PETRONAS CHEMICALS GROUP BERHAD

(formerly known as Kuantan Terminals Sdn. Bhd.)
(Company No.: 459830-K)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

Domiciled in Malaysia
Registered office:
Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur

Company No. 459830-K

PETRONAS CHEMICALS GROUP BERHAD

(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil
ASSETS			
Property, plant and equipment	3	12,992	11,121
Investments in associates	4	822	919
Investments in jointly controlled entities	5	107	1,141
Intangible assets	6	1,211	53
Long term receivables	7	32	55
Deferred tax assets	8	491	288
TOTAL NON-CURRENT ASSETS		15,655	13,577
Trade and other inventories	9	1,231	826
Trade and other receivables	10	2,237	1,360
Tax recoverable		212	251
Fund and other investments	11	25	139
Cash and cash equivalents	12	7,532	7,081
TOTAL CURRENT ASSETS		11,237	9,657
TOTAL ASSETS		26,892	23,234
EQUITY			
Share capital		1	1
Reserves		17,068	15,735
Total equity attributable to shareholders of the Company		17,069	15,736
Minority shareholders’ interests	13	1,979	2,082
TOTAL EQUITY		19,048	17,818
LIABILITIES			
Borrowings	14	1,254	586
Deferred tax liabilities	8	1,167	1,101
Other long term liabilities and provisions		28	27
TOTAL NON-CURRENT LIABILITIES		2,449	1,714
Trade and other payables	15	4,734	2,896
Borrowings	14	623	745
Taxation		38	61
TOTAL CURRENT LIABILITIES		5,395	3,702
TOTAL LIABILITIES		7,844	5,416
TOTAL EQUITY AND LIABILITIES		26,892	23,234

The notes set out on pages 8 to 67 are an integral part of these financial statements

Company No. 459830-K

PETRONAS CHEMICALS GROUP BERHAD
(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil
Revenue		12,203	12,367
Cost of revenue		(8,561)	(7,500)
Gross profit		3,642	4,867
Selling and distribution expenses		(351)	(335)
Administration expenses		(318)	(320)
Other expenses		(127)	(111)
Other income		403	342
Operating profit	16	3,249	4,443
Financing costs		(62)	(57)
Share of profit after tax and minority interest of equity accounted associates and jointly controlled entities		181	25
Profit before taxation		3,368	4,411
Tax expense	17	(774)	(962)
PROFIT FOR THE YEAR		2,594	3,449
Other comprehensive income, net of tax			
Foreign currency translation differences for foreign operations		(3)	3
Share of other comprehensive income of associates and jointly controlled entities		(1)	2
		(4)	5
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,590	3,454

The notes set out on pages 8 to 67 are an integral part of these financial statements

PETRONAS CHEMICALS GROUP BERHAD
(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010 (continued)

	Note	2010 RM Mil	2009 RM Mil
Profit attributable to:			
Shareholders of the Company		2,199	2,818
Minority shareholders		395	631
PROFIT FOR THE YEAR		2,594	3,449
Total comprehensive income attributable to:			
Shareholders of the Company		2,195	2,823
Minority shareholders		395	631
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,590	3,454
Basic earnings per ordinary share (RM’000)	18	22	28

The notes set out on pages 8 to 67 are an integral part of these financial statements

Company No. 459830-K

PETRONAS CHEMICALS GROUP BERHAD
(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010

	Attributable to shareholders of the Company				
	Non-distributable				
	Share Capital RM Mil	**Capital Reserves RM Mil**	**Foreign Currency Translation Reserve RM Mil**	**Merger Reserve RM Mil**	**Other Reserve RM Mil**
Balance at 1 April 2008	1	87	(3)	4,506	111
Total comprehensive income	-	-	3	-	2
Redemption of preference shares	-	-	-	(30)	-
Pre-merger dividends	-	-	-	-	-
Others	-	-	-	5	(5)
Balance at 31 March 2009	1	87	-	4,481	108
Balance at 1 April 2009	1	87	-	4,481	108
Total comprehensive income	-	-	(3)	-	(1)
Transfer to capital reserves	-	50	-	-	-
Redemption of preference shares	-	-	-	(892)	-
Additional equity interest in subsidiaries	-	-	-	2,336	2
Pre-merger dividends	-	-	-	-	-
Balance at 31 March 2010	1	137	(3)	5,925	109

continue to next page

The notes set out on pages 8 to 67 are an integral part of these financial statements

PETRONAS CHEMICALS GROUP BERHAD
(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010
(continued)

	Attributable to shareholders of the Company			
	Distributable			
	Retained Profits RM Mil	**Total RM Mil**	**Minority Interest RM Mil**	**Total Equity RM Mil**
Balance at 1 April 2008	10,284	14,986	2,269	17,255
Total comprehensive income	2,818	2,823	631	3,454
Redemption of preference shares	-	(30)	-	(30)
Pre-merger dividends	(2,043)	(2,043)	(818)	(2,861)
Others	-	-	-	-
Balance at 31 March 2009	11,059	15,736	2,082	17,818
Balance at 1 April 2009	11,059	15,736	2,082	17,818
Total comprehensive income	2,199	2,195	395	2,590
Transfer to capital reserves	(50)	-	-	-
Redemption of preference shares	-	(892)	-	(892)
Additional equity interest in subsidiaries	-	2,338	(354)	1,984
Pre-merger dividends	(2,308)	(2,308)	(144)	(2,452)
Balance at 31 March 2010	10,900	17,069	1,979	19,048

continued from previous page

The notes set out on pages 8 to 67 are an integral part of these financial statements

Company No. 459830-K

PETRONAS CHEMICALS GROUP BERHAD
(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 RM Mil	2009 RM Mil
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		11,902	13,202
Cash paid to suppliers and employees		(7,246)	(6,364)
		4,656	6,838
Interest income received		177	222
Taxation paid		(624)	(1,030)
Net cash generated from operating activities		4,209	6,030
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash acquired resulting from acquisition of additional equity interest in subsidiaries		484	-
Investment in securities		(820)	(1,102)
Purchase of property, plant and equipment		(892)	(1,239)
Purchase of intangible assets		-	(23)
Other long term receivables		23	31
Proceeds from disposal of:			
- securities		933	1,392
Net cash used in investing activities		(272)	(941)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to shareholders of the Company		(2,196)	(1,962)
Dividends paid to minority shareholders		(144)	(818)
Redemption of preference shares		(692)	(30)
Drawdown of:			
- Petroliam Nasional Berhad loans and advances		-	100
- revolving credits and bankers' acceptance		4,428	741
Balance carried forward		1,396	(1,969)

Company No. 459830-K

PETRONAS CHEMICALS GROUP BERHAD
(formerly known as Kuantan Terminals Sdn. Bhd.)
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010 (continued)

	Note	2010 RM Mil	2009 RM Mil
CASH FLOWS FROM FINANCING ACTIVITIES (continued)			
Balance brought forward		1,396	(1,969)
Repayment of:			
- Petroliam Nasional Berhad loans and advances		(113)	(96)
- Islamic financing facilities		(50)	(49)
- term loans		(240)	(290)
- revolving credits and bankers' acceptance		(4,417)	(546)
Interest expenses paid		(49)	(40)
Net cash used in financing activities		(3,473)	(2,990)
NET INCREASE IN CASH AND CASH EQUIVALENTS		464	2,099
DECREASE IN DEPOSITS RESTRICTED		66	68
NET FOREIGN EXCHANGE DIFFERENCE		(13)	21
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		6,926	4,738
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		7,443	6,926
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	12	7,532	7,081
Less: Deposits restricted	12	(89)	(155)
		7,443	6,926

The notes set out on pages 8 to 67 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 MARCH 2010

1. BASIS OF PREPARATION

These consolidated financial statements comprise the Company and its subsidiaries ("the Group") and the Group's interest in associates and jointly controlled entities.

Prior to the reorganisation as disclosed in Note 28, the Company has not presented a set of consolidated financial statements. The last set of annual financial statements available, prior to this set, comprises only the Company. This set of consolidated financial statements has been prepared to incorporate the effects of the reorganisation.

Acquisition of subsidiaries under common control (in which all parties involved, being the acquirer, acquiree and seller, are ultimately controlled by the same entity before and after the acquisition) are consolidated using the merger method of accounting. Under the merger method of accounting, the results of subsidiaries acquired during the year are included from the date in which the subsidiaries were first controlled by the seller. Consequently, all comparatives for interim condensed consolidated financial information or annual consolidated financial statements of the Group, that are prepared after the reorganisation, will be restated as if the Company has controlled the subsidiaries since the date the seller first gain control over the subsidiaries.

In view of the restatement as mentioned above, this set of consolidated financial statements of the Group has been prepared to provide shareholders with access to a full set of consolidated financial statements that incorporates the reorganisation.

1.1 Principal activity

The Company's principal activity is investment holding.

The Company was incorporated on 25 March 1998 as a private limited company under the name of Kuantan Terminals Sdn. Bhd. On 26 October 2009, the Company changed its name to PETRONAS Chemicals Group Sdn. Bhd. On 27 August 2010, the Company was converted into a public limited company and assumed its current name.

The principal activities of the Company's subsidiaries, associates and jointly controlled entities and its effective percentage of equity holdings are stated in Note 19 to the financial statements.

1. BASIS OF PREPARATION (continued)

1.2 Statement of compliance

The financial statements of the Group have been prepared in accordance with Financial Reporting Standards (FRSs) and generally accepted accounting principles in Malaysia.

The Group has adopted the following FRSs and Amendments to FRSs which are effective for annual periods beginning on or after 1 January 2010 (unless otherwise stated):

FRS 7	*Financial Instruments: Disclosures*
FRS 8	*Operating Segments (effective for annual periods beginning on or after 1 July 2009)*
FRS 101	*Presentation of Financial Statements (Revised)*
Amendment to FRS 117	*Leases*

FRS 7 replaced the disclosure requirements previously contained in FRS 132, *Financial Instruments: Presentation*. With the adoption of FRS 7, the Group disclosed extended information about their financial instruments and the nature and extent of risks to which they give rise as set out in Note 23. More specifically, the Group made specific disclosures about market risk, credit risk and liquidity risk. There was no effect on the financial position and results of the Group as a result of adoption of this new standard.

The Group has adopted FRS 8, which replaces FRS 114_{2004} Segment Reporting. FRS 8 requires the Group to determine and present operating segments based on the information that is internally provided to the Group's chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. It also sets out the required disclosures for operating segments. The adoption of FRS 8 has no effect on the financial position and results of the Group, other than extended disclosures on operating segment results.

The Group has also adopted revised FRS 101 which requires the Group to present all non-owner changes in equity in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is in conformity with the revised standard.

The adoption of the Amendment to FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land.

Prior to the adoption of the Amendment to FRS 117, the Group had previously classified leases of land as operating leases and had recognised the amount of payments made on entering into or acquiring the land as prepaid lease payments. These lands are amortised over the lease term in accordance with the pattern of benefits provided. On adoption of the Amendment to FRS 117, the Group treats such leases of land that meets the definition of finance leases as property, with the unamortised carrying amount classified as leasehold land within property, plant and equipment. These lands are then accounted for in the consolidated financial statements in accordance with the accounting policy for property, plant and equipment as stated in Note 2.2.

The effects of adopting the Amendment to FRS 117 had been accounted for retrospectively in accordance with the transitional provisions of the standard. This change in accounting policy does not have material impact on the financial position and results of the Group.

1. BASIS OF PREPARATION (continued)

1.2 Statement of compliance (continued)

The Malaysian Accounting Standards Board ("MASB") has issued new pronouncements comprising FRSs, Amendments to FRSs and Statement of Interpretations, which are not yet effective for the Group. These pronouncements including their impact on the consolidated financial statements in the period of initial application are set out in Note 25. New pronouncements that are not relevant to the operations of the Group are set out in Note 26.

The consolidated financial statements were approved and authorised for issue by the Board of Directors of the Company on 29 November 2010.

1.3 Basis of measurement

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

1.4 Functional and presentation currency

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

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

1.5 Use of estimates and judgments

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

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

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

(i) Note 6 - Intangible assets; and
(ii) Note 8 - Deferred tax.

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 each entity in the Group, unless otherwise stated.

2.1 Basis of consolidation

(i) Subsidiaries

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

Subsidiaries that were acquired from Petroliam Nasional Berhad (“PETRONAS”) under the reorganisation (Note 28) are consolidated using the pooling-of-interests method of accounting except for the acquisition of Polyethylene Malaysia Sdn Bhd (“Polyethylene Malaysia”) which uses the purchase method of accounting.

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

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

(i) Subsidiaries (continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(ii) Associates

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

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses 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 statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

(iii) Jointly controlled entities

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

Investments in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2.1(ii).

2.2 Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Property, plant and equipment and depreciation (continued)

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

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

2.3 Leased assets

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

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

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

All leases that do not transfer substantially to the Group all the risks and rewards incidental to ownership are classified as operating leases. The leased assets are not recognised in the Group’s consolidated statement of financial position.

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

2.4 Intangible assets

(i) Goodwill

Goodwill arising from acquisitions represents the excess of the cost of the acquisition over the Group’s interest in the fair values of the net identifiable assets and liabilities and contingent liabilities of the acquiree.

When the excess is negative (negative goodwill), it is recognised immediately in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Intangible assets (continued)

(i) Goodwill (continued)

Goodwill is initially measured at cost. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. 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.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

(ii) Other intangible assets

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

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

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

The estimated useful life for the current and comparative periods are as follows:

License	10 years
Land use rights	30 years

The amortisation method and the useful life for intangible assets are reviewed at least at the end of each reporting period. Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

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

The amortisation of other intangible assets is recognised in cost of sales.

2.5 Financial instruments

(i) Financial assets

Initial recognition

Financial assets within the scope of FRS 139 *Financial Instruments: Recognition and Measurement* are classified as loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, held-to-maturity investments or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of financial assets at initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

(i) Financial assets (continued)

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

Purchases or sales that require delivery of financial assets within a timeframe established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date i.e. the date that the Group commits to purchase or sell the financial asset. The Group's financial assets include cash and cash equivalents, trade and other receivables, loans and advances, investments and derivative financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with gains or losses recognised in the profit or loss. The methods used to measure fair values are stated in Note 2.5(iv).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, such financial assets are carried at amortised cost, using the effective interest rate method (Note 2.5(v)), less impairment losses.

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less impairment losses. Gains and losses are recognised in the profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

The Group did not have any held-to-maturity investments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Subsequent to initial recognition, such financial assets are measured at fair value with unrealised gains or losses recognised directly in other comprehensive income until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in other comprehensive income is reclassified in the profit or loss.

The Group did not have any available-for-sale financial assets.

(ii) Financial liabilities

Initial recognition

Financial liabilities within the scope of FRS 139 *Financial Instruments: Recognition and Measurement* are classified as loans and borrowings, financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of financial liabilities at initial recognition.

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

Fair value adjustments on loans and advances due to PETRONAS at initial recognition, if any, are taken to reserves within equity in the Group's consolidated financial statements.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by FRS 139.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

(ii) Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

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

Loans and borrowings

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

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

(iii) Offsetting of financial instruments

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

(iv) Fair value of financial instruments

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

(v) Amortised cost of financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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.

(vii) Derivative financial instruments

Initial recognition and subsequent measurement

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

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

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

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 and not held for own use, or which contain written options, are recognised at fair value, with gains and losses taken to the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial instruments (continued)

(vii) Derivative financial instruments (continued)

Embedded derivatives

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

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

The change in accounting policy is applied prospectively in accordance with the transitional provisions of FRS 139. The impact arising from the change in accounting policy on 1 April 2008 has been adjusted to retained earnings or other reserves, where appropriate.

2.6 Impairment

(i) Financial assets

A financial asset is assessed at the end of each reporting period to determine whether there is any objective evidence that it is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Loans and receivables

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Impairment (continued)

(i) Financial assets (continued)

Available-for-sale financial investments

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, an amount comprising the difference between its cost and its fair value is transferred from other comprehensive income to the profit or loss.

If, in a subsequent period, the fair value of an available-for-sale financial investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of assets, other than inventories, deferred tax assets and financial assets (financial assets in this context exclude investments in subsidiaries and associates), are reviewed at the end of each reporting period to determine whether there is any indication of impairment. The carrying amounts are reviewed frequently if events or changes in circumstances indicate that the carrying value may be impaired, as described in the respective assets' accounting policies.

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

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

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

An impairment loss in respect of goodwill is not reversed in a 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 year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Inventories

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

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

2.8 Cash and cash equivalents

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

2.9 Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are reviewed at the end of each reporting period 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 consolidated financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

2.10 Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

2.12 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency and the amortised cost in foreign currency translated at the exchange rate at the end of each reporting period.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of each reporting period except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Foreign currency transactions (continued)

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

The assets and liabilities of operations in functional currencies other than RM, including goodwill and fair value adjustments, are translated to RM at exchange rates at the end of each reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in reserves. When a foreign operation is disposed of, in part or in full, the relevant amount in reserves is transferred to profit or loss as part of the profit or loss on disposal.

2.13 Finance costs

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

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

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

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

2.14 Revenue

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

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

2.15 Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Operating segment

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

2.17 Basic earnings per ordinary share

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

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3. PROPERTY, PLANT AND EQUIPMENT

2010	**At 1.4.2009**	**Additions**	**Acquisition of subsidiaries**	**Disposals/ write offs**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
At cost:				
Leasehold land	197	-	86	-
Buildings	1,144	3	48	-
Plant and equipment	14,189	163	2,787	(41)
Office equipment, furniture and fittings	59	3	42	(1)
Computer software and hardware	75	3	5	(1)
Motor vehicles	28	-	6	-
Projects-in-progress	2,821	720	52	(55)
	18,513	892	3,026	(98)

continue to next page

	At 1.4.2009	**Charge for the year**	**Acquisition of subsidiaries**	**Disposal/ write offs**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Accumulated depreciation and impairment losses				
Leasehold land	32	4	11	-
Buildings	387	23	7	-
Plant and equipment*	6,850	850	1,002	(22)
Office equipment, furniture and fittings	46	6	30	(1)
Computer software and hardware	56	7	3	(1)
Motor vehicles	21	4	6	-
Projects-in-progress	-	-	-	-
	7,392	894	1,059	(24)

continue to next page

***** Included in the accumulated depreciation and impairment losses of plant and equipment is impairment losses carried forward since 2007 amounting to RM225 million.

The fair value of property, plant and equipment of subsidiaries acquired during the year is presented on a gross basis, where cost is separately presented from accumulated depreciation and impairment losses.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

2010	Transfers/ reclass	Translation exchange difference	At 31.3.2010
	RM Mil	RM Mil	RM Mil
At cost:			
Leasehold land	-	-	283
Buildings	26	-	1,221
Plant and equipment	2,674	(20)	19,752
Office equipment, furniture and fittings	7	(1)	109
Computer software and hardware	15	-	97
Motor vehicles	-	-	34
Projects-in-progress	(2,727)	(1)	810
	(5)	(22)	22,306

continued from previous page

	Transfers/ reclass	Translation exchange difference	At 31.3.2010
	RM Mil	RM Mil	RM Mil
Accumulated depreciation and impairment losses			
Leasehold land	-	-	47
Buildings	-	-	417
Plant and equipment	-	(7)	8,673
Office equipment, furniture and fittings	-	-	81
Computer software and hardware	-	-	65
Motor vehicles	-	-	31
Projects-in-progress	-	-	-
	-	(7)	9,314

continued from previous page

3. PROPERTY, PLANT AND EQUIPMENT (continued)

2009	At 1.4.2008 RM Mil	Additions RM Mil	Acquisition of subsidiaries RM Mil	Disposals/ write offs RM Mil
At cost:				
Leasehold land	165	-	-	-
Buildings	1,143	2	-	(10)
Plant and equipment	13,777	167	-	(5)
Office equipment, furniture and fittings	55	3	-	(1)
Computer software and hardware	67	3	-	(1)
Motor vehicles	26	1	-	-
Projects-in-progress	2,048	1,063	-	(14)
	17,281	1,239	-	(31)

continue to next page

	At 1.4.2008 RM Mil	Charge for the year RM Mil	Acquisition of subsidiaries RM Mil	Disposals/ write offs RM Mil
Accumulated depreciation and impairment losses				
Leasehold land	29	3	-	-
Buildings	371	22	-	(6)
Plant and equipment	6,203	645	-	(5)
Office equipment, furniture and fittings	43	4	-	(1)
Computer software and hardware	51	6	-	(1)
Motor vehicles	17	4	-	-
Projects-in-progress	-	-	-	-
	6,714	684	-	(13)

continue to next page

3. PROPERTY, PLANT AND EQUIPMENT (continued)

2009	Transfers/ reclass	Translation exchange difference	At 310.3.2009
	RM Mil	RM Mil	RM Mil
At cost:			
Leasehold land	32	-	197
Buildings	9	-	1,144
Plant and equipment	226	24	14,189
Office equipment, furniture and fittings	2	-	59
Computer software and hardware	6	-	75
Motor vehicles	1	-	28
Projects-in-progress	(276)	-	2,821
	-	24	18,513

continued from previous page

	Transfers/ reclass	Translation exchange difference	At 31.3.2009
	RM Mil	RM Mil	RM Mil
Accumulated depreciation and impairment losses			
Leasehold land	-	-	32
Buildings	-	-	387
Plant and equipment	-	7	6,850
Office equipment, furniture and fittings	-	-	46
Computer software and hardware	-	-	56
Motor vehicles	-	-	21
Projects-in-progress	-	-	-
	-	7	7,392

continued from previous page

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	2010	2009
	RM Mil	RM Mil
Net book value:		
Leasehold land	236	165
Buildings	804	757
Plant and equipment	11,079	7,339
Office equipment, furniture and fittings	28	13
Computer software and hardware	32	19
Motor vehicles	3	7
Projects-in-progress	810	2,821
	12,992	11,121

Security

Net book value of property, plant and equipment that have been pledged as security for loan facilities of the Group as set out in Note 14 are as follows:

	2010	2009
	RM Mil	RM Mil
Net book value of property, plant and equipment:		
Pledged to secure borrowings of the Group	1,882	1,495

During the financial year ended 31 March 2010, certain subsidiaries within the Group were involved in notional sales of a beneficial interest in specific property, plant and equipment ("sukuk assets") with a carrying amount of RM2,885 million to a special purpose vehicle ("SPV") owned by PETRONAS, pursuant to an issuance of Islamic Trust Certificate. The SPV leased the beneficial interest in the sukuk assets to PETRONAS and was subsequently sub-leased by PETRONAS to the subsidiaries. This structure did not represent a collaterisation and there is no transfer of registered title of the sukuk assets.

4. INVESTMENTS IN ASSOCIATES

	2010 RM Mil	2009 RM Mil
Investments in unquoted shares at cost	551	751
Share of post-acquisition profits and reserves	271	168
	822	919
Summary of financial information on associates:		
Total assets (100%)	2,938	3,049
Total liabilities (100%)	728	669
Revenue (100%)	3,441	3,572
Profit (100%)	447	(116)

Details of associates are stated in Note 19 to the financial statements.

5. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2010 RM Mil	2009 RM Mil
Investments in unquoted shares at cost	101	541
Share of post-acquisition profits and reserves	6	600
	107	1,141
Summary of financial information on jointly controlled entities:		
Total assets (100%)	1,052	4,596
Total liabilities (100%)	685	2,206
Revenue (100%)	1,744	4,832
Profit (100%)	162	108

Details of jointly controlled entities are stated in Note 19 to the financial statements.

6. INTANGIBLE ASSETS

2010	At 1.4.2009	Additions	Acquisition of subsidiaries	Transfer from/ (to) property, plant and equipment
	RM Mil	RM Mil	RM Mil	RM Mil
At cost:				
Goodwill	27	-	1,159	-
Other intangible assets	32	-	-	2
	59	-	1,159	2

continue to next page

	At 1.4.2009	Charge for the year	Acquisition of subsidiaries	Transfer from/ (to) property, plant and equipment
	RM Mil	RM Mil	RM Mil	RM Mil
Accumulated amortisation:				
Goodwill	-	-	-	-
Other intangible assets	6	2	-	-
	6	2	-	-

continue to next page

2009	At 1.4.2008	Additions	Acquisition of subsidiaries	Transfer from / (to) property, plant and equipment
	RM Mil	RM Mil	RM Mil	RM Mil
At cost:				
Goodwill	27	-	-	-
Other intangible assets	8	23	-	-
	35	23	-	-

continue to next page

	At 1.4.2008	Charge for the year	Acquisition of subsidiaries	Transfer from / (to) property, plant and equipment
	RM Mil	RM Mil	RM Mil	RM Mil
Accumulated amortisation:				
Goodwill	-	-	-	-
Other intangible assets	3	3	-	-
	3	3	-	-

continue to next page

6. INTANGIBLE ASSETS (continued)

2010	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
At cost:		
Goodwill	-	1,186
Other intangible assets	(1)	33
	(1)	1,219

continued from previous page

	Translation exchange difference RM Mil	At 31.3.2010 RM Mil
Accumulated amortisation:		
Goodwill	-	-
Other intangible assets	-	8
	-	8

continued from previous page

2009	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
At cost:		
Goodwill	-	27
Other intangible assets	1	32
	1	59

continued from previous page

	Translation exchange difference RM Mil	At 31.3.2009 RM Mil
Accumulated amortisation:		
Goodwill	-	-
Other intangible assets	-	6
	-	6

continued from previous page

6. INTANGIBLE ASSETS (continued)

	2010 RM Mil	2009 RM Mil
Net book value:		
Goodwill	1,186	27
Other intangible assets	25	26
	1,211	53

Goodwill amounting to RM1,159 million is arrived at based on provisional fair values of identifiable assets, liabilities and contingent liabilities on the acquisition of OPTIMAL Group of Companies as disclosed in Note 27 to the consolidated financial statements. The goodwill has been allocated to a group of cash-generating units within Olefins and Polymers segment.

Impairment review of goodwill

For the purpose of impairment testing, goodwill will be allocated to groups of cash-generating units which represent the lowest level within the Group 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 costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use.

The recoverable amount of OPTIMAL Group of Companies was based on its value in use. The value in use was determined by using the discounted cash flow method based on management's business plan cash flow projections for 5 financial years from FY2010/11 to FY2014/15, adjusted with an estimated terminal value. The cash flow is discounted to present value using discount rate at 9%. The terminal value is computed using a multiple of projected earnings before interest expenses, taxation, depreciation and amortisation ("EBITDA").

Based on the above, the recoverable amount of the unit was determined to be higher than its carrying amount and therefore, no impairment loss was recognised. The above estimates are sensitive in the following areas:

(i) an increase/(decrease) of a one percentage point in discount rate used would have (decreased)/increased the recoverable amount by approximately (RM409 million)/RM404 million.

(ii) an increase/(decrease) of a one multiple of projected EBITDA used would have increased/(decreased) the recoverable amount by approximately RM1,085 million/(RM1,085 million).

7. LONG TERM RECEIVABLES

	2010 RM Mil	2009 RM Mil
Advances to a subsidiary of PETRONAS	-	20
Prepayment and other receivables	32	35
	32	55

8. DEFERRED TAX

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

2010	**At 1.4.2009**	**Charged/ (credited) to profit or loss**	**Acquisition of subsidiaries**	**At 31.3.2010**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Deferred tax liabilities				
Property, plant and equipment	1,648	101	-	1,749
Others	20	(17)	-	3
	1,668	84	-	1,752
Deferred tax assets				
Reinvestment allowances	(64)	34	-	(30)
Investment tax allowances	(589)	67	-	(522)
Tax losses	(50)	(3)	-	(53)
Unabsorbed capital allowance	(128)	(73)	-	(201)
Others	(24)	24	(270)	(270)
	(855)	49	(270)	(1,076)
Net deferred tax	813	133	(270)	676

2009	**At 1.4.2008**	**Charged/ (Credited) to profit or loss**	**Acquisition of subsidiaries**	**At 31.3.2009**
	RM Mil	**RM Mil**	**RM Mil**	**RM Mil**
Deferred tax liabilities				
Property, plant and equipment	1,610	38	-	1,648
Others	2	18	-	20
	1,612	56	-	1,668
Deferred tax assets				
Reinvestment allowances	(195)	131	-	(64)
Investment tax allowances	(705)	116	-	(589)
Tax losses	(71)	21	-	(50)
Unabsorbed capital allowance	(158)	30	-	(128)
Others	(82)	58	-	(24)
	(1,211)	356	-	(855)
Net deferred tax	401	412	-	813

8. DEFERRED TAX (continued)

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

	2010 RM Mil	2009 RM Mil
Deferred tax assets		
Deferred tax liabilities	351	358
Deferred tax assets	(842)	(646)
	(491)	(288)
Deferred tax liabilities		
Deferred tax liabilities	1,401	1,310
Deferred tax assets	(234)	(209)
	1,167	1,101

No deferred tax has been recognised for the following items:

	2010 RM Mil	2009 RM Mil
Capital allowances	277	230
Tax losses	344	365
Investment tax allowances	716	-
	1,337	595

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

9. TRADE AND OTHER INVENTORIES

	2010 RM Mil	2009 RM Mil
Petrochemical products:		
- Raw materials	96	29
- Finished good	578	275
	674	304
Store, spares and others	557	522
	1,231	826

10. TRADE AND OTHER RECEIVABLES

	2010 RM Mil	2009 RM Mil
Trade receivables	1,134	593
Other receivables, deposits and prepayments	117	84
Amount due from PETRONAS		
- Non-trade	213	210
Amount due from associates		
- Trade*	27	25
Amount due from related companies		
- Trade*	734	420
- Non-trade	5	27
Derivative assets	12	3
	2,242	1,362
Less: Impairment losses		
Trade receivables	(1)	(1)
Other receivables, deposits and prepayments	(4)	(1)
	2,237	1,360

* Trade related transactions are in the normal course of business.

Included in amount due from related companies is an amount due from corporate shareholders of subsidiaries of RM98 million (31.3.2009: RM25 million).

Trade receivables and amount due from corporate shareholders denominated in currency other than the functional currency are as follows:

	2010 RM Mil	2009 RM Mil
In USD	437	295

Included in amount due from related companies are amounts that bear interest. The receivables that bear interest of 3.0% (31.3.2009: 3.0%) per annum are as follows:

	2010 RM Mil	2009 RM Mil
Interest bearing receivables	140	137

11. FUND AND OTHER INVESTMENTS

	2010 RM Mil	2009 RM Mil
Current		
Other unquoted securities	25	139

12. CASH AND CASH EQUIVALENTS

	2010 RM Mil	2009 RM Mil
Cash and bank balances	76	46
Deposits with licensed financial institutions	7,368	6,953
Deposits with other corporations	88	82
	7,532	7,081

Included in deposits with licensed banks is an amount that is required to be maintained by the Group as part of the covenants for the secured USD term loans and Islamic financing facilities as disclosed in Note 14. The amounts maintained in the respective years are as follows:

	2010 RM Mil	2009 RM Mil
Restricted deposits	89	155

13. MINORITY SHAREHOLDERS' INTERESTS

This consists of the minority shareholders' proportion of equity and reserves of partially owned subsidiaries.

14. BORROWINGS

	2010 RM Mil	2009 RM Mil
Current		
Secured		
Term loans (USD)	73	72
Islamic financing facilities	92	50
	165	122
Unsecured		
Term loans (USD)	7	108
Revolving credits (USD)	-	4
Revolving credits (RM)	398	202
Bankers' acceptance	-	48
PETRONAS loans and advances	53	261
	458	623
	623	745
Non-current		
Secured		
Term loans (USD)	256	-
Islamic financing facilities	338	-
	594	-
Unsecured		
Term loans (USD)	23	42
PETRONAS loans and advances	587	487
Related company's advance (USD)	50	57
	660	586
	1,254	586
	1,877	1,331

Term loans

Loan (USD) is from a combination of banks and other corporations which bears interest rate of 1.12% to 4.10% (2009: 1.44% to 6.48%) per annum.

Islamic financing facilities

Islamic securities bear profit margin of 5.03% to 6.00% (2009: 4.60%) per annum.

Revolving credits

Revolving credits are unsecured and as at reporting date bear interest rates ranging from 2.30% to 3.35% (2009: 2.64% to 7.90%) per annum.

14. BORROWINGS (continued)

Bankers' acceptance

Bankers' acceptances bear interest at rate of Nil (2009: 2.35 % to 3.25%) per annum.

Loans and advances

PETRONAS loans and advances bear interest rates ranging from 3.10% to 5.00% (2009: 3.10% to 5.00%) per annum.

PETRONAS' advance amounting to RM106 million (2009: RM101 million) is interest free. In compliance with FRS 139 reporting requirements, interest is computed using the assumptions of a notional interest rate of 3.89% (2009: 3.89%) per annum.

Related company's advance is a long-term loan obtained from PETRONAS International Corporation Limited. It consists of interest bearing and non interest bearing loans, both of which are unsecured. The interest bearing portion amounting to USD7 million bears interest at the rate of 1.43% to 2.78% (2009: 2.78% to 5.65%) per annum and the remaining USD18 million is interest free.

15. TRADE AND OTHER PAYABLES

	2010 RM Mil	2009 RM Mil
Trade payables	530	309
Other payables	339	362
Amount due to PETRONAS		
- Trade*	3,786	2,029
- Non trade	3	3
Amount due to related companies		
- Trade*	61	162
- Non trade	2	1
Accrued payables	8	30
Derivative liabilities	5	-
	4,734	2,896

* Trade related transactions are in the normal course of business.

16. OPERATING PROFIT

	2010 RM Mil	2009 RM Mil
Included in operating profit are the following charges:		
Staff cost	524	470
Contribution to PETRONAS retirement benefits	-	11
and credits:		
Negative goodwill	175	-
Interest income	168	228

17. TAX EXPENSE

	2010 RM Mil	2009 RM Mil
Current tax expense	641	550
Deferred tax expense:		
- Origination and reversal of temporary differences	133	412
	774	962

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

	2010 %	2010 RM Mil	2009 %	2009 RM Mil
Profit before taxation	100	3,368	100	4,411
Taxation at Malaysian statutory tax rate	25	842	25	1,103
Effect of different tax rates in foreign jurisdiction	-	(1)	-	2
Non deductible expenses	1	47	1	26
Tax exempt income	(1)	(55)	-	(3)
Tax incentives	(1)	(19)	-	(3)
Group tax relief`	-	(15)	(3)	(134)
Others	(1)	(25)	(1)	(29)
Tax expense	23	774	22	962

The corporate tax rate for the years of assessment is 25%. Consequently deferred tax assets and liabilities are measured using these tax rates.

18. BASIC EARNINGS PER ORDINARY SHARES

The calculation of basic earnings per ordinary shares was based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company as follows:

	2010	2009
In RM millions		
Profit for the year attributable to shareholders of the Company	2,199	2,818
In thousands of shares		
Number of ordinary shares	100	100
In RM'000		
Basic earnings per ordinary share	22	28

19. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The Group includes the following subsidiaries, associates and jointly controlled entities:

Name of Company	Effective ownership interest (%)		Principal activities
	2010	2009	
Subsidiaries			
OPTIMAL Chemicals (Malaysia) Sdn. Bhd. ("OPTIMAL Chemicals")*	100	50	Manufacturing and marketing of ethylene oxide derivatives, propylene derivative products and related chemical products
OPTIMAL Glycols (Malaysia) Sdn. Bhd. ("OPTIMAL Glycols")*	100	50	Manufacturing and marketing of ethylene oxide, ethylene glycol and other related by-products
MTBE Malaysia Sdn. Bhd.	100	100	Manufacturing and selling of methyl tertiary butyl ether (MTBE), propylene and n-Butane
Malaysian International Trading Corporation Sdn. Bhd.	100	100	Marketing of petrochemical products
PETRONAS Methanol (Labuan) Sdn. Bhd.	100	100	Processing of natural gas into methanol and sale of methanol
PETRONAS Fertilizer (Kedah) Sdn. Bhd.	100	100	Production and sale of urea, ammonia and methanol
Polypropylene Malaysia Sdn. Bhd.	100	100	Manufacturing and marketing of polypropylene

*OPTIMAL Chemicals and OPTIMAL Glycols were accounted for as jointly controlled entities in 2009.

19. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name of Company	Effective ownership interest (%)		Principal activities
	2010	2009	
Subsidiaries			
PETRONAS Ammonia Sdn. Bhd.	100	100	Production and sale of ammonia, syngas and carbon monoxide
Vinyl Chloride (Malaysia) Sdn. Bhd. ("Vinyl Chloride (Malaysia)")	100	100	Manufacturing, marketing and distribution of vinyl chloride monomer (VCM) and polyvinyl chloride
Kertih Port Sdn. Bhd.	100	100	Owning, operating and managing the Kertih Marine Facilities
Phu My Plastics and Chemicals Co. Ltd. (" Phu My")	93.11	93.11	Manufacturing, buying, importing, distributing, selling and exporting of polyvinyl chloride (PVC) resin and other related chemical products
OPTIMAL Olefins (Malaysia) Sdn. Bhd. ("OPTIMAL Olefins")	88.00	64.25	Manufacturing and marketing of ethylene, propylene and other hydrocarbon by-products
Ethylene Malaysia Sdn. Bhd.	72.50	72.50	Manufacturing and sale of ethylene
ASEAN Bintulu Fertilizer Sdn. Bhd.	63.47	63.47	Production and sale of ammonia and urea
Aromatics Malaysia Sdn. Bhd.	70	70	Production of paraxylene, benzene and other by-products
Petlin (Malaysia) Sdn. Bhd. ("PETLIN")	60	60	Manufacturing and marketing of low-density polyethylene pellets
Associates			
BASF PETRONAS Chemicals Sdn. Bhd.	40	40	Manufacturing and marketing of acrylic, oxo and butanediol products
Kertih Terminals Sdn. Bhd.	40	40	Provision of bulk chemical storage and handling services
Idemitsu SM (M) Sdn. Bhd.	30	30	Manufacturing and marketing of ethylbenzene, styrene monomer, toluene and benzene toluene (BT) mixture
Malaysian NPK Fertilizer Sdn. Bhd.	20	20	Manufacturing and sale of NPK fertilizer products

19. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Name of Company	Effective ownership interest (%)		Principal activities
	2010	2009	
Jointly Controlled Entities			
Polyethylene Malaysia Sdn. Bhd.	40	40	Manufacturing and sale of polyethylene
BP PETRONAS Acetyls Sdn. Bhd.	30	30	Manufacturing of acetic acid

All the companies are incorporated in Malaysia except for Phu My which is incorporated in Vietnam.

20. COMMITMENTS

Outstanding commitments in respect of capital expenditure at the end of each reporting period not provided for in the consolidated financial statements are:

	2010 RM Mil	2009 RM Mil
Property, plant and equipment		
Approved and contracted for	200	732
Approved but not contracted for	614	757
	814	1,489

21. RELATED PARTIES DISCLOSURES

(a) Key management personnel compensation

Key management personnel compensations are included in management fees paid to PETRONAS for the services of all key management personnel of the Group.

(b) Significant transactions with related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if PETRONAS has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Significant transactions with other state controlled enterprises that are not subsidiaries, associates or jointly controlled entities of the Group are not disclosed by virtue of the exemption given by FRS 124.

21. RELATED PARTIES DISCLOSURES (continued)

(b) Significant transactions with related parties (continued)

In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the financial year:

	Transactions amount for the year	
	2010	**2009**
	RM Mil	**RM Mil**
PETRONAS:		
Purchase of processed gas and natural gas	(2,813)	(2,148)
Management fees	(6)	(6)
Interest expense	(26)	(30)
Subsidiaries of PETRONAS:		
Sales of petrochemical products	1,998	2,376
Purchase of heavy naphtha	(1,824)	(2,121)
Purchase of petrochemical products	(492)	(493)
Purchase of processed gas and natural gas	(108)	(136)
Purchase of utilities and materials and supplies	(466)	(324)
Upgrading and pipeline works expenses	(119)	(121)
Training and development related costs	(14)	(15)
Purchase of warehouse and transportation services	(33)	(13)
Grant for the right of usage of facilities	10	8
Associates and jointly controlled entities of the Group:		
Sales of petrochemical products	1,822	2,787
Facility charges	13	12
Purchase of petrochemical products	(138)	(121)
Purchase of warehouse and transportation services	(34)	(33)
Corporate shareholders of the Group:		
Sales of petrochemical products	671	565
Commission paid	(19)	(17)

The terms and conditions for the above transactions are based on negotiated terms. All the amounts outstanding are unsecured and expected to be settled with cash. The balances may also be subjected to interest charge up to 3.2% per annum.

Information regarding outstanding balances arising from related party transactions are disclosed in Note 10 and Note 15.

22. OPERATING SEGMENTS

For management purposes, the Group has three 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 Polymers - activities include the supply and trading, manufacturing, marketing and transportation of a wide range of olefin and polymer products, which are used as basic feedstock for other products, to intermediate products including basic and high performance chemicals.
- Fertilisers and Methanol - activities include producing and selling methanol and a range of nitrogen, phosphate and compound fertilisers.
- Others - other businesses that supports the petrochemicals' business operations.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Performance is measured based on segment profit after tax as included in the internal management reports that are reviewed by the Executive Committee of the Company, who is the Company'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 certain segments relative to other entities that operate within these industries.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Segment assets

The total of segment assets are measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Executive Committee of the Company. 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.

22. OPERATING SEGMENTS (continued)

2010	Olefins and Polymers RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,048	291	255	-	2,594
Included in the measure of segment profit are:					
Revenue from external customers	9,255	2,886	62	-	12,203
Inter-segment revenue	6	52	37	(95)	-
Depreciation and amortisation	(619)	(266)	(11)	-	(896)
Interest income	89	78	1	-	168
Financing costs	(50)	(7)	(5)	-	(62)
Share of profit of associates and jointly controlled entities	126	13	42	-	181
Tax expense	(619)	(143)	(12)	-	(774)
Segment assets	16,371	8,422	2,124	(25)	26,892
Included in the measure of segment assets are:					
Investment in associates	686	25	111	-	822
Investment in jointly controlled entities	23	84	-	-	107
Additions to non-current assets other than financial instruments and deferred tax assets	3,517	501	-	-	4,018

22. OPERATING SEGMENTS (continued)

2009	Olefins and Polymers RM Mil	Fertilisers and Methanol RM Mil	Others RM Mil	Elimination and adjustment RM Mil	Total RM Mil
Segment profit	2,018	1,344	87	-	3,449
Included in the measure of segment profit are:					
Revenue from external customers	8,590	3,705	72	-	12,367
Inter-segment revenue	7	-	39	(46)	-
Depreciation and amortisation	(503)	(172)	(12)	-	(687)
Interest income	134	93	1	-	228
Financing costs	(49)	-	(8)	-	(57)
Share of (loss)/profit of associates and jointly controlled entities	(28)	14	39	-	25
Tax expense	(473)	(474)	(15)	-	(962)
Segment assets	13,418	8,905	916	(5)	23,234
Included in the measure of segment assets are:					
Investment in associates	761	21	137	-	919
Investment in jointly controlled entities	1,019	122	-	-	1,141
Additions to non-current assets other than financial instruments and deferred tax assets	516	746	-	-	1,262

22. OPERATING SEGMENTS (continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on geographical location of customers. Segment assets are based on the geographical location of the assets. The amounts of non-current assets do not include financial instruments (including long term receivables, investment in associates and jointly controlled entities) and deferred tax assets.

Geographical information	Revenue	Non-current assets
	RM Mil	RM Mil
2010		
Malaysia	5,472	14,088
Asia:		
- China	1,734	-
- Others	4,687	115
Rest of the world	310	-
	12,203	14,203
2009		
Malaysia	5,990	11,036
Asia:		
- China	915	-
- Others	4,778	138
Rest of the world	684	-
	12,367	11,174

22. OPERATING SEGMENTS (continued)

By products and services

The following are revenue from external customers by product and service:

	2010 RM Mil	2009 RM Mil
Paraxylene	1,778	1,811
Urea	1,342	2,100
Ethylene	1,201	1,523
Polyethylene (LDPE, LLDPE & HDPE)	1,043	1,245
Methanol	918	662
PVC	809	755
MTBE	808	517
Propylene	801	1,090
Performance and other chemicals	634	-
Benzene	620	637
Ethylene glycols	530	8
Ammonia	392	702
Other petrochemical products	349	374
Polypropylene	315	219
Carbon monoxide	234	205
N-butane	197	162
VCM	170	249
Rendering of services	59	57
Sales of general merchandise	3	15
Oxogas	-	36
	12,203	12,367

23. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(i) Loans and receivables ("L&R");
(ii) Fair value through profit or loss ("FVTPL");
- Held for trading ("HFT"); or
- Designated upon initial recognition ("DUIR");

(iii) Available-for-sale financial assets ("AFS");
(iv) Loans and borrowings ("L&B").

2010	Note	L&R/ (L&B) RM Mil	FVTPL - DUIR RM Mil	FVTPL - HFT RM Mil	Total carrying amount RM Mil
Financial assets					
Fund and other investments	11	-	25	-	25
Trade and other receivables*	10	1,975	-	12	1,987
Cash and cash equivalents	12	7,532	-	-	7,532
		9,507	25	12	9,544
Financial liabilities					
Borrowings	14	(1,877)	-	-	(1,877)
Other long term liabilities*		-	-	(2)	(2)
Trade and other payables*	15	(4,550)	-	(5)	(4,555)
		(6,427)	-	(7)	(6,434)

* These balances exclude non-financial instruments balances which are not within the scope of FRS 139, *Financial Instruments: Recognition and Measurement*.

Fund and other investments have been designated upon initial recognition as at fair value through profit or loss as management internally monitors these investments on fair value basis.

PETRONAS adopted FRS 7, *Financial Instruments:* Disclosures with effect from 1 April 2009. Hence, comparative figures have not been presented for 31 March 2009 by virtue of the exemption given in paragraph 44AA of FRS 7, *Financial Instruments: Disclosures*.

Financial risk management

The Group is 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 business, comprises credit risk, liquidity risk and market risks relating to interest rates, foreign currency exchange rates and commodity prices.

The Group complies with PETRONAS Group Risk Management Framework and Guideline that sets the foundation for the establishment of effective risk management across the PETRONAS Group.

23. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)

The Group'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. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group to losses in the event of non-performance by counterparties. The Group's exposures to credit risk arise principally from its receivables from customers and funds and other investments. Credit risks are controlled by individual operating units in line with the PETRONAS Group Risk Management Framework and Guideline.

Receivables

The Group minimises credit risk by entering into contracts with highly credit rated counterparties. Potential counterparties are subject to credit assessment and approval prior to any transaction being concluded and existing counterparties are subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are regularly prepared and presented to the management that cover the Group's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group further mitigates and limits risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit or bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions. The Group's significant concentration of credit risk for receivables at the end of the reporting date by business is as follow:

	2010
	RM Mil
Olefins and Polymers	1,599
Fertilisers and Methanol	357
Others	19
	1,975

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The Group uses ageing analysis to monitor the credit quality of the receivables.

23. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Receivables (continued)

The ageing of receivables and amount due from PETRONAS, related companies and associates trade in nature at net of impairment amount as at the end of the reporting year is analysed below.

	2010 RM Mil
At net	
Current	1,678
Past due 1 to 30 days	163
Past due 31 to 60 days	25
Past due 61 to 90 days	21
Past due more than 90 days	7
	1,894

With respect to the Group's receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Fund and other investment

The Group has a Group Treasury Investment Guideline that defines the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters. In accordance with the guideline, investments are only allowed with highly credit rated counterparties.

The treasury function undertakes a credit risk management activity similar to the credit management and monitoring procedures for receivables.

As at the reporting date, all the Group investments are in domestic market.

The fund and other investments are unsecured, however, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

23. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. In managing its liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The Group's financial liabilities comprise trade and other payables and borrowings.

Maturity analysis

The table below summarises the maturity profile of the Group's financial liabilities as at the financial statement date based on undiscounted contractual payments:

2010	**Carrying amount RM Mil**	**Effective interest rates per annum %**	**Contractual cash flows RM Mil**	**Within 1 year RM Mil**
Financial liabilities				
Loans and borrowings				
Secured term loans				
USD floating rate loan	329	1.70	339	78
Unsecured term loans				
USD floating rate loan	30	1.56	30	7
Unsecured revolving credits				
RM revolving credits	398	2.89	399	399
Secured Islamic financing facilities				
RM Islamic financing facilities	430	5.60	502	114
PETRONAS loans and advances*	640	3.58	727	61
USD related company's advances**	50	2.11	82	-
Trade and other payables	4,550	-	4,550	4,550
Fair value through profit or loss – held for trading				
Derivative liabilities	7	-	7	5
	6,434		6,636	5,214

continue to next page

* Includes interest free advances amounts of RM106 million.

** Includes interest free advances amounts of USD18 million.

23. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

Maturity analysis (continued)

2010	**1-2 years RM Mil**	**2-5 years RM Mil**	**More than 5 years RM Mil**
Financial liabilities			
Loans and borrowings			
Secured term loans			
USD floating rate loan	179	82	-
Unsecured term loans			
USD floating rate loan	7	16	-
Unsecured revolving credits			
RM revolving credits	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	84	304	-
PETRONAS loans and advances*	28	296	342
USD related company's advances**	-	-	82
Trade and other payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	2	-	-
	300	698	424

continued from previous page

23. FINANCIAL INSTRUMENTS (continued)

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the end of each reporting year and the year in which they reprice or mature, whichever is earlier.

2009	Carrying amount RM Mil	Effective interest rates per annum %	Within 1 year RM Mil
Financial assets			
Fair value through profit or loss			
Fund and other investment	139	3.49	139
Loans and receivables			
Deposits with licensed financial institutions and other corporations	7,035	2.34	7,035
Long term receivables	20	4.23	-
Financial liabilities			
Loans and borrowings			
Secured term loans			
USD floating rate loan	72	3.83	72
Unsecured term loans			
USD floating rate loan	150	3.69	150
Unsecured revolving credits			
USD revolving credits	4	6.85	4
RM revolving credits	202	3.43	202
Unsecured bankers' acceptance			
RM bankers' acceptance	48	2.80	48
Secured Islamic financing facilities			
RM Islamic financing facilities	50	4.60	50
PETRONAS loans and advances	647	4.17	261
USD floating rate related company's advances	25	4.22	25

continue to next page

23. FINANCIAL INSTRUMENTS (continued)

Effective interest rates and repricing analysis (continued)

2009	1-2 years RM Mil	2-5 years RM Mil	More than 5 years RM Mil
Financial assets			
Fair value through profit or loss			
Fund and other investment	-	-	-
Loans and receivables			
Deposits with licensed financial institutions and other corporations	-	-	-
Long term receivables	-	20	-
Financial liabilities			
Loans and borrowings			
Secured term loans			
USD floating rate loan	-	-	-
Unsecured term loans			
USD floating rate loan	-	-	-
Unsecured revolving credits			
USD revolving credits	-	-	-
RM revolving credits	-	-	-
Unsecured banker's acceptance			
RM bankers' acceptance	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	-	-	-
PETRONAS loans and advances	54	127	205
USD floating rate related company's advances	-	-	-

continued from previous page

23. 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 that the Group is exposed to include interest rates, foreign currency exchange rates, commodity price and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's investments in fixed-rate debt securities are exposed to a risk of change in their fair values due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

In managing interest rate risk, the Group maintains a balanced portfolio of fixed and floating rate instruments. All interest rate exposures are monitored and managed proactively by PETRONAS Group Treasury based on Group Risk Management Framework and Guideline. The Group also enters into hedging transactions with respect to interest rate on selected long term borrowings and other debts.

The interest rate profile of the Group's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	2010 RM Mil
Fixed rate instruments	
Financial assets	7,621
Financial liabilities	(1,155)
	6,466
Floating rate instruments	
Financial liabilities	(596)
	(596)

Since most of the Group's financial assets and liabilities are fixed rate instruments measured at amortised cost, any reasonable possible change in interest rate is not expected to have material impact on the Group's profit or loss.

Foreign exchange risk

The Group 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 cash flows are Ringgit Malaysia and US Dollars.

The Group's foreign exchange management policy is to minimise economic and significant transactional exposures arising from currency movements. The Group mainly rely on the natural hedge generated by the fact that most of their revenue and expenses are currently denominated in US Dollar. In addition, the Group, where applicable, hedge using derivative instruments in respect of current and forecasted transactions.

23. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign exchange risk (continued)

The Group's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

	2010 Denominated in USD RM Mil	2010 Denominated in EURO RM Mil
Financial assets		
Cash and cash equivalents	190	4
Trade and other receivables*	1,261	45
Other financial assets	12	-
	1,463	49
Financial liabilities		
Borrowings	(329)	-
Trade and other payables	(155)	(3)
Derivative liabilities	(7)	-
	(491)	(3)
Net exposure	972	46

* This amount includes foreign currency risk exposure arising from intra-group balances.

Since most of the Group's foreign denominated financial currency financial liabilities are in US Dollar and the net exposure is not material, any reasonable possible change in the exchange rate in US Dollar is not expected to have material impact on the Group's profit or loss.

Commodity price risk

The Group is exposed to changes in petrochemical products prices which may affect the value of the Group's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Group sells a diversified portfolio of petrochemicals products. Thus a change in commodity price is not likely to result in a significant impact on the Group's profit or loss and equity.

Fair value

The carrying amounts in respect of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair values due to the short nature of these financial instruments. The fund and other investments are categorised as fair value through profit or loss, thus the carrying amount is equivalent to its fair value.

23. FINANCIAL INSTRUMENTS (continued)

Fair value (continued)

The aggregate fair values of the other financial liabilities measured at amortised cost, together with the carrying amounts are as follows:

	Note	2010 Carrying amount RM Mil	2010 Fair value RM Mil	2009 Carrying amount RM Mil	2009 Fair Value RM Mil
Loans and borrowings					
Term loans	14	359	359	222	222
Islamic financing facilities	14	430	451	50	50
Revolving credit	14	398	398	206	206
Bankers' acceptance	14	-	-	48	48
PETRONAS loans and advances	14	640	661	748	775
Related company's advances	14	50	50	57	57

The carrying amounts of other financial assets and liabilities are not materially different to their fair values.

Income/ expense, net gains and losses arising from financial instruments

2010	Interest income RM Mil	Interest expense RM Mil	Others RM Mil	Total RM Mil
Financial instruments at fair value through profit or loss				
- Held for trading	-	-	8	8
- Designated upon initial recognition	2	-	-	2
Loans and receivables	166	-	(63)	103
Financial liabilities at amortised cost	-	(62)	18	(44)
	168	(62)	(37)	69

Others relates to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses, and fair value gains or losses.

24. CAPITAL MANAGEMENT

The Group defines capital as the total equity and debt of the Group. The objective of the Group's capital management is to maintain an optimal capital structure and ensuring availability of funds in order to support its business and maximises shareholder value. As a division of PETRONAS, the Group's approach in managing capital is set out in the PETRONAS Group Corporate Financial Policy.

The Group monitors and maintains a prudent level of total debt to total assets ratio to optimise shareholder value and to ensure compliance with covenants.

There were no changes in the Group's approach to capital management during the year.

25. FRS, INTERPRETATION AND AMENDMENTS TO FRS YET IN EFFECT

The following new and revised FRSs, statement of interpretations and amendments to FRS and statement of interpretations (collectively referred to as "pronouncements") from the Malaysian Accounting Standards Board will become effective for future financial reporting periods and have not yet been adopted by the Group.

Effective for annual periods beginning on or after 1 January 2010

FRS 123	*Borrowing Costs (Revised)*
Amendment to FRS 107	*Statement of Cash Flows*
Amendment to FRS 108	*Accounting Policies, Changes in Accounting Estimates and Errors*
Amendment to FRS 116	*Property, Plant and Equipment*
Amendment to FRS 118	*Revenue*
Amendment to FRS 128	*Amendment to FRS 127*
Amendment to FRS 131	*Interests in Joint Ventures*
Amendment to FRS 132	*Financial Instruments: Presentations (Puttable Financial Instruments and Obligations Arising on Liquidation / Separation on Compound Instruments)*
Amendment to FRS 134	*Interim Financial Reporting*
Amendment to FRS 136	*Impairment of assets*
Amendments to FRS 139, FRS7 and IC Interpretation 9	*Financial Instruments: Recognition and Measurement; Financial Instruments: Disclosures; and Reassessment of Embedded Derivatives*

Effective for annual periods beginning on or after 1 July 2010

FRS 3	*Business Combinations (Revised)*
FRS 127	*Consolidated and Separate Financial Statements (Revised)*
Amendment to FRS 5	*Non-current Assets Held for Sale and Discontinued Operations*
Amendment to FRS 8	*Operating Segments*
Amendment to FRS 127	*Consolidated and Separate Financial Statements*
Amendment to FRS 138	*Intangible Assets*
Amendments to IC 9	*Reassessment of Embedded Derivatives*

26. FRS, INTERPRETATIONS AND AMENDMENTS TO FRS AND INTERPRETATIONS NOT APPLICABLE TO THE GROUP

Effective for annual periods beginning on or after 1 January 2011

Amendment to FRS 1	*First-time Adoption of Financial Reporting Standard - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
Amendments to FRS 7	*Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
IC Interpretation 4	*Determining whether an arrangement contains a lease*
IC Interpretation 18	*Transfer of Assets from Customers*

Initial application of the above pronouncements for the Group will be effective from the annual period beginning 1 April 2011 for pronouncements which are effective for annual periods beginning on or after 1 January 2010, 1 July 2010 and 1 January 2011.

The adoption of the above FRSs, amendments to FRSs and statement of interpretations are not expected to have any material impact on the consolidated financial statements of the Group in the period of initial application.

The MASB has issued statement of interpretations and amendments to FRSs which are effective for annual periods beginning on or after 1 July 2010, but for which are not relevant to the operations of the Group and hence, no further disclosure is warranted:

Amendment to FRS 2	*Share-based Payment; Vesting Conditions and Cancellations*
Amendment to FRS 5	*Non-current Assets Held for Sale and Discontinued Operations*
IC Interpretation 12	*Service Concession Agreements*
IC Interpretation 15	*Agreements for the Construction of Real Estate*
IC Interpretation 16	*Hedges of a Net investment in a Foreign Operation*
IC Interpretation 17	*Distribution of Non-cash Assets to Owner*

27. ACQUISITIONS OF PARTICIPATING INTERESTS / SUBSIDIARIES

OPTIMAL Group of Companies

On 30 September 2009, PETRONAS acquired additional equity interests in OPTIMAL Olefins, OPTIMAL Chemicals and OPTIMAL Glycols for a total purchase consideration of USD671 million via a share Sale and Purchase Share Agreement with UCMG L.L.C and Union Carbide Corporation.

As a result, the Group increased its equity interests in OPTIMAL Olefins from 64.3% to 88.0% while OPTIMAL Chemicals and OPTIMAL Glycols which were previously jointly controlled entities become wholly-owned subsidiaries of PETRONAS. The net profits contributed by the additional equity holdings in these companies from the date of acquisition to the year ended 31 March 2010 amounting to RM58 million is included in the Group's consolidated net profit for 31 March 2010.

If the acquisitions of OPTIMAL Chemicals and OPTIMAL Glycols have been completed at 1 April 2009, the total revenue and profit for the year for the Group would have been RM12,932 million and RM2,875 million respectively.

27. ACQUISITIONS OF PARTICIPATING INTERESTS / SUBSIDIARIES (continued)

OPTIMAL Group of Companies (continued)

The net effect of acquisitions of the above companies on the cash flows and values of assets and liabilities acquired are as follows:

2010	**Carrying amount representing provisional fair value at acquisition date RM Mil**
Property, plant and equipment	1,967
Other assets	784
Cash and cash equivalents	484
Deferred taxation	271
Borrowings	(976)
Payables	(521)
Other liabilities	(9)
	2,000
Less: Interests previously held as jointly controlled entities	(1,000)
	1,000
Add: Minority interests acquired in existing subsidiary	354
Add: Goodwill on acquisition	1,159
Less: Negative goodwill on acquisition recognised in other operating income	(175)
Purchase consideration	2,338
Less: Investment made by PETRONAS	(2,338)
Less: Cash and cash equivalents of subsidiaries acquired	(484)
Cash flow on acquisition, net of cash acquired	(484)

28. SIGNIFICANT AND SUBSEQUENT EVENTS

In conjunction with the proposed listing of and quotation for the shares of the Company on the main market of Bursa Malaysia Securities Berhad, the Group has carried out the following reorganisation:

Reorganisation:

(i) Distribution before listing and redemption of Redeemable Preference Shares ("RPS")

Between 1 August 2010 and 1 September 2010, PETRONAS Fertilizer (Kedah) Sdn. Bhd. ("PETRONAS Fertilizer"), Malaysia International Trading Corporation Sdn. Bhd. ("MITCO"), MTBE Malaysia Sdn. Bhd. ("MTBE Malaysia"), PETRONAS Ammonia Sdn. Bhd. ("PETRONAS Ammonia"), Ethylene Malaysia Sdn. Bhd. ("Ethylene Malaysia") and OPTIMAL Olefins declared dividends of an aggregate amount of RM2,744.8 million, all of which was fully paid out of cash generated from operations of these subsidiaries by 30 September 2010.

28. SIGNIFICANT AND SUBSEQUENT EVENTS (continued)

(i) Distribution before listing and redemption of Redeemable Preference Shares ("RPS") (continued)

The details of the dividends are as follows:

	RM Mil
PETRONAS Fertilizer	150.0
MITCO	150.0
MTBE Malaysia	735.0
PETRONAS Ammonia	200.0
Ethylene Malaysia	1,000.0
OPTIMAL Olefins	509.8
	2,744.8

In addition, the RPS in MITCO and PETLIN were redeemed in cash by 31 July 2010 at an aggregate redemption price of RM150.0 million and RM80.1 million respectively.

(ii) Acquisition of subsidiaries, associates and jointly controlled entities

(a) Between 30 August 2010 to 20 September 2010, the Company acquired from PETRONAS, PETRONAS Maritime Services Sdn. Bhd. ("PETRONAS Maritime") and PETRONAS International Corporation Company Limited ("PETRONAS International") shares in the following companies, for a total purchase consideration of RM12,975.8 million, of which RM12,465.9 million was satisfied by the issue of 7,290 million ordinary shares of RM0.10 to PETRONAS and RM509.9 million constituted an amount payable by the Company to PETRONAS Maritime and PETRONAS International ("PETRONAS Cash Consideration") respectively as follows:

Acquiree	(1) Interest acquired	No. of ordinary shares issued	Purchase consideration
	%		RM Mil
Companies acquired from PETRONAS:			
MITCO	100.00	34,184,714	58.5
MTBE Malaysia	100.00	779,447,798	1,332.9
OPTIMAL Chemicals	100.00	633,189,042	1,082.8
Vinyl Chloride (Malaysia) Sdn. Bhd.	100.00	12,711,163	21.7
PETRONAS Methanol (Labuan) Sdn. Bhd. ("PETRONAS Methanol")	100.00	1,304,225,231	2,230.2
OPTIMAL Glycols	100.00	576,523,913	985.9
Polypropylene Malaysia Sdn. Bhd.	100.00	84,347,246	144.2
PETRONAS Ammonia	100.00	388,661,207	664.6

28. SIGNIFICANT AND SUBSEQUENT EVENTS (continued)

(ii) Acquisition of subsidiaries, associates and jointly controlled entities (continued)

Acquiree	[1]Interest acquired	No. of ordinary shares issued	Purchase consideration
	%		RM Mil
Companies acquired from PETRONAS:			
PETRONAS Fertilizer	100.00	644,003,341	1,101.2
OPTIMAL Olefins	88.00	884,418,442	1,512.4
Ethylene Malaysia	72.50	269,380,282	460.6
Aromatics Malaysia Sdn. Bhd. ("Aromatics Malaysia")	70.00	707,981,804	1,210.6
ASEAN Bintulu Fertilizer Sdn. Bhd. ("ASEAN Bintulu Fertilizer")	63.47	335,885,897	574.4
PETLIN	60.00	259,708,568	444.1
Polyethylene Malaysia	40.00	13,442,165	23.0
BASF PETRONAS Chemicals Sdn. Bhd.	40.00	235,011,099	401.9
Kertih Terminals Sdn. Bhd.	40.00	52,192,853	89.2
BP PETRONAS Acetyls Sdn. Bhd.	30.00	50,766,980	86.8
Idemitsu SM (Malaysia) Sdn. Bhd.	30.00	23,918,255	40.9
Total		**7,290,000,000**	**12,465.9**

Acquiree	Interest acquired	Purchase consideration
		RM Mil
Company acquired from PETRONAS Maritime:		
Kertih Port Sdn. Bhd. ("Kertih Port")	100.00	416.9
Company acquired from PETRONAS International:		
Phu My Plastics and Chemicals Company Limited	93.11	93.0[2]
Total		509.9

[1] *Including interest in the existing RPS held in Aromatics Malaysia, OPTIMAL Chemicals, OPTIMAL Glycols, Vinyl Chloride (Malaysia) and PETLIN.*

[2] *Represent RM equivalent of USD29.9 million, based on the transacted exchange rate of RM3.1080:USD1 on 20 September 2010, being the relevant completion date.*

28. SIGNIFICANT AND SUBSEQUENT EVENTS (continued)

(ii) Acquisition of subsidiaries, associates and jointly controlled entities (continued)

The purchase consideration was determined based on the higher of cost of investment and share of pro forma net assets of each of the subsidiaries, associates and jointly controlled entity (after taking into consideration, the distributions before listing, disposal of Malaysian International Trading Corporation (Japan) Sdn. Bhd. and redemption of RPS by certain subsidiaries and associate).

(b) On 2 September 2010, PETRONAS acquired shares in the following companies and a loan from BP Asia Pacific Malaysia Sdn Bhd to Polyethylene Malaysia for a total purchase consideration of USD325.6 million (equivalent to RM1,018.1 million) ("BP Cash Consideration"):

Acquiree	**Interest acquired**	**Purchase consideration**	
	%	**USD Mil**	**Equivalent RM Mil** [(1)]
Ethlyene Malaysia	12.79	216.0	675.3
Polyethylene Malaysia	60.00	109.6[(2)]	342.8
Total		**325.6**	**1,018.1**

[(1)] *Based on the transacted exchange rate of RM3.1265:USD1 on 2 September 2010, being the relevant completion date.*

[(2)] *Includes acquisition of loans from BP Asia Pacific Malaysia Sdn Bhd to Polyethylene Malaysia of USD53.16 million.*

Arising thereof, PETRONAS nominated the Company as the registered owner of the shares in Polyethylene Malaysia and Ethylene Malaysia and the Company will settle the BP Cash Consideration.

The share purchase agreement between PETRONAS and BP Chemicals Investment Limited ("BP Chemicals") dated 27 August 2010 ("SPA") also allowed PETRONAS to acquire an additional stake in Ethylene Malaysia of up to 2.21% ("Additional Stake") from BP Chemicals for a cash consideration of up to USD37.1 million ("Additional BP Cash Consideration"), subject to the other shareholder of Ethylene Malaysia, namely Idemitsu Kosan Co., Ltd. ("Idemitsu Kosan") not exercising its pre-emption right to acquire the whole or any part of the Additional Stake. On 8 October 2010, PETRONAS acquired the entire Additional Stake from BP Chemicals for USD37.1 million (approximately RM115.0 million based on the transacted exchange rate of RM3.0990:USD1 on 8 October 2010, being the relevant completion date) as Idemitsu Kosan did not exercise its pre-emption right to acquire the Additional Stake. Accordingly, PETRONAS nominated the Company as the registered owner of the Additional Stake. The BP Cash Consideration and Additional BP Cash Consideration were funded by a loan from PETRONAS.

The purchase consideration was determined on a willing buyer willing seller basis, after taking into consideration the enterprise value over EBITDA multiples, price-earnings multiples and discounted cash flows of Ethylene Malaysia and Polyethylene Malaysia.

28. SIGNIFICANT AND SUBSEQUENT EVENTS (continued)

(iii) Acquisition of certain liabilities of the subsidiaries

Pursuant to the Acquisition of subsidiaries, associates and jointly controlled entity, the Company acquired liabilities (comprising shareholder loans and intercompany balances owing by the subsidiaries to PETRONAS and PETRONAS International) from PETRONAS and PETRONAS International for an aggregate purchase consideration of approximately RM1,277.4 million, representing an amount payable by Company to PETRONAS and PETRONAS International ("Debts Acquisition Payable") in the following manner:

In RM Mil	**Debts owing/ Amount due to**	
Subsidiaries/Associates	**PETRONAS**	**PETRONAS International**
PETRONAS Methanol	350.0	-
Vinyl Chloride (Malaysia)	700.9	-
Kertih Port	38.4	-
Polyethylene Malaysia	110.4[(1)]	-
Phu My	-	77.7[(2)]
Total	**1,199.7**	**77.7**

(1) *Represent RM equivalent of amount owing of USD35.4 million, based on the transacted exchange rate of RM3.1145:USD1 on 6 September 2010, being the relevant completion date.*

(2) *Represent RM equivalent of amount owing of USD25.0 million, based on the transacted exchange rate of RM3.1080:USD1 on 20 September 2010, being the relevant completion date.*

The rationale for the Debts Acquisition Payable of the subsidiaries is to consolidate under the Company all the loans and advances that existed between the subsidiaries and PETRONAS or PETRONAS International since the Company will be the immediate holding company of the subsidiaries after the consummation of the reorganisation.

The Company had on 6 September 2010, obtained a loan from PETRONAS of up to RM4.3 billion ("Loan Facility") to fund the PETRONAS Cash Consideration, BP Cash Consideration, Additional BP Cash Consideration, Debts Acquisition Payable and other general corporate expenses. The Company had drawn down RM2,920.4 million as at 21 October 2010. The Loan Facility is for a tenure of 2 years from the date of first drawdown of the Loan Facility with an interest rate calculated at 6-month Kuala Lumpur Inter-bank Offered Rate plus 0.70% per annum. The said interest shall be accrued and become payable by the Company to PETRONAS based on scheduled repayments.

As at the date of this financial statement, the reorganisation has been completed and the Company was listed on 26 November 2010.

29. HOLDING COMPANY

The holding company is PETRONAS, a company incorporated in Malaysia.