processed gas and natural gas		**(1,829)**	(4,503)
Management fees	32.1	**(9)**	(9)
Centralised management services		**(92)**	(68)
Information, communication and technology charges		**(70)**	(62)
Rental of office space		**(26)**	(22)
Interest income from PETRONAS IFSSC		**371**	286
Subsidiaries of PETRONAS:			
Pengerang Gas Solution Sdn. Bhd.			
Start-up cost		**(71)**	(1)
Pengerang Power Sdn. Bhd.			
Start-up cost		**(90)**	–
PETRONAS Carigali Sdn. Bhd.			
Purchase of processed gas and natural gas		**(115)**	(111)
PETRONAS Energy and Gas Trading Sdn. Bhd.			
Purchase of processed gas and natural gas		**(2,541)**	(25)
PETRONAS Gas Berhad			
Purchase of utilities and materials and supplies		**(757)**	(911)
Purchase of processed gas and natural gas		**(39)**	(42)
PETRONAS Hartabina Sdn. Bhd.			
Rental of land		**(5)**	(7)
PETRONAS Management Training Sdn. Bhd.			
Training and development related costs		**(4)**	(4)
PETRONAS Refinery & Petrochemical Corporation Sdn. Bhd.			
Project expenses		**(99)**	(213)
Project management fees		**–**	(2)
Training and development related (cost)/reimbursement		**(15)**	28
PETRONAS Technical Services Sdn. Bhd.			
Technical retainer fee		**(43)**	(39)
PETRONAS Technical Training Sdn. Bhd.			
Training and development related costs		**(11)**	(8)
PETCO Trading Labuan Company Ltd.			
Sale of petrochemical products		**807**	1,001
Purchase of heavy naphtha		**(1,741)**	(2,352)
Purchase of marine diesel		**(17)**	(11)
PRPC Utilities and Facilities Sdn. Bhd.			
Start-up cost		**(98)**	(8)
Joint ventures of PETRONAS:			
Pengerang Terminal (Two) Sdn. Bhd.			
Start-up cost		**(31)**	(1)
Pengerang Refining Company Sdn. Bhd.			
Training and development related cost		**-**	(31)
Project expenses		**(86)**	(19)
Start-up cost		**(144)**	-

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Group	Note	2019 RM Mil	2018 RM Mil
Joint ventures and associates of the Group:			
BASF PETRONAS Chemicals Sdn. Bhd.			
Sale of petrochemical products		**1,323**	1,523
BP PETRONAS Acetyls Sdn. Bhd.			
Sale of petrochemical products		**299**	508
Purchase of petrochemical products		**(40)**	(54)
Rendering of port services		**14**	18
Idemitsu SM (Malaysia) Sdn. Bhd.			
Sale of petrochemical products		**299**	498
Kertih Terminals Sdn. Bhd.			
Purchase of warehouse and transportation services		**(170)**	(165)
Malaysian NPK Fertilizer Sdn. Bhd.			
Sale of petrochemical products		**23**	20
Corporate shareholder of the Group:			
MJPX Co. Ltd.			
Sale of petrochemical products		**625**	816
Government related entities:			
Pertubuhan Peladang Kebangsaan			
Sale of petrochemical products		**177**	199
Sabah Electricity Sdn. Bhd.			
Purchase of electricity		**(2)**	(2)
Tenaga Nasional Berhad			
Purchase of electricity		**(80)**	(102)

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

Company	Note	2019 RM Mil	2018 RM Mil
PETRONAS:			
Fees for representation on the Board of Directors	32.2	**(685)**	(643)
Reimbursement of key management personnel costs		**(2,276)**	(1,013)
Centralised management services		**(6,716)**	(8,031)
Information, communication and technology charges		**(7,197)**	(8,267)
Rental of office space		**(16,393)**	(15,458)
Interest income from PETRONAS IFSSC		**162,501**	173,850

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Company	Note	2019 RM Mil	2018 RM Mil
Subsidiaries:			
PETRONAS Chemicals Aromatics Sdn. Bhd.			
Dividend income		**147,011**	–
Management fee income		**295**	208
PETRONAS Chemicals Ethylene Sdn. Bhd.			
Dividend income		**35,218**	–
Management fee income		**440**	4,660
PETRONAS Chemicals Ammonia Sdn. Bhd.			
Dividend income		**70,000**	10,000
Management fee income		**4,287**	2,258
PETRONAS Chemicals Derivatives Sdn. Bhd.			
Dividend income		**63,421**	–
Management fee income		**12,046**	4,254
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.			
Dividend income		**99,002**	66,601
Management fee income		**1,149**	3,629
PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.			
Management fee income		**3,331**	3,342
PETRONAS Chemicals Glycols Sdn. Bhd.			
Dividend income		**89,963**	–
Management fee income		**433**	2,505
PETRONAS Chemicals Marketing Sdn. Bhd.			
Dividend income		**–**	195,775
Management fee income		**2,770**	4,924
PETRONAS Chemicals Marketing (Labuan) Ltd.			
Management fee income		**13,641**	12,997
PCM (China) Company Limited			
Management fee income		**68**	262
PCM (Thailand) Company Limited			
Management fee income		**120**	194
PT PCM Kimia Indonesia			
Management fee income		**265**	135
PETRONAS Chemicals Olefins Sdn. Bhd.			
Dividend income		**54,808**	884,569
Management fee income		**2,263**	3,398
PETRONAS Chemicals LDPE Sdn. Bhd.			
Dividend income		**66,000**	80,000
Management fee income		**2,263**	2,679
PETRONAS Chemicals Methanol Sdn. Bhd.			
Dividend income		**–**	148,000
Management fee income		**6,108**	6,096
ASEAN Bintulu Fertilizer Sdn. Bhd.			
Management fee income		**1,564**	3,893
PETRONAS Chemicals MTBE Sdn. Bhd.			
Dividend income		**200,000**	182,000
Management fee income		**7,340**	5,351
Kertih Port Sdn. Bhd.			
Dividend income		**48,000**	58,000
Management fee income		**968**	1,058
PETRONAS Chemicals Polyethylene Sdn. Bhd.			
Management fee income		**498**	2,757

32. RELATED PARTIES DISCLOSURES (CONTINUED)

(b) Significant transactions with related parties (continued)

Company	Note	2019 RM Mil	2018 RM Mil
Subsidiaries of PETRONAS:			
Pengerang Gas Solution Sdn. Bhd.			
Start-up cost		**(70,758)**	(554)
Pengerang Power Sdn. Bhd.			
Start-up cost		**(89,562)**	–
PETRONAS Hartabina Sdn. Bhd.			
Rental of land		**(5,445)**	(6,629)
PETRONAS Refinery & Petrochemical Corporation Sdn. Bhd.			
Project expenses		**(99,089)**	(213,282)
Project management fees		**–**	(2,299)
Training and development related (cost)/reimbursement		**(15,355)**	27,866
PRPC Utilities and Facilities Sdn. Bhd.			
Start-up cost		**(98,385)**	(8,376)
Joint ventures of PETRONAS:			
Pengerang Terminal (Two) Sdn. Bhd.			
Start-up cost		**(30,844)**	(891)
Pengerang Refining Company Sdn. Bhd.			
Training and development related cost		**–**	(30,694)
Project expenses		**(86,401)**	(18,943)
Start-up cost		**(143,776)**	–
Joint ventures and associates:			
Kertih Terminals Sdn. Bhd.			
Dividend income		**52,000**	52,000
BP PETRONAS Acetyls Sdn. Bhd.			
Dividend income		**42,420**	47,240
Idemitsu SM (Malaysia) Sdn. Bhd.			
Dividend income		**30,000**	25,240
Government related entities:			
Malayan Banking Berhad			
Interest income		**76**	449

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

Information regarding outstanding balances arising from related party transactions as at 31 December 2019 is included in Notes 11, 13 and 19 as well as lease liabilities balances as follows:

2019	Group RM Mil	Company RM Mil
Subsidiaries of PETRONAS	**124**	**124**
Joint ventures of PETRONAS	**315**	**315**
Joint ventures of the Group	**272**	**–**
	711	**439**

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

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

33. OPERATING SEGMENTS

For management purposes, the Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Olefins and Derivatives – activities include manufacturing and marketing of a wide range of olefin and polymer products, which are used as basic feedstock for other products, to intermediate products including basic and high performance chemicals.
- Fertilisers and Methanol – activities include manufacturing and marketing methanol and a range of nitrogen, phosphate and compound fertilisers.

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

Performance is measured based on segment profit after tax as included in the internal management reports that are reviewed by the MD/CEO, who is the Group's chief operating decision maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Intersegment pricing is established on commercial basis.

Other non-reportable segment comprises operations related to investment holding company and port services which provide product distribution infrastructure to the Group as well as activities related to specialty chemicals.

Segment assets

The total of segment assets are measured based on all assets of a segment, as included in the internal management reports that are reviewed by the MD/CEO. Segment total asset is used to measure the return of assets of each segment.

Segment liabilities

The Group segment liabilities are measured and managed on a group basis and are not allocated to operating segments.

33. OPERATING SEGMENTS (CONTINUED)

2019	Olefins and Derivatives RM Mil	Fertilisers and Methanol RM Mil	^Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	**1,176**	**1,690**	**(71)**	**–**	**2,795**
Included in the measure of segment profit are:					
Revenue from external customers	**9,947**	**6,165**	**258**	**–**	**16,370**
Inter-segment revenue	**13**	**–**	**44**	**(57)**	**–**
Depreciation and amortisation	**(794)**	**(830)**	**(35)**	**–**	**(1,659)**
Interest income	**106**	**107**	**253**	**(89)**	**377**
Financing costs	**(12)**	**(12)**	**(7)**	**–**	**(31)**
Share of (loss)/profit of equity accounted joint ventures and associates	**(115)**	**14**	**47**	**–**	**(54)**
Tax expense	**(166)**	**(159)**	**(35)**	**–**	**(360)**
Segment assets	**14,847**	**12,932**	**11,095**	**(11)**	**38,863**
Included in the measure of segment assets are:					
Investments in joint ventures and associates	**861**	**135**	**62**	**–**	**1,058**
Additions to non-current assets other than financial instruments and deferred tax assets	**2,355**	**334**	**744**	**–**	**3,433**

^ Includes unallocated assets.

33. OPERATING SEGMENTS (CONTINUED)

2018	Olefins and Derivatives restated RM Mil	Fertilisers and Methanol restated RM Mil	^Others RM Mil	Elimination and adjustment RM Mil	Total restated RM Mil
Segment profit	2,905	2,001	(32)	–	4,874
Included in the measure of segment profit are:					
Revenue from external customers	12,280	7,241	55	–	19,576
Inter-segment revenue	17	128	47	(192)	–
Depreciation and amortisation	(812)	(785)	(22)	–	(1,619)
Interest income	78	62	240	(65)	315
Financing costs	(9)	(6)	(2)	–	(17)
Share of (loss)/profit of equity accounted joint ventures and associates	(34)	96	46	–	108
Tax expense	(436)	(419)	(27)	–	(882)
Segment assets	13,890	12,046	11,443	(14)	37,365
Included in the measure of segment assets are:					
Investments in joint ventures and associates	1,000	165	67	–	1,232
Additions to non-current assets other than financial instruments and deferred tax assets	2,887	292	7	–	3,186

^ Includes unallocated assets.

Geographical information

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

Group 2019	Revenue RM Mil	Non-current assets RM Mil
Malaysia	**6,431**	**20,425**
Asia:		
– China	**2,244**	**1**
– Indonesia	**2,029**	**1**
– Thailand	**1,444**	**–**
– Others	**3,391**	**–**
Rest of the world	**831**	**608**
	16,370	**21,035**

33. OPERATING SEGMENTS (CONTINUED)

Geographical information (continued)

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

Major customers

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

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

(i) Amortised cost (AC); and

(ii) Fair value through profit or loss (FVTPL)
– Mandatorily required by MFRS 9 *Financial Instruments*.

Group 2019	Note	AC RM Mil	FVTPL RM Mil	Total carrying amount RM Mil
Financial assets				
Trade and other receivables*		**1,872**	**7**	**1,879**
Cash and cash equivalents	13	**12,045**	**–**	**12,045**
		13,917	**7**	**13,924**
Financial liabilities				
Other long term liabilities*		**(95)**	**–**	**(95)**
Borrowings	17	**(1,875)**	**–**	**(1,875)**
Trade and other payables*		**(2,890)**	**(7)**	**(2,897)**
		(4,860)	**(7)**	**(4,867)**

* These balances exclude non-financial instruments balances.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Group 2018	Note	AC RM Mil	FVTPL RM Mil	Total carrying amount RM Mil
Financial assets				
Trade and other receivables*		2,192	10	2,202
Cash and cash equivalents	13	12,329	–	12,329
		14,521	10	14,531
Financial liabilities				
Other long term liabilities*		(66)	–	(66)
Borrowings	17	(2,072)	–	(2,072)
Trade and other payables*		(2,870)	(8)	(2,878)
		(5,008)	(8)	(5,016)

* These balances exclude non-financial instruments balances.

Company 2019	Note	AC RM Mil	Total carrying amount RM Mil
Financial assets			
Trade and other receivables*		**124**	**124**
Cash and cash equivalents	13	**3,221**	**3,221**
		3,345	**3,345**
Financial liabilities			
Borrowings	17	**(1,875)**	**(1,875)**
Trade and other payables*		**(732)**	**(732)**
		(2,607)	**(2,607)**

Company 2018	Note	AC RM Mil	Total carrying amount RM Mil
Financial assets			
Trade and other receivables*		110	110
Cash and cash equivalents	13	6,462	6,462
		6,572	6,572
Financial liabilities			
Borrowings	17	(2,072)	(2,072)
Trade and other payables*		(673)	(673)
		(2,745)	(2,745)

* These balances exclude non-financial instruments balances.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management

The Group and the Company are exposed to various financial risks that are particular to its core business of petrochemical. These risks, which arise in the normal course of the Group's and the Company's business, comprise credit risk, liquidity risk and market risk relating to interest rates, foreign currency exchange rates and prices.

The Group has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the Group.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board of Directors level, where relevant, based on defined methodology and translated into operational thresholds.

The Group's and the Company's goal in risk management is to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit/Company adopts appropriate measures to mitigate these risks in accordance with the business unit's/Company's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group's and the Company's exposures to credit risk arise principally from its receivables from customers and intercompany loans and advances. Credit risks are managed by individual subsidiaries in line with PETRONAS' policies and guidelines.

Intercompany loans and advances

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly. As at the end of the reporting period, the maximum exposure to credit risk arising from intercompany loans and advances is represented by their carrying amounts in the statements of financial position.

Receivables

The Group minimises credit risk by ensuring that all potential third party counterparties are subject to credit assessment and approval prior to any transaction being concluded. Existing third party counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's and the Company's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group further mitigates and limits risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit or bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions.

The Group's significant concentration of credit risk for receivables at the end of the reporting date by segment is as follows:

Group	2019 RM Mil	2018 RM Mil
Olefins and Derivatives	**1,282**	1,310
Fertilisers and Methanol	**128**	336
Others	**462**	546
	1,872	2,192

34. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

Credit risk (continued)

Receivables (continued)

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

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

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

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

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

Evidence that a financial asset is credit-impaired includes the following observable data:

(i) significant financial difficulty of the customer;

(ii) a breach of contract such as a default; and

(iii) it is probable that the customer will enter bankruptcy or other financial reorganisation.

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

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

As at the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount.

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

Group	2019 RM Mil	2018 RM Mil
At net		
Current	**1,748**	2,027
Past due 1 to 30 days	**22**	66
Past due 31 to 60 days	**2**	5
	1,772	2,098

With respect to the Group's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Financial guarantee

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

The maximum exposure to credit risk is amounting to RM539 million (2018: RM539 million) which represents the outstanding banking facility of the associate as at reporting date. As at reporting date, there was no indication that the associate would default on repayment.

During the year, in connection to the project financing facility undertaken by the joint operation company under an integrated borrowing structure with a related party ("the Borrowers") as disclosed in Note 17, the Borrowers provide cross-guarantee to the project financing lenders on each other's loan. Upon failure to pay by a Borrower, the project financing lenders would have primary recourse to that Borrower as well as to the other Borrower under the cross-guarantee.

The Group's and the Company's share of maximum exposure to credit risk relating to the cross-guarantee provided by the joint operation company to the related party amounts to RM16,897 million which represents the outstanding loans of the related party as at financial year end. Similarly, the cross-guarantee provided by the related party to the joint operation company as at financial year end is RM1,875 million, being the Group's and the Company's share in the joint operation company.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from its trade and other payables and borrowings. In managing its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's and the Company's operations and to mitigate the effects of fluctuations in cash flows.

Maturity analysis

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

Group 2019	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
Financial liabilities							
Borrowings	1,875	2.95	2,452	57	206	494	1,695
Lease liabilities	705	6.16	1,399	125	171	169	934
Other long term liabilities	95	8.40	113	9	60	44	–
Trade and other payables	2,890	–	2,890	2,890	–	–	–
Derivative liabilities	7	–	7	7	–	–	–
Financial guarantee							
– associate	–	–	539	539	–	–	–
– related party	–	–	*16,897	*16,897	–	–	–
	5,572		24,297	20,524	437	707	2,629

* This relates to project financing facility undertaken by the joint operation company as disclosed in Note 17 and paragraph 3 and 4 on this page.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

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

Group 2018	Carrying amount RM Mil	Contractual interest rates per annum %	Contractual cash flows RM Mil	Within 1 year RM Mil	1-2 years RM Mil	2-5 years RM Mil
Financial liabilities						
Borrowings	2,072	2.75	2,087	2,087	–	–
Finance lease liabilities	88	5.00	94	49	37	8
Other long term liabilities	24	8.40	28	–	14	14
Trade and other payables	2,824	–	2,824	2,824	–	–
Derivative liabilities	8	–	8	8	–	–
Financial guarantee – associate	–	–	539	539	–	–
	5,016		5,580	5,507	51	22

Company 2019	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
Financial liabilities							
Borrowings	**1,875**	**2.95**	**2,452**	**57**	**206**	**494**	**1,695**
Lease liabilities	**402**	**–**	**907**	**37**	**37**	**112**	**721**
Trade and other payables	**732**	**–**	**732**	**732**	**–**	**–**	**–**
Financial guarantee							
– associate	**–**	**–**	**539**	**539**	**–**	**–**	**–**
– related party	**–**	**–**	***16,897**	***16,897**	**–**	**–**	**–**
	3,009		**21,527**	**18,262**	**243**	**606**	**2,416**

* This relates to project financing facility undertaken by the joint operation company as disclosed in Note 17 and page 137.

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

34. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes arising from financial instruments that the Group and the Company are exposed to includes interest rates and foreign currency exchange rates that could affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's and the Company's variable rate instruments are exposed to a risk of change in cash flows due to changes in interest rates whilst fixed rate instruments are exposed to a risk of change in their fair value due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

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

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	Group		Company	
	2019 RM Mil	**2018 RM Mil**	**2019 RM Mil**	**2018 RM Mil**
Fixed rate instruments				
Financial assets	**1,941**	4,370	**1,794**	4,264
Financial liabilities	**(705)**	(88)	**(402)**	–
	1,236	4,282	**1,392**	4,264
Floating rate instruments				
Financial assets	**9,930**	7,944	**1,427**	2,198
Financial liabilities	**(1,875)**	(2,072)	**(1,875)**	(2,072)
	8,055	5,872	**(448)**	126

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

Foreign exchange risk

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

The Group's and the Company's foreign exchange management policies are to minimise economic and significant transactional exposures arising from currency movements.

The Group mainly relies on the natural hedge arising from most of its revenue and expenses being denominated in US Dollar. In addition, the Group, where deemed necessary and appropriate will enter into derivative financial instruments to hedge and minimised exposure to the foreign currency movement in respect of current and forecasted transactions.

34. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Foreign exchange risk (continued)

The Group's and the Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

Group	2019			2018		
	Denominated in			Denominated in		
	USD RM Mil	IDR RM Mil	EURO RM Mil	USD RM Mil	THB RM Mil	EURO RM Mil
Financial assets						
Trade and other receivables*	**177**	**44**	**99**	389	89	–
Cash and cash equivalents	**–**	**8**	**44**	–	79	–
Financial liabilities						
Trade and other payables*	**(23)**	**–**	**(3)**	(32)	(3)	(20)
Net derivative liabilities at nominal value	**(125)**	**(35)**	**(87)**	(231)	(87)	–
Net exposure	**29**	**17**	**53**	126	78	(20)

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

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

Company	Denominated in USD	
	2019 RM Mil	2018 RM Mil
Financial assets		
Trade and other receivables	**62**	62
Net exposure	**62**	62

34. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Price risk

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

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

Fair value information

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

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

Group 2019	Fair value of financial instruments carried at fair value		Fair value of financial instruments not carried at fair value		Carrying amount	Nominal value
	Level 2 RM Mil	Total RM Mil	Level 3 RM Mil	Total RM Mil	Total RM Mil	Total RM Mil
Financial assets						
Forward foreign exchange contracts	**7**	**7**	**–**	**–**	**7**	**467**
Financial liabilities						
Forward foreign exchange contracts	**(7)**	**(7)**	**–**	**–**	**(7)**	**(672)**
Borrowings	**–**	**–**	**(1,875)**	**(1,875)**	**(1,875)**	**–**
	(7)	**(7)**	**(1,875)**	**(1,875)**	**(1,882)**	**(672)**

Group 2018	Fair value of financial instruments carried at fair value		Fair value of financial instruments not carried at fair value		Carrying amount	Nominal value
	Level 2 RM Mil	Total RM Mil	Level 3 RM Mil	Total RM Mil	Total RM Mil	Total RM Mil
Financial assets						
Forward foreign exchange contracts	10	10	–	–	10	1,330
Financial liabilities						
Forward foreign exchange contracts	(8)	(8)	–	–	(8)	(978)
Finance lease liabilities	–	–	(42)	(42)	(42)	–
	(8)	(8)	(42)	(42)	(50)	(978)

34. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company 2019	Fair value of financial instruments not carried at fair value Level 3 RM Mil	Total RM Mil	Carrying amount Total RM Mil
Financial Liabilities			
Borrowings	**(1,875)**	**(1,875)**	**(1,875)**

Forward foreign exchange contracts

The fair value of forward foreign exchange contracts is based on the fair value difference between forward exchange rates and the contracted rates.

Finance lease liabilities

The fair value of finance lease liabilities which is determined for disclosure purposes is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Borrowings

The fair value of borrowings is calculated based on the present value of the projected repayment of loans, discounted at the market rate of interest at the end of the reporting period.

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

Group	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
2019				
Financial assets measured at amortised cost	**377**	**–**	**(26)**	**351**
Financial instruments at fair value through profit or loss				
– Mandatorily required by MFRS 9	**–**	**–**	**4**	**4**
Financial liabilities measured at amortised cost	**–**	**(66)**	**61**	**(5)**
	377	**(66)**	**39**	**350**
2018				
Financial assets measured at amortised cost	315	–	58	373
Financial instruments at fair value through profit or loss				
– Mandatorily required by MFRS 9	–	–	(14)	(14)
Financial liabilities measured at amortised cost	–	(56)	(9)	(65)
	315	(56)	35	294

34. FINANCIAL INSTRUMENTS (CONTINUED)

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

Company	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
2019				
Financial assets measured at amortised cost				
– Mandatorily required by MFRS 9	**165**	**–**	**(35)**	**130**
Financial liabilities measured at amortised cost	**–**	**(62)**	**–**	**(62)**
	165	**(62)**	**(35)**	**68**
2018				
Financial assets measured at amortised cost				
– Mandatorily required by MFRS 9	204	–	(123)	81
Financial liabilities measured at amortised cost	–	(46)	–	(46)
	204	(46)	(123)	35

Others relate to gains and losses arising from financial instruments such as impairment loss, realised and unrealised foreign exchange gains or losses, and fair value gains or losses.

35. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2019, the Group and the Company adopted the following pronouncements that have been issued by the MASB and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2019

MFRS 16 *Leases*
Amendments to MFRS 3 *Business Combinations (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 11 *Joint Arrangements (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 112 *Income Taxes (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 119 *Employee Benefits: Plan Amendment, Curtailment or Settlement*
Amendments to MFRS 123 *Borrowing Costs (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 128 *Investment in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
IC Interpretation 23 *Uncertainty over Income Tax Treatments*

The principal changes in accounting policies and their effects are set out below:

(i) MFRS 16 *Leases*

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration. On transition to MFRS 16 *Leases*, the Group and the Company reassessed all contracts to determine whether the contracts are, or contain a lease at the date of initial application.

35. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (CONTINUED)

(i) MFRS 16 *Leases* (continued)

As a lessee

MFRS 16 *Leases* introduces a single, on balance sheet lease accounting for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Where the Group and the Company are a lessee, the Group and the Company applied the requirements of MFRS 16 *Leases* retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

At 1 January 2019, for leases that were previously classified as operating lease under MFRS 117 *Leases*, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group entities' incremental borrowing rate as at 1 January 2019. The Group's and the Company's weighted-average rate applied is 6.16% and 6.50% respectively. Right-of-use assets are measured at their carrying amount as if MFRS 16 *Leases* had been applied since the commencement date, discounted using the Group entities' incremental borrowing rate at 1 January 2019.

The Group's entities used the following practical expedients when applying MFRS 16 *Leases* to leases previously classified as operating lease under MFRS 117 *Leases*:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance lease under MFRS 117 *Leases*, the carrying amounts of the right-of-use asset and the lease liability at 1 January 2019 are determined to be the same as the carrying amount of the lease asset and lease liability under MFRS 117 *Leases* immediately before that date.

As a lessor

An entity of the Group who is an intermediate lessor reassessed the classification of a sublease previously classified as an operating lease under MFRS 117 *Leases* and concluded that the sublease is an operating lease under MFRS 16 *Leases*.

(ii) Amendments to MFRS 123 *Borrowing Costs (Annual Improvements 2015-2017 Cycle)*

In previous years, borrowing costs relating to a specific qualifying asset were capitalised into the cost of the asset. The capitalisation of borrowing costs ceased when substantially all activities necessary to prepare the qualifying asset for its intended use or sale were completed. Any borrowing costs incurred subsequently were expensed off to profit or loss.

Following the amendments, borrowing costs incurred after the completion of the specific qualifying asset is considered as borrowing costs of general borrowings and eligible for capitalisation. Capitalisation rate is determined as the weighted average of the borrowing costs applicable to all borrowings of the Group and the Company outstanding during the period.

The change in this accounting policies is applied prospectively.

The initial application of the above-mentioned pronouncements did not have any material impact to the financial statements of the Group and the Company except as disclosed in Note 38.

36. PRONOUNCEMENTS YET IN EFFECT

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

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3 *Business Combinations (Definition of a Business)*
Amendments to MFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*
Amendments to MFRS 9 *Financial Instruments*
Amendments to MFRS 101 *Presentation of Financial Statements (Definition of Material)*
Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*
Amendments to MFRS 139 *Financial Instruments: Recognition and Measurement*

Effective for a date yet to be confirmed

Amendments to MFRS 10 *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the pronouncements are not expected to have any material impacts to the financial statements of the Group and the Company.

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

MASB has issued pronouncement which is not yet in effect, but for which is not relevant to the operation of the Group and Companies and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2021

MFRS 17 *Insurance Contracts*

38. IMPACT OF THE ADOPTION OF PRONOUNCEMENT

Since the Group and the Company applied the requirements of MFRS 16 *Leases* retrospectively with the cumulative effect of initial application at 1 January 2019 and amendments to MFRS 123 Borrowing Costs prospectively, there are no adjustments made to the prior period presented.

(i) Impact of the adoption of MFRS 16 *Leases*

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 *Leases* at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	Group RM Mil	Company RM Mil
Operating lease commitments at 31 December 2018	**326**	145
Discounted using the incremental borrowing rate at 1 January 2019	**260**	80
Finance lease liabilities recognised as at 31 December 2018	**88**	–
Operating lease recognised	**35**	–
Extension options reasonably certain to be exercised	**7**	–
Operating lease does not fulfil definition of a lease	**(7)**	–
Recognition exemption for short-term leases and leases of low-value assets	**(29)**	–
Lease liabilities recognised at 1 January 2019	**354**	80

Adjustments at 1 January 2019

	Group RM Mil	Company RM Mil
Increase in assets	**255**	80
Decrease in equity	**12**	–
Increase in lease liabilities	**267**	80

(ii) Impact of the adoption of Amendments to MFRS 123 *Borrowing Costs (Annual Improvements 2015-2017 Cycle)*

The adoption of Amendments to MFRS 123 *Borrowing Costs (Annual Improvements 2015-2017 Cycle)* requires capitalisation of general borrowing costs at the Group and the Company amounting to RM25 million for financial year ended 31 December 2019 borrowings which were specific borrowing, into qualifying assets. The capitalisation rates used to determine the amount of the borrowing cost eligible for capitalisation for the Group and the Company are 3.94% and 4.00% respectively.

Adoption of the above pronouncements did not have significant impact on the Group and the Company financial statements.

39. IMPACT OF CHANGE IN ACCOUNTING POLICY

As disclosed in Note 2.13 (ii), the Group had changed its accounting policy on certain tax incentives. The impacts of the change in accounting policy are as follows:

(i) Reconciliation of consolidated statement of profit or loss and other comprehensive income as at 31 December 2018*

	As previously reported RM Mil	Effect of change in accounting policy RM Mil	As restated RM Mil
Other income	397	106	503
Profit before taxation	5,650	106	5,756
Tax expense	(592)	(290)	(882)
Profit for the year	5,058	(184)	4,874
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**5,260**	**(184)**	**5,076**
Profit attributable to:			
Shareholders of the Company	4,979	(191)	4,788
Non-controlling interest	79	7	86
Total comprehensive income attributable to:			
Shareholders of the Company	5,182	(191)	4,991
Non-controlling interest	78	7	85
Basic earnings per ordinary share (sen)	62.2	(2.3)	59.9

* An extract of consolidated statement of profit or loss and other comprehensive income on the affected lines.

39. IMPACT OF CHANGE IN ACCOUNTING POLICY (CONTINUED)

(ii) Reconciliation of consolidated statement of financial position as at 31 December 2018

	As previously reported RM Mil	Effect of change in accounting policy RM Mil	As restated RM Mil
ASSETS	37,365	–	37,365
TOTAL ASSETS	37,365	–	37,365
EQUITY			
Share Capital	8,871	–	8,871
Reserves			
Retained Profit			
Balance as at 1 January 2018	18,981	(724)	18,257
Total comprehensive income for the year	4,979	(191)	4,788
Total transactions with owners of the Group	(2,675)	–	(2,675)
Balance as at 31 December 2018	21,285	(915)	20,370
Other reserves	323	–	323
Total equity attributable to shareholders of the Company	30,479	(915)	29,564
Non-controlling interests	695	(11)	684
TOTAL EQUITY	31,174	(926)	30,248
LIABILITIES			
Deferred tax liabilities	919	401	1,320
Other long term liabilities and provision	163	420	583
TOTAL NON-CURRENT LIABILITIES	1,082	821	1,903
Trade and other payables	2,896	105	3,001
Other current liabilities	2,213	–	2,213
TOTAL CURRENT LIABILITIES	5,109	105	5,214
TOTAL LIABILITIES	6,191	926	7,117
TOTAL EQUITY AND LIABILITIES	37,365	–	37,365

39. IMPACT OF CHANGE IN ACCOUNTING POLICY (CONTINUED)

(iii) Reconciliation of consolidated statement of financial position as at 1 January 2018

	As previously reported RM Mil	Effect of change in accounting policy RM Mil	As restated RM Mil
ASSETS	33,262	–	33,262
TOTAL ASSETS	33,262	–	33,262
EQUITY			
Share Capital	8,871	–	8,871
Reserves			
Retained Profit			
Balance as at 1 January 2017	16,748	–	16,748
Total comprehensive income for the year	4,177	(724)	3,453
Total transactions with owners of the Group	(1,944)	–	(1,944)
Balance as at 31 December 2017	18,981	(724)	18,257
Other reserves	13	–	13
Total equity attributable to shareholders of the Company	27,865	(724)	27,141
Non-controlling interests	1,003	(18)	985
TOTAL EQUITY	28,868	(742)	28,126
LIABILITIES			
Deferred tax liabilities	838	111	949
Other long term liabilities and provision	212	526	738
TOTAL NON-CURRENT LIABILITIES	1,050	637	1,687
Trade and other payables	3,217	105	3,322
Other current liabilities	127	–	127
TOTAL CURRENT LIABILITIES	3,344	105	3,449
TOTAL LIABILITIES	4,394	742	5,136
TOTAL EQUITY AND LIABILITIES	33,262	–	33,262

39. IMPACT OF CHANGE IN ACCOUNTING POLICY (CONTINUED)

(iv) Reconciliation of consolidated statement of cash flows as at 31 December 2018

	As previously reported RM Mil	Effect of change in accounting policy RM Mil	As restated RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	5,650	106	5,756
Adjustment for:			
Other non-cash items	7	(106)	(99)
Other adjustments	1,373	–	1,373
Operating profit before changes in working capital	7,030	–	7,030
Changes in working capital	(224)	–	(224)
Cash generated from operations	6,806	–	6,806
Interest income received	304	–	304
Taxation paid	(443)	–	(443)
Net cash generated from operating activities	6,667	–	6,667
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	(1,883)	–	(1,883)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	876	–	876
Net cash flows from operating, investing and financing activities	5,660	–	5,660
Effect of foreign currency translation differences	(17)	–	(17)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,643	–	5,643
NET FOREIGN EXCHANGE DIFFERENCES ON CASH HELD	12	–	12
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	6,674	–	6,674
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12,329	–	12,329

40. CAPITAL MANAGEMENT

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

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

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

41. SIGNIFICANT EVENTS

(i) The Group and the Company via its joint operation company, PPC had procured the first phase of the project financing amounting to USD0.4 billion on 1 April 2019, followed by the execution of the remaining project financing for USD0.6 billion on 17 October 2019. The execution of the latter marks the completion of project financing for PPC totalling USD1.0 billion. The project financing was drawn down in December 2019 and was utilised towards the repayment of the bridge loan.

(ii) On 15 May 2019, the Company entered into a Sale and Purchase Agreement to acquire 100% of the shares in Da Vinci Group B.V. (Da Vinci) from its shareholders including, among others, funds managed by Bencis Capital Partners.

On 12 September 2019, the Company has fulfilled all the required conditions precedent and completed the acquisition accordingly. Following completion, Da Vinci has become a wholly-owned subsidiary of the Group.

The acquisition is a strategic step to grow the Group's specialty chemicals portfolio and to underpin the Group's position as an innovative solutions provider. Da Vinci provides a compelling entry point into the growing silicones business. The acquisition enables the Group to enhance its competitive position in attractive end-markets particularly in the Asia Pacific region. The acquisition accelerates the realisation of the Group's vision to create value by diversifying its product portfolio into differentiated and specialty chemicals.

The fair value of the net identifiable assets and goodwill as disclosed below are based on provisional figures which will be finalised within twelve months after the acquisition date. The goodwill, if any, reflect the synergy that Da Vinci will contribute to the Group.

The net profit contributed by these subsidiaries from the date of acquisition is not material in relation to the consolidated net profit of the Group for the financial year.

Effects of the above transaction are as below:

	RM Mil
Non-current assets	62
Trade and other inventories	188
Trade and other receivables	134
Cash and cash equivalents	35
Non-current liabilities	(2)
Trade and other payables	(340)
Net identifiable assets	77
Less: Non-controlling interest	(6)
Add: Goodwill on acquisition	583
Purchase consideration	654
Add: Settlement of existing loans	231
Less: Deferred consideration	(81)
Payment for acquisition	804
Less: Cash and cash equivalents acquired	(35)
Payment for acquisition, net of cash acquired	769

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PETRONAS CHEMICALS GROUP BERHAD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of PETRONAS Chemicals Group Berhad ("PCG"), which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 67 to 151.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

A key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of the Group and of the Company for the current year. This matter was addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Acquisition of Da Vinci Group B.V.

Refer to Note 2(i) – Significant accounting policy and Note 41(ii) of the financial statements.

The key audit matter

During the year, the Group and the Company, via a new subsidiary, acquired 100% equity interest of Da Vinci Group B.V. (Da Vinci). This is a key audit matter because:

- accounting for the acquisition of a subsidiary is complex, and hence, requires significant involvement of our more experienced engagement team members; and
- it has a material impact on the financial statements of the Group and of the Company.

We performed the following, among others, audit procedures:

- read and obtained understanding of the sale and purchase agreement;
- evaluated management's assessment of transactions that do not form part of the exchange for Da Vinci by considering the terms and features of those payments, and determined that they have been appropriately accounted following the requirements of accounting standards;
- assessed the accuracy of the computation of the provisional goodwill by assessing the reconciliation of the purchase consideration to the sale and purchase agreement, and compared the net assets of Da Vinci as at the date of acquisition with the management accounts of Da Vinci;
- assessed that the investment cost in the new subsidiary, formed to hold the investment of Da Vinci, has been accounted for appropriately based upon appropriate evidence; and
- determined the adequacy of the disclosures.

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PETRONAS CHEMICALS GROUP BERHAD

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

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTER

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

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

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

Petaling Jaya, Selangor
Date: 26 February 2020

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