

THE WINNING FORMULA



PETRONAS



Strategy + Products and Services + People

Winning Formula

Over the years, PETRONAS Dagangan Berhad has proven that it has grown from strength to strength by sustaining its position as the leading fuel marketer in Malaysia by building upon its strong foundation. In 2016, it has once again continued to deliver value to its shareholders with its commendable results.

This success was achieved through its Winning Formula which anchors on sound strategies that were translated into outcomes through concerted execution. As a customer-centric business, we strive towards creating a satisfying customer experience at our retail outlets and this is reflected in the products, services and facilities that we offer. We believe that we have the formula that keeps on winning with the product technology that has seen us garner our third consecutive win in the Formula One™ World Constructors' Championship. We are proud of our repertoire of superior products consisting of PETRONAS Primax fuels and PETRONAS Syntium lubricants, which we have developed for consumers from our learnings and success on the race tracks.

The sustainability of the organisation is built collectively through the efforts and contribution of its people with highest integrity. Hence, having a robust and energised workforce will ensure that business goals and aspirations are matched.

The Winning Formula of doing business has enabled us to be resilient in a challenging business landscape, continuously delivering the expectations of our stakeholders.

PETRONAS DAGANGAN BERHAD





WINNING FORMULA

The winning combination of PETRONAS Primax fuels and PETRONAS Syntium lubricants are packed into what we term PETRONAS Fluid Technology Solutions™. With our track record of winning for three consecutive years on the Formula One™ tracks, customers can expect superior quality fuel products that deliver every time



SMART PARTNERSHIPS

We leverage on collaborations with new and existing partners to continuously add value to our customers in various areas. As the first-non Japanese lubricant company certified by HONDA, vehicle owners experience the Winning Formula specially formulated for them. PDB also collaborated with Royal Malaysia Police to enable our stations to act as 'Go-to-Safety Point' in emergency situations



UNPARALLELED CUSTOMER EXPERIENCE

The differentiated offerings at PETRONAS stations provide a unique, one-stop convenience centre that goes beyond just fuelling. Dine, shop, perform banking and enjoy additional convenience offerings, all under one roof. More importantly, enjoy a fuss-free experience that feels warm and welcoming every time







INNOVATIVE IDEAS

New lifestyle changes necessitate new ways of doing business and in turn, the offerings provided at PETRONAS stations. We are proud to be the first petroleum retailing company in the region to provide charging facilities for electric vehicles to cater to a growing segment of consumers in Malaysia

 **chargeEV**


CHARGE YOUR ELECTRIC VEHICLE HERE

PARKING LOT
STRICTLY RESERVED
FOR PLUG-IN
ELECTRIC
VEHICLE (EV)

Parking for cars Pedestrian & Bicycles



PLEASE DO NOT PARK OR STOP VEHICLE HERE **NO PARKING VEHICLE WILL BE CLAMPED AND FINED**

HOW TO USE THE CHARGING STATION

1.  2.  3.  4. 

FOR TECHNICAL ASSISTANCE

FOR PERSONAL SECURITY ASSISTANCE

1-800-232-2387
ChargeEV.com



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Notice of



Annual General Meeting

Wednesday, 19 April 2017 at 10.00 a.m.,
 Conference Hall 2, Level 3,
 Kuala Lumpur Convention Centre,
 Jalan Ampang, 50088 Kuala Lumpur,
 Malaysia

- **AT A GLANCE**
- WHO WE ARE AND WHAT WE DO
- LEADERSHIP
- MANAGEMENT DISCUSSION AND ANALYSIS
- ACHIEVEMENTS
- SUSTAINABILITY JOURNEY
- CORPORATE GOVERNANCE
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- STAKEHOLDER INFORMATION

KEY HIGHLIGHTS

BUSINESS HIGHLIGHTS



RETAIL

- Expanded availability of the new PETRONAS Dynamic Diesel Euro 5 across Peninsular Malaysia
- Enhanced service offerings at Kedai Mesra to provide a unique experience to customers
- Launched the Go-To-Safety Point initiative at all PETRONAS stations in collaboration with the Royal Malaysia Police



COMMERCIAL

- Sustained market leadership
- Preferred partner in the Aviation industry
- Secured new contracts with Jeju Air and Etihad Airways



LPG

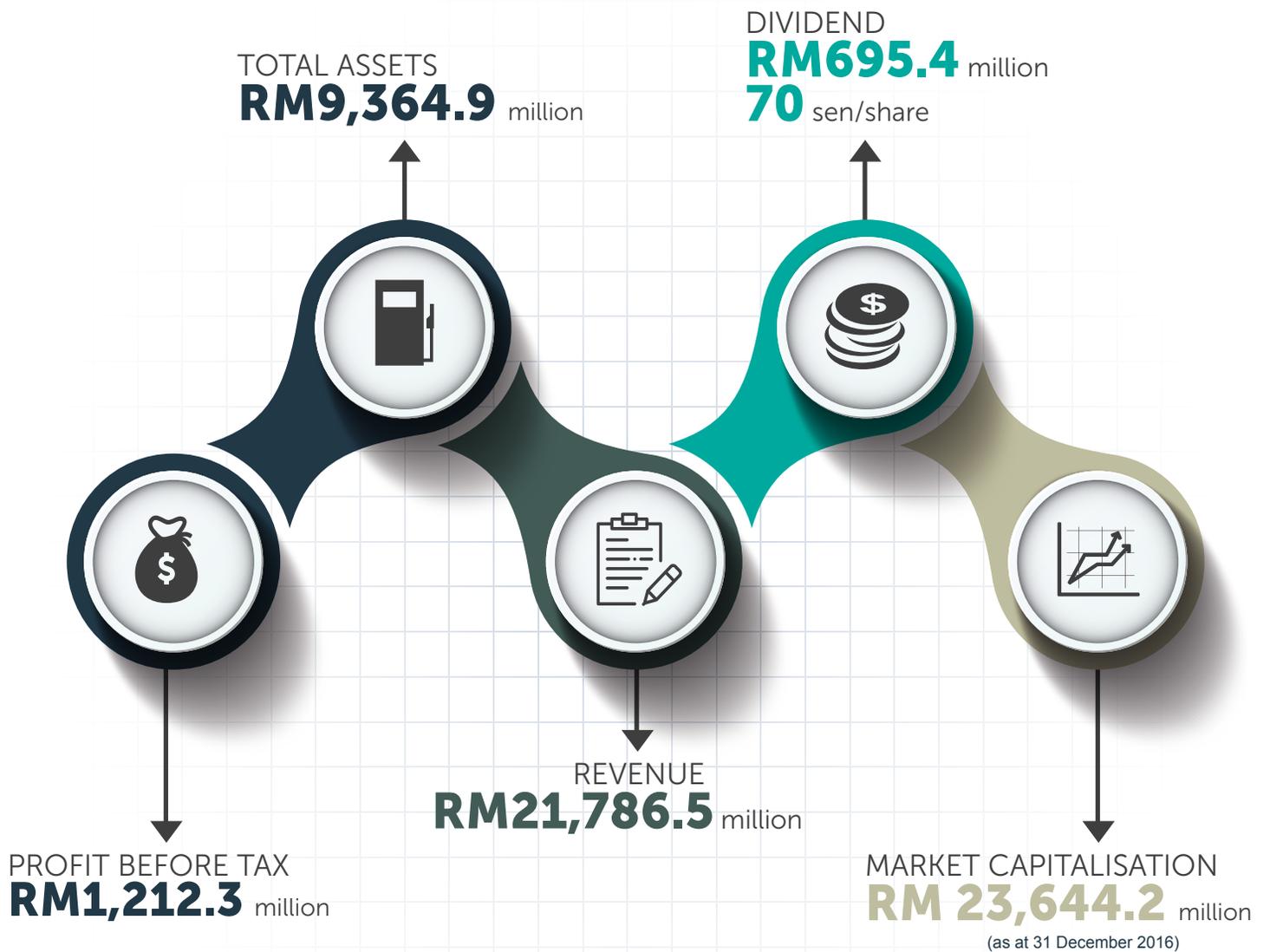
- Malaysia's No.1 Cooking Gas
- Sustained market leadership
- Enhanced operational excellence to 91%



LUBRICANT

- First non-Japanese lubricant company certified by HONDA as their supplier
- Launched PETRONAS Syntium SE, a high quality engine oil blended exclusively for PROTON
- Relunched PETRONAS Urania with ViscGuard™

FINANCIAL HIGHLIGHTS



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OUR VISION

BRAND OF 1ST CHOICE

WHAT DOES IT MEAN?

‘Brand of 1st Choice’ drives the core essence of what PETRONAS Dagangan Berhad stands for in terms of delivering quality, innovation, excellence and differentiating experience for petroleum products and services in Malaysia. Given its wide range of innovative products and differentiated services, PDB is driven to ensure that customers will continue to recognise, endorse and recommend PETRONAS as their leading preferred brand in the downstream oil and gas sector.

How PDB Achieves This

Supported by a strong delivery network, PDB offers a wide spectrum of innovative petroleum products and differentiated services to meet the specific needs of its customers. These high quality products and services were developed based on continuous research and development as well as in partnerships with the best in class brands and companies.

More importantly, PDB has integrated this vision into its people, processes and procedures to make this aspiration a reality for each of its core businesses and across all levels of the Company.

The people at PDB fully embrace this vision and are committed to translate it into a reality for customers and stakeholders.

With aggressive plans for market penetration and renewed commitment towards customer service excellence, PDB has clearly set the platform for its next stage of growth. The Company is poised to challenge the market paradigm and continue being the industry trendsetter. Innovation and technology continue to drive the development of our winning fuel for consumers, translated from our three-time success and learnings in the Formula One™ World Constructors’ Championship. This in turn will clearly reinforce PETRONAS’ position as the ‘Brand of 1st Choice’.

OUR MISSION

Value-Driven Fuel Marketing With Market Leadership in Malaysia

To be the 'Brand of 1st Choice' we are committed to deliver quality fuel products and reliable services to our consumers nationwide via our sound network of facilities and business partners. This market leadership is achieved by focusing on value, having in place a high performance driven culture, ensuring operational and HSE excellence as well as prudent risk and corporate governance practices.

SHARED VALUES



LOYALTY
Loyal to corporation



INTEGRITY
Honest and upright



PROFESSIONALISM
Strive for excellence



COHESIVENESS
United, trust and respect for each other

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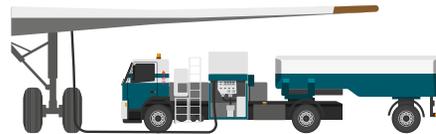


HIGHEST SHARE PRICE IN 2016
RM26.30



45% CONTRIBUTION TO GROUP GROSS MARGIN FROM **RETAIL BUSINESS**

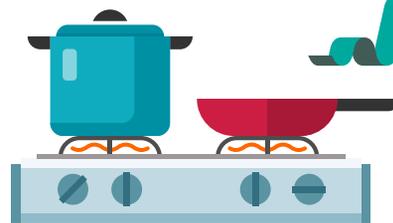
F1TM CHAMPION FOR **3** CONSECUTIVE YEARS
2014 | 2015 | 2016



COMMERCIAL BUSINESS CERTIFIED
ISO 9001:2008
SINCE 2008



GROSS MARGIN FROM LPG BUSINESS **INCREASED BY 19%**



LARGEST DISTRIBUTION AND NETWORK FACILITIES
38 TERMINALS



ABOUT US

As Malaysia's leading retailer and marketer of downstream oil and gas products, PDB is committed to continuously deliver innovative products and differentiated services in its four core businesses of Retail, Commercial, LPG and Lubricants.

By leveraging on PETRONAS' extensive investments in R&D, PDB ensures the delivery of world class quality petroleum products, here and abroad.

With technology and innovation at its forefront, PDB's continuous endeavours in the area of fuel technology has delivered products that guarantee superior performance coupled with superior savings for our customers.

PETRONAS Primax and PETRONAS Syntium is more than just fuels and lubricants, they are part of the winning formula that has brought in three Formula One™ Championship victories for the Mercedes AMG PETRONAS Formula One™ Team in 2014, 2015 and 2016. They are the result of the partnership forged with Mercedes AMG, which has culminated in years of valuable experience in Formula One™, one of the most challenging races in motorsports today.

Our winning products are available at more than 1,000 PETRONAS stations nationwide. Accompanied with over 760 Kedai Mesra, our stations provide a one stop convenience centre that offer fuelling, dining, shopping, banking, car spa and additional convenience offerings, all under one roof.



WITH TECHNOLOGY AND INNOVATION AT ITS FOREFRONT, PDB'S CONTINUOUS ENDEAVOURS IN THE AREA OF FUEL TECHNOLOGY HAS DELIVERED PRODUCTS THAT GUARANTEE SUPERIOR PERFORMANCE COUPLED WITH SUPERIOR SAVINGS FOR OUR CUSTOMERS.

Over the years, the Company has built an extensive logistics and distribution system that has remained a key pillar of PDB's strength. The comprehensive network of bulk and aviation depots, bunkering facilities as well as LPG bottling plants ensure a reliable supply of products at all times. In addition, the enhanced fleet of road tankers completes the value chain in ensuring a seamless delivery of its products to customers and dealers throughout Malaysia.

Having expanded its presence internationally, PDB operates downstream subsidiaries beyond Malaysian shores in the Philippines and Thailand. These subsidiaries are involved in the LPG and Lubricant businesses.

The scale of operations, facilities and manpower involved in the day to day business of the Company necessitate a culture that prioritises HSE. In taking proactive steps towards achieving total compliance, the continuous improvement in HSE management and performance is embedded in the culture and mindset of our workforce through programmes supported by a pool of competent HSE practitioners and HSE minded line managers.

We are proud of the achievements we have made over the past 34 years, which are the results of hard work, determination and dedication of our passionate workforce. We are fuelled by our ambitions of going further with our stakeholders and the basis for that is strongly rooted in striving for 'Brand of 1st Choice'.

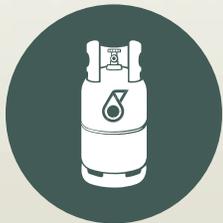
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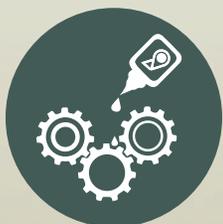
RETAIL



COMMERCIAL



LPG



LUBRICANT

OUR PRODUCTS AND SERVICES

Fuels

- PETRONAS Primax 95 with Advanced Energy Formula
- PETRONAS Primax 97 with Advanced Energy Formula
- PETRONAS Dynamic Diesel and PETRONAS Dynamic Diesel Euro 5

Convenience Stores

- Kedai Mesra
- Quick Serve Restaurants
- Banking Facilities
- Terminal Services
- Courier Services
- Additional Convenience Offerings

Cards

- Loyalty Card – PETRONAS Mesra Loyalty Programme
- Fleet Card – PETRONAS SmartPay
- Co-Branded Card – CIMB and Maybank Credit Cards
- Gift Card – PETRONAS Gift Card

Gasoline

Jet A-1

Kerosene

Diesel

Fuel Oil

Bitumen

Sulphur

Petroleum Coke

Household/Domestic

- 12kg Cylinders
- 14kg Cylinders

Industrial/Commercial

- 50kg Cylinders
- Bulk LPG

Passenger Car Motor Oils

- Full and Semi Synthetic
- Mineral
- OEM Genuine Oils

Motorcycle Oils (4T and 2T)

- Full and Semi Synthetic
- Mineral
- OEM Genuine Oils

Commercial Vehicle Lubricant

- Heavy Duty Diesel Engine Oil

Automotive Functional Fluids

- Auto Transmission Fluids and Gear Oils
- Greases
- Radiator Coolant
- Brake Fluids

Industrial and Marine Lubricants

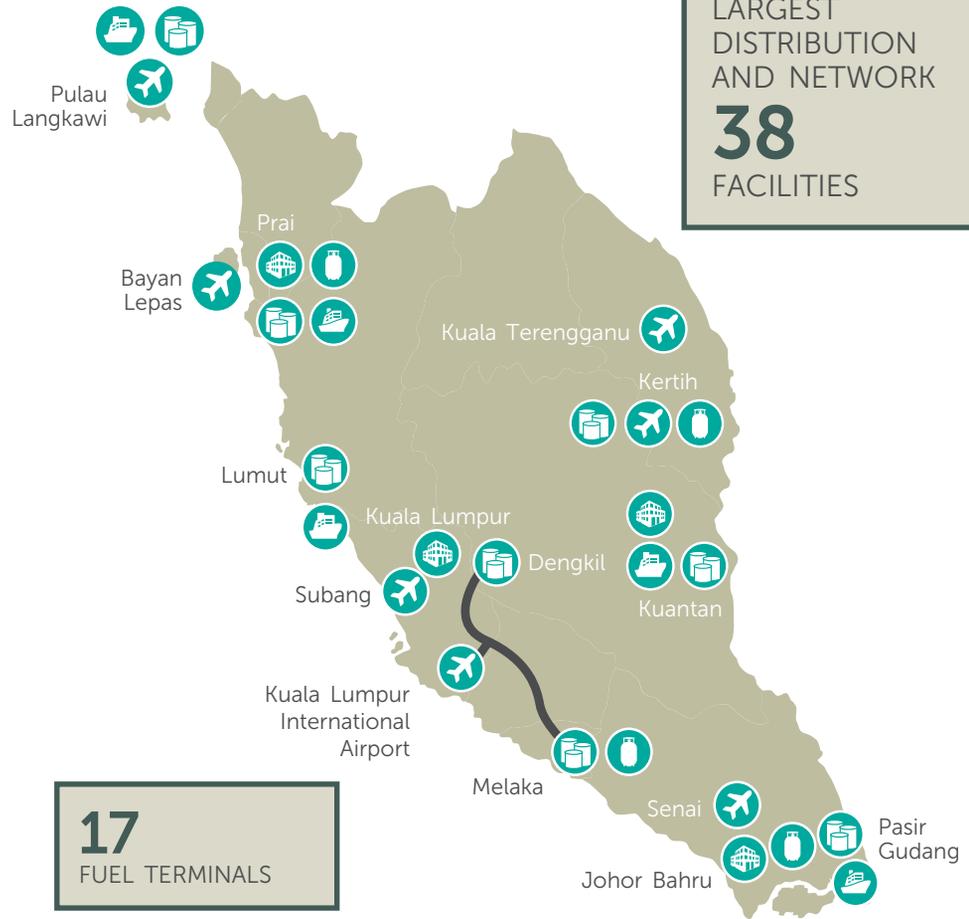
- Hydraulic Oils
- Compressor Oils
- Turbine Oils
- Agriculture Oils
- Marine Oils
- Metal Working Fluids
- Fishing Boat Oils
- Industrial Gear Oils

Fully Branded Outlets

- PETRONAS LubeXperts

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AREAS OF OPERATION (DOMESTIC)

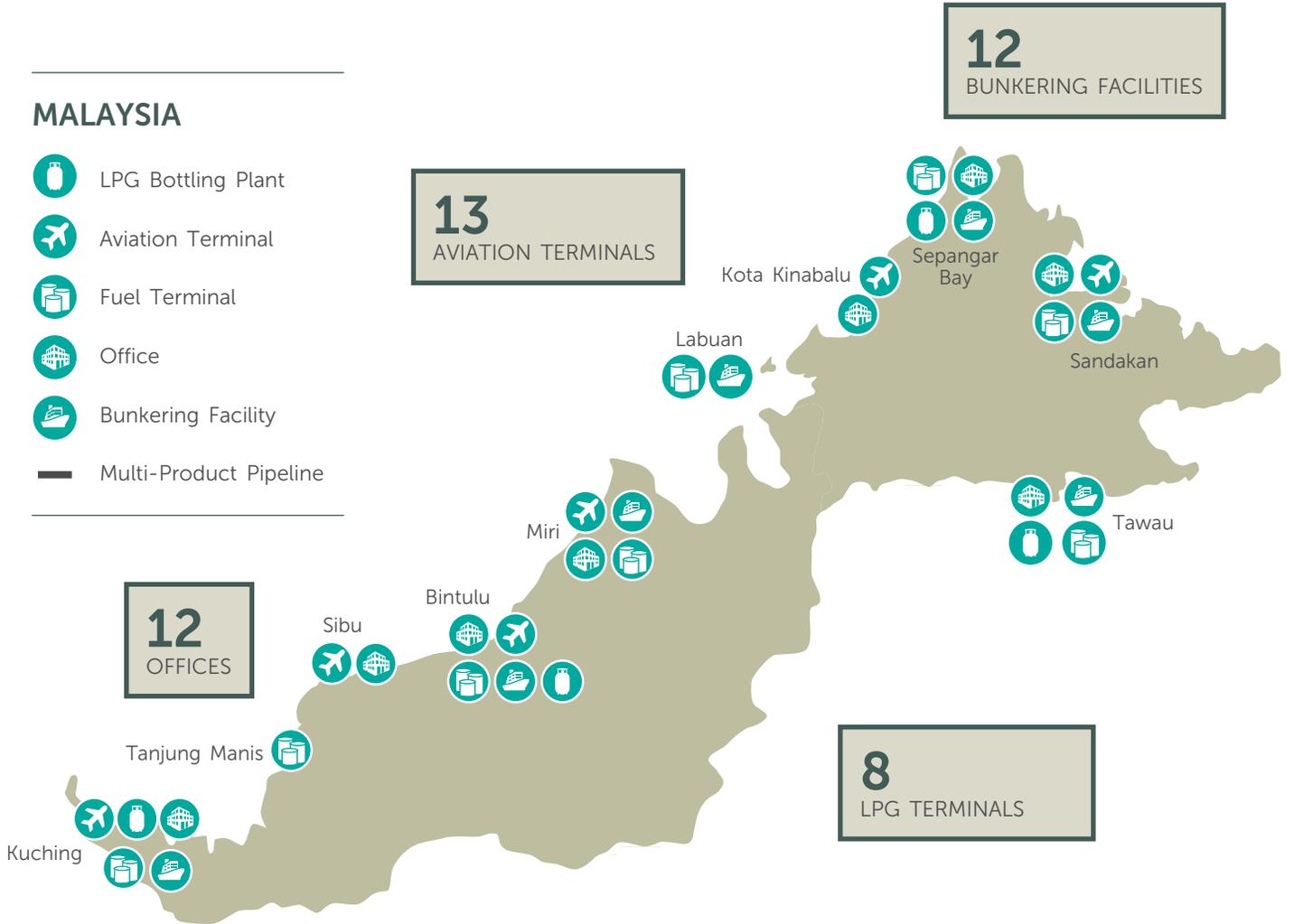


JV DEPOTS AND FACILITIES:

1. PS Pipeline Sdn Bhd/KVDT Fuel Terminal (Dengkil)
2. PS Terminal Sdn Bhd (Tawau and Bintulu)
3. Kuala Lumpur Aviation Fuelling System Sdn Bhd (KLIA Sepang)
4. IOT Management Sdn Bhd (Kuching)
5. Tanjung Manis Oil Terminal Management Sdn Bhd (Tanjung Manis)
6. Asian Supply Base Sdn Bhd (Wilayah Persekutuan Labuan)

MALAYSIA

-  LPG Bottling Plant
-  Aviation Terminal
-  Fuel Terminal
-  Office
-  Bunkering Facility
-  Multi-Product Pipeline



LPG:

1. Prai
2. Melaka
3. Pasir Gudang
4. Kertih
5. Kuching (JV)
6. Bintulu
7. Sepangar Bay
8. Tawau (JV)

Aviation:

1. Langkawi
2. Bayan Lepas
3. Subang
4. KLIA
5. Senai
6. Kertih
7. Kuala Terengganu
8. Kuching
9. Sibu
10. Bintulu
11. Miri
12. Kota Kinabalu
13. Sandakan

Fuel:

1. Langkawi
2. Prai
3. Lumut
4. Dengkil (JV)
5. Melaka (Refinery)
6. Pasir Gudang
7. Kuantan
8. Kertih (Refinery)
9. Kuching (JV)
10. Tanjung Manis (JV)
11. Bintulu (JV)

12. Miri
13. ASB Labuan (JV)
14. Labuan
15. Sepangar Bay
16. Sandakan
17. Tawau (JV)

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AREAS OF OPERATION (INTERNATIONAL)

PHILIPPINES

-  Office
-  Terminal and LPG Bottling Plant
-  LPG Bottling Plant

6
BOTTLING PLANTS

4
LPG TERMINALS

Terminal and LPG Bottling Plant:

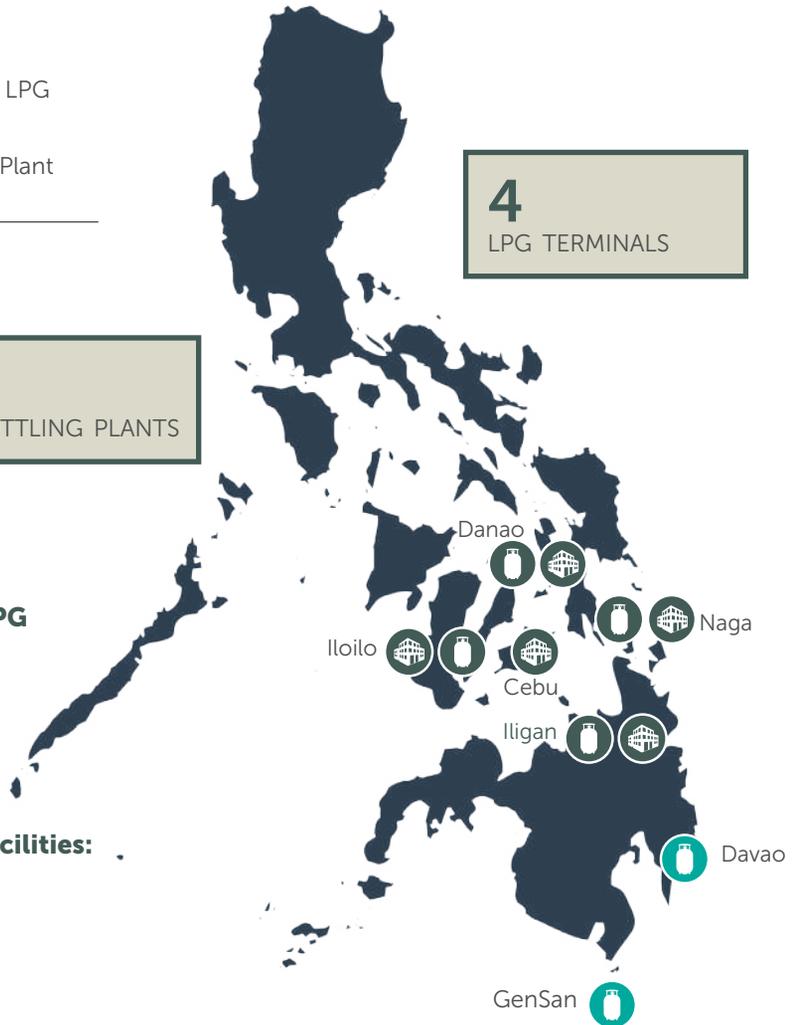
1. Iloilo
2. Iligan
3. Naga
4. Danao

LPG Bottling Facilities:

1. GenSan
2. Davao

Office:

1. Iligan
2. Cebu
3. Naga
4. Danao
5. Iloilo



THAILAND

-  Office
 -  Lubricants Warehouse
-

Office:

- 1. Bangkok

Lubricants Warehouse:

- 1. Bangkok



1
LUBRICANTS
WAREHOUSE

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KEY MILESTONES

1981

- PDB operated its first service station at Taman Tun Dr Ismail

1982

- Incorporated as PETRONAS Dagangan Sdn Bhd on 5 August

1985

- Introduction of PETRONAS LUBRAM in the market, the first PETRONAS lubricant

1987

- PETRONAS Dagangan Sdn Bhd launched its first unleaded fuel, PRIMAS

1993

- Converted to a public company on 21 August

1994

- Listed on the KLSE
- Launched PRIMAS PX2

1996

- Establishment of Kedai Mesra and new station image

2000

- Launched a new unleaded petrol, PETRONAS Primax
- Introduced www.mesra.com.my website to establish online presence

2001

- PDB offered Kad Mesra, Real Rewards Loyalty Programme to its customers

2002

- Mesralink was officially launched

2004

- Introduced PETRONAS Primax Baru

2006

- Launched a new fuel, PETRONAS Primax 3

2009

- Introduced PETRONAS Urania, PETRONAS Primax 95 and PETRONAS Dynamic Diesel

2010

- Introduced PETRONAS Primax 97

2011

- Launched PETRONAS Primax 95 Xtra

2012

- Official launch of 1001st PETRONAS station at Wangsa Maju
 - Launched the Gas PETRONAS Home Delivery
 - Launched first-of-its-kind twin stations namely, PETRONAS station Solaris Serdang and PETRONAS station Solaris Putra
 - Regional expansion to the Philippines, Thailand and Vietnam
-

2013

- Official launch of the first fully branded automobile workshop, PETRONAS LubeXperts
 - Rollout of PDB's Corporate Social Responsibility programme, 'Water For Life'
 - Unveiled the improved PETRONAS SmartPay Chip Card
 - Completed the LPG Flexspeed facility in Melaka
-

2014

- Introduced PETRONAS Syntium 7000 lubricant
 - Launched PETRONAS Primax 95 with Advanced Energy Formula
 - Appointed Lewis Hamilton, the driver of the Mercedes AMG PETRONAS Formula One™ Team as the Technical Performance Consultant for PETRONAS Primax range of fuels and PETRONAS Syntium range of lubricants
 - The Mercedes AMG PETRONAS Formula One™ Team won the Formula One™ Constructors' Championship
-

2015

- Launched PETRONAS Syntium °CoolTech™
 - Introduced PETRONAS Dynamic Diesel Euro 5 in Johor
 - First to launch the new Euro 4M compliant PETRONAS Primax 97 with Advanced Energy Formula ahead of the Government's gazetted implementation date
 - The Mercedes AMG PETRONAS Formula One™ Team won the Formula One™ Constructors' Championship for the second consecutive year
-

- Launched the first-of-its-kind LPLFRD in Southeast Asia at LIMA'15
 - Completed the LPG Flexspeed facility in Prai
 - Consolidation of lubricant business into one entity, namely, PDB's subsidiary, Lub Dagangan Sdn Bhd Lub Dagangan Sdn Bhd was then renamed PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd
-

2016

- Expansion of Miri Fuel Terminal
 - Launched the implementation of the GTSP initiative at all PETRONAS stations in collaboration with the Royal Malaysia Police
 - Relaunched PETRONAS Urania with ViscGuard™
 - Launched PETRONAS Syntium SE, a high quality engine oil blended exclusively for PROTON
 - The Mercedes AMG PETRONAS Formula One™ Team won the Formula One™ Constructors' Championship for three consecutive years
 - PDB has become the first non-Japanese lubricant company certified by HONDA as their supplier
 - Launch of the first Unmanned Terminal at Lumut, Prai, Melaka and Kertih Fuel Terminals
-

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Directors

Md Arif Mahmood (Chairman)

*Mohd Ibrahimnuddin Mohd Yunus
(MD/CEO)*

Lim Beng Choon

Vimala V.R. Menon

Datuk Anuar Ahmad

Erwin Miranda Elechicon

Nuraini Ismail

Ir Mohamed Firouz Asnan

BOARD COMMITTEES

Board Audit Committee

Vimala V.R. Menon (Chairman)

Lim Beng Choon

Datuk Anuar Ahmad

Nuraini Ismail

Nomination and Remuneration Committee

Lim Beng Choon (Chairman)

Erwin Miranda Elechicon

Ir Mohamed Firouz Asnan

Company Secretaries

Hasnizaini Mohd Zain (LS 0009780)

Yeap Kok Leong (MAICSA 0862549)

Registered Address

Tower 1, PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia

Tel : (+603) 2051 5000

Fax : (+603) 2331 1583

Business Address

Level 30-33, Tower 1
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia

Tel : (+603) 2051 5000

Fax : (+603) 2331 1583

Investor Relations Address

Level 31, Tower 1
PETRONAS Twin Towers
Kuala Lumpur City Centre
50088 Kuala Lumpur
Malaysia

Tel : (+603) 2392 4678

Share Registrar

Symphony Share Registrars Sdn Bhd
 Level 6, Symphony House
 Pusat Dagangan Dana 1
 Jalan PJU 1A/46
 47301 Petaling Jaya
 Selangor Darul Ehsan
 Malaysia
 Tel : (+603) 7841 8000
 Fax : (+603) 7841 8151/8152

Auditors

KPMG PLT (LLP0010081-LCA & AF 0758)
 Chartered Accountants
 10th Floor, KPMG Tower
 8, First Avenue, Bandar Utama
 47800 Petaling Jaya
 Selangor Darul Ehsan
 Malaysia
 Tel : (+603) 7721 3388
 Fax : (+603) 7721 3399

Principal Bankers

CIMB Bank Berhad
 Malayan Banking Berhad

Form of Legal Entity

Incorporated on 5 August 1982 as a private company limited by shares under the Companies Act, 1965 and converted into a public company limited by shares on 21 August 1993

CREDIT RATING

Local Rating Agency

Malaysia Rating Corporation Berhad
 MARC-1_{IS}/AAA_{IS}

Place of Incorporation and Domicile

Malaysia

Stock Exchange Listing

Main Market of Bursa Malaysia
 Securities Berhad since 8 March 1994

Stock Code : 5681
 Stock Name : PETDAG

Website

www.mymesra.com.my

Customer Service Centre (Mesralink)

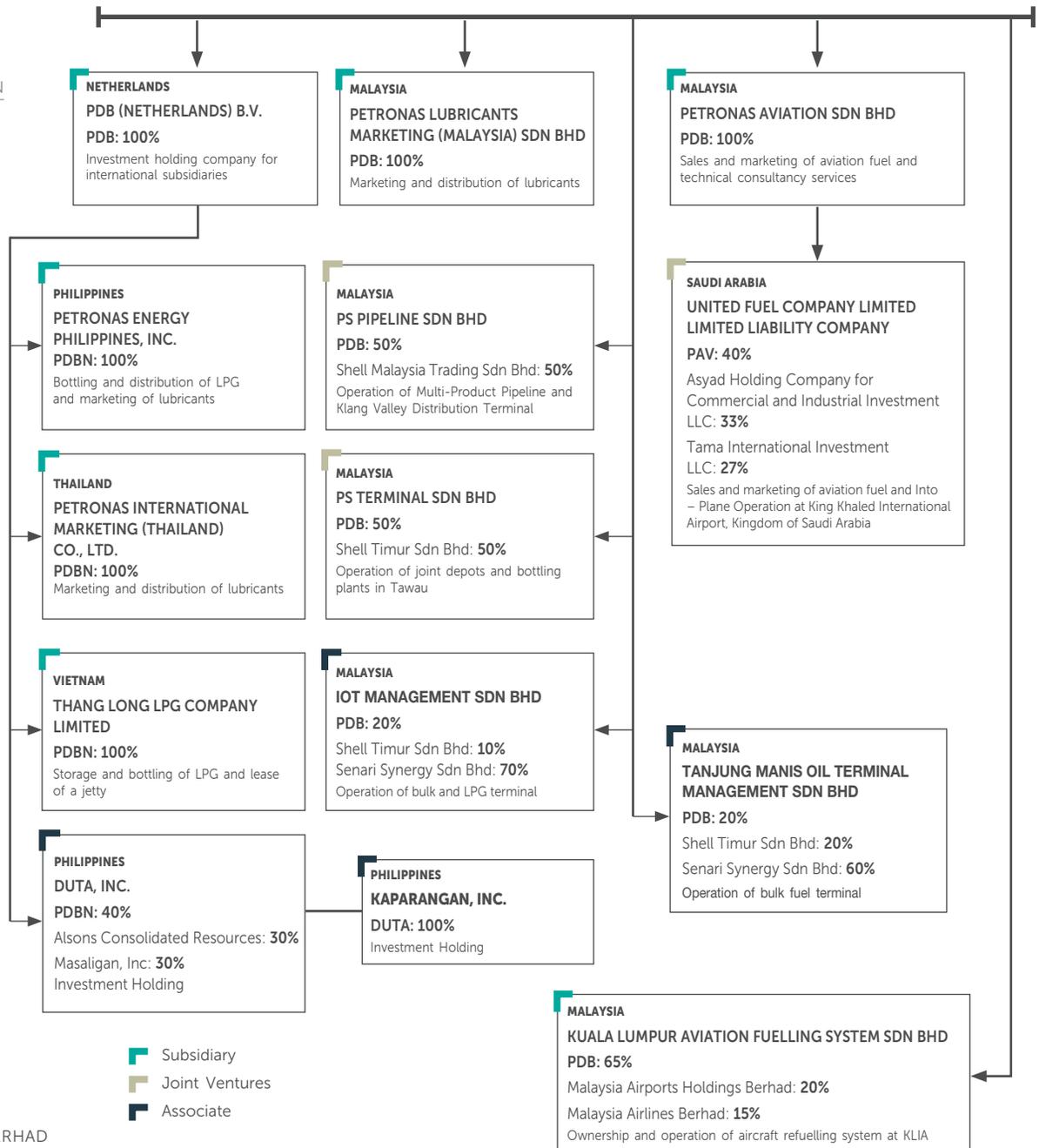
Tel : 1-300-88-8181
 E-mail : mesralink@petronas.com.my

CORPORATE INFORMATION

GROUP CORPORATE STRUCTURE

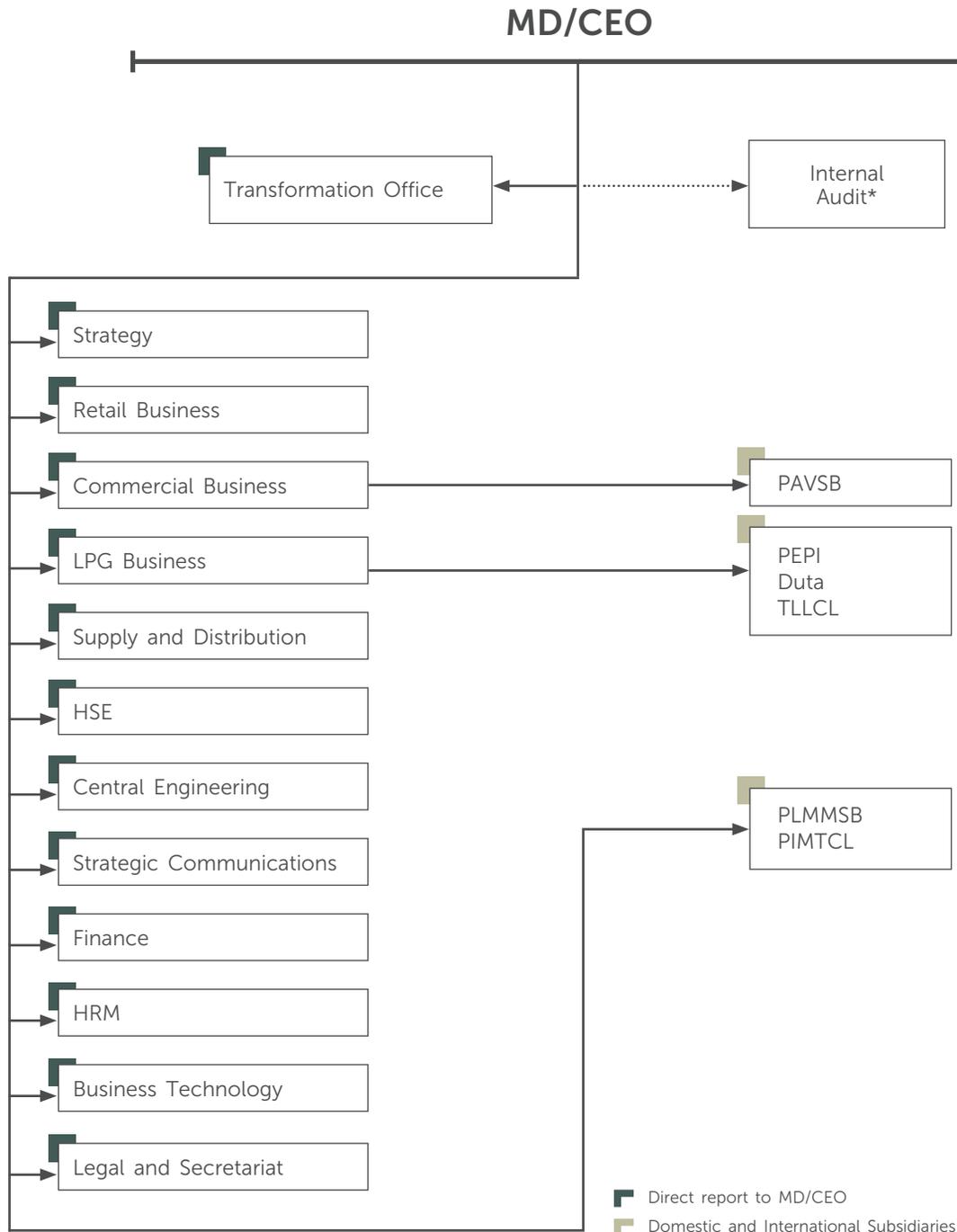
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PETRONAS Dagangan Berhad



- Subsidiary
- Joint Ventures
- Associate

GROUP ORGANISATION STRUCTURE



* Internal Audit Department reports directly to the Board Audit Committee

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BOARD OF DIRECTORS



NATIONALITY



87.5%
MALAYSIAN

12.5%
OTHERS

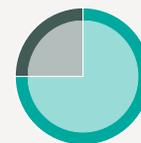
GENDER DIVERSITY



75%
MALE

25%
FEMALE

TENURE OF SERVICE

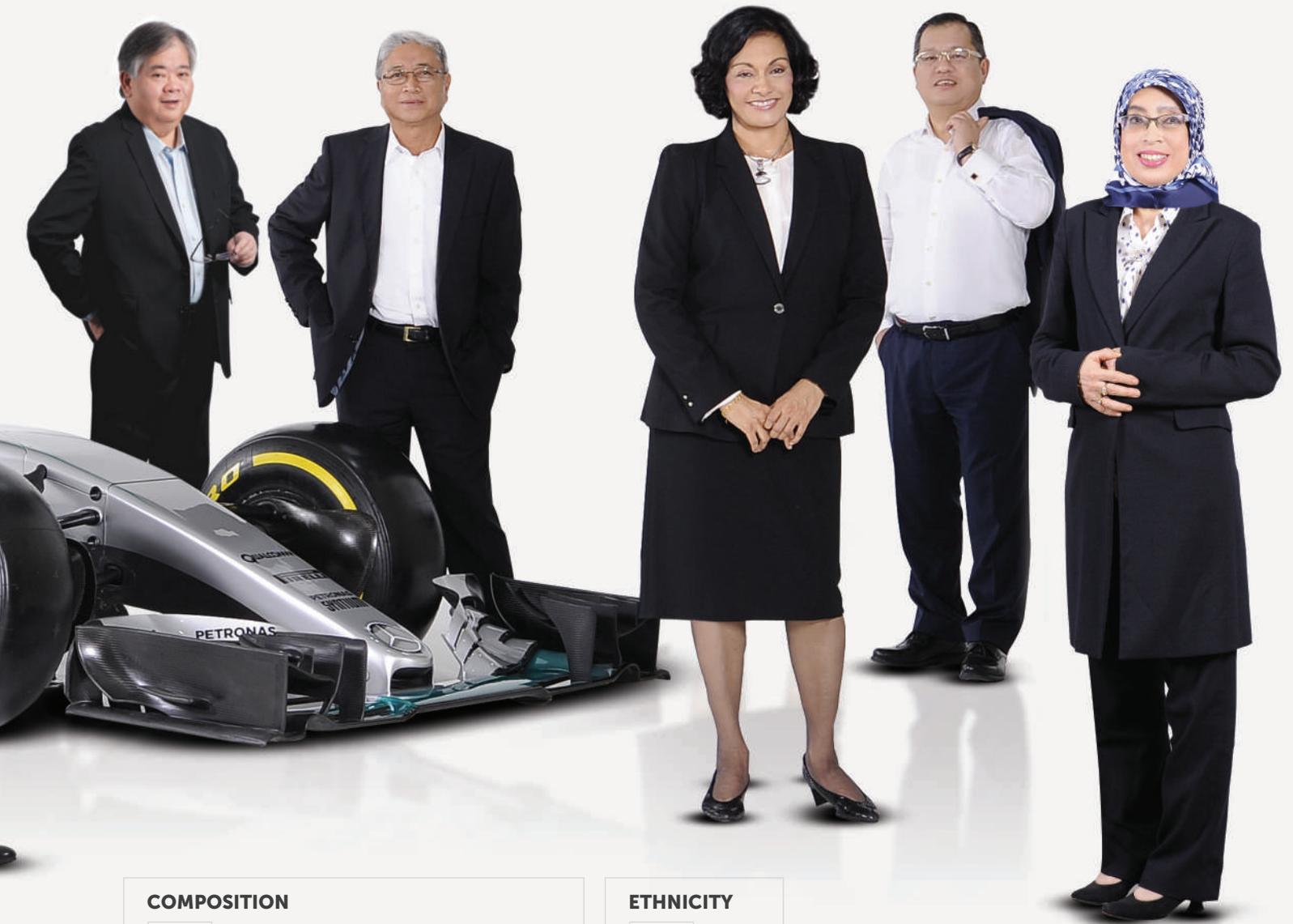


25%
>5 YEARS

75%
<5 YEARS

from left:

- Hasnizaini Mohd Zain (Company Secretary) • Ir Mohamed Firouz Asnan
- Mohd Ibrahimnuddin Mohd Yunus (MD/CEO) • Lim Beng Choon
- Md Arif Mahmood (Chairman) • Erwin Miranda Elechicon
- Datuk Anuar Ahmad • Vimala V.R. Menon • Yeap Kok Leong (Company Secretary) • Nuraini Ismail



COMPOSITION

- 1** Executive Director (also Managing Director/Chief Executive Officer)
- 1** Senior Independent Director
- 3** Independent Non-Executive Director
- 3** Non-Independent Non-Executive Director (Including the Chairman)

ETHNICITY

- 5** Malay
- 1** Chinese
- 1** Indian
- 1** Others

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PROFILE OF DIRECTORS

MD ARIF MAHMOOD

Chairman, Non-Independent Non-Executive Director



Nationality	Malaysian
Age/Gender/Ethnicity	54/Male/Malay
Date of Appointment	16 April 2015
Length of Service (As at 10 February 2017)	1 year and 10 months
Number of Board Meetings Attended	5/5

Academic/Professional Qualifications

- Bachelor of Science in Electrical Engineering (*summa cum laude*), Boston University, United States of America
- Masters of Business Administration, Massachusetts Institute of Technology, United States of America

- Member, Talent Council, PETRONAS
- Member, Industry Advisory Panel, Universiti Teknologi PETRONAS
- Chairman, various companies within PETRONAS

Present Directorships

Listed entities:

- PETRONAS Dagangan Berhad
- PETRONAS Chemicals Group Berhad

Other public company:

- Nil

Past Experience

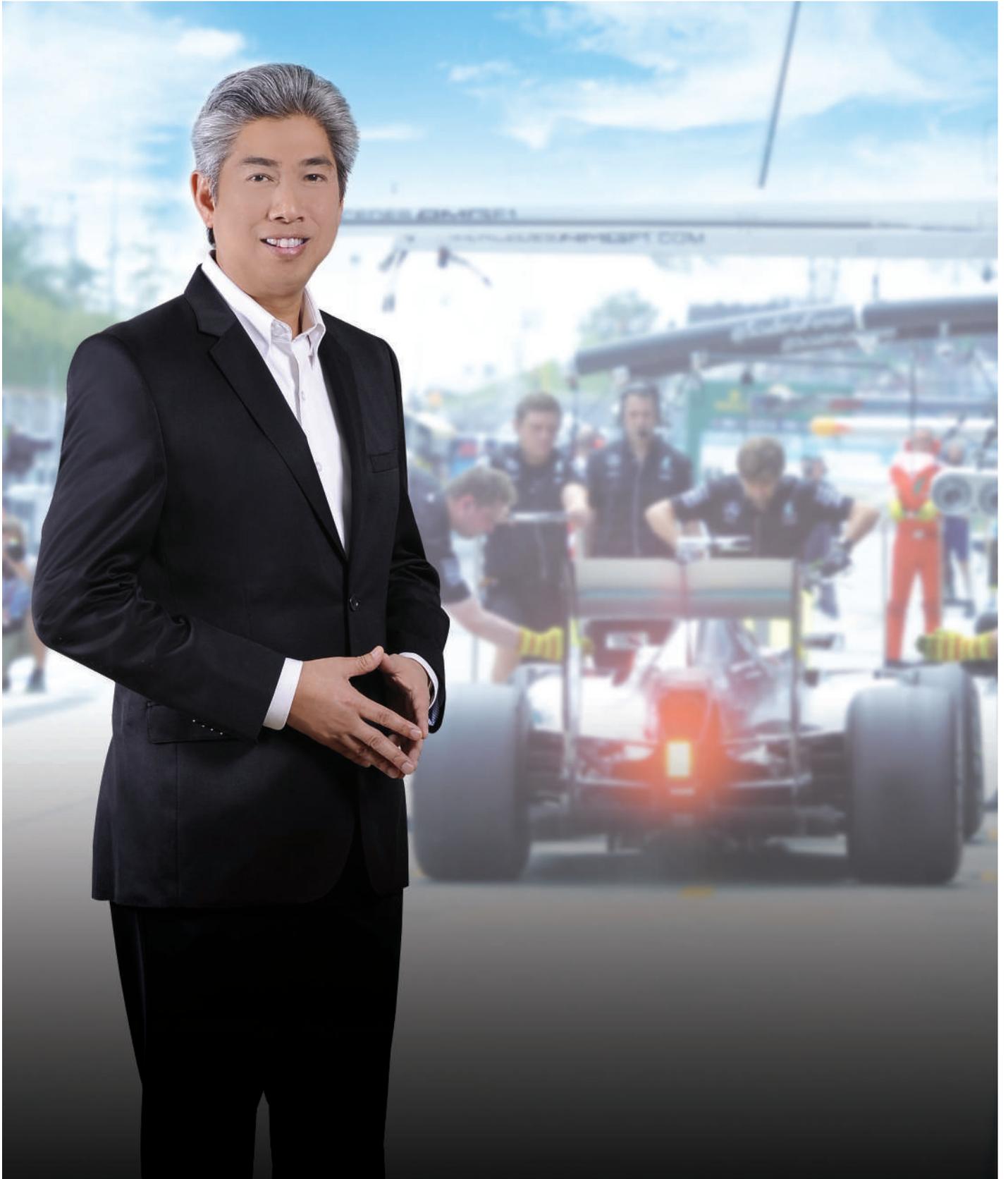
- Director, PETRONAS
- Senior Vice President, Corporate Strategy, PETRONAS
- Vice President, Oil Business, PETRONAS
- Managing Director/Chief Executive Officer, ASEAN Bintulu Fertilizer Sdn Bhd
- Senior General Manager, Retail Business Division, PETRONAS Dagangan Berhad
- General Manager (Gas Processing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

Present Appointments

- Chairman, PETRONAS Dagangan Berhad
- Chairman, PETRONAS Chemicals Group Berhad
- Executive Vice President and Chief Executive Officer, Downstream Business, PETRONAS
- Member, Executive Leadership Team, PETRONAS
- Member, People Development Committee, PETRONAS

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any



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MOHD IBRAHIMNUDDIN MOHD YUNUS

Managing Director/Chief Executive Officer



Nationality	Malaysian
Age/Gender/Ethnicity	53/Male/Malay
Date of Appointment	1 February 2014
Length of Service (As at 10 February 2017)	3 years
Number of Board Meetings Attended	4/5

Academic/Professional Qualification

- Bachelor's Degree in Economics, York University, Ontario, Canada

Present Directorships

Listed entity:

- PETRONAS Dagangan Berhad

Other public company:

- Nil

Present Appointments

- Managing Director/Chief Executive Officer, PETRONAS Dagangan Berhad
- Chairman/Director, various companies within PETRONAS Dagangan Berhad
- Chairman, Leadership Team Committee, PETRONAS Dagangan Berhad
- Chairman, People Development Committee, PETRONAS Dagangan Berhad
- Chairman/Member, various committees within PETRONAS Group

Past Experience

- Chief Executive Officer, PETRONAS LNG Sdn Bhd
- Head, Compensation and Benefits, Group Human Resource Management, PETRONAS
- Head, Remuneration, Group Human Resource Management, PETRONAS
- Chief Executive Officer, PT PETRONAS Niaga Indonesia
- General Manager, LPG Business, PETRONAS Dagangan Berhad
- General Manager (LPP Trading), Group LPG and Petroleum Products, PETRONAS
- Various senior positions, within PETRONAS Group

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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LIM BENG CHOON

Senior Independent Director



Nationality	Malaysian
Age/Gender/Ethnicity	57/Male/Chinese
Date of Appointment	13 August 2012
Length of Service (As at 10 February 2017)	4 years and 6 months
Number of Board Meetings Attended	5/5

Academic/Professional Qualification

- Bachelor of Science (Hons) in Mathematics and Computer Science, Australian National University, Canberra, Australia

Present Directorships

Listed entities:

- PETRONAS Dagangan Berhad
- MISC Berhad

Other public company:

- Nil

Present Appointments

- Chairman, Nomination and Remuneration Committee, PETRONAS Dagangan Berhad
- Member, Board Audit Committee, PETRONAS Dagangan Berhad
- Member, Board Audit Committee, MISC Berhad
- Trustee, ECM Libra Foundation

Past Experience

- Independent Non-Executive Director, PETRONAS Gas Berhad
- Chairman, Nomination and Remuneration Committee, PETRONAS Gas Berhad
- Member, Board Audit Committee, PETRONAS Gas Berhad
- Independent Non-Executive Director, Hong Leong Bank Berhad
- Member, Board Audit Committee, Hong Leong Bank Berhad
- Country Managing Director, Accenture, the global consulting, technology and outsourcing company
- Managing Partner, Accenture's Resources Industry Group (Oil and Gas, Chemicals, Utilities and Natural Resources) in Southeast Asia

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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VIMALA V.R. MENON

Independent Non-Executive Director



Nationality	Malaysian
Age/Gender/Ethnicity	62/Female/Indian
Date of Appointment	18 November 2011
Length of Service (As at 10 February 2017)	5 years and 3 months
Number of Board Meetings Attended	5/5

Academic/Professional Qualifications

- Fellow, Institute of Chartered Accountants in England and Wales
- Member, the Malaysian Institute of Accountants

Present Directorships

Listed entities:

- PETRONAS Dagangan Berhad
- PETRONAS Chemicals Group Berhad
- Cycle & Carriage Bintang Berhad
- DiGi.Com Berhad

Other public company:

- Nil

Present Appointments

- Chairman, Board Audit Committee, PETRONAS Dagangan Berhad
- Chairman, Board Audit Committee, PETRONAS Chemicals Group Berhad
- Chairman, Board Audit Committee, Cycle & Carriage Bintang Berhad
- Member, Audit and Risk Committee, DiGi.Com Berhad
- Member, Nomination and Remuneration Committee, PETRONAS Chemicals Group Berhad
- Member, Nomination Committee, Cycle & Carriage Bintang Berhad
- Member, Remuneration Committee, Cycle & Carriage Bintang Berhad

Past Experience

- Director, Finance and Corporate Affairs, PROTON Holdings Berhad
- Executive Director, Finance and Corporate Services, Edaran Otomobil Nasional Berhad
- Director, EON Bank Berhad
- Director, Jardine Cycle & Carriage Limited
- Director, PT Astra International Tbk, Indonesia
- Deloitte KassimChan

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- She has never been charged for any offence within the past five years other than traffic offences, if any

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DATUK ANUAR AHMAD

Independent Non-Executive Director



Nationality	Malaysian
Age/Gender/Ethnicity	63/Male/Malay
Date of Appointment	1 August 2014
Length of Service (As at 10 February 2017)	2 years and 6 months
Number of Board Meetings Attended	5/5

Academic/Professional Qualifications

- Bachelor of Science (Econs) London School of Economics and Political Science, University of London, United Kingdom
- Advanced Management Programme, Harvard Business School, United States of America

Present Directorships

Listed entities:

- PETRONAS Dagangan Berhad
- E.A. Technique (M) Berhad
- ENRA Group Berhad

Other public company:

- Nil

Present Appointments

- Chairman, Nomination and Remuneration Committee, ENRA Group Berhad
- Chairman, Audit Committee, E.A. Technique (M) Berhad
- Member, Board Audit Committee, PETRONAS Dagangan Berhad
- Member, Audit Committee, ENRA Group Berhad
- Member, Remuneration Committee, E.A. Technique (M) Berhad

Past Experience

- Chairman, PETRONAS Gas Berhad
- Chairman, PETRONAS Dagangan Berhad
- Director, PETRONAS
- Member, Executive Committee, PETRONAS
- Member, Management Committee, PETRONAS
- Executive Vice President, Gas and Power Business, PETRONAS
- Vice President, Oil Business, PETRONAS
- Vice President, Human Resource Management, PETRONAS
- Managing Director/Chief Executive Officer, PETRONAS Dagangan Berhad
- Various senior managerial positions in the International Marketing Division and Corporate Planning Unit, PETRONAS Trading Corporation Sdn Bhd and PETRONAS Dagangan Berhad

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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ERWIN MIRANDA ELECHICON

Independent Non-Executive Director



Nationality	Filipino
Age/Gender/Ethnicity	58/Male/Filipino
Date of Appointment	1 August 2014
Length of Service (As at 10 February 2017)	2 years and 6 months
Number of Board Meetings Attended	4/5

Academic/Professional Qualifications

- Bachelor of Arts Degree in Economics, (cum laude), Ateneo de Manila University, Philippines
- Finance Course, Columbia Business School and Marketing at Kellogg School of Management, United States of America

Present Directorships

Listed entity:

- PETRONAS Dagangan Berhad

Other public company:

- Nil

Present Appointments

- Chairman, Assurant BPO Solutions, Inc., Philippines
- Chairman, Silver Machine Digital Communications, Inc., Philippines
- Director, U-Bix Corporation, Philippines
- Director, Alliance Select Foods International, Inc., Philippines
- Member, Nomination and Remuneration Committee, PETRONAS Dagangan Berhad

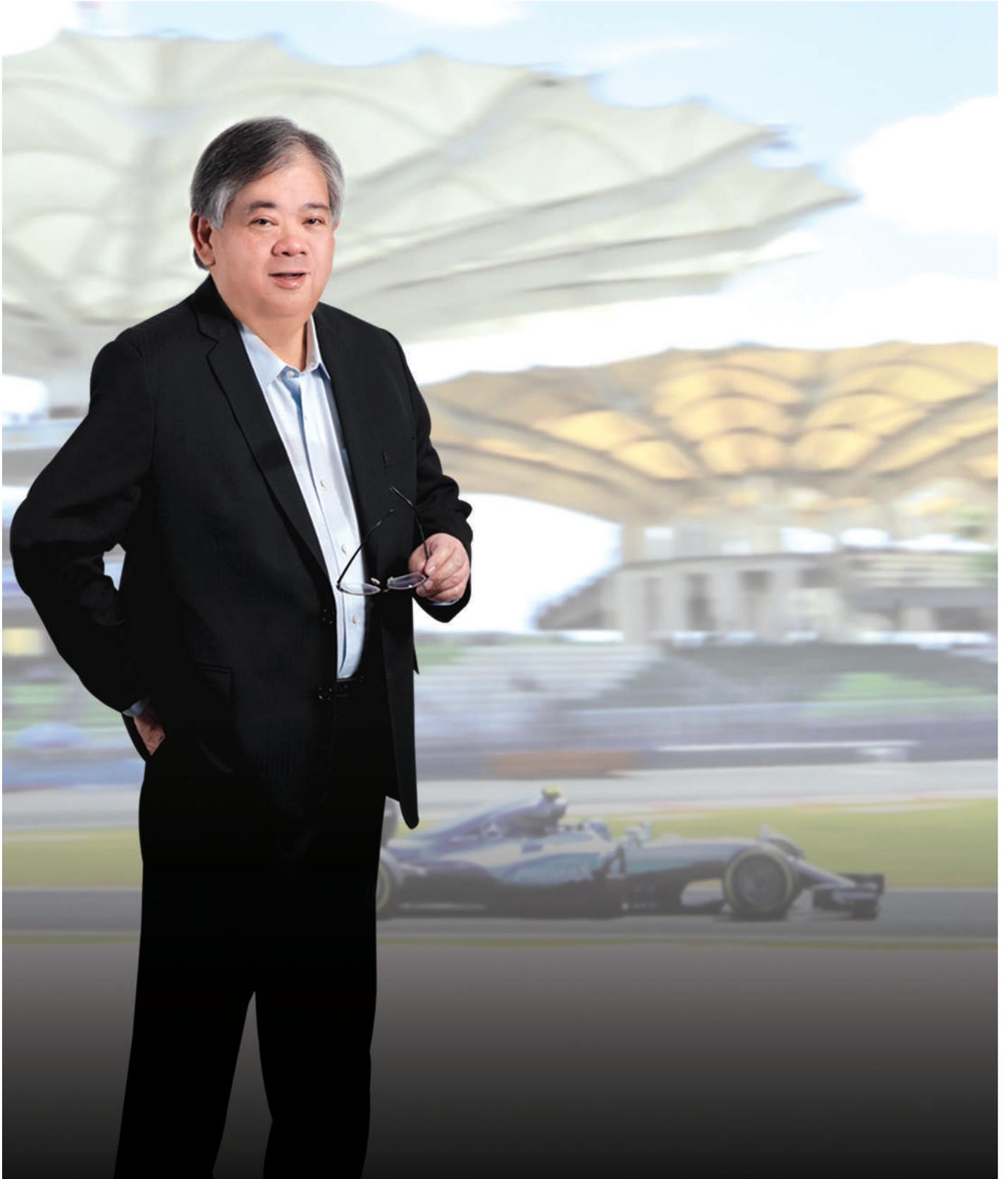
Past Experience

- Marketing and General Management experience in consumer goods, food service, advertising and business process outsourcing industries across Asia
- Vice President, Fabric and Home Care category in Southeast Asia, Australia/ New Zealand and India, Procter & Gamble International Operations
- General Manager, Procter & Gamble, Vietnam Ltd
- President, Greenwich Pizza Company and Fresh N' Famous Foods, Inc.
- Head, International Business Development, Jollibee Foods Corporation, Philippines
- Member, Corporate Management Committee, Jollibee Foods Corporation, Philippines

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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NURAINI ISMAIL

Non-Independent Non-Executive Director



Nationality	Malaysian
Age/Gender/Ethnicity	54/Female/Malay
Date of Appointment	18 November 2011
Length of Service (As at 10 February 2017)	5 years and 3 months
Number of Board Meetings Attended	5/5

Academic/Professional Qualification

- Fellow, Association of Chartered Certified Accountants, United Kingdom

Present Directorships

Listed entity:

- PETRONAS Dagangan Berhad

Other public company:

- Nil

Present Appointments

- Vice President, Treasury, PETRONAS
- Member, Board Audit Committee, PETRONAS Dagangan Berhad
- Director, various companies within PETRONAS Group
- Member, various committee within PETRONAS Group

Past Experience

- Senior General Manager, Group Treasury, PETRONAS
- General Manager, Finance and Accounts Services, Malaysian International Trading Corporation Sdn Bhd
- General Manager, Commercial Services, Malaysian International Trading Corporation Sdn Bhd
- Various positions in Bank Bumiputra Malaysia Berhad, Bumiputera Merchant Bankers and Mayban Finance Berhad

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- She has never been charged for any offence within the past five years other than traffic offences, if any

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IR MOHAMED FIROUZ ASNAN

Non-Independent Non-Executive Director



Nationality	Malaysian
Age/Gender/Ethnicity	51/Male/Malay
Date of Appointment	6 October 2015
Length of Service (As at 10 February 2017)	1 year and 4 months
Number of Board Meetings Attended	4/5

Academic/Professional Qualifications

- Bachelor of Science Degree in Civil Engineering, University of Louisiana, Lafayette, United States of America
- Masters of Business Administration, Massachusetts Institute of Technology, United States of America
- Registered Professional Engineer and a Member of the Institution of Engineers, Malaysia

Present Directorships

Listed entities:

- PETRONAS Dagangan Berhad
- MISC Berhad

Other public company:

- Nil

Present Appointments

- Vice President, Refining and Trading, PETRONAS
- Vice President, Oil Business, Downstream, PETRONAS
- Member, Nomination and Remuneration Committee, PETRONAS Dagangan Berhad
- Member, Nomination and Remuneration Committee, MISC Berhad

Past Experience

- Head, Sabah Operations, PETRONAS Carigali Sdn Bhd
- Country Chairman, PETRONAS Vietnam
- General Manager, Business Development, Corporate Planning and Development Division, PETRONAS Vietnam
- Various senior positions held in PETRONAS Group

Declaration

- No family relationship with any Director/ Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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from left:

- Aadrin Azly • Ramzulhakim Ramli • Mohd Ibrahimnuddin Mohd Yunus (MD/CEO)
- Mohd Shobri A Bakar • Ir Azmi Abd Ghani • Hasnizaini Mohd Zain
- Nik Faizanira Nik Mohamed Affandi • Naina Mohd Shukri Omar
- Ruziah Azdi Abdul Rahman • Puteri Liza Elli Sukma • Zubair Abdul Razak
- Mahmad Zahri Mahzan • Tariq Ashra Sulaiman

PROFILE OF LEADERSHIP TEAM

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MOHD IBRAHIMNUDDIN MOHD YUNUS*Managing Director/Chief Executive Officer*

Nationality	Malaysian
Age/Gender/Ethnicity	53/Male/Malay
Date of Appointment	1 February 2014

Academic/Professional Qualification

- Bachelor's Degree in Economics, York University, Ontario, Canada

Present Directorships**Listed entity:**

- PETRONAS Dagangan Berhad

Other public company:

- Nil

Present Appointments

- Managing Director/Chief Executive Officer, PETRONAS Dagangan Berhad
- Chairman/Director, various companies within PETRONAS Dagangan Berhad
- Chairman, Leadership Team Committee, PETRONAS Dagangan Berhad
- Chairman, People Development Committee, PETRONAS Dagangan Berhad
- Chairman/Member, various committees within PETRONAS Group

Past Experience

- Chief Executive Officer, PETRONAS LNG Sdn Bhd
- Head, Compensation and Benefits, Group Human Resource Management, PETRONAS
- Head, Remuneration, Group Human Resource Management, PETRONAS
- Chief Executive Officer, PT PETRONAS Niaga Indonesia
- General Manager, LPG Business, PETRONAS Dagangan Berhad
- General Manager (LPP Trading), Group LPG and Petroleum Products, PETRONAS
- Various senior positions, within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

PUTERI LIZA ELLI SUKMA*Chief Financial Officer*

Nationality	Malaysian
Age/Gender/Ethnicity	44/Female/Malay
Date of Appointment	1 December 2013

Academic/Professional Qualifications

- Bachelor of Commerce (Accounting), University of New South Wales, Australia
- Member, Chartered Accountants Australia and New Zealand

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Chief Financial Officer, PETRONAS Dagangan Berhad
- Director of various PETRONAS Dagangan Berhad subsidiaries
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- General Manager, Finance, PETRONAS Trading Corporation Sdn Bhd
- Senior Manager, Financial and Management Accounting Department, PETRONAS Gas Berhad
- Senior Manager, Group Strategic Planning, PETRONAS
- Manager, Planning and Resource Allocation Unit, Corporate Planning and Development Division, PETRONAS
- Manager, Group Finance, PETRONAS
- Auditor, KPMG Melbourne, Australia

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- She has never been charged for any offence within the past five years other than traffic offences, if any

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Aadrin Azly



Mahmad Zahri Mahzan

PROFILE OF LEADERSHIP TEAM

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AADRIN AZLY*Head, Retail Business Division*

Nationality	Malaysian
Age/Gender/Ethnicity	39/Male/Malay
Date of Appointment	1 November 2016

Academic/Professional Qualification

- Bachelor of Commerce, University of Adelaide, Australia

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Retail Business Division, PETRONAS Dagangan Berhad
- Chairman/Director of various PETRONAS Dagangan Berhad subsidiaries and PETRONAS
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Chairman/Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- Senior General Manager, Strategy and Portfolio, Upstream Business, PETRONAS
- Senior General Manager, Integrated Gas, Upstream Business, PETRONAS
- Executive Assistant and General Manager, President's Office, PETRONAS
- Senior Manager, Corporate Planning and Development, PETRONAS
- Manager, Vice President's Office Oil Business, PETRONAS
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

MAHMAD ZAHRI MAHZAN*Head, Commercial Business Division*

Nationality	Malaysian
Age/Gender/Ethnicity	53/Male/Malay
Date of Appointment	1 January 2012

Academic/Professional Qualification

- BSc (Computer Science), Australian National University, Canberra, Australia

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Commercial Business Division, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad
- Chairman/Director, various subsidiaries within PETRONAS Dagangan Berhad and PETRONAS
- Commissioner, PT PETRONAS Niaga Indonesia
- Board of Managers, United Fuel Company, Kingdom of Saudi Arabia

Past Experience

- Head, Commercial Business, PETRONAS Dagangan Berhad
- Head, Fertiliser and Methanol Business, PETRONAS Chemicals Group Berhad
- Chief Executive Officer, Malaysia International Trading Corporation Sdn Bhd
- General Manager, Chemicals Division, Malaysia International Trading Corporation Sdn Bhd
- Senior Manager, LNG Trading for India and Emerging Markets, Malaysia LNG
- Senior Manager, LNG Trading for Atlantic Basin, ASEAN LNG Trading Co. Ltd
- Senior Manager, Leadership and Capability Development, Human Resource Management Division, PETRONAS
- Manager, Group Internal Audit, PETRONAS and ENGEN
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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Ramzulkhkim Ramli



Zubaïr Abdul Rázak

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RAMZULHAKIM RAMLI*Head, LPG Business Division*

Nationality	Malaysian
Age/Gender/Ethnicity	40/Male/Malay
Date of Appointment	1 October 2016

Academic/Professional Qualifications

- Bachelor of Commerce (Accounting), University of New South Wales, Australia
- Member, Certified Practising Accountants, Australia

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, LPG Business Division, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad
- General Director/Chief Executive Officer, Thang Long LPG Co., Ltd

Past Experience

- General Director/Chief Executive Officer, Vietnam LPG subsidiaries
- Chief Financial Officer, Vietnam LPG subsidiaries
- Head, Business Development, Vice President Downstream Marketing Office, PETRONAS
- Project Manager (Thailand), Downstream Marketing, PETRONAS
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

ZUBAIR ABDUL RAZAK*Chief Executive Officer, PETRONAS Lubricant Marketing (Malaysia) Sdn Bhd*

Nationality	Malaysian
Age/Gender/Ethnicity	52/Male/Malay
Date of Appointment	1 January 2015

Academic/Professional Qualification

- Mechanical Engineering, University of Southwestern Louisiana, United States of America

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Chief Executive Officer, PETRONAS Lubricant Marketing (Malaysia) Sdn Bhd
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- Head, Lubricant Business Division, PETRONAS Dagangan Berhad
- Head, Supply and Distribution Division, PETRONAS Dagangan Berhad
- General Manager, LPG Business Division, PETRONAS Dagangan Berhad
- Senior Manager, Engineering Department, Supply and Distribution Department, PETRONAS Dagangan Berhad
- Manager, Bulk Installation, PETRONAS Dagangan Berhad
- Manager, Control System Engineer, PETRONAS Dagangan Berhad
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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Nik Faizanira Nik Mohamed Affandi



Mohd Shobri A Bakar

PROFILE OF LEADERSHIP TEAM

PETRONAS DAGANGAN BERHAD
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NIK FAIZANIRA NIK MOHAMED AFFANDI*Head, Strategy Division*

Nationality	Malaysian
Age/Gender/Ethnicity	42/Female/Malay
Date of Appointment	16 October 2016

Academic/Professional Qualifications

- Fellow, Institute of Chartered Accountants in England and Wales
- Bachelor of Accounting and Finance, University of Strathclyde, Scotland, United Kingdom
- Member, Malaysian Institute of Accountants

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Strategy Division, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- General Manager, LPG Business, PETRONAS Dagangan Berhad
- General Manager, Risk Management, Downstream Business, PETRONAS
- Senior Manager, Vice President's Office, Oil Business, PETRONAS
- Senior Manager, Corporate Financial Risk, Corporate Planning and Development Division, PETRONAS
- Senior Manager, Finance Division, LNG Shipping Group of Companies, MISC Berhad
- Auditor, Arthur Andersen, London Office United Kingdom

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- She has never been charged for any offence within the past five years other than traffic offences, if any

MOHD SHOBRI A BAKAR*Head, Supply and Distribution Division*

Nationality	Malaysian
Age/Gender/Ethnicity	56/Male/Malay
Date of Appointment	1 January 2014

Academic/Professional Qualification

- Bachelor of Mechanical Engineering, Universiti Teknologi Malaysia, Malaysia

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Supply and Distribution Division, PETRONAS Dagangan Berhad
- Director of various PETRONAS Dagangan Berhad subsidiaries
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- General Manager, Lubricant Business, PETRONAS Dagangan Berhad
- General Manager, Lubricant Unit, PETRONAS
- General Manager, Supply and Distribution Division, PETRONAS Dagangan Berhad
- Senior Manager, Peninsular Distribution, PETRONAS Dagangan Berhad
- Operations Manager, Central Region, PETRONAS Dagangan Berhad
- Various positions within PETRONAS Dagangan Berhad

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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Ruziah Azdi Abdul Rahman



Naina Mohd Shukri Omar

PROFILE OF LEADERSHIP TEAM

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RUZIAH AZDI ABDUL RAHMAN*Head, Strategic Communications Division*

Nationality	Malaysian
Age/Gender/Ethnicity	53/Female/Malay
Date of Appointment	1 December 2015

Academic/Professional Qualification

- Bachelor of Science in Business Management (Economics and Finance), University of Tennessee, United States of America

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Strategic Communications, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- General Manager, Corporate Affairs and Administration, PETRONAS Chemicals Group Berhad
- General Manager, Corporate Communications and Media Relations, East Coast Economic Region Development Council
- Senior Manager, Brand Department, PETRONAS Dagangan Berhad
- Manager, Brand Communications, PETRONAS Dagangan Berhad
- Business Manager, Mesralink, PETRONAS Dagangan Berhad
- Various positions within PETRONAS Dagangan Berhad

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- She has never been charged for any offence within the past five years other than traffic offences, if any

NAINA MOHD SHUKRI OMAR*Head, Human Resource Management Division*

Nationality	Malaysian
Age/Gender/Ethnicity	43/Male/Malay
Date of Appointment	1 June 2016

Academic/Professional Qualifications

- Bachelor of Accountancy with Honours, University Utara Malaysia, Malaysia
- Certified Coach from the Canadian Council of Professional Certification

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Human Resource Management Division, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Chairman/Member, various committees within PETRONAS Dagangan Berhad and PETRONAS

Past Experience

- Head, Human Resource Management, Upstream International, PETRONAS
- Senior Manager (People Management), Human Resource Management, Upstream Business, PETRONAS
- Manager, Human Resource Management, PICL (Egypt) Corporation Ltd, Gas and Power Business, PETRONAS
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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Tariq Ashra Sulaiman



Ir Azmi Abd Ghani

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TARIQ ASHRA SULAIMAN*Head, Health, Safety and Environment Division*

Nationality	Malaysian
Age/Gender/Ethnicity	38/Male/Malay
Date of Appointment	16 February 2015

Academic/Professional Qualification

- Bachelor of Chemical Engineering, Universiti Teknologi PETRONAS, Malaysia

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Health, Safety and Environment Division, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- Principal, Technical Professional – Operations Safety, PETRONAS
- Senior Manager, Risk and Incident Management, Group HSE, PETRONAS
- Senior Manager, HSE Assurance Manager, Group HSE, PETRONAS
- Manager, Plant, Project and Contractor Risk Management, PETRONAS Group Risk Management Unit, PETRONAS
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

IR AZMI ABD GHANI*Head, Central Engineering*

Nationality	Malaysian
Age/Gender/Ethnicity	47/Male/Malay
Date of Appointment	16 October 2016

Academic/Professional Qualifications

- Bachelor of Chemical and Petroleum Refining Engineering, Colorado School of Mines, United States of America
- Certified Professional Engineer by the Board of Engineers, Malaysia
- Member, Institution of Engineers, Malaysia

Present Directorships**Listed entity:**

- Nil

Other public company:

- Nil

Present Appointments

- Head, Central Engineering, PETRONAS Dagangan Berhad
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- Senior Manager (Facilities Engineering Department), Supply and Distribution Division, PETRONAS Dagangan Berhad
- Construction Manager, Melut Basin (Block 3 and 7) Development in Sudan for Oil and Gas Producers Technical Services Sdn Bhd
- Manager (Project Engineering), PETRONAS Penapisan (Terengganu) Sdn Bhd
- Various positions within PETRONAS Group

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- He has never been charged for any offence within the past five years other than traffic offences, if any

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Hasnizaini Mohd Zain

PROFILE OF LEADERSHIP TEAM

HASNIZAINI MOHD ZAIN

Head, Legal and Secretariat Division

Nationality	Malaysian
Age/Gender/Ethnicity	42/Female/Malay
Date of Appointment	1 July 2014

Academic/Professional Qualifications

- Masters in Comparative Laws, International Islamic University, Malaysia
- Bachelor of Laws, University of Leeds, United Kingdom

Present Directorships

Listed entity:

- Nil

Other public company:

- Nil

Present Appointments

- Head, Legal and Secretariat Division, PETRONAS Dagangan Berhad
- Company Secretary, PETRONAS Dagangan Berhad and its subsidiaries as well as joint venture companies
- Company Secretary, PETRONAS NGV Sdn Bhd
- Company Secretary, PETRONAS Penapisan (Terengganu) Sdn Bhd
- Member, Legal Management Committee, PETRONAS
- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, various committees within PETRONAS Dagangan Berhad

Past Experience

- Senior Manager, Refining and Trading, Group Legal, PETRONAS
- Manager, Downstream Marketing and Special Project, Group Legal, PETRONAS
- Manager, Corporate Services and Technology, Group Legal, PETRONAS
- Deputy Manager, Industrial Relations, Bank Islam
- Advocate and Solicitor of the High Court of Malaya

Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- She has never been charged for any offence within the past five years other than traffic offences, if any

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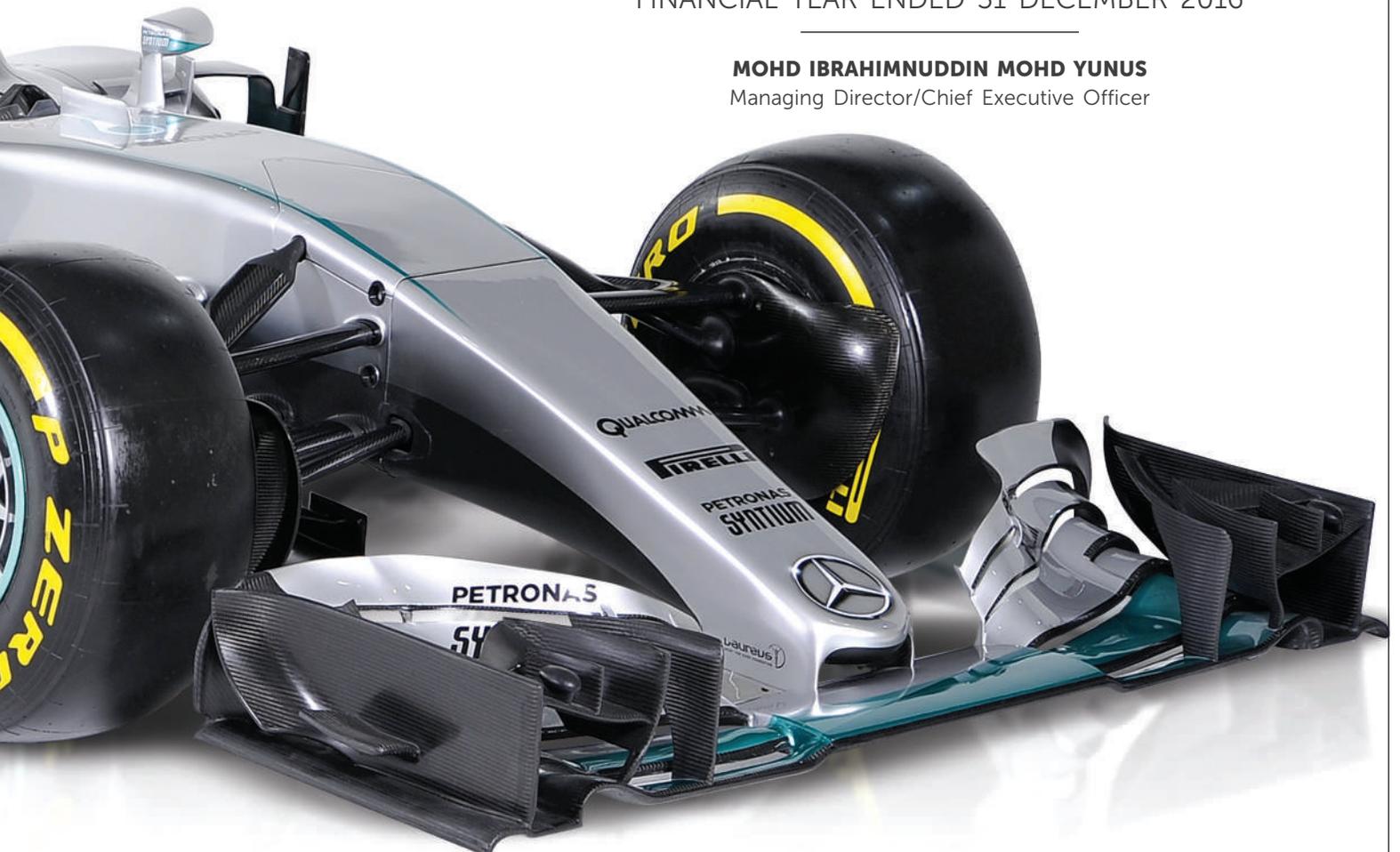


MD/CEO'S STATEMENT

DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF DIRECTORS, I AM
PLEASED TO PRESENT TO YOU **PETRONAS DAGANGAN
BERHAD'S SEMI-INTEGRATED ANNUAL REPORT** FOR THE
FINANCIAL YEAR ENDED 31 DECEMBER 2016

MOHD IBRAHIMNUDDIN MOHD YUNUS
Managing Director/Chief Executive Officer



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GROUP PROFIT AFTER TAX WAS A **RECORD HIGH IN 34 YEARS** AT RM946.5 MILLION, MARKING A 19% INCREASE FROM 2015. THE COMMENDABLE PERFORMANCE WAS ACHIEVED VIA OUR CONTINUED FOCUS ON INVENTORY MANAGEMENT, SUPPLY AND DISTRIBUTION EFFICIENCY AND OPERATING EXPENDITURE OPTIMISATION

This is the first year we have embarked on integrated reporting, as part of ongoing efforts to present our operational and financial performance in a more coherent and comprehensive manner. In PDB, our operations, business and financial management, sustainability initiatives and governance practices all work together dynamically.

This holistic approach of integrated reporting allows us to make clear the interdependence of these different aspects of the Company in a way that allows our stakeholders to understand how we create value for them. Please note that this is our inaugural effort on integrated reporting and we hope to improve in the coming Annual Reports.

ECONOMIC LANDSCAPE – OPERATING IN THE ‘NEW NORMAL’

The global economy expanded at 2.3% in 2016 as compared to 3.2% in 2015 with slower than expected recovery in advanced economies which affected growth in emerging economies. Together with a rebalancing of policies in China, and uncertainties in the European Union following Brexit, global demand had been impacted.

Price of global crude benchmark, Dated Brent continued to be volatile. After hitting a low of USD25.99/bbl in January 2016, it had shown signs of recovery to USD55.41/bbl at end December 2016, averaging USD43.78/bbl for the year.

The soft global economy as well as low oil price regime, together with other headwinds, led to slower domestic demand in Malaysia as well as dampened consumer sentiment. Reflecting the generally subdued environment, GDP growth in Malaysia slowed to 4.2% as compared to 5.0% in 2015.

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Within this challenging landscape, I am pleased to share that PDB registered a record financial performance due to effective strategies that we had undertaken from 2015 which are now giving substantial results.

(For more details on the Economic Outlook and Prospects, please refer to page 073)

OUR WINNING FORMULA

As with other oil and gas players globally we have had to thoroughly review and re-assess our business in order to adapt to the new normal. The end result was to develop what we have termed our 'Winning Formula', namely strategies which are more focused and aligned with our business goals; a responsive retail organisation which offers superior products and

services from the customers' lens; as well as robust and energised employees to support business growth.

Through our Winning Formula, we seek to energise PDB and build greater resilience for growth in the face of external challenges. This, in turn, will enable us to sustain our value-driven growth and deliver the expectations to our stakeholders.

PDB will continue to pursue integrated inventory management, supply and distribution efficiency and cost optimisation initiatives which had proven to deliver commendable results.

As customers' convenience remains PDB's highest priority, we have embarked on Commercial Excellence Transformation Strategy to provide our

customer with the best products and services in the market. An organisational review was undertaken during the year to ensure the Company is well positioned to face the external challenges.

Supporting our Winning Formula are a strong set of Cultural Beliefs and Shared Values derived from PETRONAS, which define how we want to function in our day-to-day work life. Our Cultural Beliefs place emphasis on six important areas that will drive greater performance, trust and sense of accountability among our employees, namely: Results Matter, Own It!, Focused Execution, Nurture Trust, Tell Me and Shared Success.

(For more details on the PETRONAS Cultural Beliefs, please refer to page 187)



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RECORD FINANCIAL PERFORMANCE

It gives me immense pleasure to share that we are achieving substantial gains from our strategies, in the form of our financial results. Despite a 2% growth in sales volume, the Group experienced a 13% (or RM3,273.7 million) drop in revenue to RM21,786.5 million, in line with the average drop in selling price by 14%. During the year under review, we achieved a record Group Profit Before Tax of RM1,212.3 million, an increase of RM129.9 million as compared to 2015. Similarly, Group Profit After Tax was a record high at RM946.5 million, marking a 19% increase from 2015. The commendable performance was achieved via our execution of business strategies, inventory management, supply and distribution efficiency and operating expenditure optimisation.

From these extremely encouraging results, we are able to continue to deliver value to our shareholders. PDB has declared a total dividend of 70 sen per ordinary share for the year under review amounting to a total of RM695.4 million, as compared to preceding year of 60 sen. This translates to a payout ratio of 81%.

(For more details on our Group's Financial Review, please refer to pages 094 to 096)

BUSINESS PERFORMANCE OVERVIEW

Retail Business

During the year under review, we further strengthened our brand by making concerted efforts to understand and fulfil our customers' needs.

On the product technology front, we focused on accelerating growth of innovative and niche products via PETRONAS Fluid Technology Solutions™ – developed from knowledge and experience gained from years of dynamic international partnerships with our Formula One™ teams including our current partner, MERCEDES AMG.

We also introduced Euro 5 Diesel at 26 stations in the Klang Valley, Negeri Sembilan, Pahang and Johor, following our successful launch at two stations in Johor Bahru in early 2015. Moving forward, we plan to expand Euro 5 Diesel availability at more PETRONAS stations nationwide.

In terms of enhancing our customer-centricity, we have embarked on a Commercial Excellence Transformation Strategy which requires close collaboration between our employees, *Rakan Niaga* and vendors to not just meet but exceed customers' requirements. We are customising products at selected outlets to match the lifestyle needs of particular customer demographic. Recognising that our business growth is derived from both the fuel and non-fuel segments, we shall no longer apply the 'one type fits all' strategy in our convenience stores. Meanwhile, we are enhancing the look and feel of our stations with a new, contemporary design that is also customer-friendly. Our first new-concept station was introduced in Hartamas, Kuala Lumpur.

Commercial Business

Supported by our extensive supply distribution and logistics system throughout the country, our Commercial business continued to focus on margin improvements, which enabled us to sustain our market leadership in the business segment.

Despite a slowdown in major domestic market segments as well as continued rationalisation by major airlines in Malaysia, Commercial business posted a 2% year-on-year growth in sales volume, which translated into sustained profitability in 2016. This was attributed to continuous efforts to maximise value through effective sales strategies and efficient cost management.

LPG Business

Amid strong competition, we maintained Gas PETRONAS' position as Malaysia's No.1 Cooking Gas via aggressive marketing and leveraging on an extensive dealer network. Consequently, LPG business achieved a 19% improvement in gross margin against preceding year. This is in line with our value-driven growth strategy that focuses on improving efficiencies across the business chain.

Lubricant Business

PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd achieved a number of significant milestones during the year including becoming the first non-Japanese lubricant company to be certified as a HONDA supplier, paving the way for PDB to enter into other markets nationwide. It also entered into a deal with Malaysia's No. 1 carmaker, Perodua; launching an exclusive range of products for PROTON, PETRONAS Syntium SE; and relaunching of PETRONAS Urania.

Lubricant business continued to be the top tier player in a highly competitive industry via its extensive range of lubricant targeting passenger vehicles, motorcycles as well as commercial, industrial and marine vehicles. It increased its sales volume by 4% year-on-year and will continue to drive the lubricant business to achieve sustainable growth in 2017.

(For more details on our Business Review, please refer to pages 122 to 151)



OPERATIONAL EXCELLENCE

In 2016, PDB continued to build on key strategic initiatives that we had embarked on in the preceding year which are supply and distribution efficiency, inventory and cost optimisation efforts.

To further support our business operations, we have launched our first unmanned fuel terminal in Lumut, with subsequent roll-outs in Prai, Melaka and Kertih terminals for cost optimisation.

During the year under review, PDB had tracked its On Time Performance Index which measured the number of delay for every 10,000 number of aircraft refuelling. We managed to achieve On Time Performance Index below the limits set of 3.5 by ensuring sufficient manpower resources and improving aviation refuelling vehicle availability.

In addition, we were able to improve the Overall Equipment Efficiency of our LPG bottling operations from 89% to 91%.

(For more details on our Operational Excellence, please refer to pages 152 to 157)

DELIVERING SUSTAINABLE VALUE

We believe that within a challenging environment it is more critical than ever to safeguard our value. Our Winning Formula is contributing significantly towards this end, outlining strategies for each business segment to be able to contend with the difficult business environment.

As we focus on managing our financial excellence, we have put in place sound governance and structured approach to risk management, while enhancing our engagement with our various key stakeholders among whom are our customers and employees. With regard to our employees, we continue to invest in their professional development to support the attainment of our business goals and to provide shareholders increasing returns.

These efforts are integral to our sustainability activities, which were recognised in 2016 by PDB being included in the FTSE4Good Bursa Malaysia Index. We fully support Bursa Malaysia's efforts to improve sustainability disclosure, and this year have made reference to its newly introduced Sustainability Statement in reporting on our material Economic, Environmental and Social issues.

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OCCUPATIONAL SAFETY, HEALTH AND ENVIRONMENT

We are committed to maintaining a safe and healthy work environment to protect our customers, employees and other stakeholders. Towards this end, we have various initiatives to eliminate work-related health, safety and environment incidents. We strive to create a safety mindset in which our employees and contractors acknowledge their individual responsibility to ensure their own safety and that of others around them in their day-to-day operations.

Moving forward, we will focus on enhancing our asset integrity management as well as upskilling the capabilities of our people and contractors to carry out their functions safely. Supported by strong leadership at our operations, we hope to establish accountability on safety at every level.

(For more details on PDB's Sustainability Report, please refer to pages 176 to 209)

CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

Our aim of delivering sustainable value is guided by continued focus on corporate governance. In recognition of our steadfast commitment to the highest standards of governance, PDB received the Merit Award for Corporate Governance Disclosure at the Malaysia-ASEAN Corporate Governance Transparency Index, Findings and Recognition 2016 by the Minority Shareholder Watchdog Group. The award was granted based on improvements in our CG disclosure which elevated our ranking in the transparency index from no. 42 in 2015 to no. 8 during the year.

PDB has adopted PETRONAS Group Risk Framework which provides an integrated view on our overall risk management strategy. Our risk management practices are structured to safeguard our business from risks that may impede the achievement of our goals, and to enable value creation and growth through the identification of opportunities.

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We have also adopted PETRONAS' Integrity Compliance Framework, its Anti-Bribery and Corruption Manual and Code of Conduct and Business Ethics. These complement the functions of our Internal Audit Department and the Board Audit Committee in further strengthening our risk management and internal control systems.

(For more details on PDB's Corporate Governance, Risk Management and Internal Control approach, please refer to pages 210 to 235)

PRIORITIES IN 2017

Although the continuing global economic climate poses a challenge to the industry and our business, we are confident of being able to maintain our growth momentum with our Winning Formula of building upon our strong foundations.

Retail business will continue to focus on enhancing customer experience at our stations, while ensuring network efficiency by developing our network strategically, sweating our existing assets and continuing to build our brand. We will continue to pursue value-driven strategies in the retail market segment via our flagship range of superior and innovative products and differentiated services that cater to customers' needs.

In the Commercial business segment, our focus will be to further elevate our market position as the preferred partner via differentiated and superior services, leveraging on our extensive and integrated supply and logistics.

Similarly for the LPG business, we remain focused in our pursuit of value-driven growth in the domestic market whilst further driving cost optimisation and pursuing profitable opportunities. We will continue to defend our position as Malaysia's No.1 Cooking Gas via reliable supply through our network of capable dealers.

We aim to grow the market share of our Lubricant business aggressively by enhancing the work channels in key target segments. We will further enhance our brand equity via Fluid Technology Solutions™ and a superior product range while increasing our cost competitiveness through an efficient supply chain.

We strongly believe that focusing on our ability to innovate and grow will place the Company in an excellent position to maintain our business success and industry leadership.

(For more details on our Strategic Objectives, please refer to pages 077 to 078)

ACKNOWLEDGEMENTS

I would like to take this opportunity to acknowledge our valued customers for their continued support of our products and services, as well as to our shareholders for their trust in our ability to deliver results.

I would also like to extend my deepest appreciation to our Chairman, Encik Md Arif Mahmood, and all Board members for the vital role they play in

the stewardship of this Company, guiding us to deliver long term shareholder value. Our Leadership Team plays a key role in our ongoing journey of success and I would like to acknowledge their commitment to seeing us achieve our goals. A special note of thanks goes to Encik Shaharuddin Muhammad Sidek, Madam Lu Jia Lih and Puan Manisah Shaari for their contributions during their tenure on the Leadership Team. With their departure, I would like to welcome Encik Aadrin Azly, Encik Mahmad Zahri Mahzan, Encik Ramzulahakim Ramli, Puan Nik Faizanira Nik Mohamed Affandi, Encik Naina Mohd Shukri Omar and Encik Ir Azmi Abd Ghani as our new Leadership Team members.

Finally, my heartfelt gratitude goes to all our employees for carrying out the Company's strategies throughout the year. Their dedication during such difficult times is truly heart-warming. I am confident that the continued contributions of our entire team is yet another Winning Formula that will see this Company continue to deliver sustainable growth, solid returns and value to all our stakeholders.



**MOHD IBRAHIMUDDIN
MOHD YUNUS**
Managing Director/
Chief Executive Officer

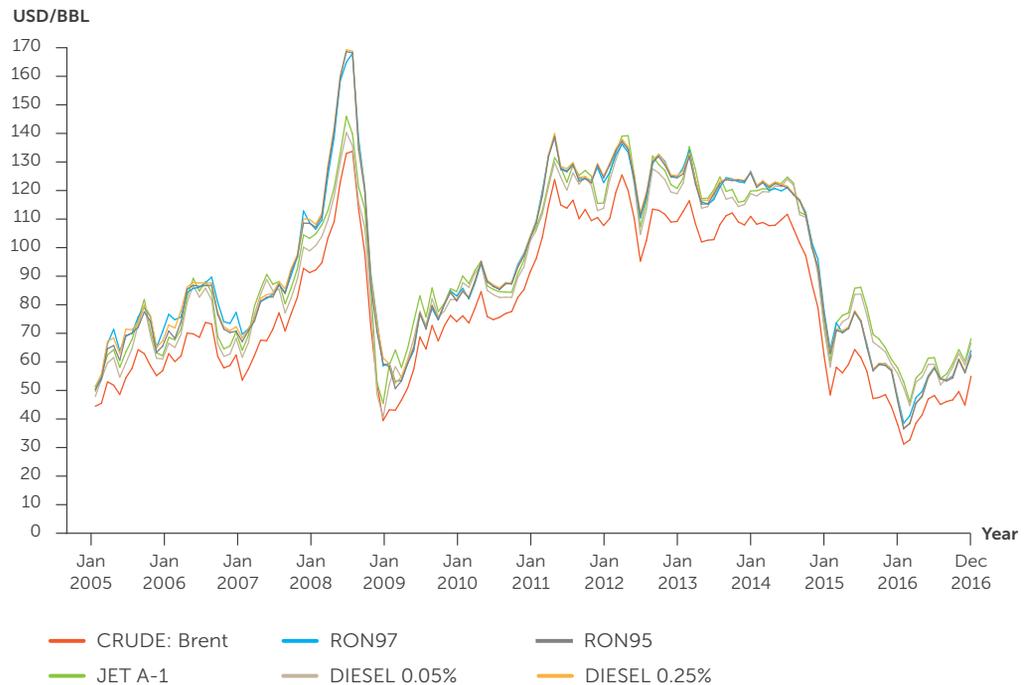
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CRUDE OIL AND PETROLEUM PRODUCT PRICE TRENDS



Note: Average monthly prices are based on Petroleum Products Prices

Global crude benchmark, Dated Brent, plunged from its peak at USD115.30/bbl in the second half of 2014 to a low of USD56.00/bbl at the end of the same year. Dated Brent peaked in 2015 at USD66.65/bbl on 13 May 2015 before gradually sliding down to a low of USD35.64/bbl at the end of 2015. In January 2016, Dated Brent dropped to its lowest level at USD25.99/bbl since the price decline that had started in the second half of 2014. Dated Brent touched the highest point at USD55.41/bbl on 28 December 2016 and continued moving upwards pursuant to the OPEC production cut announcement in November 2016.

For the year under review, the price of Dated Brent averaged at USD43.78/bbl, which was 16.5% lower than the preceding year under review at an average of USD52.45/bbl. Throughout 2016, RON97, RON95 and Diesel averaged at USD57.90/bbl, USD56.20/bbl and USD52.11/bbl, respectively.

The unending bearish market for crude oil and petroleum products were attributed to the oversupply situation as OPEC persistently held on to the 'no output cut' policy to claim market share leadership back in 2015. In November 2016, OPEC finally pledged to cut its production by about 1.2 MMbpd while non-OPEC producers also agreed to cut almost 0.6 MMbpd over the first half of 2017. A reduction of almost 1.8 MMbpd on volume could pull down oil inventories to its normal levels and push the oil price to USD58.00/bbl in 2017.

The global oil market is projected to continue facing volatile prices with critical periods in the first half 2017. Despite OPEC and non-OPEC oil production output adjustments which are intended to rebound the oil prices higher, U.S. shale oil producers are showing signs of positive improvement which could potentially challenge the efficacy of the production cuts. Oil demand is expected to grow on the back of modestly rising oil prices which will support economic growth. The pace of economic growth in key emerging markets especially in China and India as major oil consumers, will continue to be among the key signposts for global oil demand in 2017.

Source: IHS, OPEC

ECONOMIC OUTLOOK AND PROSPECTS

Global economic growth is estimated at 2.3% in 2016 before recovering to 2.7% in 2017. Sluggish growth in global economy is due to slow growth in advanced economies, prolonged low commodity prices, weak global trade and diminishing capital flows. Commodity exporting emerging markets and developing economies have struggled to adapt to lower prices of oil and other key commodities.

As advanced economies struggle to gain traction, most economies in South and East Asia are expected to remain robust over the medium term. The ASEAN-10 economies (Indonesia, Malaysia, Philippines, Thailand, Vietnam, Brunei, Singapore, Cambodia, Lao PDR and Myanmar) recorded at 4.8% in 2016 (2015: 4.7%). Growth in all ASEAN-10 economies is expected to strengthen further in 2017 at 4.9%.

Malaysia recorded a GDP growth of 4.2% in 2016, against the backdrop of severe global headwinds. Among external development risks impacting Malaysia's economy are uncertainties around a rebalancing of the Chinese economy, further decline in the world prices of oil and other commodities that Malaysia exports, and evolving U.S. economic policies and their impact on global trade, financial flows and exchange rates. As the external sector remains lackluster, domestic demand strives to be the key driver to steer growth.

Going into 2017, uncertainties over the outcome of the post EU referendum (Brexit vote), Donald Trump's victory in the U.S. Presidential Election and anti-trade policies on China, may put downside risks to Malaysia's economy. The volatility in the financial market and Malaysian Ringgit will likely continue from the uncertainties in short-term capital flows as a result of policy interest rate hikes by the U.S. Federal Reserve. The economy is projected to rebound modestly at 4.0% - 5.0% in 2017 underpinned by strong domestic demand.

The Group will continue to focus on inventory management, supply and distribution efficiency as well as operating expenditure optimisation to ensure the Company remains resilient in the face of a challenging environment.

Source: World Bank, OECD, MOF

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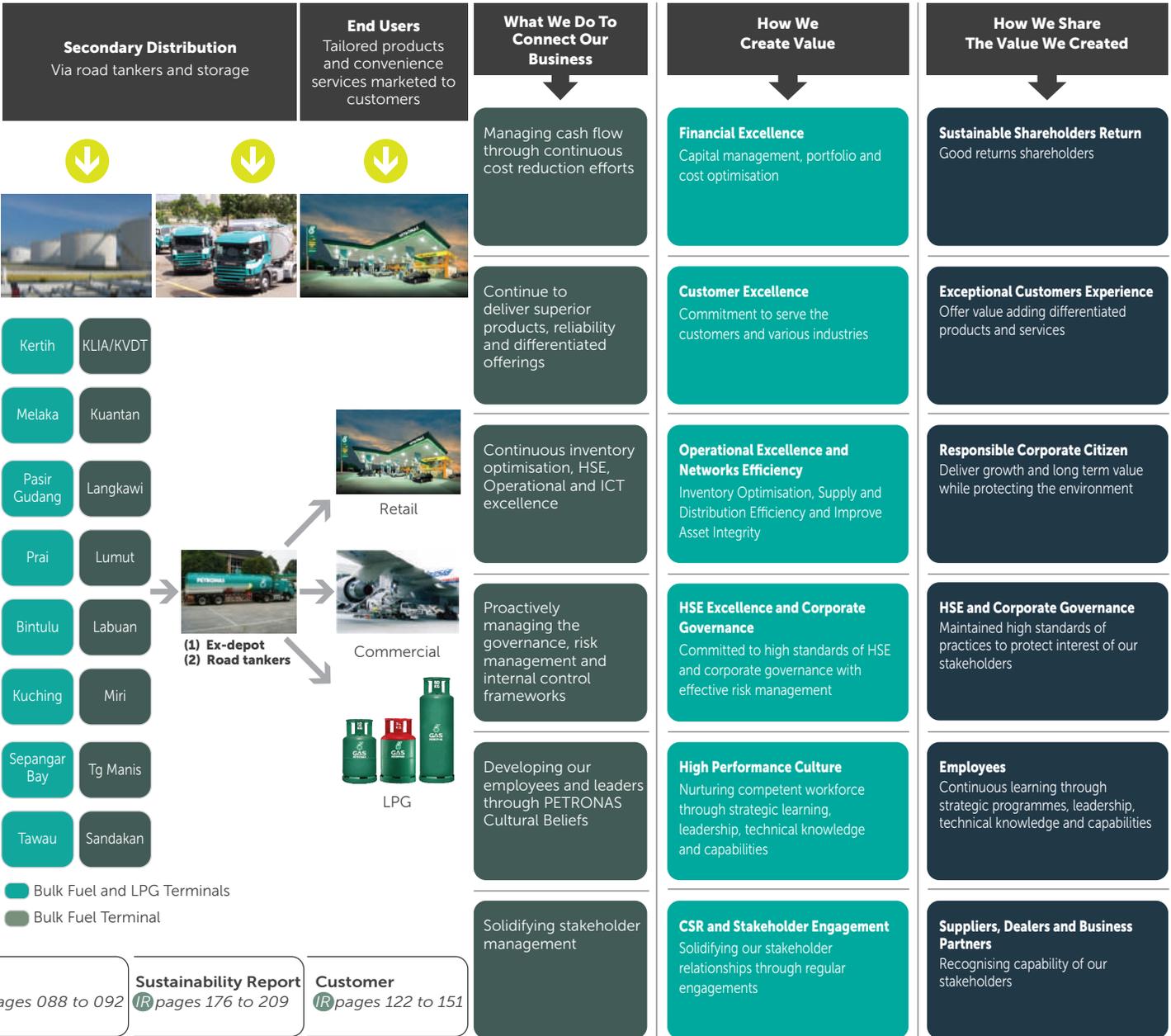
VALUE CREATING BUSINESS MODEL

PETRONAS DAGANGAN BERHAD INTEGRATED VALUE CHAIN



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What We Do to Enable Our Business



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Strategic Objectives	Value-Driven Growth			
	Retail Business	Commercial Business	LPG Business	Lubricant Business
2016 Achievements	<ul style="list-style-type: none"> • Embarked on Commercial Excellence Transformation Strategy which redefines the way of doing business • Posted a growth in sales volume by 2% and 5% growth in non-fuel gross income as compared to 2015 • Expansion of PETRONAS Dynamic Diesel Euro 5 at 26 PETRONAS stations in Klang Valley, Negeri Sembilan, Pahang and Johor • Continued to deliver superior fuel products to consumers which is our Winning Formula as three times Formula One™ World Champion with Mercedes AMG PETRONAS Formula One™ 	<ul style="list-style-type: none"> • Sustained market leadership • Despite challenging market environment, Commercial Business recorded close to 2% improvement in sales volume • Continued to strive for value improvement through efficient operations and inventory optimisation as well as maximising value through effective sales strategies and efficient cost management 	<ul style="list-style-type: none"> • Sustained market leadership • Increased in gross margin by 19% as compared to preceding year under review • Continued to unlock value through cost optimisation and improving efficiency across its vast distribution network 	<ul style="list-style-type: none"> • First non-Japanese lubricant company certified by HONDA as their supplier • Strengthened partnership with PROTON by launching exclusive passenger car motor oils called the PETRONAS Syntium SE • Renewed partnership with Perodua to supply lubricant products • Relaunched PETRONAS Urania with ViscGuard™
Strategic Focus (2016 – 2020)	<ul style="list-style-type: none"> • Strengthening product branding • Providing excellent customer experience • Efficient sweating of existing stations network 	<ul style="list-style-type: none"> • Value-driven growth through cost competitiveness • Preferred partner via differentiated and superior services 	<ul style="list-style-type: none"> • Maximise value in domestic market • Optimise cost on the back of an efficient supply and distribution network 	<ul style="list-style-type: none"> • Market share growth via enhanced network channels in key segments • Brand equity enhancement via Fluid Technology Solutions™ and superior product range • Increase cost competitiveness via efficient supply chain

KEY RISKS AND OPPORTUNITIES

While PDB continues to remain resilient in the challenging oil and gas environment, the Company is exposed to risks that may impede the achievement of its strategic objectives. In some cases, PDB may consciously take controllable risks whilst continuously exploring at the same time, new opportunities in order to remain competitive and ensure sustainable success.

The Company develops its business strategies and identifies its risks through consideration of both internal and external environments as set out in the Economic Outlook and Prospects portion in this Annual Report. PDB has also considered emerging risk on changes in regulatory or statutory requirements and shifts in industry outlook. In order to remain robust, continuous analysis of the external environment enables PDB to pursue the identified opportunities and to mitigate risks by adjusting its business strategies.

The Company's key risks cover strategic, financial, operational, technology and HSE, which are managed through identification of risk mitigations, as well as monitoring and reporting on the status to the Management, Board Audit Committee and Board on regular basis. Risks are also assessed and evaluated for decision making of strategic initiatives and new business ventures.

(For more details on the Economic Outlook and Prospect, please refer to page 073)

OUR MANAGEMENT OF RISK

Risk Management practices is an integral part of the Group's activities to safeguard business interest from risk events that may impede the Company's achievement of business strategy as well as enabling value creation and growth through identification of opportunities.

Risk Strategy and Policy

The Group has adopted the PETRONAS Resiliency Model to provide an integrated view on the overall strategy in managing risk focusing on three areas of business resiliency namely, Enterprise Risk Management, Crisis Management and Business Continuity Management to reflect the Company's commitment in implementing risk management effectively.



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

CM is a comprehensive set of processes by which organisation respond and manage crises that threatens to harm people, environment, assets and reputation

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

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The Group has also adopted PETRONAS Risk Policy which comprises of the general principles and guidelines for action which influence decisions. All entities across the Group has adopted the following Risk Policy:

"PETRONAS Dagangan Berhad shall adopt and implement risk management best practices by identifying, assessing, treating and monitoring risks as well as effectively responding to crises.

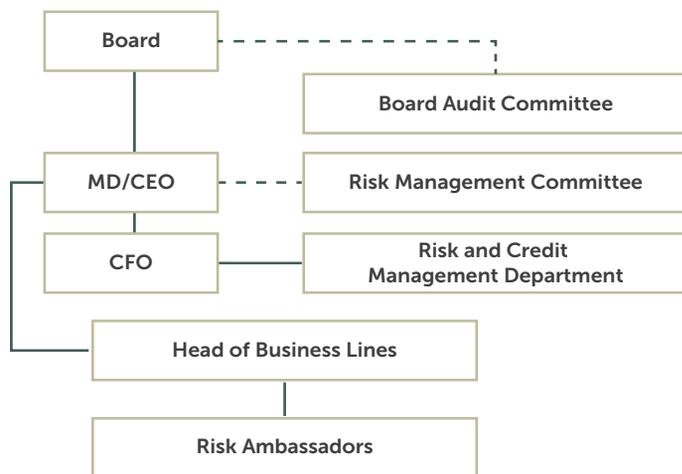
In the event of prolonged disruption, business continuity practices shall be adopted to restore and ensure continuity of PETRONAS Dagangan Berhad's key business activities."

Enterprise Risk Management Framework

In managing risk, the Group adheres to an enhanced PETRONAS ERM Framework that adopts ISO 31000:2009 Risk Management requirements.

Risk Oversight Structure

Based on ERM Framework, the risk oversight structure in PDB adopts the 3-Lines of Defense Model which allows clear and timely risk information flow for effective oversight on risk management implementation at all levels.



Risk Oversight Structure in PDB

At the Divisional level, the Head of Division as the first line of defense take up the responsibility in ensuring effective risk management implementation for the divisions with assistance of Risk Ambassadors. As the second line of defense, Risk and Credit Management Department provides periodic reporting to RMC, Board Audit Committee and Board. Internal and External Auditors as the third line of defense will conduct risk-based audit activities throughout the year with direct reporting to the Board Audit Committee and Board.

The RMC chaired by MD/CEO, is responsible to provide support to PDB Management in the discharge of its responsibility in establishing and maintaining a system of risk management to:

- i. Oversee and ensure seamless integration of ERM into PDB business processes to protect and safeguard PDB's interest;
- ii. Oversee the development and ongoing review of the Risk Management policy, framework, guidelines and processes on risk management; and
- iii. Review the implementation of ERM across PDB in providing assurance to the Board Audit Committee and the Board that risks are effectively managed.

The Board Audit Committee is authorised by the Board to review the adequacy and effectiveness of risk management policies, risk frameworks and PDB Corporate Risk Profile. The Board Audit Committee also deliberates the Business Risk Report which contains among others, updates on risk exposures, mitigations and key risk indicators on a quarterly basis. The Report is consequently submitted to the Board.

The risk oversight structure also allows for strategic risk conversations to take place at various level specifically the Board, Board Audit Committee and the Management.

Enterprise Risk Profiling

Enterprise Risk Profiling and Assessment follows a structured process which ensures a comprehensive and consistent approach in assessing and analysing risk faced by the Group. Risk profiling is conducted annually with involvement from the RMC members and subject matter experts from all Divisions and Departments across the Company. On regular basis, risk assessments are conducted to identify the significant risks for projects and new business ventures.

Context Setting

During the identification of risks, PDB takes into account the external and internal context through review of the external environment analysis, emerging risks as well as approved strategies and plans. Any recent changes in regulatory/ statutory requirements as well as shifts in industry outlook and landscape are also analysed as they may have direct or indirect impact to and on the businesses. The PDB Management also reviews the Corporate Risk Profile periodically to assess the changes in existing risks and identify any emerging risks. In identifying the critical risks, PDB focuses on the risks which may impact delivery of business performance and results.

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**OUR
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During the year under review, PDB established its risk profile based on the ERM process consisting of key risks in the areas of Strategy, HSE, Finance, Operations and Technology, as described below:

a) Strategy Risk

PDB is exposed to risks arising from failure to achieve the Company’s strategies as set out in Strategic Objectives portion in this Annual Report. To manage the risk, implementation of the strategic initiatives are monitored regularly.

(For more details on Strategic Objectives, please refer to pages 077 to 078)

b) HSE Risk

PDB is exposed to HSE risks arising from vast operations and direct contact points with customers, which may impact health and safety of the Company’s stakeholders and reputation. To manage the risks, the Company has strengthened HSE processes and capabilities of both employees and contractors.

c) Finance Risk

PDB is exposed to various financial risks that arise from operating activities primarily receivables from customers as well as the use of financial instruments in its normal course of business. These risks comprise of credit risk, liquidity risk and market risk relating to interest rates and foreign currency exchange rates. To manage the risks, PDB has policies and guidelines in place that set the foundation for a consistent approach towards establishing an effective financial risk management across the Group.

(For more details on Financial Risk Management, please refer to pages 307 to 314 of Notes to the Financial Statements)

d) Operations Risk

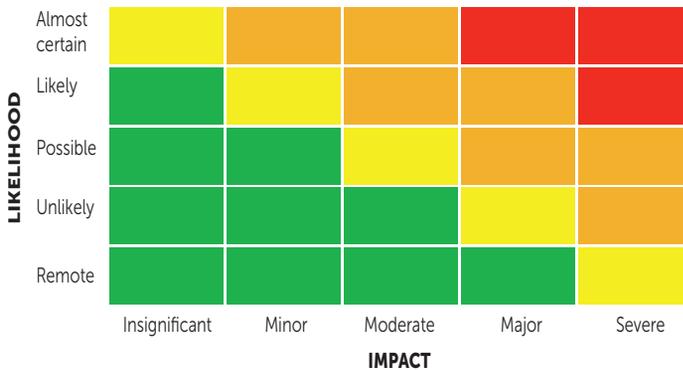
PDB is exposed to risks arising from supply chain network which may impact supply reliability to customers. To manage the risks, process enhancements were carried out for seamless integration of supply chain. BCP is also in place to ensure continuity of business during a prolonged disruption.

e) Technology Risk

PDB is exposed to risks of prolonged disruption of IT system impacting the Company’s business operations and reputation. The Company has in place disaster recoveries to address any prolonged IT disruption.

Risk Assessment and Risk Treatment

Each risk is mapped based on a risk matrix which specifies the likelihood and impact of the risk. The likelihood and impact of these risks are assessed and evaluated against PDB’s risk appetite and tolerance level. Likelihood rating states the chance for the risk to happen, while impact rating specifies the extent of its impact if the risk occurs. Both measurements can be expressed qualitatively or quantitatively.



Risk Rating	Color Scheme
Low	Green
Medium	Yellow
High	Amber
Very High	Red

Key risk indicators and mitigation actions have also been identified and implemented accordingly. Key risk indicators are identified to facilitate monitoring of the risks which provide an early warning signal on potential emerging risks. The key risks and mitigation actions are monitored and reported to PDB’s RMC, Board Audit Committee and Board for deliberation and guidance on a quarterly basis.

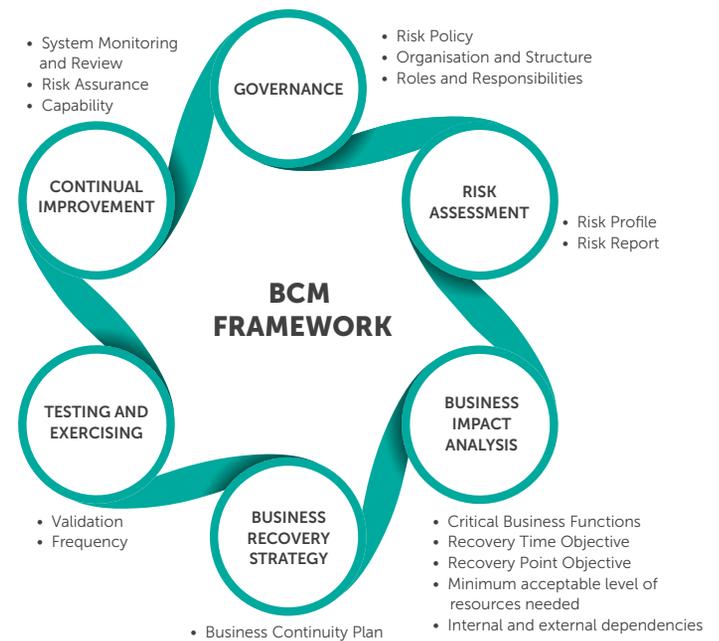
Crisis and Business Continuity Management

PDB businesses are subjected to disruptions of varying severity. The Group has in place Crisis Management that defines the structure and processes for managing emergencies and crises at operational level through Crisis and Disaster Management Manual. There is a three-tier response system in place which provides clear demarcation of roles and responsibilities between site, regional and PDB LT.

(For more details on the Incidents and Emergency Preparedness, please refer to page 196)

Following the Crisis Management which respond to the risk events, PDB has also in place BCM, to recover from these prolonged disruptive events, to meet its business obligations as well as to maintain continuity of its operations.

The Company implements the PETRONAS BCMF as a systematic approach for consistent BCM practices. The six key elements, as shown, make up the basic requirement to implement and operate BCM.



PETRONAS Business Continuity Management Framework

Based on the identified key risks, further assessment is conducted to assess the impact of unavailability of critical functions, especially on the key risks in the areas of HSE, IT and operations, which could lead to business disruptions to the organisation.

In ensuring the BCP is validated, BCM activities during the year under review includes revision exercise of the existing Business Recovery Strategy for its respective business lines and enabling entities.

Following the completion of the revision of Business Recovery Strategy, PDB BCP was updated which served as the primary document used for reference during business disruption.

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As part of the BCMF, testing and exercising is conducted to ensure preparedness in response to prolonged business disruptions situations. For the year under review, BCP testing and exercising was conducted on operational risk specific to aviation operations at KAFS. Codenamed Exercise Terbang 1, the BCP table-top testing was conducted on 4 October 2016 to test the robustness and effectiveness in managing business continuity in the event of supply disruption due to facility failure. Findings and feedbacks were gathered post exercise and analysed for continual BCM improvement.

In summary, the Company recognises that the unanticipated events happen and business expectations may be compromised. The Company henceforth shall continue to adopt and adapt the necessary BCM practices to ensure business resumption effectiveness as well as protect the Company’s reputation and stakeholders’ interests.

Continuous Improvement

PDB continue to enhance risk management awareness and capability building across the organisation through training and awareness sessions to institutionalise risk management among the employees. PDB participates actively as part of Community of Practice driven by PETRONAS Downstream Business, as a platform for PETRONAS Downstream companies to share and learn the best practices, discuss on issues and improvements for Risk Management and BCM implementation. PDB also conducts risk assurance exercises within the Company to ensure that risk mitigations identified in risk profiles are implemented as intended, and ensure compliance to ERM and BCM framework requirements. The Company will also continue our focus on institutionalisation of risk management in the organisation through the collaboration at all levels.

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**OUR
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OUR MATERIAL ISSUES



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One of our Winning Formulas to achieve the position of the country’s overall market leader during the year under review was our commitment in engaging with our wide stakeholder base which impacts our business and vice-versa in supporting our long term value creation.

Material Issues	Description	Key Focus Areas	How We Manage
<p>Financial and Operational Excellence</p> 	<p>Whilst operating in the new normal business environment remained challenging, PDB continued to ensure that its cost structure is efficiently managed at all times as well as changing its operational processes and procedures to improve efficiency and ensure targets were achieved</p>	<p>Driving Results</p>	<p>Improvement in our Financial and Operational Excellence can be found in Performance Scorecard on page 099</p>
<p>Customers</p> 	<p>In order to be ahead of the game, we continued to generate innovative ideas and ramp up marketing initiatives to remain in the forefront with quality products and value added services by customising the offerings that matched customers’ needs</p>	<p>Customer-Centric</p>	<p>Details on our customer-centric initiatives can be found in Business Review on pages 122 to 151</p>
<p>Innovation and Growth</p> 	<p>PDB is committed to explore new approaches in innovation, automation and technology integration. This is to ensure continuous improvements in our products, services and processes</p>	<p>Innovation</p>	<p>Details on key innovation projects can be found in Driving Innovation section on page 093</p>

OUR MATERIAL ISSUES

Material Issues	Description	Key Focus Areas	How We Manage
<p>Health and Safety</p> 	<p>We have a responsibility to do our utmost to ensure that the safety and health of our people and community are not compromised as a result of our activities. Shortcomings in safety and health management can have devastating effects on people's lives. We have rigorous systems in place to manage our operations and we aim to continuously improve our performance</p>		
<p>Environment and Climate Change</p> 	<p>Stakeholders are consistently requesting our Company to work in a way that minimises environmental effect. We believe that protection and enhancement of the environment go hand-in-hand with the long term sustainability of the business. Through our business activities, we will manage climate change, spill, waste and emission issues with the objective of realising an environmental impact that protects society in the future</p>		<p>Details on PDB's HSE, commitment in protecting the environment, and developing its employees can be found under Sustainability Report on pages 176 to 209</p>
<p>Workforce Development and Social Environment</p> 	<p>Our people are key to the success of our business. Consequently, we continue to invest in our employees as we believe that they are the catalyst in propelling PDB to keep winning in our industry. It is the innovative spirit and positive mindset that drive the Company's approach towards value creation while shaping the business and improving its prospects for future successes. We also seek to create a work environment that fosters diversity and inclusion, also making sure that human rights are recognised and respected across the value chain</p>	<p>Sustainability</p>	
<p>Stakeholder Engagement</p> 	<p>The success of our business depends on the strength and well-being of the communities in which we operate, while having a clear direction and focus execution in meeting our stakeholders' interests</p>		<p>Our corporate social investment initiatives with key stakeholders can be found under Stakeholders' Engagement section on pages 328 to 331</p>

STRATEGIC PRIORITIES

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VISION

- 'Brand of 1st Choice' is the core essence of what drives PDB and everything that it stands for in terms of delivering quality, innovation, excellence and differentiated products and services



STRATEGIC FOCUS

- PDB is committed to continuously deliver innovative products and differentiated services in its four core businesses of Retail, Commercial, LPG and Lubricants
- PDB is driven to ensure that its customers continue to recognise, endorse and recommend PETRONAS as their foremost preferred brand in the petroleum retail industry



HUMAN CAPITAL

- PDB has integrated its vision into its people, processes and procedures to make this aspiration a reality for each of its core businesses and across all levels of the Company
- PDB has adopted the six PETRONAS Cultural Beliefs for its employees namely; Results Matter, Own It!, Focused Execution, Nurture Trust, Tell Me and Shared Success



RETURN TO SHAREHOLDERS

- PDB has consistently delivered good returns to shareholders as it has established strong corporate governance practices to ensure their interests are protected and safeguarded
- PDB has developed robust strategies to adapt to dynamic business environment and challenges to ensure continuous delivery of sustainable returns to our shareholders

STRATEGIC INITIATIVES

INTRODUCTION

Since December 2014, the Malaysian Government has implemented managed float pricing mechanism to move closer to market based pricing. Since then, the retail pump price changes on a monthly basis. The objective of implementing managed float pricing mechanism is to reduce Government's subsidy burden. As the country moves towards developed nation status, the retail fuel market is expected to head towards deregulation where the pump price is fully determined by the market.

During the year under review, Dated Brent recorded its lowest price for the year in the month of January at a monthly average of USD31.00/bbl. The price fluctuated and gradually increased to its highest point for the year at a monthly average of USD54.00/bbl. The volatility in the oil price exposes the Company to the risk of the effects of lag loss giving rise to higher inventory costs which then impacts its profitability. The Company also recognises that the increasing operating costs could also squeeze margins further if appropriate measures were not taken to address the surge in costs.

Hence, PDB needs to be agile in order to adapt to the dynamic business environment and challenges on the back of slower economic growth and volatility in petroleum product prices to ensure PDB remains resilient, sustainable and relevant in the future. PDB has revalidated its strategy and continued to implement the initiatives on organisational review, Commercial Excellence initiatives for Retail segment, integrated inventory management as well as forging ahead with its cost optimisation efforts.

BUSINESS IMPROVEMENT

a) Organisational Review

During the year under review, PDB had undergone and organisational review process in order to address the internal challenges, ensure seamless execution of its strategies as well as to be a more robust and energised organisation. The organisational review for PDB are based on three design principles which include focused and aligned organisation, customer-centric and responsive Retail organisation as well as enhanced asset integrity and reliability management.

This review is aimed at elevating the focus for long term company business strategies and to ensure company sustainability and growth in the future.

b) Commercial Excellence Initiatives

The Retail business embarked on a Commercial Excellence Transformation Strategy which redefines the way we do business in order to achieve the aspiration of becoming the nation's 'Most Favoured Retailer' by 2018. Through Commercial Excellence, Retail business would be able to identify clearly their target consumers allowing them to better understand the needs of their customers.

This entire initiative would focus on delivering results that matter and that would be winning over customers by consistently delivering superior customer experience at our stations.

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STRATEGIC INITIATIVES

c) Integrated Inventory Management and Creating More Competitive Product Cost

SDD continuously reviews its processes with the aim of improving and reducing operational costs which directly impact product margins.

The Integrated Inventory Management initiative undertaken in 2015 continued during the year under review with the objective of minimising the variance of intermonth price exposure. This initiative significantly contributed to lower product cost in order for the businesses to be more competitive in the market. SDD also conducted uninterrupted and continuous negotiations with vessel owners to reduce the time charter hire rate. The outcome of the negotiations was lower freight cost resulting in a more competitive product cost.

CONTINUOUS COST OPTIMISATION EFFORTS

PDB changed its processes and procedures during the year under review, to ensure targets were achieved. PDB's LT pressed the need for all Divisions and Departments to abide by these changes. Divisions and Departments were urged to practise prudent spending, review and consolidate existing contracts with customers and vendors, utilise in house expertise and actively seek alternative avenues and innovative ideas for the Company to achieve more with less, without compromising on quality or HSE standards.

a) Towards Unmanned Terminal

During the year under review, PDB had launched its first Unmanned Terminal at Lumut Fuel Terminal. The objective of this initiative is to achieve terminal operational efficiency at optimised costs. The main concept of Unmanned Terminal consists of fully automated road tanker loading operations at TTLR, outsourced marine vessel receiving operations, Automatic Tank Gauging system for inventory monitoring and operations supervisory control from Control Room utilising real-time data acquisition system.

Towards Unmanned Terminal strategy was later adopted at Prai, Kertih and Melaka Fuel Terminals.

b) Flexible Working Arrangement

As part of the Company's cost optimisation initiatives, PDB has introduced FWA at selected regional and sales offices during the year under review. The objectives of FWA are to demonstrate organisational commitment towards business sustainability and efficient key processes while maintaining excellent delivery of services to the stakeholders, to enhance employees engagement and productivity by accommodating to diverse needs of employees.

Currently, FWA has been implemented at six PDB's regional and sales offices which would be able to reduce PDB's operational expenses in the long run.

RESULTS AND ACHIEVEMENTS

Premised on the successful implementation of the above initiatives, the Company achieved a record financial performance for the year under review, as compared to 2015.

STRATEGIC ALLIANCES

BANKING FACILITIES



BUSINESS PARTNERS



CUSTOMERS



AUTHORITIES/REGULATORS



CORPORATE INTEGRITY

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Towards achieving a zero tolerance policy against all forms of bribery and corruption, PDB has adopted the CoBE which sets out expected standards of behaviour and ethical conducts within the Group and with external parties as it is aimed at maintaining confidence and reliance on the Group's operations. To supplement the objectives of CoBE, PDB has adhered to the PETRONAS Anti-Bribery Corruption Policy and Guidelines which provide guidance to employees as to how they are expected to deal with improper solicitation, bribery and other corrupt activities. PDB also implemented the PETRONAS Whistleblowing Policy to provide an opportunity for employees and members of the public to disclose any improper conduct within the Group.

During the year under review, PDB implemented the ABC e-Learning Modules on PETRONAS Compliance Desktop® for all its employees. The PETRONAS Compliance

Desktop® is an integrated online compliance solution which facilitates a whole suite of compliance activities including third party due diligence and screening, an online register to declare gifts, entertainment and conflicts of interest, policy lifecycle management as well as the convenience of e-Learning training modules on the CoBE, ABC Manual and Competition law. A total of 1,029 employees have successfully completed the module which represents 76% of PDB's overall population.

Additionally, to promote CoBE awareness during the year under review, Group HRM with various other HR counterparts kicked-off the "Live the CoBE" week which was held from 9 to 16 December 2016. The campaign aimed to educate employees via sharing sessions at their respective Divisions and Departments on CoBE matters such as Conflict of Interest, Money Laundering, Sexual Harassment and Integrity.

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PETRONAS CODE OF CONDUCT AND BUSINESS ETHICS

PDB has adopted the CoBE which is a general reference for use in all the countries that PDB conducts its operations. The CoBE together with PETRONAS Shared Values serve as a guiding beacon as to how employees are expected to conduct themselves in their work. The CoBE not only promotes legal and procedural compliance, but it also provides a moral compass to ensure that employees' individual behaviour are in line with the PETRONAS Shared Values.

The CoBE contains detailed policy statements on the standards of behaviour and ethical conduct expected of each individual to whom the CoBE applies. The CoBE applies to all employees and directors within PDB and its subsidiaries. PDB also expects that contractors, subcontractors, consultants, agents, representatives and other third parties performing work or services for or on behalf of PDB to comply with the relevant parts of the CoBE when performing such work or services. In particular, the CoBE prohibits improper solicitation, bribery and other corrupt activities not only by employees and directors but also by third parties performing work or services for or on behalf of companies in the PDB Group.

The CoBE is implemented not only to promote proper legal compliance but also to ensure that the individual actions and behaviour of its employees, Members of the Board of Directors and third parties performing work or services for and on behalf of PETRONAS are in line with the PETRONAS Shared Values, namely Loyalty, Integrity, Professionalism and Cohesiveness. The CoBE has detailed out the Company's expectations and has incorporated the employees' duties that are usually 'implied terms' of employment contracts, as 'expressed terms' in the CoBE. Since integrity is a vital part of the Company, all employees are expected to conduct themselves accordingly with the Company's interests in mind.

Apart from the Company's commitment in ensuring that all employees have internalised and observed the CoBE, the Company provides the CoBE e-Learning modules on PETRONAS Compliance Desktop® which were implemented for the employees from 15 December 2015 until 31 March 2016.

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CUSTOMER EXPERIENCE

– We Are The Winning Formula That Is PETRONAS

As the retail marketing arm for PETRONAS, our customers are key to our business success. We recognise this basic premise and are investing considerably into delivering consistently high level of services across all our customer in order to sustain our growth.

As a starting principle, we believe in really understanding our customers, product and service offerings that meet their needs. This is part of our Winning Formula and applies to all our business units – from Retail to Commercial, LPG and Lubricant.

On the Retail forefront, we are part of the winning team that has brought home three consecutive Formula One™ World Constructors' Championships and three consecutive Formula One™ Drivers World Championship titles. During the year under review, apart from winning the World Constructors' Championship for the third consecutive year, we retained the World Drivers Championship with Nico Rosberg's sensational inaugural win.

Customers' convenience is of utmost importance and remains PDB's highest priority while powering your journey every step of the way. Our superior brand of fuels; PETRONAS Primax 97 with Advanced Energy Formula and PETRONAS Primax 95 with Advanced Energy Formula, provide your engine with the protection it needs to give you better acceleration and the best in fuel economy, allowing you to go the distance. Through our dynamic partnership with Mercedes AMG and Formula One™, we continue to make monumental strides in the evolution of fuel technology by making our products more efficient and bring more value for money to our customers.

Testament to our continued efforts at improving the customer experience and services at PETRONAS stations, PDB has won the Gold Award in the Automotive Fuel Category at the Putra Brand Awards of 2016 for seventh consecutive year. As a company we have come a long way since we operated our first service station in 1981. Our stations have evolved to meet the constantly changing needs of our customers by providing not only fuel but also convenience through our Kedai Mesra that offers a wide array of services from Automated Teller Machines to Quick-Serve-Restaurants like Starbucks and McDonalds.

We continue our pursuit to become Malaysia's 'Brand of 1st Choice' and despite the achievements and accolades we have enjoyed thus far, we will not allow it to diminish the passion and determination to become the best and to rise above all limitations and expectations.

True to its credo of being a trusted retailer with a passion for customers' convenience, sharing our success with the community, the Retail business continues to dedicate every waking moment to delivering outstanding customer experience and providing our customers with the best products and services in the market.

For Commercial and LPG businesses, PDB is fully committed to serve the needs of the various segments from the industrial to household customers through our dynamic sales force and personalised services. Commercial business' competitiveness and value proposition to its customers leverage on full integration across the value chain.

Finally for Lubricant business, the Company is steadfast in providing high quality products to all its customers' segment whilst increasing its value added services.

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DRIVING INNOVATION

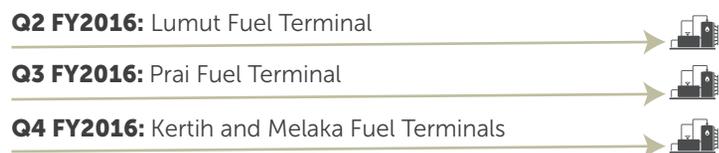
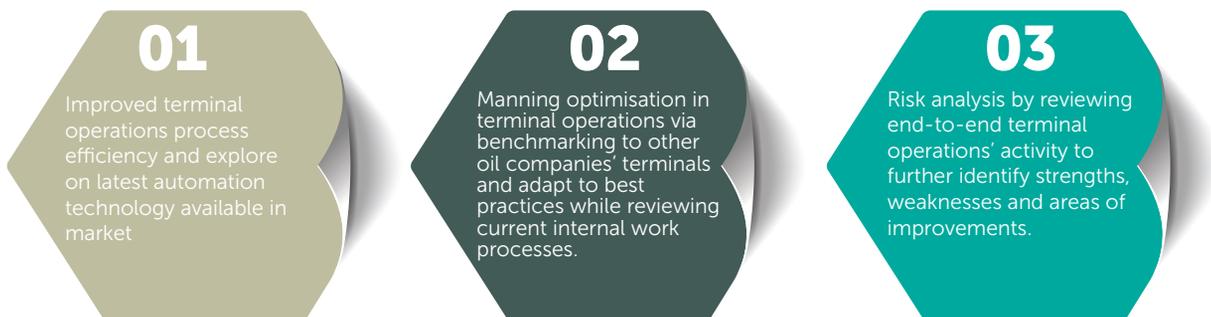
We are committed to explore new approaches in innovation, automation and technology integration. This continuous innovation improvement is not only in our products and services but also in the form of operational enhancement.

TOWARDS UNMANNED TERMINALS

SDD has achieved another significant milestone with the launch of the first Unmanned Terminal at Lumut Fuel Terminal. Lumut Fuel Terminal was selected to be the pioneer for this initiative based on its economic feasibility, manpower, terminal equipment and system readiness. Upon successful implementation of the pilot plan at Lumut Terminal, the strategy was then implemented at Prai, Melaka and Kertih Fuel Terminals.

Towards Unmanned Terminal initiative is to achieve terminal operational efficiency at optimised cost. The main concept of Towards Unmanned Terminal consists of fully automated road tanker loading operations at Tank Truck Loading Rack, outsourced marine vessel receiving operations, Automatic Tank Gauging system for inventory monitoring and operations supervisory control from the Control Room utilising real-time data acquisition system.

TOWARDS UNMANNED TERMINAL BLUEPRINT



GROUP FINANCIAL REVIEW

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DESPITE THE CHALLENGING BUSINESS ENVIRONMENT, PDB GROUP HAD REGISTERED A **RECORD PROFIT BEFORE TAX OF RM1,212.3 MILLION** FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016. THE GROUP CONTINUED TO FOCUS ON EXECUTION OF BUSINESS STRATEGIES AND IMPLEMENTATION OF OPERATIONAL EFFICIENCIES TO REMAIN RESILIENT AND DELIVER VALUE TO OUR SHAREHOLDERS.

PUTERI LIZA ELLI SUKMA
Chief Financial Officer

As the leading domestic marketing arm of petroleum products in Malaysia, PDB is committed to upholding the trust of our customers by continuously providing quality products and differentiated services, while fostering the 'Customers 1st' culture within the Company.

Despite the challenging business environment, PDB Group had registered a record Profit Before Tax of RM1,212.3 million for the financial year ended 31 December 2016. The Group continued to focus on execution of

business strategies and implementation of operational efficiencies to remain resilient and deliver value to our shareholders.

This section aims to assist readers in understanding our audited financial statements and the metrics used to assess our business performance.

For comparability reasons, the analysis is conducted based on the financial results for the year ended 31 December 2016 against last financial year.

SEGMENTAL ANALYSIS

Our operations consist of mainly Retail and Commercial segments. Retail segment comprises of sales and purchases of petroleum products in the retail sector of the Retail, LPG and Lubricant businesses. Commercial segment comprises of sales and purchases of petroleum products to the remaining commercial sectors.

RETAIL SEGMENT

The Retail segment mainly operates in a regulated environment as the prices of petroleum products such as MOGAS, Diesel and LPG sold in the retail sector are set by the Government. The Malaysian Government had implemented a managed float pricing mechanism in which the retail pump price moves in tandem with petroleum product prices. The APM elements remain intact under this managed float mechanism.

RM'000	Retail Segment	
	FY2015	FY2016
Revenue	13,456,461	11,951,825
Operating Profit	526,221	681,999

The decrease in revenue of RM1,504.7 million was mainly due to a drop in average selling price of 12% impacting both MOGAS and Diesel, despite higher volume by 1%.

The Retail segment's operating profit has increased by 30% mainly due to improved margin from MOGAS in line with the increasing petroleum product prices trend in the second half of the year and higher volume.

During the year, an impairment on subsidy receivables of RM89.9 million was made with respect to subsidy claims for diesel for the period April 2012 to January 2013 as no decision has been made on its repayment by the Government. Nevertheless, PDB will continue to pursue the recovery of this amount.

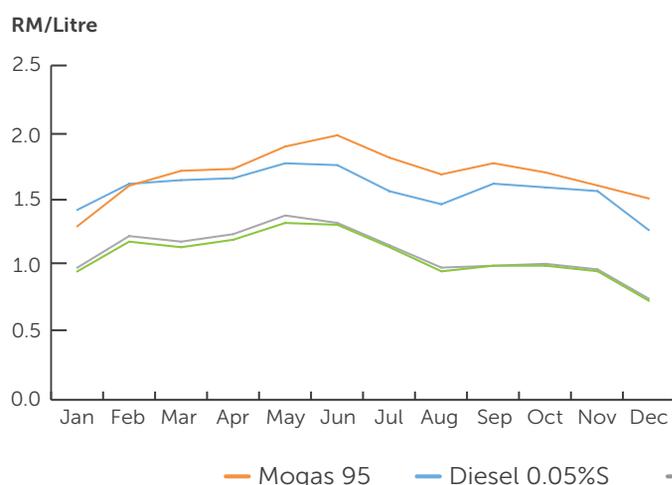
COMMERCIAL SEGMENT

The Commercial segment operates in a highly competitive market and our performance is influenced by a number of factors, including but not limited to, petroleum product prices' movement, number and location of distribution outlets, general economic condition and competitive pressure.

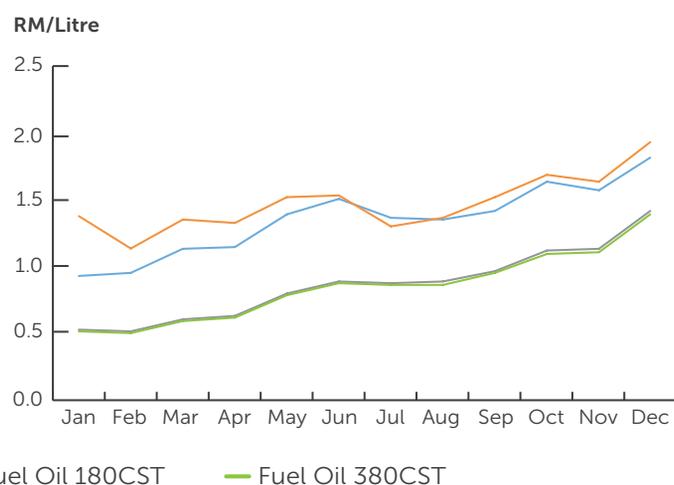
RM'000	Commercial Segment	
	FY2015	FY2016
Revenue	11,578,459	9,812,416
Operating Profit	539,800	534,522

The decrease in revenue by RM1,766.1 million was mainly due to a decrease in average selling price by 17% impacting mainly Diesel and Aviation, despite higher volume by 2%.

PETROLEUM PRODUCT PRICES FOR JAN – DEC 2015



PETROLEUM PRODUCT PRICES FOR JAN – DEC 2016



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GROUP FINANCIAL REVIEW

The slight decrease in operating profit for Commercial segment by 1% was mainly due to higher operating expenditure offset by higher margins from Aviation.

OPERATING EXPENDITURE

For the financial year ended 31 December 2016, our operating expenditure had increased by 5% mainly due to higher depreciation expenses in line with capitalisation of projects. In addition, higher professional and purchased services as well as lower net gain on foreign currency had contributed further to the increase in operating expenditure.

PROFIT BEFORE TAX

For the financial year ended 31 December 2016, the Group registered a record profit before tax from continuing operations of RM1,212.3 million, higher than last year by 12% mainly due to higher gross margin by RM119.2 million and higher other income by RM68.1 million, offset by higher operating expenditure by RM59.3 million.

PROFIT AFTER TAX

PDB achieved a record high profit after tax (inclusive of discontinued operation) in 34 years at RM946.5 million, an increase of 19% from last year as a result of the effective business and operational strategies which we have put in place.

During the year, the sale of PETRONAS (Vietnam) Co., Ltd. to Totalgaz Limited Liability Company has been completed, resulting in a gain on disposal on discontinued operation of RM35.6 million.

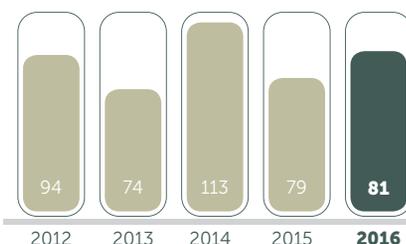
OTHER INCOME

Other income increased by 21% compared to last year, mainly due to higher interest income and gain on fixed asset disposal.

DIVIDEND

For the financial year ended 31 December 2016, the Board of Directors has declared a total interim dividend of 70 sen per ordinary share, which represents a dividend payout ratio of 81%. This includes interim dividend of 30 sen per ordinary share declared in Q4 FY2016.

Net Dividend Payout Ratio (%)



TOTAL ASSETS

Total assets of RM9,364.9 million as at 31 December 2016 increased by 16% from RM8,070.6 million mainly contributed by higher cash and cash equivalents.

TOTAL LIABILITIES

Total liabilities increased by 31% from RM3,086.7 million to RM4,028.4 million as at 31 December 2016 mainly due to higher trade and other payables, offset by decrease in borrowings. Correspondingly, gearing ratio reduced from 4% to 2%.

As a result of the above, net assets per share attributable to ordinary equity holders have increased from RM4.98 to RM5.34.

FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

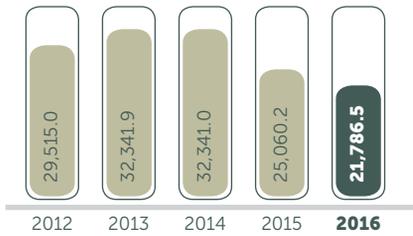
	FY2012	FY2013	FY2014	FY2015	FY2016
OPERATING RESULTS (RM MILLION)					
Revenue	29,515	32,342	32,341	25,060	21,787
Operating profit	1,174	1,125	728	1,092	1,214
Profit before taxation	1,165	1,109	709	1,082	1,212
Profit attributable to shareholders of the Company	837	812	502	790*	945*
KEY STATEMENT OF FINANCIAL POSITION DATA (RM MILLION)					
Property, plant and equipment	3,766	3,892	4,031	3,990	3,794
Total assets	9,924	10,167	9,541	8,071	9,365
Total borrowings	464	583	494	212	119
Total liabilities	5,078	5,338	4,749	3,087	4,028
Share capital	993	993	993	993	993
Shareholders' equity	4,810	4,790	4,752	4,952	5,303
SHARE INFORMATION					
Per share (sen)					
Basic earnings	84.2 sen	81.7 sen	50.5 sen	79.5 sen*	95.1 sen*
Gross dividend	105 sen	70 sen	60 sen	60 sen	70 sen
Share price as at financial year end (RM)	23.50	31.44	17.12	24.86	23.80
FINANCIAL RATIOS					
Return on Average Capital Employed	17.2%	17.1%	10.4%	16.0%	18.1%
Return on Total Assets	8.5%	8.1%	5.3%	9.8%	10.1%
Debt to Equity Ratio	9.6%	12.2%	10.4%	4.3%	2.2%
Dividend Payout Ratio	94.0%	74.1%	113.0%	79.0%	81.0%

* Includes discontinued operation

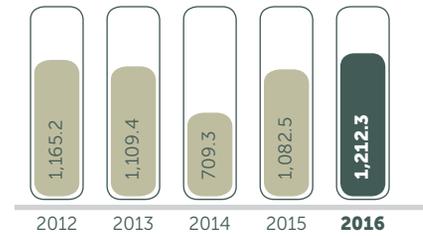
FIVE-YEAR GROUP FINANCIAL SUMMARY

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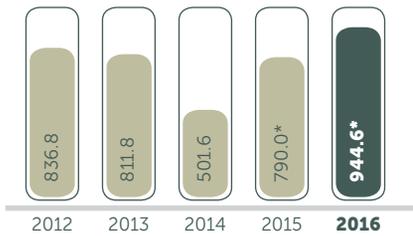
Revenue
(RM Million)



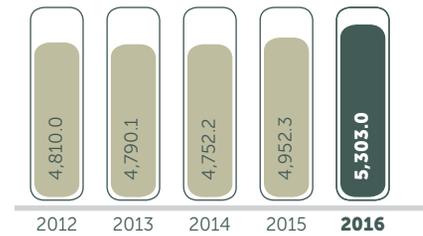
Profit before taxation
(RM Million)



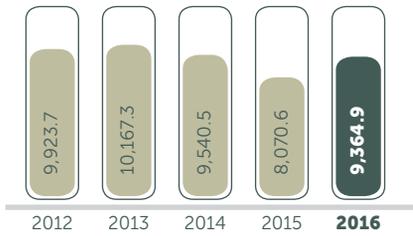
Profit attributable to shareholders of the Company
(RM Million)



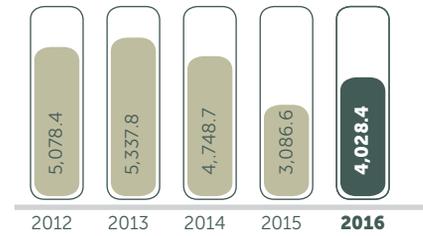
Equity attributable to shareholders
(RM Million)



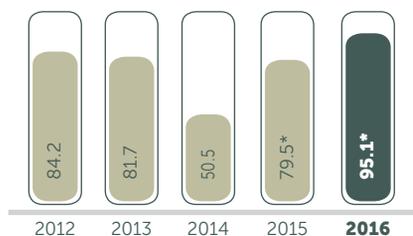
Total assets
(RM Million)



Total liabilities
(RM Million)



Earnings per share
(sen)



* Includes discontinued operation

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PERFORMANCE SCORECARD

STRATEGIC OBJECTIVES

Value-Driven Growth

Retail Business	Commercial Business	LPG Business	Lubricant Business
<ul style="list-style-type: none"> Strengthening product branding Providing excellent customer experience Efficient sweating of existing stations network 	<ul style="list-style-type: none"> Value-driven growth through cost competitiveness Preferred partner via differentiated and superior services 	<ul style="list-style-type: none"> Maximise value in domestic market Optimise cost on the back of an efficient supply and distribution network 	<ul style="list-style-type: none"> Market share growth via enhanced network channels in key segments Brand equity enhancement via Fluid Technology Solutions™ and superior product range Increase cost competitiveness via efficient supply chain



Key Performance Indicator	Unit	FY2016	FY2015
Financial Excellence			
Net Profit After Tax	RM Mil	946.5	794.6
Return on Average Capital Employed	%	18.1	16.0
HSE			
Fatality	No.	2	0
LTI ¹	No.	11	4
Major LOPC ²	No.	2	5
Major Fire	No.	0	0
Operational Excellence			
Total volume (Mil Ltr)	Mil Ltr	15,253.9	15,013.8
Average inventory days ³	Day	4.2	5.7
Overall Equipment Effectiveness – LPG ⁴	%	91	89
Aviation – On Time Performance Index	Times	3.3	3.2
Talent Management and Development			
Ratio of Ready Top Talents to Critical Positions	Ratio	2.8:1	1.6:1
Critical Position Succession Planning	%	100	100

¹ Lost Time Injury

² Lost on Product Contamination

³ Average inventory turnover days at the terminals

⁴ To measure overall equipment effectiveness in LPG Terminal in terms of availability, performance and quality

ENABLED BY



Superior Performing Assets with continuous HSE, Operational and ICT Excellence
Prudent Risk and Cost Management, Entrepreneurship and Sound Governance
Empowered Leaders promoting team work with Clear Ownership and Accountability
Business Savvy with Excellent Competencies to Deliver Value
Performance Driven Culture and Customer Focused Mindset

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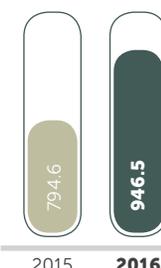
KEY PERFORMANCE INDICATORS

FINANCIAL

Profit After Tax

Aim	To consistently deliver sustainable returns to shareholders	
Achievement	We achieved record high PAT in 34 years	

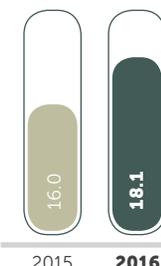
	FY2015	FY2016
PAT (RM Mil)	794.6	946.5



Return on Average Capital Employed

Aim	To measure the Company's efficiency to generate profits from available capital base	
Achievement	We achieved higher ROACE resulting from higher NPAT	

	FY2015	FY2016
ROACE (%)	16.0	18.1

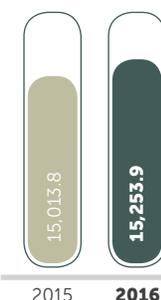


NON-FINANCIAL

Total volume

Aim	To grow sales volume whilst maximising value	
Achievement	Our total sales volume exceeded prior year sales volume mainly from MOGAS on the back of slower economic growth and stiffer competition	

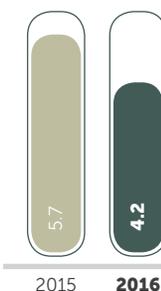
	FY2015	FY2016
Total volume (Mil Ltr)	15,013.8	15,253.9



Average inventory days

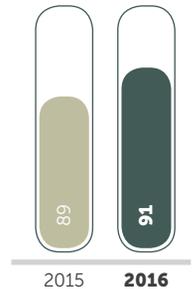
Aim	To minimise variance of intermonth product price exposure	
Achievement	Lower inventory days for FY2016 has mitigated exposure to volatility of oil prices impacting the Company's margins	

	FY2015	FY2016
Average inventory days (Day)	5.7	4.2



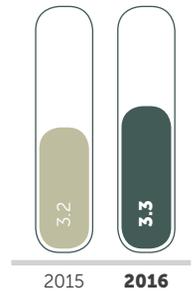
Overall Equipment Effectiveness – LPG

Aim	To measure overall equipment effectiveness in LPG Terminal in terms of availability, performance and quality	
Achievement	We achieved OEE rate of 91% by reducing operational interruptions while maximising on delivery	
	FY2015	FY2016
OEE (%)	89	91



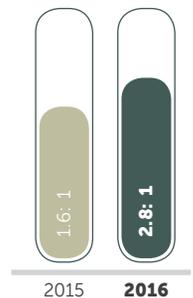
Aviation – On Time Performance (OTP) Index

Aim	To achieve index representing number of delay for every 10,000 number of aircraft refuelling below the limit set of 3.5 times	
Achievement	We achieved the OTP index below 3.5 times by ensuring sufficient manpower resources and improving aviation refuelling vehicle availability and reliability	
	FY2015	FY2016
Aviation – OTP Index	3.2	3.3



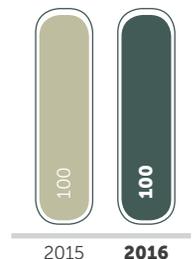
Ratio of Ready Top Talents to Critical Positions

Aim	To focus at expanding talent pool for Top Talents and Potential Leaders within the Company	
Achievement	We unveiled 18 new Top Talents and 10 Potential Leaders which contributed towards a 17% increase in PDB talent pool	
	FY2015	FY2016
Ratio of Ready Top Talents to Critical Positions	1.6:1	2.8:1



Critical Position Succession Planning

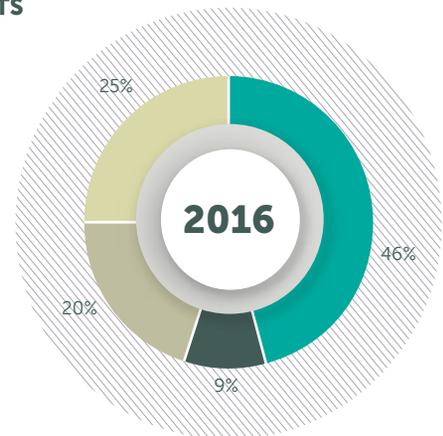
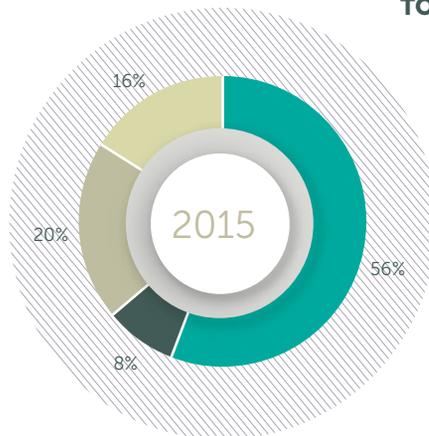
Aim	To achieve 100% completion of Succession Planning	
Achievement	We completed 100% of Succession Plans for all 37 Critical Positions	
	FY2015	FY2016
Critical Position Succession Planning (%)	100	100



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SIMPLIFIED GROUP STATEMENT OF FINANCIAL POSITION

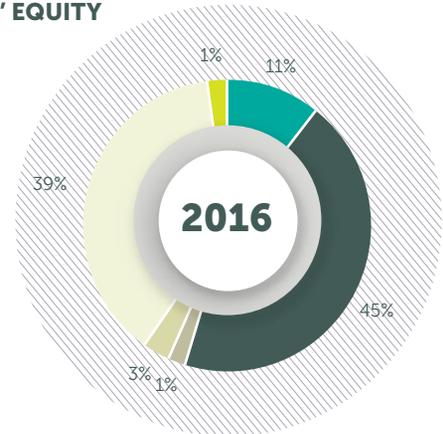
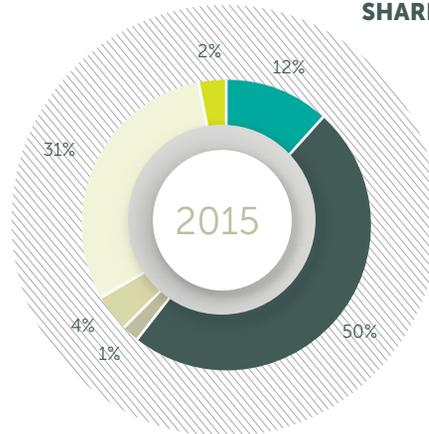
TOTAL ASSETS



- Non-Current Assets
- Inventories

- Cash and Cash Equivalents
- Trade and Other Receivables

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY



- Share Capital
- Reserves
- Non-Controlling Interests

- Non-Current Liabilities
- Trade and Other Payables
- Other Current Liabilities

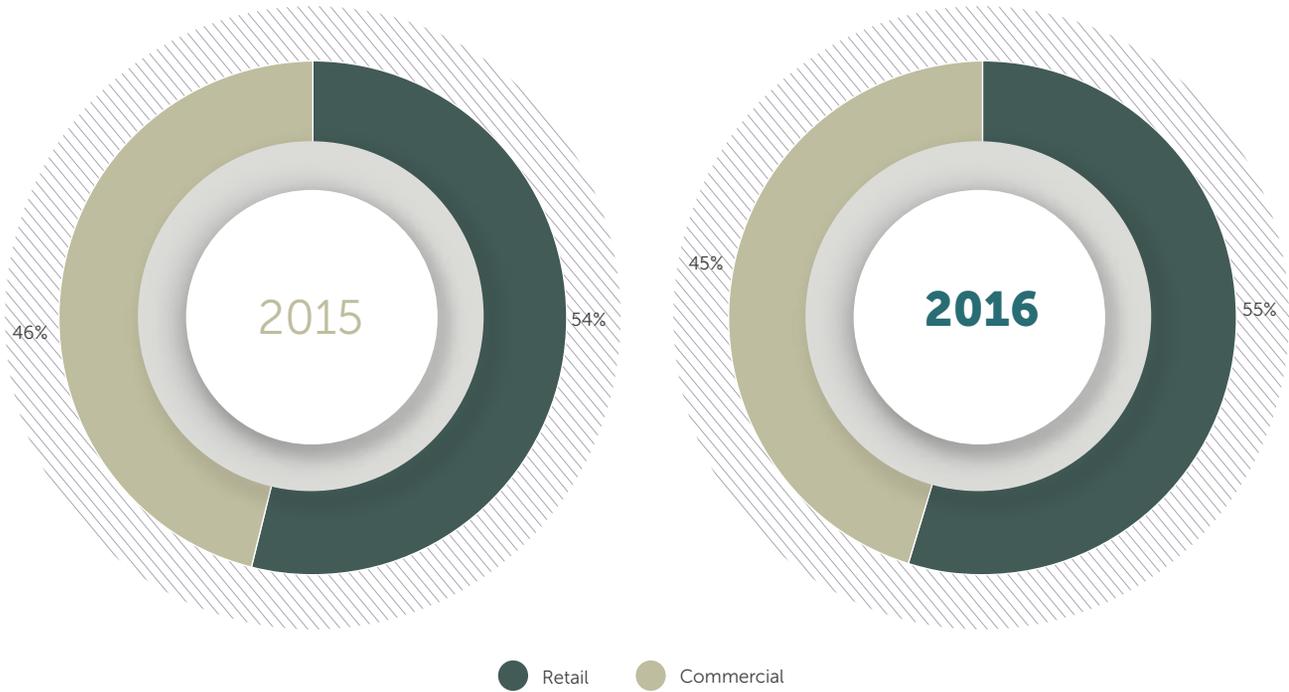
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SEGMENTAL ANALYSIS

REVENUE



TOTAL
RM25.1 billion

TOTAL
RM21.8 billion

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GROUP QUARTERLY FINANCIAL PERFORMANCE

2016

<i>In RM mil</i>	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total FY2016
Revenue	4,911	5,332	5,537	6,007	21,787
Operating profit	297	248	330	339	1,214
Profit Before Tax	296	248	332	336	1,212
Profit After Tax*	221	215	250	260	946
Earnings per share (sen)*	22.1	21.6	25.1	26.3	95.1
Dividend per share (sen)	12.0	14.0	14.0	30.0	70.0

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2015

<i>In RM mil</i>	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total FY2015
Revenue	6,070	6,465	6,506	6,019	25,060
Operating profit	286	377	303	126	1,092
Profit Before Tax	283	375	299	125	1,082
Profit After Tax*	208	275	220	92	795
Earnings per share (sen)*	20.7	27.5	22.0	9.3	79.5
Dividend per share (sen)	12.0	14.0	14.0	20.0	60.0

* Includes discontinued operation

KEY INTEREST BEARING ASSETS AND LIABILITIES

	2015			2016		
	As at 31 December (RM mil)	Effective Interest Rate (%)	Interest Income/ (Expenses) (RM mil)	As at 31 December (RM mil)	Effective Interest Rate (%)	Interest Income/ (Expenses) (RM mil)
Interest earning assets						
Cash and cash equivalents	1,251.0	4.4	54.5	2,423.4	3.4	82.6
Interest bearing liabilities						
Islamic financing facilities	102.7	4.4	(4.8)	85.0	4.1	(3.6)
Revolving credit	71.4	2.8	(1.8)	6.3	2.5	(1.1)
Term loan	37.7	4.0	(1.1)	27.4	3.2	(1.0)
Islamic medium term notes	–	3.5	(2.3)	–	–	–

STATEMENT OF VALUE ADDED

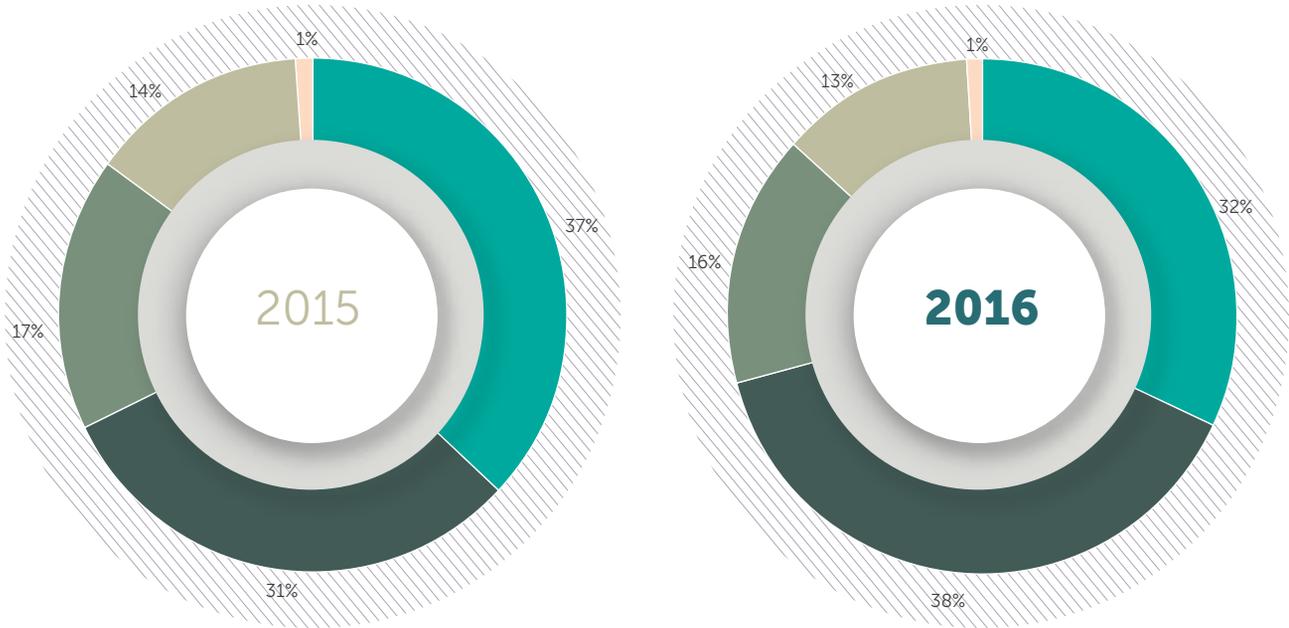
Value added is defined as the value created by the activities of a business and its employees and in the case of PDB is determined as revenue less the purchase of goods and services. The value added statement reports on the calculation of value added and its application among the stakeholders in the Group. This statement shows the total wealth created and how it was distributed, taking into account the amounts retained and reinvested in the Group for future growth.

	Group	
	2015 RM'000	2016 RM'000
Revenue	25,060,190	21,786,544
Less: Purchase of goods and services	(23,677,712)	(20,288,778)
Value added	1,382,478	1,497,766
Other income	322,446	390,487
Financing costs	(13,444)	(7,661)
Share of net profit of associates and joint ventures	3,779	5,619
VALUE CREATED	1,695,259	1,886,211

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DISTRIBUTION OF VALUE ADDED



- Providers of equity (net dividends)
- Government (taxation)
- Providers of debt
- Retained for reinvestment and future growth
- Employees

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19 FEBRUARY 2016

Announcement of the unaudited consolidated results for the 4th quarter ended 31 December 2015

17 MARCH 2016

Date of payment of the interim dividend for the 4th quarter ended 31 December 2015

20 APRIL 2016

34th Annual General Meeting

11 MAY 2016

Announcement of the unaudited consolidated results for the 1st quarter ended 31 March 2016

8 JUNE 2016

Date of payment of the interim dividend for the 1st quarter ended 31 March 2016

15 AUGUST 2016

Announcement of the unaudited consolidated results for the 2nd quarter ended 30 June 2016

9 SEPTEMBER 2016

Date of payment of the interim dividend for the 2nd quarter ended 30 June 2016

8 NOVEMBER 2016

Announcement of the unaudited consolidated results for the 3rd quarter ended 30 September 2016

8 DECEMBER 2016

Date of payment of the interim dividend for the 3rd quarter ended 30 September 2016

21 FEBRUARY 2017

Announcement of the unaudited consolidated results for the 4th quarter ended 31 December 2016

16 MARCH 2017

Date of payment of the interim dividend for the 4th quarter ended 31 December 2016

21 MARCH 2017

Date of Notice of 35th Annual General Meeting and date of issuance of FY2016 Annual Report

19 APRIL 2017

35th Annual General Meeting

2017 QUARTERLY ANALYST BRIEFINGS

DATES AND VENUE



February 2017
Wednesday

- Q4 FY2016 Results Announcement
- MYT 10.00 a.m. – 12.00 p.m.
- PRC03 Level 4, Tower 1 PETRONAS Twin Towers, Kuala Lumpur City Centre



May 2017*
Friday

- Q1 FY2017 Results Announcement
- MYT 10.00 a.m. – 12.00 p.m.
- PRC03 Level 4, Tower 1 PETRONAS Twin Towers, Kuala Lumpur City Centre



August 2017*
Tuesday

- Q2 FY2017 Results Announcement
- MYT 10.00 a.m. – 12.00 p.m.
- PRC03 Level 4, Tower 1 PETRONAS Twin Towers, Kuala Lumpur City Centre



November 2017*
Wednesday

- Q3 FY2017 Results Announcement
- MYT 10.00 a.m. – 12.00 p.m.
- PRC03 Level 4, Tower 1 PETRONAS Twin Towers, Kuala Lumpur City Centre

* Tentative dates

Note: PETRONAS Dagangan Berhad financial year ends on 31 December 2016

INVESTOR RELATIONS

Despite the global economy expanding at a slower pace during the year under review, **PDB had committed to upholding transparent communications** with its stakeholders as this helped to nurture trust, foster and build strong relationships with them. We believe in the need for the Investment Community to be informed on the Company's performance not only during good times but also in times of challenging market environment.

OVERVIEW

Effective communication channels are important for the Company as a medium through which Company information is conveyed to our stakeholders who consist of our Investment Community, employees and the general public. The communication channels that have been put in place are supported and acknowledged by the Board and LT. Through these communication channels, our stakeholders are informed on the Company's strategic developments, financial results and business performance.

At PDB, the IR unit facilitates all communications between the Company and the Investment Community, namely analysts, fund managers and institutional shareholders on IR engagements and activities for the year. The Company's LT continually engages with Investment Community, while the Board is being briefed on the IR activities and feedback on a quarterly basis.

In 2011, PDB adopted the Investor Relations Policy and Guidelines to ensure compliance with best practices amongst the listed companies. In this regard, all of the communication with Malaysia's capital market is governed by Bursa Malaysia Corporate Disclosure Guide 2011 which guarantees fair and timely disclosure of information to all shareholders.

The mandate to champion the IRPG lies with the IR unit, and all communication and engagement activities are led by PDB's MD/CEO, CFO and Head of Financial Accounting and Operations Department. In PDB, the IR unit resides under the Financial and Accounting Department, Finance Division which reports directly to CFO.

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Despite the global economy expanding at a slower pace during the year under review, PDB had committed to upholding transparent communications with its stakeholders as this helped to nurture trust, foster and build strong relationships with them. We believe in the need for the Investment Community to be informed on the Company's performance not only during good times but also in times of challenging market environment. In order to keep the Investment Community abreast on the Company's latest developments and business performances, the IR unit developed extensive IR programmes and activities during the year under review.

COMMITMENT TO SHAREHOLDERS

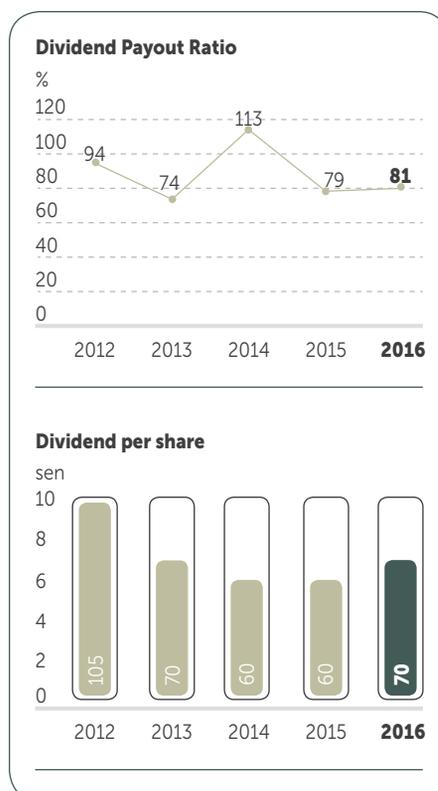
In our journey to be the Brand of 1st Choice, we remain committed and cognisant of our responsibility to create long term value for our shareholders. This commitment was demonstrated during the year under review through various communication efforts and engagements held, such as one-on-one meetings, quarterly results announcements, site visits and conference calls. In order to keep our foreign shareholders and potential investors abreast and updated on PDB's business and financial performances, PDB participated in numerous international corporate conferences, Non-Deal Roadshow and conference calls across the globe.

DIVIDEND POLICY

PDB adopts a dividend policy which is based on dividend payout ratio at around 50% of PAT at the Company level. However, as with previous years, more than 50% dividend payout was paid to the shareholders for the year under review.

The Company's commitment to maximise PDB shareholders' value was demonstrated by the dividend declaration of 70 sen per share amounting RM695.4 million to shareholders during the year under review. Dividend payout ratio of 81% was declared in 2016.

(For more details on the dividend payout, please refer to page 096)



PDB's shareholders base as at 31 December 2016 comprised 93% nominees, Government agencies/institutions, banks, corporations and retail shareholders. PDB's shareholders are mainly local investors and 69.9% of the shareholding in the Company are owned by PETRONAS. Amongst the Company's substantial shareholders are EPF, PNB, Amanah Raya Trustees, Kumpulan Wang Persaraan and Pertubuhan Keselamatan Sosial.

(For more details on our analysis of shareholdings, please refer to page 332)

Improved foreign shareholdings percentage from 2012 to 2016



Note: Highest foreign shareholdings for the year

During year under review, PDB's foreign shareholdings registered its highest historical level at above 8% on 31 March 2016.

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QUARTERLY FINANCIAL RESULT ANNOUNCEMENTS AND ANALYST BRIEFINGS

Following the disclosure of PDB's quarterly earnings to Bursa Malaysia, the Company conducted four quarterly briefings to analysts, fund managers and institutional shareholders via large group presentations. Some of the sessions were chaired by the MD/CEO together with CFO. To widen the reach, the summary of the presentation packs were made available on mymesra.com.my for the stakeholders.

Quarterly Result	Result Announcement Date	Analyst Briefing Date	Mode of Presentation
Q4 FY2015	19 February 2016	22 February 2016	Large Group Presentation
Q1 FY2016	11 May 2016	12 May 2016	Large Group Presentation
Q2 FY2016	15 August 2016	16 August 2016	Large Group Presentation
Q3 FY2016	8 November 2016	9 November 2016	Large Group Presentation

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INVESTOR RELATIONS

INVESTMENT COMMUNITY ENGAGEMENTS

One-On-One and Small Group Meetings, Conference Calls, Corporate/Investment Conferences and NDRs

In light of the challenging industry and business landscape during the year under review, the MD/CEO, CFO and IR Unit continued its regular engagements by way of one-on-one meetings, conference calls, corporate/investment conferences and NDRs with analysts, fund managers, institutional shareholders and other stakeholders.

During the year under review, PDB reached out to its investors and potential investors via NDRs and Corporate Conferences in Singapore and New York. Additionally, more than 150 engagements were conducted locally and regionally with analysts, fund managers and institutional shareholders.



PDB participated in the following key events during the year under review:

Corporate/Investment Conferences and NDRs				
Venue	Event	Date	Organiser	Engagement
Kuala Lumpur, Malaysia	CIMB 8 th Annual Malaysia Corporate Day	6 January 2016	CIMB	Corporate Conference
Kuala Lumpur, Malaysia	Invest Malaysia 2016	12 April 2016	Maybank Kim Eng in partnership with Bursa Malaysia	Corporate Conference
Singapore	Macquarie Non-Deal Roadshow	31 March – 1 April 2016	Macquarie	NDR
New York, United States	Daiwa Investment Conference 2016	30 May – 1 June 2016	AffinHwang-Daiwa	Investment Conference
Singapore	CIMB Non-Deal Roadshow	1 September 2016	CIMB	NDR

One-On-One, Small Group Meetings and Conference Calls	
Engagement	Total
One-On-One and Small Group Meetings	17
Conference Calls	3
TOTAL	20

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INVESTMENT COMMUNITY VISIT TO KLANG VALLEY DISTRIBUTION TERMINAL, DENGKIL

During the year under review, PDB's IR unit organised a visit to one of PDB's facilities at KVDT, Dengkil, Selangor Darul Ehsan for analysts, fund managers and institutional shareholders. The visit which was held on 20 October 2016 marked the fifth year since it was organised in 2012. The Investment Community was given a presentation and a guided tour of our facilities. The objective of the visit was not only to foster in depth understanding of PDB's business operations for the stakeholders but also to educate and provide awareness to the Investment Community on PDB's extensive distribution facilities, further strengthening their confidence in the Company's business fundamentals.

ANNUAL GENERAL MEETING

PDB's 34th AGM was held on 20 April 2016 at the Sapphire Ballroom, Level 1, Mandarin Oriental Hotel, Kuala Lumpur. The AGM was an important platform for shareholders to engage with PDB's Chairman and Board on the Company's financial and business performances. Shareholders were given an opportunity to raise questions to the Board who responded to all business related issues accordingly. The Board attendance at the AGM are sets out on page 215 of this Annual Report. Aside from duly passing all the resolutions tabled, the shareholders were also briefed by PDB's MD/CEO on the Company's financial performances and key business activities.

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FTSE4GOOD RATING ON ESG

Bursa Malaysia and FTSE4Good have taken various steps to promote sustainable practices amongst listed issuers in Malaysia. Bursa Malaysia had launched the CSR guidelines and sustainability portal in 2015 to encourage listed issuers to improve and strengthen their reports on sustainability in their organisations.

PDB improved its FTSE4Good rating and therefore remained as FTSE4Good constituents for two consecutive years. This rating is a recognition from Bursa Malaysia and has proven that the Company is an exemplary corporation that continuously demonstrates its responsibility to shareholders and the community at large.

(For more details on the FTSE4Good performance, please refer to page 176)

AWARDS AND RECOGNITIONS

The concerted efforts carried out by PDB's IR unit to effectively communicate and engage with the Investment Community were recognised with the achievement of various awards and recognition as follows:

Awards and Recognitions		
Awards/Recognitions Categories	Venue	Recognition Body
Ranked as top 10 for Most Transparent KLCI constituent in Malaysia	Malaysia	Focus Malaysia Newspaper
<ul style="list-style-type: none"> Winner for Most Improved IR unit in Malaysia Runner up for Best Strategic CSR in Malaysia Runner up for Best Senior Management IR Support in Malaysia 	Singapore	Alpha Southeast Asia Financial Magazine
Gold Award for Best Cover Designed Annual Report 2016	Malaysia	NACRA 2016
Merit Award for Corporate Governance Disclosures	Malaysia	MSWG

(For more details on our 2016 Awards and Recognitions, please refer to pages 170 to 171)



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ANALYST COVERAGE

As a testament to our strong share price, PDB’s analyst coverage had increased from six to eight research houses. UOB Kay Han Securities (M) Sdn Bhd and BIMB Securities Sdn Bhd were the latest additions to the list of research houses that had actively tracked and published their opinions on our stocks during the year under review.

Research House	Analysts
CIMB – Principal Asset Management Berhad	Raymond Yap Regional Head, Equity Research
Kenanga Investment Bank Berhad	Teh Kian Yeong Vice President of Research
MIDF Amanah Investment Bank	Aaron Tan Wei Min Investment Analyst
TA Securities Holdings Berhad	Kylie Chan Sze Zan Analyst
AllianceDBS Research Sdn Bhd	Cheah King Yoong Vice President, Equity Research
Hong Leong Investment Bank Berhad	Jason Tan Yat Teng Analyst
UOB Kay Hian Securities (M) Sdn Bhd	Ko Ho Meng Analyst
BIMB Securities Sdn Bhd	Azim Faris Rahim Analyst

CREDIT RATING

MARC has affirmed its MARC-1_{IS}/AAA_{IS} ratings on PDB’s Islamic Commercial Papers and Islamic Medium-Term Notes Programme (Sukuk Programme) of up to RM2.0 billion under the Islamic principle of Murabahah with a stable outlook. The affirmed ratings are equalised to PETRONAS’ ratings on which MARC maintains a public information ratings of MARC-1/AAA/Stable.

INVESTOR RELATIONS

WEBSITE AND FEEDBACK

The IR unit maintains its commitment to engage with Investment Community through PDB's corporate website, www.mymesra.com.my which serves as an effective communication platform to reach stakeholders in respect of the Group's latest financial results, quarterly briefing materials, press releases and disclosures to Bursa Malaysia.

IR CONTACTS

The Investment Community may forward their enquiries and feedback to PDB's IR unit. The details of IR's contacts are as follows:

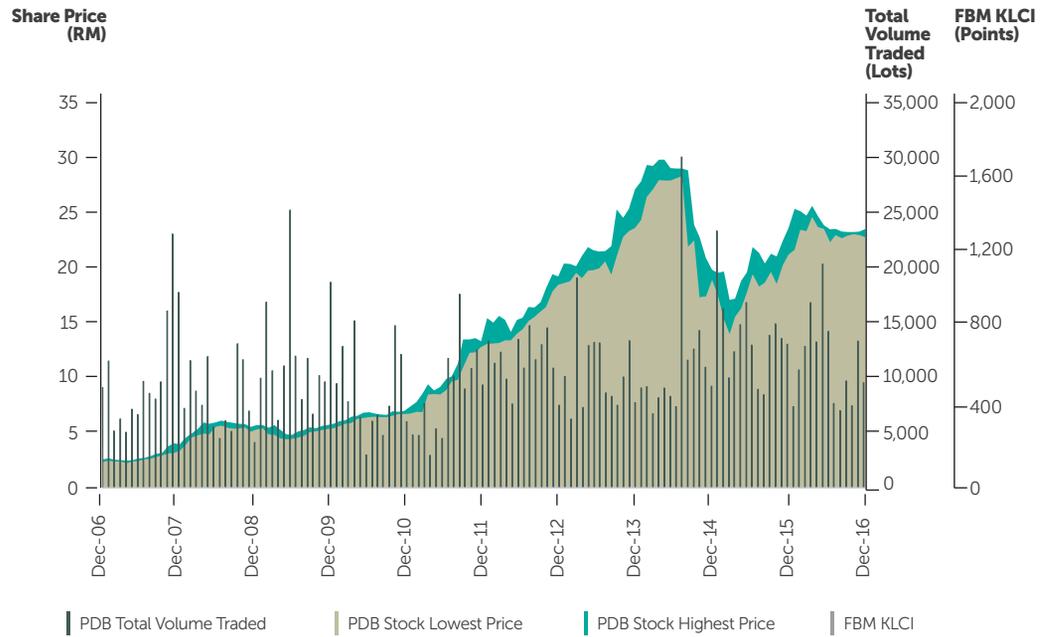


- 1. Nur Asyirin Ibrahim**
Head, Investor Relations
Email: nurasyirin@petronas.com.my
- 2. Natalia Inani Norsalehe**
Executive, Investor Relations
Email: inani.norsalehe@petronas.com.my

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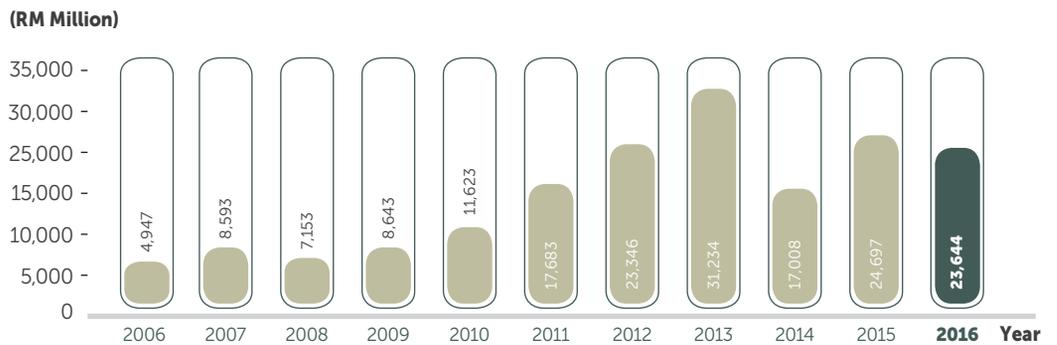
SHARE PRICE PERFORMANCE

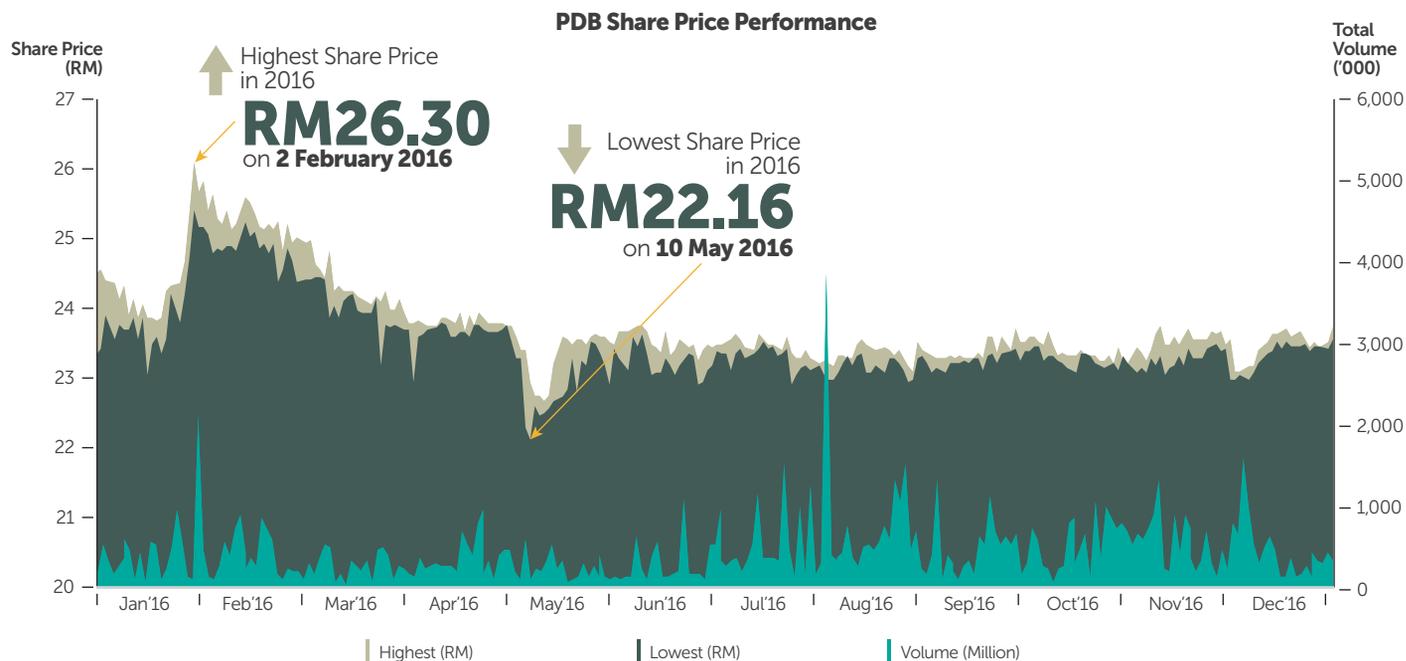
PDB Share Price and Volume vs FBM KLCI Index from 2006-2016



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MARKET CAPITALISATION





	Jan'16	Feb'16	Mar'16	Apr'16	May'16	Jun'16	Jul'16	Aug'16	Sep'16	Oct'16	Nov'16	Dec'16
Highest (RM)	25.54	26.30	25.40	24.26	23.88	23.88	23.74	23.66	23.84	23.80	23.86	23.88
Lowest (RM)	23.08	24.42	23.20	22.96	22.16	22.94	22.92	22.96	23.10	23.12	23.00	23.00
Volume (Million'000)	10.76	12.92	16.95	13.34	20.49	14.30	7.67	7.06	9.73	7.47	13.41	9.59

PDB share price progressed smoothly at a slower pace and outperformed other oil and gas companies

PDB has been listed on Bursa Malaysia since 1994. PDB stock comprises 993,454,000 ordinary shares as at 31 December 2016. PDB started its trading with a share price of RM24.66 on 4 January 2016 and touched its highest level at RM26.30 on 2 February 2016. Subsequently, PDB's share price trend declined in line with FBM KLCI movements in Q1 FY2016. PDB share price remain stable from May 2016 until 30 December 2016 and continued to outperform other oil and gas companies despite global economic headwinds.

(For more details on Global Trends and Market Outlook, please refer to pages 072 to 073)

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QUARTERLY FINANCIAL RESULT ANNOUNCEMENTS

Q1: FY2016



Date:
11 May 2016



Dividend:
12 sen/share

Q2: FY2016



Date:
15 August 2016



Dividend:
14 sen/share

Q3: FY2016



Date:
8 November 2016



Dividend:
14 sen/share

Q4: FY2016



Date:
21 February 2017



Dividend:
30 sen/share

Note: For the year ended on 31 December

(For more details on Analyst Briefings, please refer to page 112)

(For more details on Dividend Payout, please refer to page 096)

(For more details on Dividend Payment dates, please refer to page 108)

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EXTRACTION OF ANALYSTS' REPORT

Q1: FY2016

- Margin compression due to lower crude oil price
- Sustained volume due to lower consumer sentiments

Q2: FY2016

- Resilient net profit due to higher sales volume in Retail and Commercial businesses
- Net cash position remained strong
- Dividend remained intact
- Improved oil prices affected business performance

Q3: FY2016

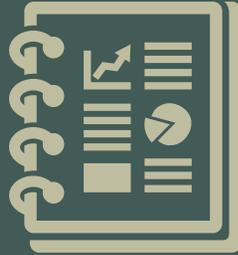
- Sales volume under pressure
- Weaker consumer confidence affected the business performance
- Global economic headwinds
- Seasonal factors impacted the sales volume

Q4: FY2016

- A record year performance in 34 years
- Sustainable long term earnings supported by growth and operational efficiency
- Improved margin and sales volume
- Higher earnings and dividend payout
- Strong cash flow

SHARE PRICE PERFORMANCE

Note: Some of the analyst reports extracted above may be obtained from Research Repository, Bursa Malaysia's website at www.bursamalaysia.com



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WHO WE ARE

We are the fuel that powers your everyday journey. We represent the thousands of smiling faces of our Krew PETRONAS that greet customers visiting our PETRONAS stations.

Together with our *Rakan Niaga*, we run and manage the vast network of PETRONAS stations across Malaysia.

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PDB Manpower

- Permanent: **277**
- Contract: **16**

Total: **293**



Age Group

- 51 and above: **35**
- 40-50: **91**
- 20-39: **167**

Total: **293**



Gender

- Male: **96**
- Female: **197**

Total: **293**



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MARKET AND INDUSTRY OVERVIEW IN 2016

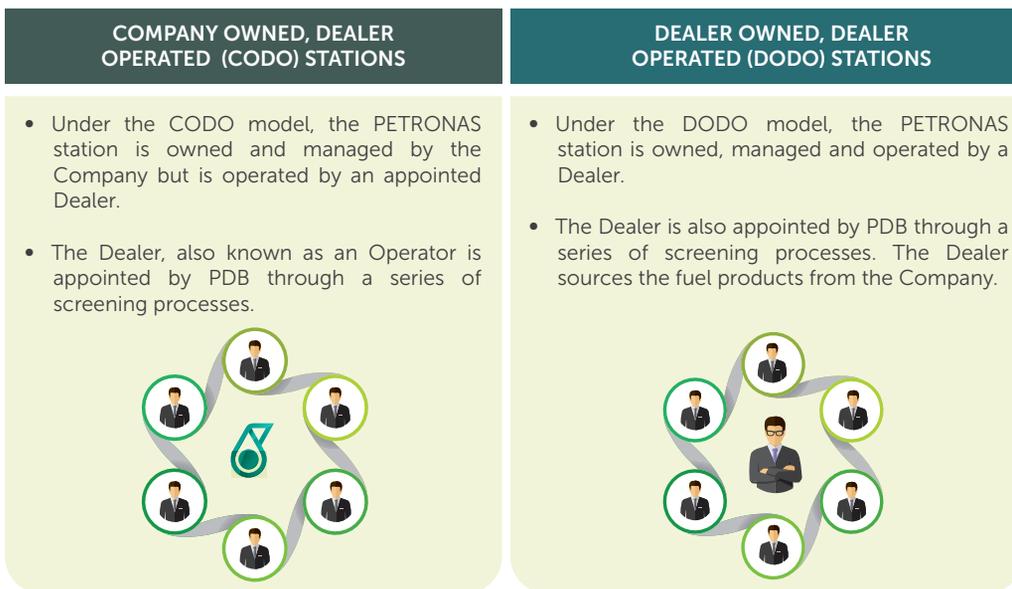
2016 has been a tough year for the retail fuel industry at large. The Retail business of PDB was no different, as the business saw intense pressure from competitors to remain above board.

Overall market volatility was a major contender that severely impacted our business. According to the Department of Statistics Malaysia, the Consumer Price Index for the country, rose by 2.1% to 116.9 from 114.8 during preceding year under review. This is further compounded by the Consumer Sentiment Index which has also improved from 69.6% in 2015 to 75.0% at the end of 2016.

BUSINESS MODEL

The primary fundamentals of our retail segment are rooted in providing superior Customer Experience at our PETRONAS stations. This begins with the appointment of our *Rakan Niaga* who serves as our brand ambassador.

Our *Rakan Niaga*, work effortlessly to serve our customers by providing the best in convenience and service that we have to offer at PETRONAS stations. Both the *Rakan Niaga* and Krew PETRONAS are provided with adequate training to ensure that customers will be attended to and that the best service and customer experience is provided. At PDB, our Retail business model can be divided into two categories:



For the year under review, most of our PETRONAS stations operate under the CODO business model. The DODO business model is implemented on selective basis. Both business models source their non-fuel items for the Kedai Mesra from a list of vendors and suppliers provided by PDB.

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BUSINESS STRATEGY

A major hallmark of our Company is the PETRONAS network of stations. During the year under review, our network of PETRONAS stations continues to be the largest throughout the nation, with more than 1,000 stations in operation across Malaysia.

As we weather these challenging times, the Company has rationalised its network expansion plan to look into maximising the output of our current stations, strengthening their capabilities and enhancing their profitability to become leaner and more resilient to overcome the limitations and obstacles that lay ahead. Moving forward, PDB will focus towards developing entrepreneurs whom are about delivering results and becoming true brand ambassadors.

Aside from developing a strong and efficient network, 2016 has also seen the Company focused more towards engaging customers, fine tuning our message on educating the customers about our superior fuel products that have led our Mercedes AMG PETRONAS Formula One™ Team to 3 consecutive World Constructors' Championships and 3 consecutive World Drivers Championships in a row.

It cannot be denied that the introduction of PETRONAS Primax 95 with Advanced Energy Formula and PETRONAS Primax 97 with Advanced Energy Formula has revolutionised the fuel market in Malaysia, bringing more value in fuel economy and also power.

Elevating the customer experience delivered at our PETRONAS stations is a one of our primary objectives. However, this is only possible by taking account customer feedback of their experiences at PETRONAS stations. From the feedbacks, Retail business embarked on transforming the customer experience at PETRONAS stations to ensure that we provide a retail environment for our customers that is 'Clean, Bright, Safe and Works All The Time'.

Commercial Excellence is the Key	Retail Ambition Redefined	The Winning Formula behind Commercial Excellence Transformation Strategy
<p>To achieve the aspiration of becoming the nation's 'Most Favoured Retailer' by 2018, the Retail business embarked on a Commercial Excellence Transformation Strategy which redefines the way we do business.</p> <p>Through this strategy, Retail business would be able to identify clearly their target consumers allowing them to better understand the needs of their customers.</p> <p>This entire initiative would focus on delivering results that matter and that would be winning over customers by consistently delivering superior customer experience at our stations.</p> <p>The final key element which is the foundation of this transformation is to ensure that all our stakeholders including PDB employees, <i>Rakan Niaga</i> and our vendors work continuously and seamlessly towards enhancing their speed of execution and effectiveness by making sure that we are brilliant at basics.</p>	<p>Commercial Excellence will drive PDB Retail business strategy moving forward, and has clearly paved the way for Retail to realise its full potential and in achieving its ultimate goal: Most Favoured Retailer.</p> <p>It is all about delivering results that matter as we bring the vision of tomorrow to you today through improvement of the facilities, services and the entire look of PETRONAS stations.</p>	<p>The key aspects of our Commercial Excellence is focused towards delivering consistently superior customer experience at all our PETRONAS stations nationwide.</p> <p>Delivering superior customer experience means providing PETRONAS customers with a selection of products that meet their needs for every buying occasion, superior fuel products that are engineered for the race track but delivers the best in fuel economy and power.</p> <p>Retail business is developing an organisational culture that is more customer-centric and responsive to the customers' needs. These efforts will allow us to further grow into an organisation that is focused on marketing and branding that continues to deliver products and services with customers' interests at heart.</p>

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FINANCIAL PERFORMANCE

Following the global fall in crude oil prices, most oil companies were forced to realign their businesses to meet the escalating costs against price volatility. During the year under review, Retail business contributed 45% towards the Group's Gross Margin.

Through focused execution and towards a common goal of shared success, Retail business recorded close to 4% increase in overall MOGAS volume. The significant growth is due largely to the aggressive marketing and promotional activities for PETRONAS Primax 95 with Advanced Energy Formula and the growing number of stations offering PETRONAS Primax 97 with Advanced Energy Formula nationwide.

In the non-fuel segment, Retail business recorded an increase of 5% on gross income as compared to preceding year under review.

KEY PRODUCTS AND SERVICES

PETRONAS Stations

Pushing the boundaries and reinventing the way we approach the retail fuel industry, Retail business continues to shape and develop the future of new Malaysian entrepreneurs to produce better results and deliver superior customer experience to our valued customers. Dedicated to ensuring that customers have a profound experience at our stations, Retail business is all about delivering a healthy environment where all our stations are 'Clean, Bright, Safe and Works All The Time'.

A major milestone for 2016 saw the introduction of new Multi-Product Dispensers that can accommodate up to six products. This ensures that every customers' needs and fuel preference are immediately addressed at the pump. With the new Multi-Product Dispensers we are able to provide convenience that is both seamless and fast. During the year under review, Retail business operationalised six new stations to further strengthen our retail network.

Kedai Mesra

The name 'Mesra' itself reflects the care our Krew PETRONAS take in providing all our customers with the best level of service either at the pump or in the Kedai Mesra itself.

Taking customer convenience to a whole new level, Retail business Convenience Retail segment continues to push the envelope and redefine Convenience Retailing in Malaysia.

Moving forward, our Kedai Mesra will be tailored to the customers' wants and needs which will include Cafés and Food Counters, while in selected markets will include more premium brand offerings and also groceries. In addition to all this, Formula One™ fans of our Mercedes AMG PETRONAS Formula One™ Team can also look forward to purchasing our team merchandise at Kedai Mesra.

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All these new additions will fit in well with the newly designed Kedai Mesra which is part of the new concept of our stations. This sleek new design will be a welcoming change for all our customers.

Today, our total network of Kedai Mesra across the nation stands at more than 760. With convenience in mind, the PETRONAS Kedai Mesra are equipped with ATMs (more than 1,000 ATM terminals), Touch 'n Go facilities (more than 280 reload terminals and Touch 'n Go Spots) and e-Pay terminal (around 1,000 terminals).

Complementary Business

PETRONAS stations are further enhanced through complementary business offerings ranging from food-to-go items to various business partner facilities that include Quick-Serve-Restaurants, banking facilities, courier services and other conveniences.

During under review, the Company has more than 90 Quick-Serve-Restaurants and more than 50 other business partners that enhance the customer experience at PETRONAS stations. This year, Rotiboy is amongst the latest additions to the growing list of renowned business partners which include Starbucks (2 stations) and Baskin Robbins (2 stations) that are in expanding their outlets to several other stations over the next few years.

Card Business

PETRONAS Mesra Loyalty Programme (Kad Mesra)

As our nation continues to grow and develop, so does the consumer mindset. Consumers' mindset evolves with the times, where tastes and current trends influence spending habits. This is evident even for the retail fuel industry, where the slightest difference between fuel saving and performance can influence a customer to choose between PETRONAS or other retail competitors.

To tip the balance in our favour, we reward our loyal customers through the PETRONAS Mesra Loyalty Programme which was first launched in 2001. This programme allows members to earn Mesra points using their PETRONAS Mesra cards by fuelling up

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at PETRONAS stations nationwide and purchasing products at Kedai Mesra. The accumulated Mesra points can be redeemed for either fuel or selected items within the Kedai Mesra.

The PMLP brings further value to customers to enjoy a wide variety of special offerings or discounts through the ever growing stable of partners and merchants at our stations.

During the year under review, the PMLP extended further its Kad Mesra benefits and privileges through new strategic partnerships. Existing partners and merchants are, ANGKASA, Astute Xperience (Travel Services), Pryxious.com (travel channel management), PETRONAS Twin Towers Gift Shop, Twin Towers Fitness Centre, PETROSAINS, 11th Street, Zalora and the latest additions, Happy Fresh and Menara Kuala Lumpur.

PETRONAS SmartPay

The PETRONAS SmartPay is a corporate fleet card which offers the individual or corporate client the convenience and efficiency to facilitate greater control over their fleet management in terms of monitoring movement and expenditure of the fleet.

During the year under review, the Company consistently engaged with potential and current customers through various programmes such as product showcases, fraud mitigation sessions, festive celebrations, sports and leisure activities. Breaking conventional barriers and traditional marketing strategies, 2016 witnessed the introduction of the Winning Formula initiative which was meant to rally all PETRONAS station Dealers to begin campaigning and marketing PETRONAS SmartPay in their own backyard.

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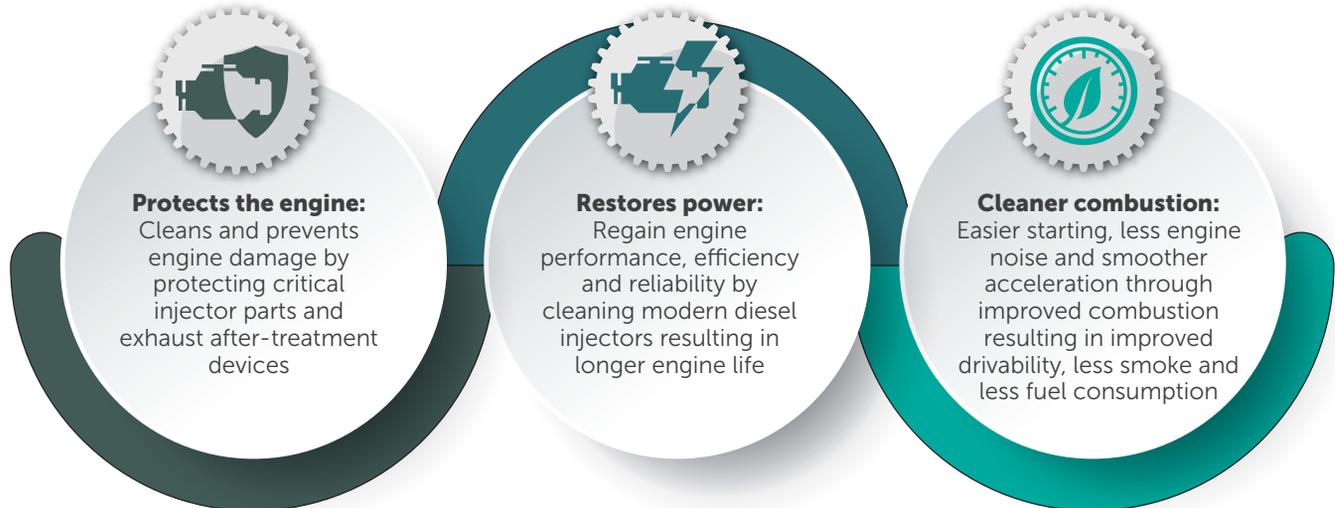
KEY BUSINESS ACHIEVEMENTS AND OPERATIONAL PERFORMANCE

Expansion of PETRONAS Dynamic Diesel Euro 5 to selected PETRONAS stations across the country

During the year under review, Retail business focused on the expansion of Euro 5 Diesel to 26 selected stations within Peninsular Malaysia, mainly targeting stations within the Klang Valley, Johor, Pahang and Negeri Sembilan. PETRONAS Dynamic Diesel Euro 5 was first introduced by PETRONAS in Johor Bahru in early 2015, where only two stations were identified at the time, targeting Singaporean drivers and hauliers transporting goods to Singapore. We are expanding the availability of the PETRONAS Dynamic Diesel Euro 5 to more stations by the end of 2017. This will cover major highways going in and out of the Klang Valley and certain locations in the Southern region.

Our expansion plan moving forward will be to increase the network progressively based on area demand. All of our PETRONAS stations will have Euro 5 Diesel available come the Government's gazetted implementation date in 2020.

There are three primary benefits of using the PETRONAS Dynamic Diesel Euro 5:



PETRONAS Dynamic Diesel Euro 5 is designed to improve performance from the very first fill. One tank is all it takes to experience the difference. It is possible to mix it with other grades of diesel, namely the Euro 2M-specification PETRONAS Dynamic Diesel. However, the effectiveness and full potential of PETRONAS Dynamic Diesel Euro 5 is achieved with consistent usage. This new environmental friendly product not only benefits new vehicles but also old diesel vehicles.

Marketing and Promotion

Over and above the marketing and promotion activities carried out during the year under review, we continued to create awareness by educating customers on our products and services, highlighting the key benefits of our fuel products in order to attract potential customers to fuel up at PETRONAS stations. Some of the key marketing and promotions carried out in 2016 were:

i. Pump and Win Campaign (5 January to 29 February 2016)

The campaign was opened to all Kad Mesra members who spent a minimum of RM40 in fuel. The main prizes offered in the campaign included: a Mercedes-Benz CLA 200, eight customised PROTON Iriz 1.6 Premiums, 16 Piaggio Vespa scooters and 16 JAVA folding bicycles.

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ii. Visa Rio 2016 Olympic Games Spend and Win Contest (1 April to 1 June 2016)

Visa, Maybank and PETRONAS officially launched the Rio 2016 Olympic Games Spend and Win Campaign from 1 April until 1 June 2016. To participate, eligible customers had to spend a minimum of RM50 on their Visa cards at any PETRONAS station and Kedai Mesra nationwide. The grand prize was an all-expense-paid trip for two to watch the closing ceremony of the Rio 2016 Olympic Games. A total of 10 Samsung Galaxy S7 Edge phones were also given weekly, as were 120 PETRONAS Mesra points each week, the latter worth RM200.

iii. Mesra 100 Plus Minum dan Menang Campaign (1 May to 30 June 2016)

This was an exclusive promotion for Kedai Mesra by F&N where customers only needed to purchase any two 500ml of F&N or 100 Plus soft drinks to be eligible to participate the contest and to stand a chance to win Euro 2016 merchandise.

iv. Awesome Bola Campaign (11 June to 11 July 2016)

In conjunction with the Euro Football Championships, PDB ran the Awesome Bola Campaign from 11 June to 11 July 2016. On ground roadshows with games and activities took place at selected locations.

v. World Constructors' Championship Campaign

Celebrating Mercedes AMG PETRONAS Formula One™ Team's third consecutive World Championship win, two different campaigns were held as follows:

1. Mesra Loyalty Triple Point Giveaway (28 and 30 November 2016 and 2 December 2016)

PETRONAS Mesra Kad holders earned triple points during the above dates when fuelling up at PETRONAS stations and shopping at Kedai Mesra.

2. PETRONAS Limited Edition Formula One™ Car Decal for RM1 when spending minimum RM40 on PRIMAX Fuels (19 December 2016 to 15 January 2017)

Customers fuelling up a minimum of RM40 on any of Primax Fuels could purchase limited edition PETRONAS Formula One™ decals for RM1. There were four different designs to choose from.

vi. Driving the visibility and corporate subscription of PETRONAS Smartpay Fleetcard through The Winning Formula Initiative

The Winning Formula initiative was developed with the primary purpose of tapping into a priceless resource i.e. our *Rakan Niaga*.

PETRONAS Dealers were able to proactively become an integral part of the Company's marketing efforts in driving sustainable volume to their stations.

During the year under review, more than 1,000 new customer accounts were created from all over the country.

Customer Engagement Programmes

To help educate the customers and at the same time to continuously promote our products and services, Retail business and PDB Strategic Communication teams have conducted various customer engagement programmes in 2016:

i. PETRONAS Dynamic Xperience

(May 2016 and November 2016) – This is a part of the Company's Experience 2 Believe series of experiential events to allow non-native user of PETRONAS Fuel products to sample and experience our fuel in a real-time situation such as a convoy or off-road event. In 2016, two such events were conducted:

a. PETRONAS Dynamic Xperience Powered By PETRONAS Dynamic Diesel - Convoy from KL to Bentong, Pahang (15 May 2016)

During this PETRONAS Dynamic Xperience, participants were members of the Toyota Hilux Owners, MyLandy Range Rover Enthusiasts Club and also our invited OEM partners, Mitsubishi. In total, there were 30 cars participating that day, which took participants from KL all the way to Bentong, Pahang.

b. PETRONAS Dynamic Xperience Powered By PETRONAS Dynamic Diesel Euro 5 - Convoy from KL to JB (Luxury Cars – BMWs, Audis and Mercedes) and (JB Offroad Challenge for 4x4 Car Clubs in JB) (26 November 2016)

This installment of the 'Experience 2 Believe' programme was done simultaneously in two separate groups and marked the first time Retail business conducting an 'Experience 2 Believe' for PETRONAS Dynamic Diesel Euro 5.

The first team consisted of high performance luxury cars with Diesel engines such as BMWs, Audis and also Mercedes cars. The group started their journey by fuelling up at the new PETRONAS station Temasya and were flagged off on their 350km journey to Johor Bahru.

The second group of participants were from major 4x4 Car clubs in Johor Bahru that travelled a 100km track which included 40km of off road terrain, giving the participants an opportunity to experience first-hand the power behind PETRONAS Dynamic Diesel Euro 5.

Through these 'Experience 2 Believe' programmes, PDB has been able to educate motorists on the quality and performance of our fuel and that they themselves are able to experience the benefits first hand. Through these events, we have managed to influence and also get customers to switch from their original fuel brand to using PETRONAS.

ii. Meet and greet the fans with Nico Rosberg and Lewis Hamilton at PETRONAS Jalan Kolam Air Lama, Kuala Lumpur (28 September 2016)

Formula One™ fans had a ball of a time with Mercedes AMG PETRONAS Formula One™ drivers, Nico Rosberg and Lewis Hamilton, at a special meet-and-greet session organised by PETRONAS Jalan Kolam Air Lama station.

Other activities held included a prize presentation of exclusive Mercedes AMG PETRONAS Formula One™ merchandise to 10 lucky PETRONAS customers; a 'Pit-Stop Challenge' involving the drivers and their fans; as well as meet-and-greet and autograph-signing sessions. There was also a special showcase by Mercedes AMG Club Malaysia.

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iii. Suruhanjaya Pengangkutan Awam Darat Industry Code of Practise Safety Briefing (March to August 2016)

In syndication with SPAD, Retail business continues to support SPAD’s Industry Code of Practise Safety Briefing. Since March 2016, the Retail business has engaged close to 1,000 businesses from the public transport industry in Johor Bahru, Penang, and the latest one in Kuantan, Pahang. Through the briefing, Retail business shared with delegates how safe and reliable PETRONAS Primax and PETRONAS Dynamic Diesel products are, while further enhancing the safety aspects of the PETRONAS SmartPay chip based fleet card.

KEY RISKS AND MITIGATION

In managing risks that may impede achievement of Retail business strategy, PDB has assigned key mitigations to reduce or prevent the risk associated with customer experience relating to HSE and ICT systems through continuous focus in ensuring safety and reliability of its facilities.

SUSTAINABILITY

i. PETRONAS Retail Dealers Conference 2016: The Winning Formula (28 to 29 March 2016)

The two-day and one night conference was held at the Equatorial Hotel Penang, where a total of 800 of PETRONAS Dealers attended the session which is recorded as the largest turn out thus far.

Over the two days, PDB Retail Management shared insights into the coming year while the PETRONAS Dealers shared their experiences in conducting marketing for the PETRONAS SmartPay Fleet card under the Winning Formula initiative.

ii. RETAIL POWER UP (16 November 2016)

The Retail Power Up engagement session was the first official engagement between the new Retail Leadership and all the employees of the Retail Business Division.

A total of 200 employees from the Central Region, attended the session which was held at Makespace, Quill City Mall Kuala Lumpur, while those located in the regions tuned in via a live webcast. The session gave our leadership an opportunity to engage the employees and briefed them on Retail business’ direction and expectation for the future.

OUTLOOK AND PROSPECTS IN 2017

The Retail business remains committed in growing the business to become **‘The Most Favoured Retailer’**, led by our Commercial Excellence transformation helming the change towards improving the facilities and services at our PETRONAS stations.

The Retail business remains dedicated in delivering superior fuel to our customers as new innovations are developed, further leveraging on the partnership with the PETRONAS Mercedes AMG Formula One™ Team.

In the coming years, Retail business will embark on the development of new stations which boast a fresh look and feel to both the station forecourt and Kedai Mesra which is functional and aesthetically appealing to customers.



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COMMERCIAL



WHO WE ARE

Commercial business markets petroleum products in bulk to various industries and market segments including but not limited to manufacturing, aviation, power, oil and gas, agriculture, fishery, construction, timber, bunker and transportation. Certified ISO 9001:2008 since 2008, Commercial business is a fully integrated business with activities encompassing product supply, storage, distribution, inland and seaborne logistics as well as sales and marketing throughout Malaysia. Commercial business primarily markets Diesel, Jet A-1, Bitumen, Fuel Oil, Kerosene, Gasoline, Petroleum Coke and Sulphur. Commercial business is fully committed to serve the needs of various industries through its dynamic sales force and strives to be the 'Brand of 1st Choice'.

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PDB Manpower

 Permanent: **102**
 Contract: **3**

Total: **105**



Age Group

 51 and above: **22**
 40-50: **34**
 20-39: **49**

Total: **105**



Gender

 Male: **40**
 Female: **65**

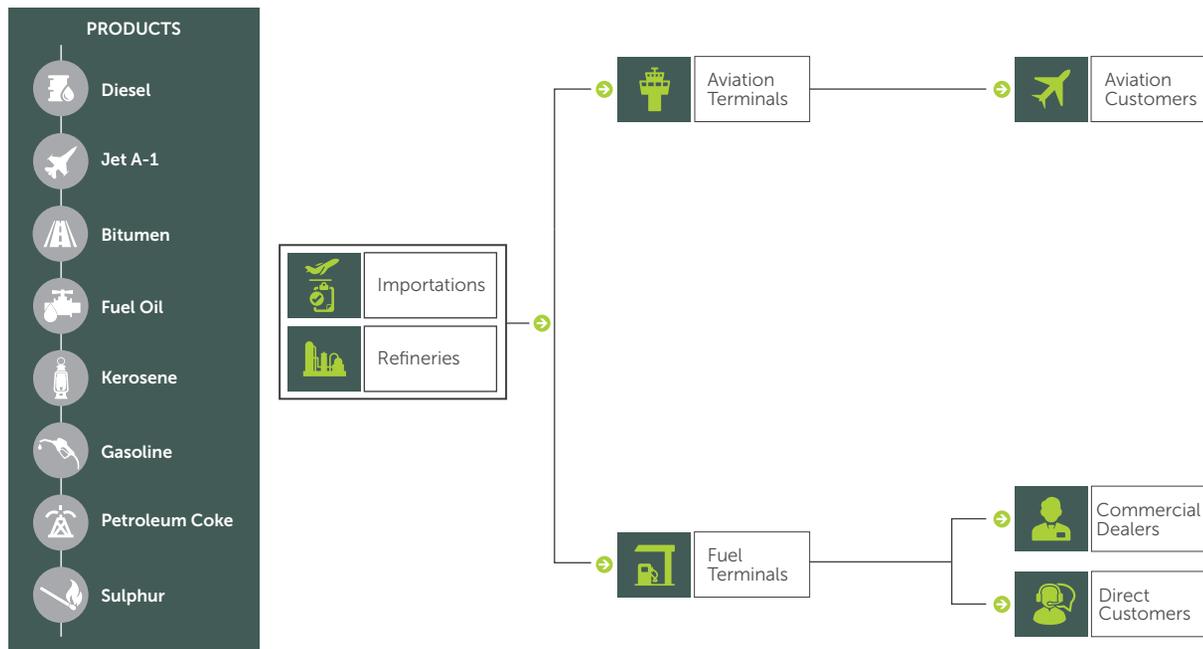
Total: **105**

MARKET AND INDUSTRY OVERVIEW IN 2016

During the year under review, we witnessed the continuous low crude oil price environment hovering around an average of USD43.78/bbl which has forced the oil and gas companies to relook at their overall strategies to remain competitive in the market. The condition had also impacted many other related industries. Moreover, the uncertainties of both global and domestic market environment, weakening ringgit and cautious consumer spending continued to impact commercial demand.

During the year under review, rationalisation initiated by major airlines has impacted demand in the aviation sector. Displaced demand was compensated by the growth of local airlines in the domestic and regional sectors.

BUSINESS MODEL



BUSINESS STRATEGY

Commercial business is fully committed to serve the needs of the various industries through its dynamic sales force and personalised services. Commercial business' competitiveness and value proposition to its customers leverage on full integration across the value chain.

For the year under review, we continued to focus on higher yield market segments while optimising inventory and costs. Amidst challenging environment in 2016, effective cost and inventory management remained the key strategies for Commercial business to be competitive and continue to lead the industry.

FINANCIAL PERFORMANCE

Despite these challenges, through effective sales strategies and efficient cost management, Commercial business recorded 2% improvement in sales volume and an increase in net profit before tax by 0.3% against the corresponding year under review.

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KEY PRODUCTS AND SERVICES

Product	Usage
Gasoline	Fuel for transportation
Jet A-1	Aviation fuel for turbine engine aircrafts
Kerosene	Fuel for heating, lighting, cooking and small stationary internal combustion engines
Diesel	Suitable for wide range of use including transportation, manufacturing, industrial and etc.
Fuel Oil	For boilers, furnaces, ovens and marine bunker
Bitumen	Widely used as a construction material in road construction, water proofing and insulation
Sulphur	Widely used across many industries including fibre, pharmaceutical, chemicals, personal care products, steel and water treatment system
Petroleum Coke	Normally used as a source of energy or source of carbon for industrial applications

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COMMERCIAL



KEY BUSINESS ACHIEVEMENTS AND OPERATIONAL PERFORMANCE

Diesel remains a significant contributor to the overall portfolio for the year under review. The slight volume reduction was mainly attributed to the declining demand from upstream oil and gas sector as a result of reduced upstream activities. Fishery and transportation sectors also showed contractions during the period, a direct effect of the ongoing subsidy rationalisation efforts by the Government. Nevertheless, through effective cost management strategies and focused efforts, Commercial business successfully softened the impact from these reductions through expansion in dealership and other segments.

Ongoing route rationalisation and capacity management exercise undertaken by major airlines impacted **Jet A-1** sales. The demand for Jet A-1 was slightly reduced, nevertheless continue to significantly contribute to Commercial business portfolio from the sales volume and profitability perspectives. Continuous concerted efforts in effective cost and inventory management have ensured maximum value creation from the aviation segment. This segment contributes significantly to both volume and value to PDB. During the year under review, Commercial business has successfully secured new contracts with international carriers Jeju Air and Etihad Airways. The industry is projected to rebound in the coming years, in line with the expected recovery of domestic airlines and regional boost in tourism and cargo demands in Asia.

Fuel Oil remains a significant portfolio to Commercial business despite the shift in demand by the power sector to cheaper alternatives such as coal and gas. For the inland market, Commercial business expanded its supply base in Klang Valley through West Port Bunkering Services Terminal. Despite operating in a competitive inland market environment, Fuel Oil portfolio continued to sustain its margin performance via optimum sourcing, ensuring supply continuity to marine bunker and other industries.



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Commercial business continued its growth for its **Bitumen** business in line with the expansion in various infrastructure projects as announced by the Government. As the market became more competitive, effective supply optimisation and competitive pricing strategies have instilled good performance across Peninsular, Sabah and Sarawak. During the year under review, the 60/70 grade Bitumen was introduced in Sabah to facilitate local demand in the state. Moving forward, Bitumen is set on a continued positive growth and capitalising on this encouraging momentum, Commercial business is committed to further develop our capabilities and resources to further enhance our position in the domestic Bitumen market.

Petroleum Coke and Sulphur, new product portfolios for Commercial business contributed positively to the bottom line, fast emerging to become the next area of growth. In developing the portfolios' growth potential, we remain committed to strengthen not only our skilled resources and supply capabilities of the products, but also to diversify and add value to our offerings.

Aviation Technical Services

Our expertise in the aviation industry and the PETRONAS Aviation Technical Standards are recognised and adopted in all of PETRONAS' aviation refuelling locations worldwide. Our proven technical capabilities spearheaded by our subsidiary, PETRONAS Aviation Sdn Bhd, has allowed the team to extend the services to our valued customers and partners in both domestic and international markets. The team provides aviation technical services which include inspection, training and integrated HSE

management system. In addition to the technical services, Commercial business extended its services to other small domestic into-plane service providers and individual customers handling their own aviation fuel for their private aircrafts and helicopters. This reinforces the recognition and trust to PDB as the 'Brand of 1st Choice' and the preferred partner in the aviation industry.

Audit Plan

Internal and external audits were conducted to provide independent assessment on the internal controls and risk management in key business processes. The following activities were conducted throughout the year under review:

- **ISO 9001:2008 Audit**
ISO 9001:2008 surveillance audit ensures accreditation conformity and full assessment of the requirements. The ISO 9001:2008 surveillance audit further assures the current Quality Management System remains effective and encourages continuous improvement, thus ensuring Commercial business remain relevant in the market.
- **Risk Control Self-Assessment**
In addition to the internal audit undertaken to review the effectiveness of business operations, Commercial Business also implemented the RCSA, to ensure effective business operations and their risks are proactively mitigated. During the year under review, the audit exercises and self-assessments covered all Commercial business activities encompassing sales, operations, and performance monitoring.

COMMERCIAL

KEY RISKS AND MITIGATION

In managing risk related to Commercial business, PDB has implemented mitigations to address risk related to business operations and HSE through implementation of RCSA and involvement in various HSE activities.

SUSTAINABILITY

Commercial business is committed to strengthening our sustainability agenda in line with industry and stakeholders' expectations. We embrace responsible management and operational practices, policies and procedures in order to complement and accelerate business performance and deliveries.

Throughout the year, many activities such as HSE trainings, Risk Management and Monitoring, and CRM programmes were carried out to ensure the sustainability of the business. These activities are crucial to Commercial business in maintaining and sustaining its market leadership in Malaysia.

Commercial business will continue to focus on profitable growth while embedding sustainability in its daily business practices with safety and efficiency being the main priorities to our business.

Commercial business held its Commercial Dealer Appreciation and Award 2016 on 27 May 2016 attended by 80 high performing Commercial Dealers from all over Malaysia. The Appreciation and Award ceremony was in recognition of the high performing Commercial Dealers and their contribution to the Company's growth. Aimed at strengthening Commercial business' long term relationship and partnership with its Commercial Dealers, the event also enabled the Dealers to network and build relationship with the PDB Leadership Team.

OUTLOOK AND PROSPECTS IN 2017

Commercial business will continue to leverage on PDB's extensive, fully integrated supply and logistics strength to provide personalised services and differentiated offerings in sustaining its market leadership in Malaysia. This is done on the back of our principle to enhance value to our customers through an innovative and dynamic workforce. Despite the uncertainties expected in 2017, Commercial business is committed to further pushing the limit and remains as one of the key value drivers to PDB's core strategies.



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LPG



WHO WE ARE

LPG business markets Gas PETRONAS, Malaysia’s No.1 Cooking Gas and industrial LPG, through the country’s widest supply and distribution network to household and commercial customers, delivering value with the main focus on Health, Safety and Environment.



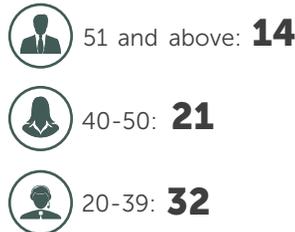
PDB Manpower



Total: **67**



Age Group



Total: **67**



Gender



Total: **67**

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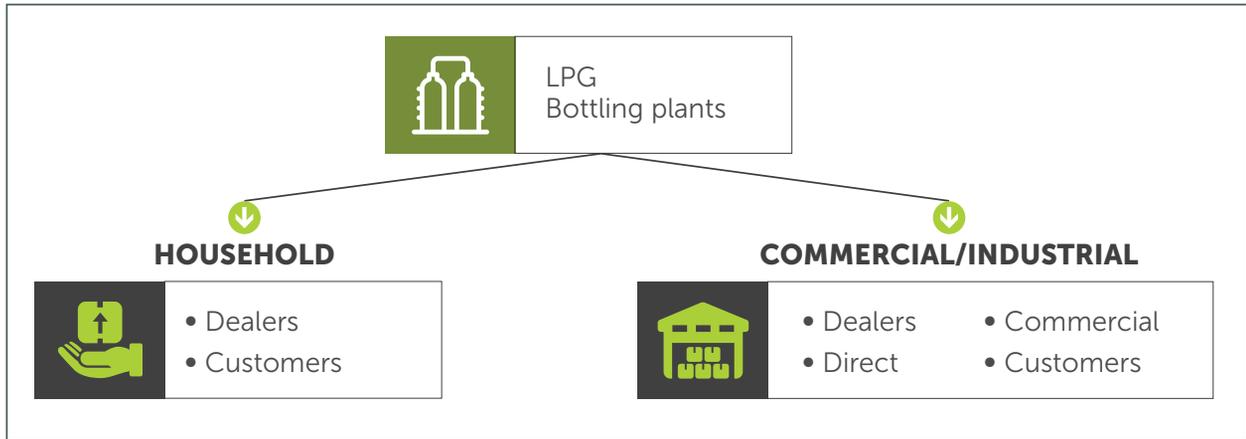
MARKET AND INDUSTRY OVERVIEW IN 2016

During the year under review, LPG market growth was estimated to be hovering around 1% per annum driven mainly by consumption from household and commercial C50 cylinders despite lower demand for bulk industrial LPG.

Demand for subsidised household cylinders continued to be the biggest in the LPG market, accounting for more than 85% of total volume.

In the non-subsidised Commercial segment, demand for C50 cylinders was good on the back of lower Saudi Aramco Contract Price trend throughout the year. However, industrial LPG growth continued to be stagnant due to the competition with natural gas.

BUSINESS MODEL



LPG business is supported by an extensive network of LPG terminal, storage and bottling plants throughout Malaysia to ensure reliability and quality of our products. We distribute cylinders and bulk LPG from our bottling plants to cater to the demand of cooking gas and commercial customers nationwide via dealers and direct customers.

We conform to the highest HSE standards throughout the whole value chain in our operations when delivering cylinders and bulk LPG to our customers.

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BUSINESS STRATEGY

Household segment growth in selective market

For household segment, LPG business continues to focus on high density areas, where demand remains robust, whilst defending presence in our other stronghold areas.

Strengthening Commercial segment business model

For Commercial segment, LPG business has introduced the 'Dealer Smart Partnership' initiative with the objectives to upskill and improve our dealers' capability and entrepreneurship skills as our LPG business partner.

Maximise value through cost optimisation

Various cost saving initiatives were undertaken in 2016 including product supply optimisation, contract negotiation for household cylinders at competitive cost and improved cylinder management by reducing number of idle and non-working cylinders at all LPG terminals.

FINANCIAL PERFORMANCE

For the year under review, LPG business recorded an increase in gross margin by 19% as compared to the preceding year.

The significant increase was attributed to lower average product cost as well as implementation of various key initiatives and intervention plans during the year in pursuing our value-driven sales and cost optimisation strategies.

KEY PRODUCTS AND SERVICES

The domestic LPG business markets our products under the brand name of Gas PETRONAS, currently available in three different cylinder sizes namely 12kg and 14kg, which are for household consumption and 50kg for commercial demand. We also offer LPG in bulk (requiring storage tanks at customers' premises ranging from 200kg to 32,000kg in sizes) for industrial customers.



LPG

INTERNATIONAL BUSINESS

The LPG market is a key segment of the downstream oil industry in the Philippines. As a widely used fuel commodity in the country, the LPG market is highly competitive and fully deregulated.

PETRONAS Energy Philippines Incorporated markets its products to household, commercial, autogas and industrial customers through a network of distributors as well as direct customers via comprehensive LPG supply and distribution network in the Visayas, Mindanao and Luzon.

PEPI is committed to offer quality and safe LPG cylinders. We have embarked on initiatives to improve supply and logistics costs as part of LPG business' cost optimisation strategy.

Other continuous improvement initiatives include the enhancement of processes and internal controls, guided by the Group's policies and guidelines.

KEY BUSINESS ACHIEVEMENTS AND OPERATIONAL PERFORMANCE

LPG business enforces high standards of governance and audit on our LPG Dealers. We also ensure that all our Dealers comply with regulatory requirements and standards such as MS830 requirements on the Dealers' facilities; DOSH requirement for LPG storage and implementation of Route Hazard Mapping to reduce risks while transporting LPG.

On top of the high standards of governance and audit practices, LPG business further enhance its product delivery and reliability in highly efficient manners as follows:

OPERATIONAL EXCELLENCE	CYLINDER RELIABILITY
<p>The LPG business is determined to strive for operational excellence by leveraging on our comprehensive supply and distribution network throughout Malaysia.</p>	<p>LPG business is dedicated to ensure that our cylinders are in excellent condition for use by customers and conform to the highest HSE standards. We are also dedicated to ensure that our cylinders are available in the market without any issue on shortage of supply.</p>

KEY RISKS AND MITIGATION

PDB manages the risks related to LPG business by assigning key mitigations to prevent or reduce the risk pertaining to HSE and product supply through HSE enhancement programmes such as workshop and training on product knowledge, safety and capability enhancement. Business Continuity Plans are in place to address operational disruptions and will be activated in the event of product supply disruption to customers.

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SUSTAINABILITY

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As a responsible corporate citizen, LPG business will continuously commit to support PDB's sustainability agenda in our daily business operations.

During the year under review, LPG business had focused in giving back to communities by emphasising on CSR, sponsorship and safety awareness programmes such as fund-raising, *gotong-royong*, cooking competition and safety briefing. One of the highlight was LPG business long tradition of sponsorship for *Bubur Lambuk Agong* by Masjid Jamek Kg Baru during Ramadhan.

Apart from community activities, LPG business remains dedicated to ensure our network of LPG Dealers is the most preferred, operate at the most efficient and safe manner while providing the highest level of customer service.

LPG business will continue to reach out and build closer relationship with the community as well as carrying our business in a socially responsible and holistic manner to ensure continued growth and success for the benefit of present and future generations.

The LPG business has been ISO 9001:2008 certified since 2007, with implementation of Quality Management System which fulfills the requirements from processes, procedures, compliance to governance on marketing and sales of LPG products to customers.



OUTLOOK AND PROSPECTS IN 2017

The LPG market growth is estimated to be good in 2017, driven by stable household consumption and high commercial C50 cylinders demand from favourable Saudi Aramco Contract Price trending.

The LPG business is focused on strengthening our position as Malaysia's No.1 Cooking Gas and industrial LPG and will continue to deliver value to our customers with the highest HSE standards.

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LUBRICANT



WHO WE ARE

PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd was formed in 2015 with the key objective of integrating all sales and marketing roles for PETRONAS' lubricant in Malaysia into one single entity. This is to ensure that PETRONAS' lubricant business will continue to sustain its agility in serving the marketplace, both operationally and strategically.

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PDB Manpower

Permanent: **112**
(PETRONAS secondees: 11)

Contract: **16**

Total: **128**



Age Group

51 and above: **3**

40-50: **26**

20-39: **99**

Total: **128**



Gender

Male: **54**

Female: **74**

Total: **128**

MARKET AND INDUSTRY OVERVIEW IN 2016

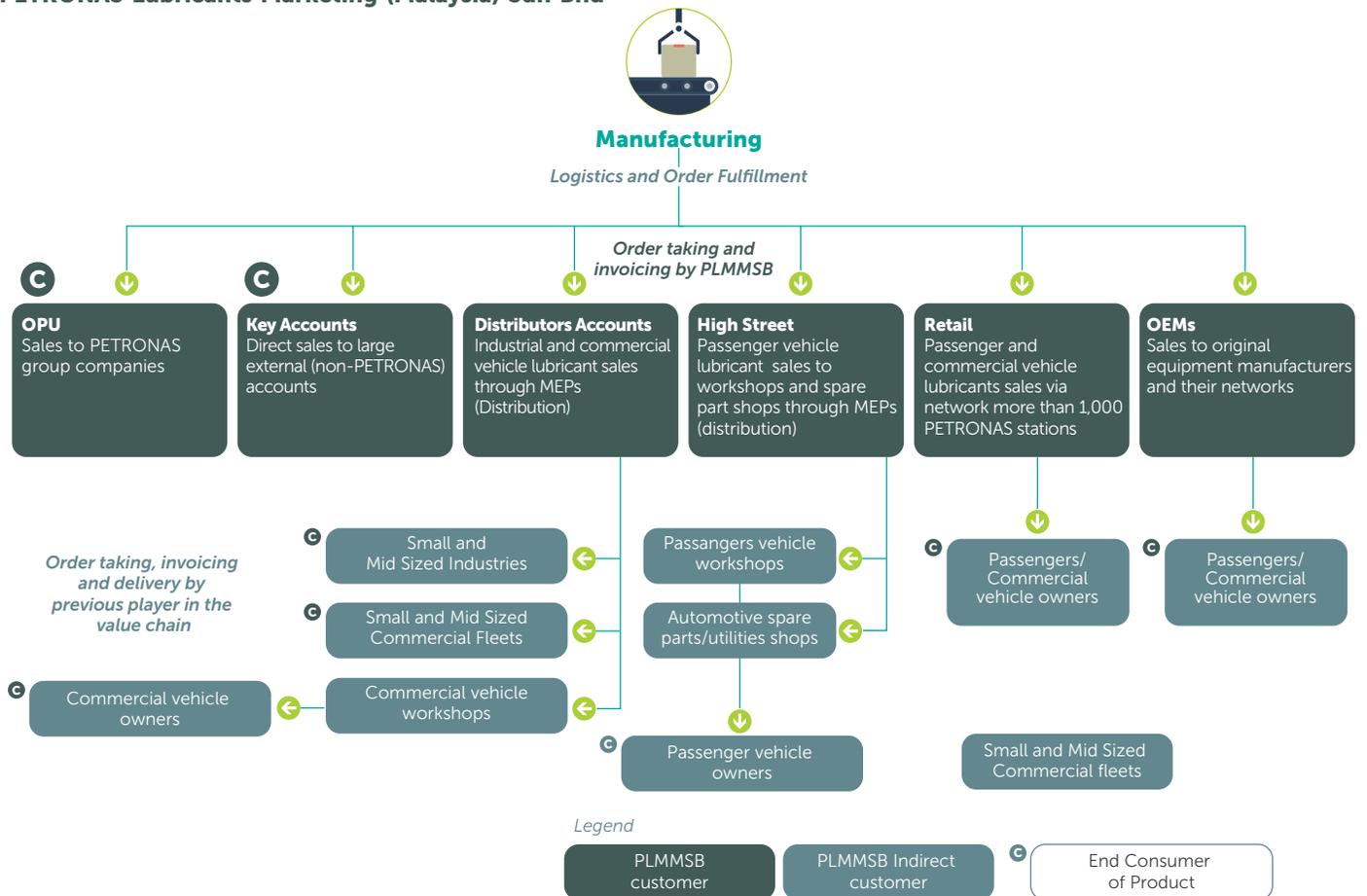
The automotive industry in Malaysia experienced a significant decline in sales which muted the growth of the Lubricants' business with a 13% drop in sales from both the passenger and commercial segments in 2016. Adding to that, as reported by the Malaysia Automotive Association, only 514,545 passenger vehicles were registered in 2016 as compared to 666,677 in 2015.

Growth in the agriculture industry contracted in 2016 with the El Nino cutting yields in the first half which resulted in an approximate 10% drop in the annual output of palm oil. Conversely in the commercial transportation sector, a decrease of 13% and 18% respectively in both the new registrations and productions of commercial vehicles which further affected the demands for lubricant products.

Despite the slowdown in some of the above key segments, PLMMSB has managed to grow its business by focusing more on higher value product portfolio as demonstrated in the growth of the semi synthetic and fully synthetic product range.

BUSINESS MODEL

PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd



PLMMSB manages its business via six different channels:

- i. OPU: Sales to the PETRONAS group of companies
- ii. Key Accounts: Direct sales to large external (non-PETRONAS) accounts.
- iii. Distributor Accounts: Industrial and commercial vehicle lubricant sales through MEPs.
- iv. High Street: Passenger vehicle lubricant sales to workshops and spare part shops through MEPs.
- v. Retail: Passenger and commercial vehicle lubricant sales via more than 1,000 PETRONAS stations.
- vi. OEM: Sales to original equipment manufacturers and their service networks.

This segmentation allowed PLMMSB to provide the right focus for each customers segment requirements.

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BUSINESS STRATEGY

As part of the initiative to grow the Lubricant business further, PLMMSB has continued to strengthen its position in the high value segments; namely OEM and Highstreet; while sustaining its position in other relevant channels at par with industry growth.

For the OEM segment, PLMMSB further intensified its strategic alliance through the signing of a 5-year contract with Perodua and the launching of PETRONAS Syntium SE for PROTON whereby PLMMSB is now positioned as the biggest supplier in this category.

For Highstreet, PLMMSB has designed attractive marketing programmes to further increase its presence in the market. In addition, a newly revamped Route-To-Market has provided PLMMSB with a strong platform to execute its sales plan effectively. This has resulted in PLMMSB registering a double-digit growth in this segment.

FINANCIAL PERFORMANCE

During the year under review, Lubricant business has recorded revenue of RM535.0 million an increase of 8% against the preceding year under review. Gross margin, however, has increased significantly by 20% in 2016. This was achieved through effective marketing initiatives, stringent cost control and growth in high value product segments.

KEY PRODUCTS AND SERVICES

Passenger Car Motor Oils cater to the need for lubricant in the passenger car segment of the automotive industry. PETRONAS Syntium is our flagship product which carries a full complement of performance lubricant from semi synthetic to the fully synthetic range. Following the launch of PETRONAS Syntium with °CoolTech™ during the preceding year, multiple marketing campaigns were continued this year to further strengthen Syntium’s position in the market. PETRONAS Syntium with °CoolTech™ is engineered to reduce excessive engine heat, thus ensuring optimum engine performance.

Motorcycle Oils product range has two main brands; namely PETRONAS Syntium Moto and PETRONAS Sprinta. PETRONAS Syntium Moto offers products from the semi synthetic to fully synthetic grades while PETRONAS Sprinta offers mineral grades. The range completes the full offering of motorcycle oil in the market and makes PETRONAS Motorcycle oil the most comprehensive range against all major competitors.

Commercial Vehicle Lubricant cater to lubricant usage for trucks, busses, prime movers and other heavy vehicles that run on heavy duty diesel engines. PETRONAS Urania, our brand for this segment was relaunched in September 2016 with a new brand proposition and supported by the unique technology of ViscGuard™ to effectively guard against engine deposits build up. PETRONAS Urania with ViscGuard™ offers products ranging from mineral to fully synthetic. To further complement this segment, automotive gear oil, automatic transmission fluid and specialty products such as brake fluid and coolants are also offered.

Industrial and Marine Lubricants offer full range of products to meet consumers’ requirements; from compressor, circulation, hydraulic, turbine, gear oil and marine products.

LUBRICANT

Excessive heat starts deep within your engine

PETRONAS Syntium stops it at the source

PETRONAS SYNTIUM
FIGHTS EXCESSIVE ENGINE HEAT

Uniquely formulated with CoolTech™
Engineered to deliver optimum engine performance.

PETRONAS
reimagining energy

PETRONAS SYNTIUM
MULTIGRADE 5W-30

PETRONAS BRANDS

www.mymasra.com.my

INTERNATIONAL BUSINESS

The lubricant market in Thailand has strived despite having aggressive competition throughout the year. During the year under review, the revenue for Lubricant business in Thailand increased by 5.6% as a result of lower unit selling price. This has been achieved via various initiatives as follows:-

- Implementation of two hubs in southern and northeastern area which allowed PIMTCL and business partners to supply the products to the market two times faster than the previous model;
- Transformation of the business operation from semi-production supply chain to fully trading company;
- Intensive marketing and promotional programmes; and
- Aggressive brand awareness via the use of digital media.

KEY BUSINESS ACHIEVEMENTS AND OPERATIONAL PERFORMANCE

Lubricants business deal with Malaysia's No. 1 car maker

On 1 June 2016, PLMMSB achieved a significant milestone when it continued its partnership with Perodua through a new 5-year contract. Under this new contract, PLMMSB will provide quality lubricant products and unparalleled services to Perodua.

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PETRONAS Urania relaunch

In September 2016, PLMMSB relaunched PETRONAS Urania with ViscGuard™ supported by all its distributors and direct customers. Trade engagement activities to communicate the benefit of ViscGuard™ in controlling excessive engine deposit were also held. PETRONAS Urania with ViscGuard™ has been proven to be better at maintaining oil viscosity and controlling carbon build-up.

PETRONAS Syntium SE engine oil for PROTON

In November 2016, PETRONAS and PROTON continued to strengthen their partnership with the launch of PETRONAS Syntium SE, an exclusive range of lubricants for PROTON cars. This new range of products was meant to both optimise the performance of PROTON cars and reduce the cost of ownership in the long run.

Securing HONDA First Fill Contract

PLMMSB has successfully made an inroad into non-Malaysian OEM by securing a contract for HONDA First Fill. PLMMSB is the first non-Japanese lubricant company certified by HONDA in Malaysia. This further strengthened PLMMSB credential in the OEM segment.

KEY RISKS AND MITIGATION

In managing risk pertaining to Lubricant business operations and product supply, mitigations were carried out through seamless integration of supply chain.

SUSTAINABILITY

Customer Relationship Manager

As marketing is key to our business, PLMMSB has developed a comprehensive CRM programme with its stakeholders i.e. customers, MEPS and the community. In this regard, PLMMSB continuously engages MEPS and their customers via programme such as Annual Dinner and 'Lion Dance' during Chinese New Year as a gesture of appreciation. As Government authorities make up a very important stakeholders, PLMMSB directly and indirectly engages with relevant Government authorities to ensure that cordial relationship maintained at all times.

Health, Safety and Environment

HSE remain to be paramount and first in the agenda of PLMMSB. In order to ensure end-to-end processes are HSE compliant, PLMMSB regularly conducts HSE trainings for its MEPS to ensure PETRONAS and relevant industry policies and standards are adhered to. Safety audits were also conducted from time to time to gauge the level of compliance and subsequently corrective actions monitored to close any gaps.

Training

Acknowledging the rapid advancement in lubricant technology and specifications, PLMMSB has recognised the importance for its sales force and MEPS to be equipped with relevant skills and knowledge by providing extensive range of internal and external trainings. The internal training programmes were developed and jointly conducted with LEAD academy under PETRONAS Lubricant International Sdn Bhd.

LUBRICANT



OUTLOOK AND PROSPECTS IN 2017

While the market is expected to remain competitive particularly with the entry of new players, PLMMSB will continue to implement strategic growth plans to establish market leadership in Malaysia. The Company is committed to aggressively grow its market share in all segments including Highstreet, Corporate and OEM whilst increasing its value added services.

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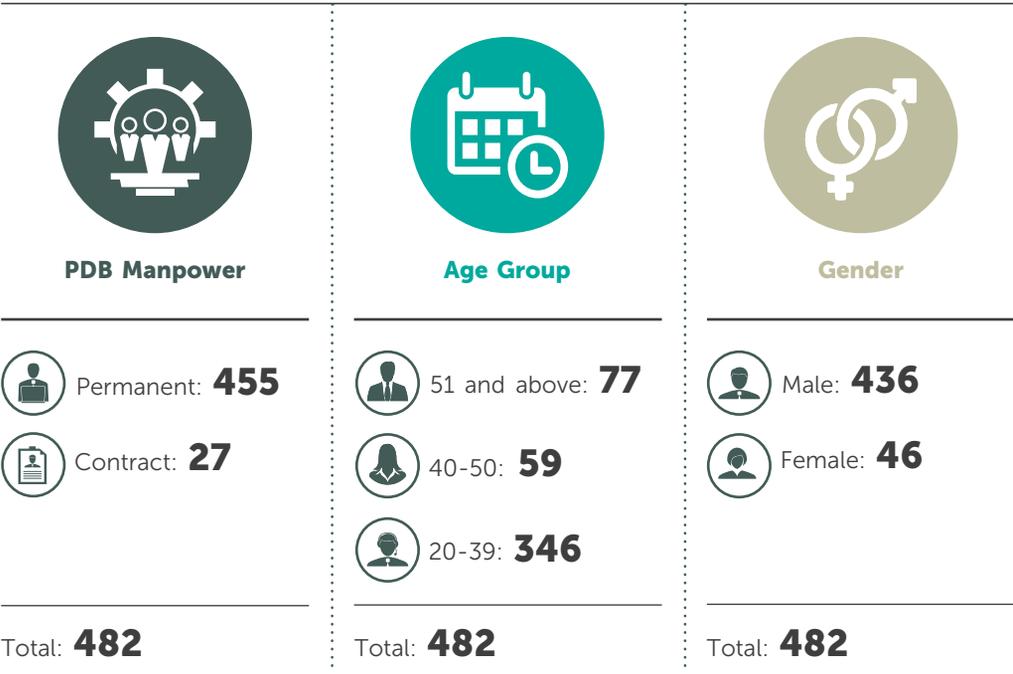
SUPPLY AND DISTRIBUTION

WHO WE ARE

Supply and Distribution Division continuously focuses on cost optimisation and supply reliability leveraging on existing operational assets and mechanisms. With a broad supply chain network of primary and secondary distributions, SDD has contributed to the competitive and reliable deliverables to customers supporting the businesses. We have demonstrated this by having uninterrupted end-to-end supply chain, from product sourcing to delivery of products to customers and dealers. We reinforce our role as reliable end-to-end product delivery partner.

SDD has also embarked on several initiatives to continuously reduce operational cost and increase overall supply and distribution efficiency.

- Strategic Review and Outlook
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Key Roles And Responsibilities

SDD's main roles and responsibilities include product sourcing, distribution, infrastructure planning, terminal operations and asset management. These functions ensure adequate and reliable operational facilities for business sustainability.

BUSINESS MODEL

PDB products are mainly sourced from other PETRONAS Group of Companies, such as PETRONAS Penapisan (Melaka) Sdn Bhd, PETRONAS Penapisan (Terengganu) Sdn Bhd, PETRONAS Gas Berhad, Malaysia LNG Group of Companies and PETRONAS Trading Corporation (Labuan) Sdn Bhd. Products are delivered to PDB terminals through efficient marine transportation and Multi-Product pipeline system.

Marine vessels are chartered from credible and reliable marine operators and governed by Charter Hire Agreements. Multi-Product pipeline connecting oil companies' and refineries from Melaka and Port Dickson supplying products to the KLIA and the KVDT. MPP and KVDT are both operated by a joint venture company, PS Pipeline Sdn Bhd.

PDB products are delivered domestically through 38 terminals which comprises of 8 LPG bottling plant terminals, 13 aviation terminals and 17 fuel terminals. Six fuel terminals are operated by joint venture companies between PDB, Shell and Petron. The fuel and LPG terminals are equipped with bulk storage and Tank Truck Loading Rack facilities. Our LPG terminals are also equipped with LPG bottling facilities.

Products will be distributed to an extensive PDB Retail network, commercial customers and LPG bulk customers via haulers' road tankers. The haulers are appointed by PDB and governed by Services Agreement. The operations are closely monitored and supervised by SDD.

(For more details on our Value Creating Business Model, please refer to pages 074 to 075)

(For more details on Areas of Operation, please refer to pages 020 to 023)

BUSINESS STRATEGY

SDD is committed in delivering products to customers at competitive cost without operational interruption. Significant strategies were initiated to support business growth and maintain business sustainability during these challenging years.

Integrated Inventory Management

SDD has led the Integrated Inventory Management initiative since 2015 with the aim to minimise the variance of intermonth price exposure due to prolong oil price backwardation. The initiative is supported with significant key activities such as effective monthly mid-month meeting attended by PDB's Leadership Team, monitoring and analysis of daily and weekly product prices, close monitoring of daily inventories and sales at all terminals and delivery of frequent, small parcel size with multiple discharge ports to Company's terminals. The initiative has resulted in a more current unit cost reflecting the market price. Subsequently, promotes competitive pricing to support business lines to perform the Company's sales plan.

Product Cost Optimisation

To support the Company's business growth and sustainability, SDD has reviewed various alternate supply options to further reduce product cost. SDD also negotiated with vessel owners to reduce the time charter hire rate and optimise Spot Charter vessel requirement which contribute to significant cost avoidance for PDB. In addition, SDD focused on a detailed review of the Company's options for business continuation pre and post 2020, considering the operational limitation and advantages. SDD has also implemented substantial initiative to reduce secondary distribution cost with the addition of bigger size road tankers for product delivery to PETRONAS stations, applying the economics of scale.

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Supply and Distribution Efficiency

SDD continuously undertakes various studies to improve the overall supply and distribution value chain efficiency. The Division conducted a few major studies in 2015 for both short and long term during the year under review to further improve the organisational effectiveness. The outcome of the studies has become SDD’s guideline to support the Company’s growth and sustainability in the coming years and provide firm direction and future plan for SDD and PDB operations.

One of the studies was on the mid and long term terminal optimisation review which included the infrastructure readiness to meet the Government’s plan to implement new product grades such as Euro 5 and Euro 4M grades as well as to prepare for market deregulation. SDD also reviewed the bulk terminals storage capacity and gantry utilisation to support the volume growth in business sales.

SDD embarked on Towards Unmanned Terminals which is implemented initially at Prai Fuel Terminal and followed by Lumut, Melaka and Kertih Fuel Terminals. This has resulted in improvement of process efficiency via investment in latest automation technology and manning optimisation. SDD also has improved the Aviation’s On Time Performance Index which measure the efficiency of aircraft refuelling. This is achieved through ensuring sufficient manpower resources and improving aviation refuelling vehicle availability.

— KEY ACHIEVEMENTS AND OPERATIONAL PERFORMANCE —

KEY ACHIEVEMENTS

MSOSH 2015 Award

For three consecutive years, SDD successfully clinched the MSOSH Award. The Award is a recognition to companies from various sectors who have performed exceptionally well in occupational safety and health aspects. In 2015, SDD received 16 awards from MSOSH in various categories. This has definitely strengthened the Company’s commitment towards occupational safety and health and boosted the morale and confidence of employees in building a safe work culture.

PETRONAS DOEFA 2016 – HSE Excellence Award

SDD clinched three awards under the HSE Excellence category at this year’s DOEFA 2016 held at Putrajaya Marriott Hotel. Bintulu Fuel and LPG Terminals, Sepangar Bay Fuel Terminal and Miri Fuel Terminal were recognised for their outstanding achievements in the HSE category. PETRONAS DOEFA 2016 carried the theme ‘Leveraging Digital and Technology as a New Way of Working’ and PDB is the only winner for the HSE Excellence category.

SUPPLY AND DISTRIBUTION



Malaysian Productivity Corporation Awards

Supply and Distribution Division won three gold awards for the Team Excellence Convention organised by the MPC. Winning the award in their respective regions, the three teams were Bayan Lepas Aviation Terminal's BOLD, KLIA's FFB KAIZEN, and Sepangar Bay's Fuel Terminal SAHABAT NABALU.

- Bayan Lepas Aviation Terminal – Gold Award; Design and fabricate an oil inceptor system to improve recovering waste oil. This project has improved work process by 91% reduction in Unsafe Act and Unsafe Condition, reduction in operational time and manpower.
- KLIA Aviation Terminal – Gold Award; Design and fabricate a tool to prevent fuel splash while connecting JC Carter to aircraft adapter during defuelling process. This project has helped to avoid product spillage during defuelling and reduced 80% of customers' complaints through Customer Satisfaction Survey.
- Sepangar Bay Fuel Terminal – Gold Award; Design and fabricate a system to minimise ergonomic and products loss issues while offloading products. This project has eliminated Unsafe Act and Unsafe Condition during offloading, reduced 60% in offloading time and contributed to RM0.3 million operational cost saving annually.

All the three teams then competed at the MPC's National Convention and were again awarded with Gold Award with the team from KLIA awarded the first runner-up in the service sector category.

Malaysian Production Corporation Competition's yearly competition is a platform for sharing continuous improvement practices from all over Malaysia's industrial sector and learning from the experiences and good practices of other organisations and teams. The Team Excellence Convention applies various tools that are used for process improvement. Through the process of Innovative and Creative Circle each employee gets a chance to contribute ideas and opinions to their group as well as their organisation. With approval from the Management the teams have an opportunity to showcase their innovative ideas. This initiative is in line with PDB's strategic plan of doing things differently which will translate into being more efficient and consequently, reducing our cost of doing business.

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OPERATIONAL PERFORMANCE

Full Implementation of STARs

SDD’s value generation is not limited to the commercial arrangements. To achieve optimum transportation cost, we are also focusing on cost reduction for secondary distribution operations with full implementation of the STARs module for all regions in Peninsular Malaysia. Overall cost reduction for secondary distribution cost during the year under review was 3.5%.

STARs is designed to optimise road tanker transport schedules, reduce transportation cost and improve customer experience by providing a flexible solution which caters for dynamic customer requirements. The STARs will also improve data analysis while providing automatic integration with SAP and compatible to be used with future systems.

LPG Overall Equipment Efficiency

With continuous operational monitoring, SDD further improved its LPG bottling operations OEE rate from 89% in 2015 to 91% with reduction in operational interruption to maximise plant production to support sales demand. OEE for all LPG Terminals is monitored on daily basis by the Fuel and LPG Terminals Operations Department. The improved rating indicates lower operational and production downtime.



Aviation – On Time Performance Index

OTP index measure the number of delay out of total aircraft refuelling per month for every 10,000 refuelling. Lower index represents better performance. For the year under review, the Aviation’s OTP indicator has performed better against the targeted index. We managed to achieve an OTP index of below 3.5 by ensuring sufficient manpower resources and improving aviation refuelling vehicle availability.



Integrated Inventory Management

SDD is committed to deliver products to customers with the most competitive cost. SDD has continuously led the Integrated Inventory Management initiative with the aim of minimising the variance of intermonth price exposure. Through continuous monitoring and proactive actions taken, this initiative has resulted in competitive product pricing to support the Company's sales agenda.

Creating More Competitive Product Cost

SDD undertakes continuous improvement measures particularly in primary distribution cost. In this regard, during the year under review, SDD negotiated with vessel owners to reduce the time charter hire rate, optimise Spot Charter vessel requirement and subletting our Time Charter vessels on optimistic basis. This has resulted in the lowering of freight cost for more competitive product cost.

KEY RISKS AND MITIGATION

In managing risk relating to product supply disruption, PDB has assigned key mitigations through review of PDB BCP operations manual.

SUSTAINABILITY

SDD is committed to serve the stakeholders and improve existing operational processes and procedures in order to deliver to the utmost satisfactory. Throughout the year, many activities such as HSE trainings and operational improvement programmes were carried out to ensure the sustainability of the business.

Strategically, we continuously work with other oil companies on throughput arrangements by leveraging on existing PDB facilities and capabilities. The initiatives initially started in the Northern and Central Regions of Peninsular Malaysia and will be extended to other regions depending on their requirements and its feasibility.

This initiative has contributed additional income to the organisation and at the same time, increase the utilisation of assets, consequently reducing the terminal operational unit cost. Subsequently, through this cooperation, SDD plans to initiate more value added initiatives to support business growth and sustainability.

OUTLOOK AND PROSPECT IN 2017

Moving forward, SDD will continue to focus on cost optimisation, supply reliability and sustainability, customer satisfaction, HSE assurance and operational excellence as ingredients in the Winning Formula strategy towards supporting the Company's overall aspiration of becoming the 'Brand of 1st Choice'.

SIGNIFICANT EVENTS

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22 JANUARY 2016

Operationalisation of Miri Fuel Terminal

The RM21 million Miri fuel terminal was officially operationalised after a 13-month construction period. Previously known as Miri Product Delivery Centre, the facility which was developed in 2004 to supply Diesel and Mogas to commercial and retail customers in Miri and surrounding areas consisted of skid tanks, top loading and cabin. Subsequently, the decision to develop the facility into a full-scale terminal was made in 2014 to support PDB's growing business demand and product supply. Additional facilities installed on site include vertical storage tanks, fire-fighting facility, transformer and generator set, administration building and others.



1 JUNE 2016

PDB signs contract with Perodua Sales

PDB, through its subsidiary PLMMSB, signed a contract with the subsidiary of Perodua, Perodua Sales, to supply 17 million litres of engine oil worth RM355 million over five years. The contract is a continuation of an existing genuine oils partnership between the two companies since 2003. This long term partnership is a clear testimony of PDB's capabilities to supply quality products and unparalleled services. The signing of the contract was attended by PLMMSB CEO, Zubair Abdul Razak and Perodua Sales Managing Director, Dr Zahari Husin.

2016



1 JUNE 2016

PDB launches first Unmanned Terminal

The launch of PDB's first Unmanned Terminal at Lumut Fuel Terminal is part of the Company's objective to achieve terminal operational efficiency at optimised costs. The Unmanned Terminal consists of fully automated road tanker loading operations at Tank Truck Loading Rack, outsourced marine vessel receiving operations, Automatic Tank Gauging system for inventory monitoring and operations supervisory control from Control Room utilising real-time data acquisition system. The Unmanned Terminal concept was subsequently expanded to Prai, Melaka and Kertih Fuel Terminals.

24 JUNE 2016

Launch of Go-To-Safety Point at PETRONAS Stations

PDB joined forces with the Royal Malaysia Police in creating a safer space for the public at all PETRONAS stations nationwide now designated as GTSPs. The initiative was announced at a launch officiated by Inspector-General of Police, YBhg Tan Sri Dato' Sri Khalid Abu Bakar; Chairman of PETRONAS, YBhg Tan Sri Mohd Sidek Hassan; and President and Group Chief Executive Officer of PETRONAS, YBhg Datuk Wan Zulkiflee Wan Ariffin, at PETRONAS station Jalan Kolam Air Lama, Kuala Lumpur.

Members of the public who face emergency can now go to the nearest PETRONAS station for assistance as all station personnel are trained to handle victims in trauma and administer first aid among others. Station personnel will also assist in calling the police and the relevant authorities to provide further assistance on-site.



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JULY 2016

PDB's collaboration with HONDA Malaysia

PDB, through its subsidiary PLMMSB, has collaborated with HONDA Malaysia since July 2016 to supply HONDA Genuine Oil 5W30 for factory fill at the latter's manufacturing plant in Melaka. The HGO 5W30 is a special blend of lubricant oils specifically formulated for HONDA City 1.5, HONDA Jazz 1.5, HONDA HRV 1.8, HONDA BRV 1.5 and HONDA Civic 1.8. The collaboration with HONDA Malaysia is also extended to the rental of lubricant bays for the period of one year starting from February 2017 at eight PETRONAS stations nationwide as part of its Free Airbag Service programme. PDB is the first non-Japanese lubricant company certified by HONDA to supply its products to the latter.



22 SEPTEMBER 2016

Launch of PETRONAS Urania with ViscGuard™

PDB, through its subsidiary PLMMSB, launched PETRONAS Urania with ViscGuard™, its commercial vehicle lubricant formulated to effectively guard against engine deposits build-up. The product, which was first launched in the Europe region in May 2016, is engineered with robust oil film that disperses engine deposits, while maintaining optimal oil viscosity for longer engine life.

SIGNIFICANT EVENTS

30 SEPTEMBER 2016

PDB signs MoU with GreenTech Malaysia

PDB, together with GreenTech Malaysia signed a MoU on 30 September 2016 to be the first fuel company to provide charging facilities for electric vehicle in Southeast Asia in providing differentiated services at PETRONAS stations to consumers.

The facility will be available at 66 PETRONAS stations along major highways in Peninsular Malaysia by the end of 2017. The partnership between the two organisations underscores their commitment to support the National Electric Mobility Blueprint. At the same time, the collaboration supports the Government's vision of achieving a 45% reduction in greenhouse emissions by the year 2030. The MoU was signed between PDB's MD/CEO, Mohd Ibrahimuddin Mohd Yunus and GreenTech Malaysia's Group Chief Executive Officer, Ir Ahmad Hadri Haris.



30 SEPTEMBER 2016

Third World Constructors' Championship Win

The Mercedes AMG PETRONAS Formula One™ won the Formula One™ Constructors' Championship for the third consecutive year, proving the superiority of PETRONAS fuel and lubricant products on the tracks in the world's most challenging motorsports race.

In conjunction with the win, PDB held a celebratory campaign with four separate offers for customers. The first involved a 3x Mesra points giveaway for three days on 28 and 30 November and on 2 December 2016. This was followed by a second offer of a limited edition Formula One™ collectible car decal at RM1 with every RM40 spent on PETRONAS Primax fuels from 19 December 2016 to 15 January 2017.

The third offer invites customers to purchase a limited edition PETRONAS Formula One™ Gift Card at RM100 and receive an additional RM5 from 2 January 2017 until the end of the campaign, whilst stocks last. The fourth offer rewards the top 5,000 Mesra members with the highest spend from 16 January to 15 March 2017 with a 50% discounted price on the limited edition WCC Winning T-shirt, which has a retail value of RM200.

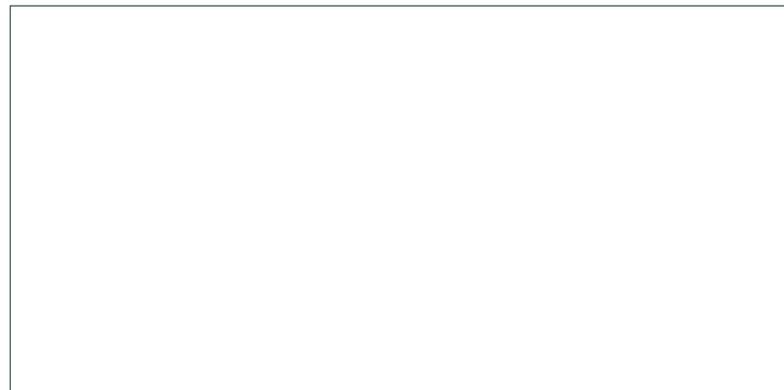
11 NOVEMBER 2016

Launch of PETRONAS Syntium SE engine oils for PROTON

PDB, through its subsidiary PLMMSB, launched an exclusive range of engine oils for national car maker PROTON Holdings Berhad. The engine oil was specially developed to optimise the performance of PROTON cars and at the same time improve the cost of ownership of the cars in the long run. The PETRONAS Syntium SE engine oil range was launched by PLMMSB CEO, Zubair Abdul Razak and PROTON Chairman, YBhg Dato' Sri Syed Faisal Albar. The exclusive range of engine oils for PROTON cars from PETRONAS Syntium is specially formulated with °CoolTech™ technology that helps defend against excessive engine heat and keeps engines performing optimally for a trouble-free drive.

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2016 MEDIA MILESTONES



国油贸易大道油站 装电动汽车充电桩

【星洲6日讯】国油贸易大道（Seri 501）主理曾振毅（GreenTech）今天宣布，双方将在大马半岛快速大道，提供66座电动汽车，总值20万令吉。国油贸易大道主理曾振毅表示，国油贸易大道油站充电桩将在明年1月启动。国油贸易大道油站充电桩是国油贸易大道油站（National Electric Blueprint）的一部分。国油贸易大道油站充电桩是国油贸易大道油站（National Electric Blueprint）的一部分。国油贸易大道油站充电桩是国油贸易大道油站（National Electric Blueprint）的一部分。

All about road safety

Pupils gain better understanding through interactive workshop

PETRONAS Dagangan Berhad (PDB) recently held a road safety programme, Petronas StreetSmart, for pupils of SK Taman Segar, Cheras.

The half-day interactive workshop covered elements of science and its applications to provide greater understanding on road safety and its rules.

The workshop was a valuable experience for its participants, who are part of the Taman Segar community involved in PDB's inaugural #BuildingCommunities initiative.

"This is the third activity for this collaboration with residents of Taman Segar since we launched the initiative last year. Previously, we provided a fresh coat of paint and new facilities for the Bismillah library for the residents. This time, the activity comes in the form of a Petronas StreetSmart programme for its young residents," said PDB managing director and chief executive officer Mohd Ibrahimuddin Mohd Yusoff.

Berhampunan said the event was the company's way of giving back to the community for supporting Petronas.

"It is apt that the third collaborative link back to what we stand for as a fast compa-

ny, road safety is important, and we actively producing a generation of safe and responsible road users from a young age. Road safety should be a priority for every one," he added.

Participants of the workshop crafted objects for an experiment designed to enhance their understanding on the importance of reliable vehicle structure in protecting passengers.

Armed with creativity and recycled items, the participants were divided into various groups during the hands-on activity.

The workshop was conducted by facilitators from Petronas and assisted by employees from PDB.

To commemorate the visit, PDB gave away a mock ticket to 50 special needs pupils and 50 teachers from SK Taman Segar to visit Petronas Science Discovery Centre at Sunja KLCC, which includes a Creative Science for School package and a visit to the Petronas Twin Towers Skybridge.

Last year, the programme reached out to 1,500 schoolchildren from 15 primary and secondary schools nationwide.

Petronas Dagangan Bhd's earnings up 57.5% to RM790mil

-10

Retail boon for PDB

Earnings rise on improved margin from LPG price revision

By F. ANITA
anita@star.com.my

KUALA LUMPUR: Petronas Dagangan Bhd. (PDB) earnings rose 57.5% to RM790 million in the financial year ended Dec 31, 2015 from RM501.57mil a year earlier, boosted by a strong retail segment during its fourth quarter.

The downstream oil and gas product retailer said yesterday the higher profit was mainly due to higher margins from its retail and commercial segments, as well as other income.

However, FY15 revenue fell 22.1% to RM21.7bil from RM28.3bil due to a 19% fall in average selling price and a 6% implementation of the Managed Float system since December 2014, which had resulted in lower demand for diesel.

Despite the lower revenue, it recorded higher gross profit due to the revision in the Automotive Pricing Mechanism of liquidated petroleum gas (LPG) since last year, coupled with cost-saving initiatives taken during the year.

"In the commercial segment, the increase in operating profit by RM30.6mil was due to higher gross profit arising from efforts undertaken to improve margins," the group

RM92.11mil from only RM461,000 a year ago due to higher margins from the retail segment.

There was a margin compression a year ago due to the sharp fall in selling price. Other factors for the surge in the fourth-quarter earnings were due to higher other income of RM47.6mil.

Its revenue, meanwhile, fell 18.3% to RM46.65bil from RM74.2bil previously, mainly due to a fall in average selling price and sales volume by 19% and 2% respectively.

Earnings per share rose to 93c from 60c six months previously.

The increase in operating profit is due to higher gross profit arising from efforts undertaken to improve margins.

Petronas Dagangan Bhd

Euro 5-compliant Petronas Dynamic Diesel now available in Klang Valley

By SOPHIA SUBENORAN

KUALA LUMPUR: Petronas Dagangan Bhd said its Euro 5-compliant diesel is now available at six service stations in the Klang Valley.

The company has identified a further 25 stations in the Klang Valley that will be offering the Petronas Dynamic Diesel within this year, it said in a statement yesterday.

"This is in addition to the two stations in Johor, which were among the first to introduce the fuel in December 2014.

"Last year when we introduced the Petronas Dynamic Diesel in Johor, we promised our customers in the Klang Valley that we were working towards making it a reality and now it is available in our stations," said Petronas Dagangan managing director and chief executive officer Mohd Ibrahimuddin Mohd Yusoff.

"Meanwhile, continuous engagement and feedback received from consumers aided in the development of improved chemistry to deliver optimum engine performance in today's more common mild injection systems," he said.

Mohd Ibrahimuddin said the Petronas Dynamic Diesel Euro 5 is developed through Petronas' Diesel Rely experience to deliver engine protection, power restoration and cleaner combustion for superior fuel economy and protection allowing drivers to experience maximum performance from their engines.

国油推出特製柴油

【星洲6日讯】国油贸易大道（Seri 501）主理曾振毅（GreenTech）今天宣布，双方将在大马半岛快速大道，提供66座电动汽车，总值20万令吉。国油贸易大道主理曾振毅表示，国油贸易大道油站充电桩将在明年1月启动。国油贸易大道油站充电桩是国油贸易大道油站（National Electric Blueprint）的一部分。国油贸易大道油站充电桩是国油贸易大道油站（National Electric Blueprint）的一部分。国油贸易大道油站充电桩是国油贸易大道油站（National Electric Blueprint）的一部分。

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CALENDAR OF EVENTS

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5 January 2016

Marketing campaign: Launch of Pump n Win

22 January 2016

Operationalisation of Miri Fuel Terminal

23 January 2016

PETRONAS Dynamic Xperience, Miri, Sarawak



6, 7, 13 and 14 February 2016

PETRONAS Coffee Break in conjunction with Chinese New Year

21 and 22 February 2016

PETRONAS Dynamic Xperience, Tanjung Jara, Terengganu



10 March 2016

PDB First Townhall, PETRONAS Twin Towers, Kuala Lumpur

11 March 2016

PETRONAS StreetSmart, Terengganu

15 March 2016

PETRONAS Dynamic Xperience, Bentong, Pahang

22 March 2016

Prize giving ceremony for Pump n Win campaign

2016



1 April 2016

Launch of Kad Mesra Angkasa for Kuala Lumpur City Hall employees

1 April 2016

Marketing campaign: Launch of Visa Rio 2016 Olympic Games Spend and Win

5 April 2016

Launch of Bank Islam Cash-Out Service at PETRONAS stations in Kelantan

14 April 2016

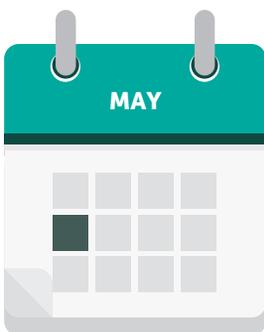
PETRONAS #FUELLINGCOMMUNITIES at SK Taman Segar, Cheras, Selangor

16 April 2016

Water for Life Programme, Kampung Peta, Mersing, Johor

20 April 2016

PDB 34th AGM, Mandarin Oriental, Kuala Lumpur



8 May 2016

Marketing campaign: Mother's Day promotion at Kedai Mesra

14 May 2016

LPG Sales South Community Programme, Kampung Sungai Mas, Kota Tinggi, Johor

18 May 2016

Seminar on Work Quality and Best Practices in Road Paving by Commercial Business Department

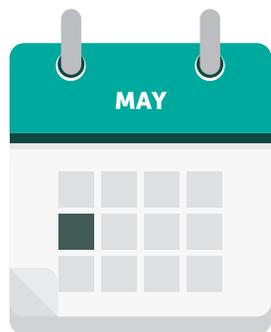
19 May 2016

Sepangar Bay Fuel and LPG Terminal HSE Day 2016

23 May 2016

PDB KLIA HSE Day 2016

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25 May 2016

Launch of Bank Islam Cash-Out Service at PETRONAS stations in Sabah

26 May 2016

PDB Second Townhall, PDB Kota Kinabalu Regional Office

26 May 2016

HSE campaign for Fuel and LPG Terminal Operations by Northern and Eastern Regions

27 May 2016

Commercial Dealer Appreciation and Award 2016

28 May 2016

FMDrive 2016 annual safety driving competition for road tanker drivers



1 June 2016

Launch of first Unmanned Terminal, Lumut Fuel Terminal, Perak

1 June 2016

PDB signs contract with Perodua Sales Sdn Bhd

5 June 2016

LPG Product Knowledge and C50kg Safety Handling Workshop for resorts, Pulau Redang, Terengganu

6 June 2016

Jelajah Ramadan RTM 2016

10 June 2016

Marketing campaign: Launch of Awesome Bola

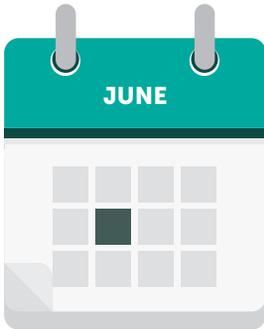
14 June 2016

Marketing campaign: Father's Day promotion at Kedai Mesra

21 June 2016

Process Safety Leadership Training at PETRONAS Dagangan Berhad Training Centre, Shah Alam, Selangor

CALENDAR OF EVENTS



24 June 2016

Launch of Go-To-Safety Point at PETRONAS stations

27 June 2016

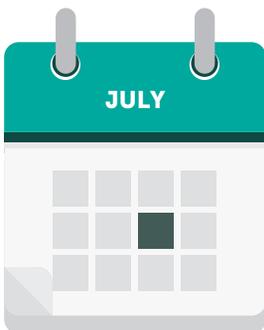
Bubur lambuk sponsorship for Masjid Jamek Kampung Baru, Kuala Lumpur

27 June 2016

Prize giving ceremony for Visa Rio 2016 Olympic Games Spend and Win campaign

29 June 2016

Defensive Driving Course for LPG Sales Eastern Region's Forklift and LPG Sales Lorry Drivers



2, 3, 9 and 10 July 2016

PETRONAS Coffee Break in conjunction with Hari Raya Aidilfitri

14 July 2016

PDB Stakeholder Hari Raya Open House 2016

19 July 2016

Supply and Distribution Division Safety Campaign 2016



2 August 2016

Co-launch of Bank Rakyat's Unlimited Rebate card

3 August 2016

PDB wins awards at Malaysian Productivity Corporation Team Excellence Convention

5 August 2016

Sepangar Bay Fuel and LPG Terminal HSE Week 2016

5 August 2016

PDB wins awards at Malaysian Society for Occupational Safety and Health 2015 Awards

7 August 2016

Water for Life Programme, Kampung Jongok Batu, Dungun, Terengganu

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- 8 August 2016**
Hazard and Operability Study Leader training by HSE Department
- 12 August 2016**
PDB wins awards at 2016 Putra Brand Awards
- 18 and 30 August 2016**
PETRONAS StreetSmart at Negeri Sembilan and Johor
- 18 August 2016**
LPG Dealers Convention and Award Night 2016
- 25 August 2016**
PDB Third Townhall, PETRONAS Twin Towers, Kuala Lumpur
- 29 August 2016**
Visit by Ministry of Domestic Trade, Cooperative and Consumerism to PDB Melaka Fuel and LPG Terminals and PETRONAS Penapisan (Melaka) Sdn Bhd



- 22 September 2016**
Launch of PETRONAS Syntium with ViscGuard™
- 23 September 2016**
Marketing campaign: Race to Win
- 28 September 2016**
Mercedes AMG PETRONAS Formula One™ team meet-and-greet with fans at PETRONAS station Jalan Kolam Air Lama, Ampang, Selangor
- 30 September 2016**
PDB signs Memorandum of Understanding with GreenTech Malaysia

CALENDAR OF EVENTS



- 12 October 2016**
8th PETRONAS Chief Audit Executives Roundtable for financial year 2016



1 November 2016

Launch of enhanced feature for Maybank Islamic PETRONAS Ikhwan Visa Card-i at PETRONAS station Jalan Kolam Air Lama, Ampang, Selangor

11 November 2016

PDB launches PETRONAS Syntium SE lubricant for PROTON vehicles

23 November 2016

HSE campaign on Fire Safety Prevention and Awareness at Prai Fuel and LPG Terminals, Kedah

23 November 2016

Sepangar Allied Fire Emergency Response exercise at Sepangar Bay LPG Terminal, Sabah

26 and 27 November 2016

PETRONAS Dynamic Xperience with PETRONAS Dynamic Diesel Euro 5, Johor Bahru, Johor



1 December 2016

PDB wins award at NACRA 2016

1 December 2016

Emergency Response Exercise for dealers by LPG Sales Central

3 December 2016

Water for Life Programme, Kampung Gayu, Serian, Sarawak

18 December 2016

Friendly bowling tournament by Commercial Sales Central Region with key customers

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AWARDS AND RECOGNITIONS



- **Reader's Digest Trusted Brand Awards**

Gold Award for Best Petrol Station

- **Putra Brand Awards**

Gold Award for Automotive - Fuel and Lubricants

By Association of Accredited Advertising Agents Malaysia

- **NACRA Awards**

Gold Award for Best Designed Annual Report

- **MPC Awards**

Gold Awards: KLIA Aviation Terminal, Sepang Bay Fuel Terminal and Bayan Lepas Aviation Terminal

- **MSOSH Awards 2015**

Gold Merit: Prai Fuel and LPG Terminal, Pasir Gudang Fuel and LPG Terminal

Gold Class I: Kertih Fuel and LPG Terminal, Kuantan Fuel Terminal, Melaka Fuel and LPG Terminal, Sepang Bay Fuel and LPG Terminal, Labuan Fuel Terminal, KLIA Aviation Terminal, Kota Kinabalu Aviation Terminal, Subang Aviation Terminal

Gold Class II: Sandakan Fuel Terminal, Lumut Fuel Terminal, Bayan Lepas Aviation Terminal, Kuching Aviation Terminal

Silver: Bintulu LPG Terminal, Senai Aviation Terminal

**MSOSH Awards 2015 – Awards received in August 2016*

2016



- **The Malaysia Book of Record Awards**
Most Numbers of Petrol Stations' Convenience Stores
By Malaysia Retail Chain Association
- **PETRONAS DOEFA Awards HSE Excellence Awards:** Bintulu Fuel Terminal, Miri Fuel Terminal and Kota Kinabalu Aviation Terminal
- **MSWG Malaysia-ASEAN Corporate Governance 2016 Award**
Merit Award for Corporate Governance Disclosures

- **Alpha Southeast Asia 6th Annual Best Corporate Awards**



By Alpha Southeast Asia Financial Magazine

- **Malaysian Productivity Corporation Team Excellence Convention**



- **Malaysia Social Media Week/ Social Media Corporate Excellence Award 2016**

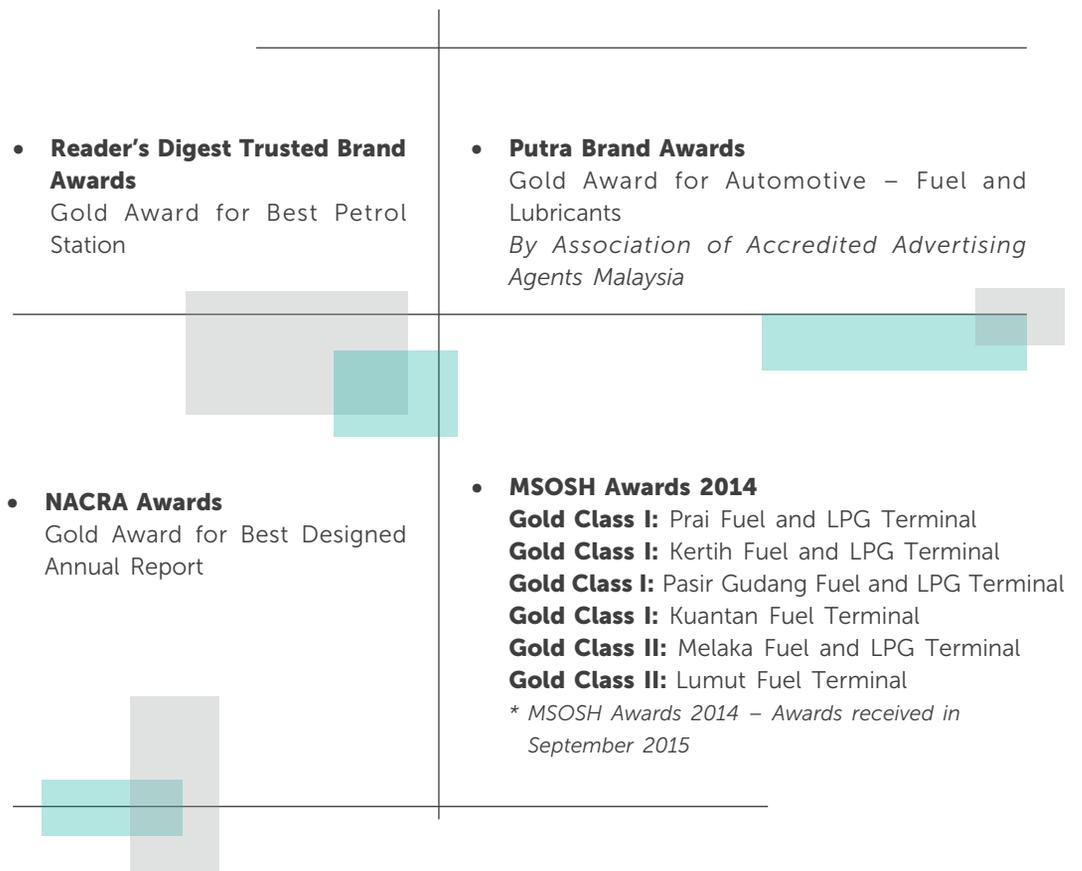
Winner for Oil and Gas Category

- **Excellent Entrepreneur Award**
Special Achievers Category
By the EU Analysis Alliance

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PAST AWARDS

AWARDS RECEIVED IN 2015



AWARDS RECEIVED IN 2014

- | | |
|---|---|
| <ul style="list-style-type: none"> • Putra Brand Awards
Gold Award for Automotive – Fuel and Lubricant Category
<i>By Association of Accredited Advertising Agents Malaysia</i> | <ul style="list-style-type: none"> • Reader's Digest Trusted Brand Awards
Best Petrol Station |
|---|---|

AWARDS RECEIVED IN 2013

- **MSOSH Awards 2013**

Gold Class I: Prai Fuel and LPG Terminal
Gold Class I: Kertih Fuel and LPG Terminal
** MSOSH Award 2013 – Awards received in November 2014*

- **Asia Pacific Award**

Best Regional Jet Fuel Marketer *By AAG*

- **Putra Brand Awards**

Gold Award for Automotive – Fuel and Lubricants
By Association of Accredited Advertising Agents Malaysia

- **Putra Brand Icon Award**

By Association of Accredited Advertising Agents Malaysia

- **BrandLaureate Best Brands Awards 2012 – 2013**

Product Branding – Best Brands in Consumer Category for Car Lubricant (PETRONAS Syntium)
By the Asia Pacific Brands Foundation

- **Reader's Digest Trusted Brand Awards**

Best Petrol Station

- **Asia Pacific Award**

Best Regional Jet Fuel Marketer
By AAG

- **3rd Annual Southeast Asia Institutional Investor Corporate Awards**

Most Consistent Dividend Policy for Malaysia
By Alpha Southeast Asia (Editorial for Global Investors)



SUSTAINABILITY REPORT



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- **Sustainability Report**
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Sustainability has become a vital element to doing business responsibly and successfully. There has also been increasing demand and requirements from stakeholders on sustainability. Sustainability to PDB is about adopting policies, managing risks and applying practices that are economically, environmentally and socially responsible, steered by solid governance and ethical business practices. As Malaysia’s leading retailer and marketer of downstream oil and gas products, we believe that our sustainability practices have the potential to bring long term value to our organisation and our stakeholders in areas where we operate.

PDB is guided by the PETRONAS CoBE, PETRONAS Corporate Sustainability Framework, the Company’s Policies, Standards and Guidelines as well as compliance to local regulatory requirements on Sustainability.

PART III WORKPLACE CULTURE AND ENVIRONMENT

3. SUSTAINABLE DEVELOPMENT

- 3.1** PETRONAS is committed to sustainable development in order to help meet the world’s growing energy needs through economical, environmental and socially responsible efforts.
- 3.2** You should aim to create lasting social benefits; safeguard the health and safety of employees, contractors and neighbours; minimise disruptions to the community; lower emissions; minimise impact on ecosystems and biodiversity; and use energy, water and other resources more efficiently.

Source: PETRONAS CoBE.

The Company holds our partners, contractors and suppliers to similar standard of conduct.

In December 2016, Bursa Malaysia announced that PDB had once again met the globally recognised sustainability standards for inclusion in the FTSE4Good Bursa Malaysia Index. PDB is very pleased with the recognition and inclusion in the FTSE4Good Bursa Malaysia Index for the second consecutive year.



FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that PDB has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria and are positioned to capitalise on the benefits of responsible business practice.



The following pages of our Sustainability Statement describe our sustainability performance, initiatives taken and management of sustainability for the year under review and has been prepared in accordance with the MMLR of Bursa Malaysia relating to Sustainability Statement in Annual Reports. Our focus has been on sustainability matters or aspects that are material to our business.

The scope of information in our Sustainability disclosure follows the scope and boundary of this Annual Report, unless otherwise indicated.

SUSTAINABILITY GOVERNANCE

The PDB Board provides oversight on sustainability matters, while the PDB Leadership Team, headed by the MD/CEO has overall management responsibility for sustainability. We recognise that sustainability is a journey and our efforts will be directed and strengthened towards a more strategic approach in the next few years.

For the year under review, we began our sustainability journey with the setting up of a Sustainability Working Committee comprising the various departments and teams across the organisation. This committee is led by the Corporate HSE and Finance Division to encourage dialogue and to take on a more structured approach to embedding sustainability in the organisation. A series of sustainability awareness training and workshops to deliberate on material sustainability matters were conducted.

STAKEHOLDER ENGAGEMENT

Our stakeholders are increasingly concerned about sustainability practices and we will continue to respond to their expectations.

PDB's diverse group of stakeholders is a representation of our holistic business value chain. We have identified and listed our key stakeholder groups in Stakeholder Engagement Section of this Annual Report, together with an overview of our engagement activities in the past year and the major concerns raised by both the Company and stakeholders accordingly.

(For more details on Stakeholder Engagement, please refer to page 328)

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MATERIALITY ASSESSMENT PROCESS

The Sustainability Working Committee conducted materiality assessment to identify and prioritise those sustainability matters or aspects that are most significant to our organisation in terms of economic, environmental and social impacts, as well as those that have the biggest influence in the decisions of our key stakeholders. The materiality assessment was conducted in a series of focus group deliberations, tapping into the unique insights from the various functions and teams within the organisation. We ensured that the material sustainability aspects are identified and prioritised in alignment with PDB's Corporate Risk Profile and consistent with our business strategy.

The materiality assessment process also included inputs from a wide variety of external and internal stakeholders, utilising a number of different channels and platforms. Internally, we organised meetings with relevant key functions to obtain their input on sustainability matters that they perceived to be material.

In December 2016, Bursa Malaysia announced that PDB had once again met the globally recognised sustainability standards for inclusion in the FTSE4Good Bursa Malaysia Index. PDB is very pleased with the recognition and inclusion in the FTSE4Good Bursa Malaysia Index for the second consecutive year.

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The material sustainability matters or aspects were also aligned with the PETRONAS Corporate Sustainability Framework's Key Result Areas, as well as mapped against the sustainability aspects and indicators prescribed in the 'Sustainability Reporting Guide and Toolkits' issued by Bursa Malaysia.

As there are four core businesses within PDB with different nature of operations, some of these sustainability areas may be more material in some businesses than others.

The Sustainability Working Committee is responsible for finalising the outcome of the identification and prioritisation of material sustainability issues. This was followed by consultation and syndication with members of PDB LT, culminating in the approval by the MD/CEO and the Board.

We will continue to undertake periodic reviews of our materiality assessment process to ensure that we stay current and relevant with the fast changing pace of the business and world affairs.

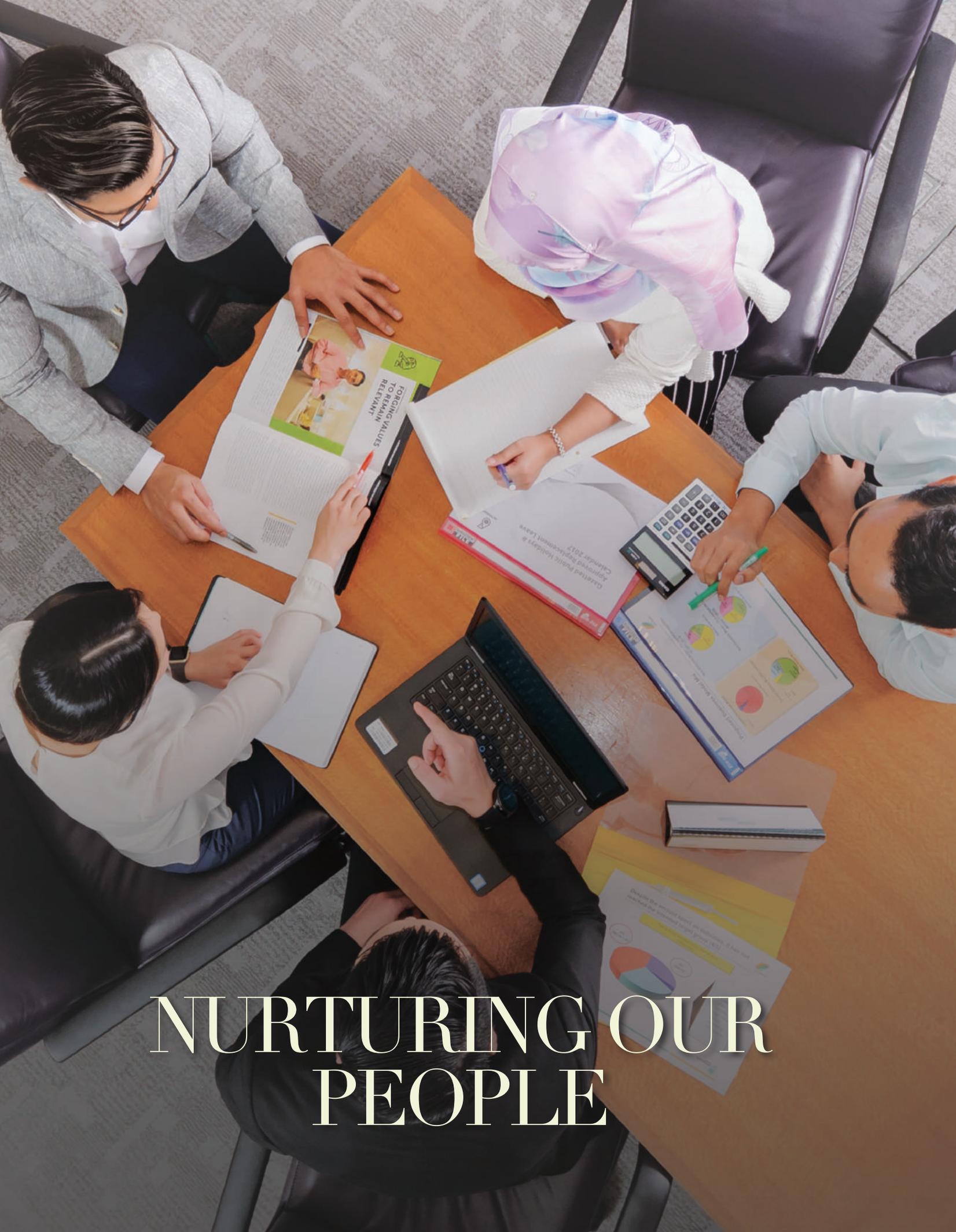
SUSTAINABILITY REPORT

Our material sustainability matters are as follows:

Material Sustainability Matters/Aspects	Description	Sustainability Pillars	Reference Page
 Shareholder Value	Fulfilling our responsibility as a business entity to deliver sustainable returns to our shareholders through the long term creation of economic value	Economic, Financial Performance	094
 Governance and Business Ethics <ul style="list-style-type: none"> • Ethics and Integrity 	Safeguarding the organisation’s integrity and trustworthiness in delivering value through strong governance mechanisms and ethical business practices	Social, Corporate Governance	087
 Workforce Development <ul style="list-style-type: none"> • Employee relations • Diversity and Inclusion • Capability Development and Education 	Improving flexibility, inclusiveness and staff engagement, as well as investing in the long term capability development of our people are vital to delivering sustained high performance and productivity	Social	181
 Health and Safety <ul style="list-style-type: none"> • Occupational Safety and Health • Process Safety • Transport Safety • Emergency Preparedness 	Ensuring our facilities, operations, products and services are in accordance with all legal requirements and industry best practices to safeguard the health, safety and well-being of our employees, contractors, communities and the local environment	Social	189
 Environment and Climate Change <ul style="list-style-type: none"> • GHG Emission/Energy Use • Emissions • Spills • Waste Management 	Managing and reducing our impacts to the local environment and recognising our corporate responsibility from a global perspective as climate change continues to be a key global issue	Environment	205
 Human Rights	Respecting internationally recognised human rights in our areas of operation, complying to our code of conduct and business ethics and all legal requirements	Social, Economic	197
 Corporate Social Investment	Investing in sustainable initiatives as a socially responsible company in line with our mission to contribute to the well-being of society	Social, Economic	199
 Customer Experience <ul style="list-style-type: none"> • Customer Engagement • Customer Privacy • Customer Health and Safety 	Our ongoing commitment to providing the best service and experience, through stringent safety and health standards, and our responsiveness and improved service, is fundamental to our business	Social	202

We have provided qualitative and quantitative data to describe the material sustainability matters. We strive to ensure accuracy of our quantitative data. There may be potential variances in current sustainability data compared to those reported previously as we continue to tighten and improve our internal mechanisms to enhance overall monitoring, reporting and verification of sustainability data.

We have not undertaken third party assurance for the data presented in this Sustainability Statement. Going forward, we will pursue with a form of third party assurance. The information in this Sustainability Statement is presented on a best effort basis and is subject to further improvement in future reporting cycles.



NURTURING OUR PEOPLE

WORKFORCE DEVELOPMENT

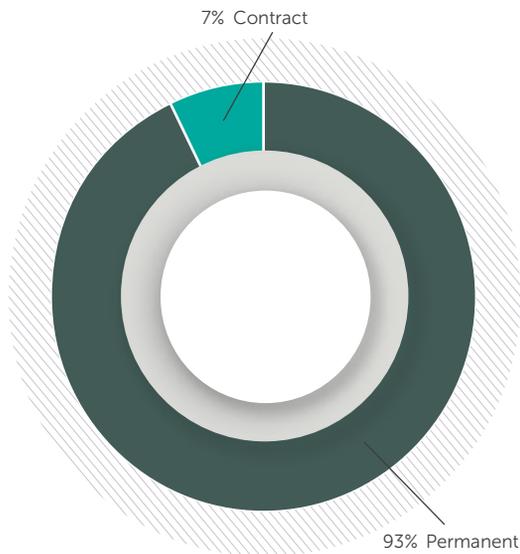
Employee Profile

Our people are our greatest asset and key to maintaining our competitive advantage. Attracting and developing talented people is central to our success. In order to attract and retain employees of a high caliber, we provide career opportunities and appropriate training to enable them to develop their potential.

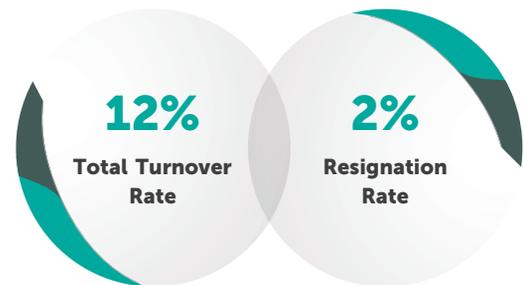
PDB, in alignment with the PETRONAS Group Talent Sourcing policies and procedures, provides equal opportunities for any qualified and competent individual to be employed by the Company from various multicultural/multiracial backgrounds, locally and internationally. Talent sourcing seeks to optimise manning levels in the organisation by having the right candidate for the right position as this will ensure implementation of business plans. Several sourcing channels are used for recruitment including the PETRONAS recruitment portal, PETRONAS Sponsored Students, PETRONAS Employee Referral Programme, printed media, social media, head-hunters and career fairs.

For the year under review, PDB's employee turnover rate was at 12% and mainly contributed by a significant number of employees retiring. Male employees made up 83% of the total turnover. The resignation rate of permanent employees remained low at 2%. Notwithstanding this low resignation rate, PDB continuously strives to enhance talent attraction and retention through various strategies. PDB has invested in a talent management strategy which provides learning and development programmes for employees. The Company also subscribes to the PETRONAS Global Talent Strategy to build the right leaders in order to meet its aspiration.

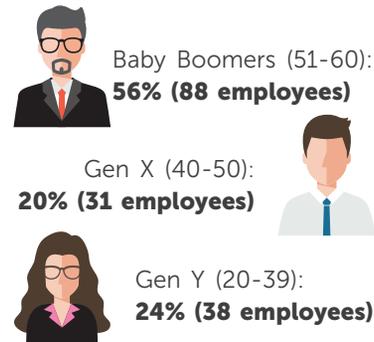
Permanent and Contract Employees



Turnover



Age Group



Gender



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PDB continued the hiring of new employees to fill up vacant positions to ensure continuity of its business operations. During the year under review, 23 new employees were recruited.



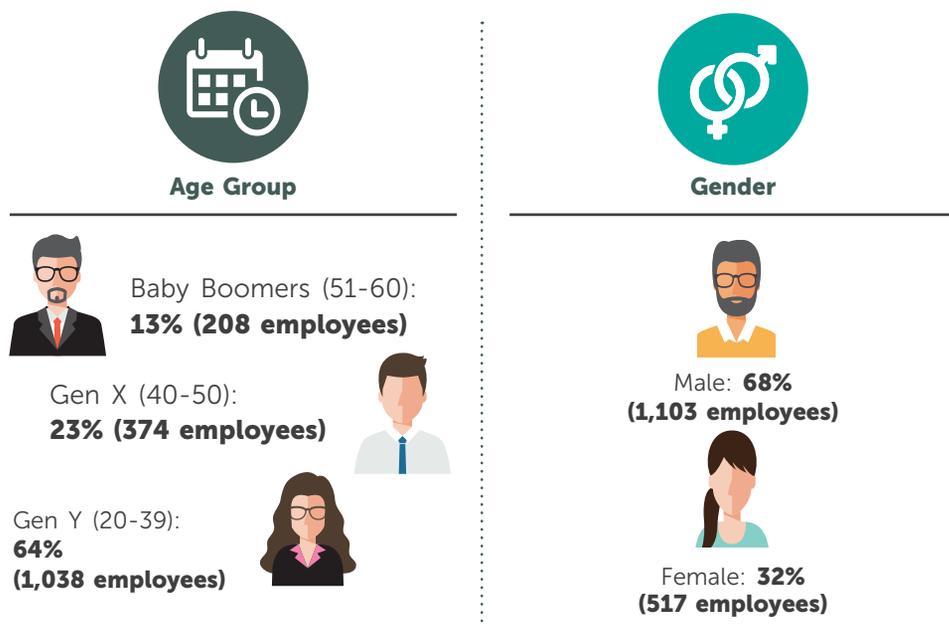
Non-discrimination

PETRONAS CoBE, Section 2.1 of Part III: Workplace Culture and Environment, states that the Company will not tolerate unlawful discrimination in the workplace or on the job.

PDB remains committed towards promoting diversity in our workforce. The Company recognises that a diverse and inclusive workforce is an asset to the organisation. This diversity and inclusiveness will help PDB become more creative and open to change which in turn will result in improved services to various stakeholders.

The Company provides equal opportunity to all employees irrespective of gender, race or religion. PDB is a multi generational workplace. The composition of Gen Y and Gen X are at 64% and 23% respectively whilst Baby Boomers comprise 13% of the workforce. The multigenerational workforce is essential in managing the generation gap and market expectation. In addition, 10% of the total of PDB Group workforce for the year under review consisted of non-Malaysians from Thailand and the Philippines.

Diversity



NURTURING OUR PEOPLE

Capability Development

As part of the Employee Value Propositions, PETRONAS pays close attention to an employee’s professional and personal growth. The organisation identifies with employees’ aspirations to further develop and enhance expertise, skills and experience in order to enjoy challenging and fulfilling careers.

For PDB, the PDB Capability Framework has lined up the functional and behavioural capabilities needed to perform particular jobs and supported with the necessary development approach, tools and infrastructure. The development approach throughout the employee’s employment cycle could come from formal learning, social learning and experimental learning.

Approximately 3% of manpower cost is budgeted yearly for employee trainings. For the year under review, about RM7 million was spent which was an accumulation of 3,225 total training man days and two average training man days for all categories of employees.

53% of training man days attended by employees are functional training mainly contributed by marketing and sales related training i.e. product knowledge, market knowledge, pricing knowledge, negotiation skills and branding. 39% of training man days attended by employees are HSE and technical related trainings and 8% of training man days are on leadership trainings.



Anti Corruption Training

Aligned with the Company’s commitment on good corporate governance, the CoBE as well as other policies and procedures including the ABC and Anti Competition Law Manual have been rolled out to employees through various communication platforms.

The PETRONAS Compliance Desktop has been in place in PDB since 2015 and provides online training for CoBE, ABC and Anti Competition Law. It also acts as an online register for employees to declare gifts, entertainment and conflicts of interest and facilitate compliance activities related to third party screening and due diligence.

(For more details on ABC, please refer to page 086)

PDB Onboarding Programme

The PDB Onboarding Programme is a familiarisation programme to integrate new or recently transferred in employees and internship students into the organisation. The programme provides the employees and internship students with the knowledge and resources in order to equip them with a general view and introduction to PDB’s operations, business, HSE matters and work culture. In the year under review, employees and internship students were additionally engaged in the Up and Close Session with PDB LT, where they shared their leadership journeys and inspired participants.



Aligned with the Company’s commitment on good corporate governance, the CoBE as well as other policies and procedures including the ABC and Anti Competition Law Manual have been rolled out to employees through various communication platforms.

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Four sessions were successfully conducted in the year under review with a total attendance of 53 new, transferred in employees and internship students.

PDB Internship Programme

The PDB Internship Programme is designed to provide undergraduate students with practical experiences which are related to their academic backgrounds for a duration as specified by their academic institutions.

For the year under review, a total of 92 students underwent the internship programme with PDB.

Managing Talents Programme

The Managing Talents Programme was conducted to equip the PDB Line Managers with the know how on PLC fundamentals and processes. This would translate to greater efficiency in the resolution of HR issues to create a favourable environment at the workplace. The programmes were conducted by Head of HRM over three separate sessions during the year under review.



Executive Technical Capability

PDB has always been passionate and attentive in developing its people. Throughout the years, various capability development initiatives were put in place with the objective of sustaining and enhancing staff functional and behavioural competencies.

Technical skill groups initiated several interventions one of which was through group coaching by the project management fraternity. Two external speakers from the Institution of Engineers Malaysia were invited to one of the coaching sessions to speak on relevant topics.



Executive Non-Technical Capability

Substantial efforts were put during the year under review by the respective skill groups to develop several in house modules. For the year under review, several Divisions collaborated and developed an in house module for negotiation training. Based on feedback from the participants, the programme was encouraged to be continued and to be offered to the rest of the Marketing and Sales fraternity in PDB.

As for HRM fraternity, it is essential for HR personnel to be equipped with the necessary knowledge on career development and progression as well as understanding HR's role as facilitators in order to advise line managers to make sound decisions and plans for their careers.



Non-Executive Technical (NET) Capability

PECAS is a structured skill assessment system introduced to PETRONAS group wide in 2006 for NET staff.

The purpose of PECAS is to assess the competency of our technicians and operators through a structured assessment process covering elements of knowledge, skills and attitude against the PETRONAS Occupational Skill Standard.

Two sessions of external verification for PECAS portfolio were conducted in the year under review to certify and recommend the competency levels of the identified technicians through portfolio verifications. As a result, 96 NET were certified as competent.

Non-Executive Non-Technical (NENT) Capability

Non-Executives Learning and Development Framework focuses on NENT employees' functional and behavioural capabilities.

Eligible NENT employees are required to undergo NENT Assessments to evaluate their competencies and readiness for their next career progression. In preparing them for the assessment, two Microsoft Solution Programme sessions involving participants were conducted during the year under review.

For the year under review, a total of 18 NENT employees underwent the assessment. 17 out of 18 employees passed the assessment and were considered for promotion to higher grade.

Leadership Development

PDB does not compromise in its investment of developing the Company's talent pipeline be it in staff capability or in instilling leadership skills in response to unprecedented challenges in the oil and gas industry. Having competent leaders in sailing the organisation enhances employee development and engagement, thereby influencing the quality of decisions made to ensure survival of the organisation.

PDB is continuously committed to introducing new leadership development activities and initiatives to ensure the organisation is at par with other industry key players.

Leadership Circle

Leadership Circle is a two way, informal session for a small group of PDB Top Talents and Potential Leaders to discuss on a specific leadership topic which is facilitated by a PDB leader on a quarterly basis. PDB leaders get to share their insights and aspirations while the employees are provided with the opportunity to engage with PDB leaders to exchange ideas and knowledge.



This in house Leaders-Develop-Leaders platform also provides the opportunity for staff to accelerate their leadership development by learning through PDB leaders' working experiences so that it can be applied in daily life and in particular, in the work environment.

(For more details on HSE Capability, please refer to page 192)

PDB Unleash Your Potential Programme for Executive Top Talents and Potential Leaders



The PDB UYP is a seven-month programme, which is participated by 13 PDB executives. The objective of this programme was to develop employees' potential on conceptual thinking, judgement and empathy. The learning modules included a business project dubbed as the 'Dagang Challenge', leadership journey sharing session by the MD/CEO, coaching sessions and an external visit to Genovasi, the only design thinking school in Malaysia.

As part of the 'Dagang Challenge', the PDB UYP Batch 2016 launched the #FUELLINGCOMMUNITIES campaign in collaboration with PLC.

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The campaign's objective was to demonstrate that PETRONAS cares about the community, their wellbeing and environment while creating a purpose for customers to spend at PETRONAS station. The initiative was rolled out to a localised community area. Each customer who spent a minimum of RM30 on fuel purchase at the selected PETRONAS station, will collect one Community Point. All accumulated points will be used for the collective good of the entire community through charity activities.

The final community activity was the Street Smart event which was held at Sekolah Kebangsaan Taman Segar, Cheras and attended by a total of 20 volunteers and 120 primary students. Through this event, in collaboration with Petrosains, the students were taught and made aware of issues on road safety.

Succession Management

The PETRONAS Top Talent Management Value Chain was implemented to identify top talents within the organisation, review the talents on a wholly encompassing basis to determine their strengths, areas of development and career plans and finally, to match them against critical positions within the organisation. In PDB's context, the rigorous talent identification exercise resulted in a 17% increase in its top talent pool. As for its 31 critical positions, plans were made available to identify successors for the positions to ensure uninterrupted business operations arising from employee mobility or attrition.

The increased number of top talents resulted in a bigger pool of potential successors for the positions and contributed consequently to the ratio of Ready Now Successors to PDB Critical Positions as 2.8:1. Annual reviews were conducted on the succession plans to ensure their feasibility for implementation as and when the critical positions were vacated.

In addition, PDB conducted a Succession Plan review for its Senior Management positions to identify suitable successors within the PETRONAS group to succeed the leadership positions whenever required. This

served as an input to PETRONAS Downstream Business in deliberating and endorsing the plans for future implementation.

Dealer Capability Programme

For the year under review, PDB Training Center has conducted 56 capability training programmes for over 1,059 participants involving Retail Dealers and dealer's employees (Krew PETRONAS). The programmes focused on operational excellence at stations, financial management as well as HSE related courses. The objectives are to enhance Dealers' capability in order to ensure consistent customer and experience provide proper communication channel on new policies and procedures. Furthermore, we are also committed to strengthen LPG Dealers position in the competitive environment and gear themselves in preparation of LPG market deregulation scenario.

Employment/Labour Relations

Throughout the year under review, several efforts focusing on engagement and communication to instil employee motivation and emotional mindset towards the Company were conducted. These sessions were organised to ensure employees remained inclusive, focused and engaged towards achieving the Company's vision and mission.

Welfare and Benefit

Parental Leave

In creating the right environment, HR transformation has progressively introduced a number of flexible employment offerings such as extended maternity leave and leave without pay for parental reasons to address the changing workforce demography requirements and to be aligned with industry and market practices.

The Maternity Leave provision enables female employees to undergo their confinement period, rest and recuperate from their new born deliveries. The Company allows its female employees to take three months maternity leave for five successful deliveries. For the year under review, 27 of our 370 female employees

took the maternity leave benefit and all returned to work upon completion of their leave.

The Leave without Pay provision allows an employee to be away from work for an approved duration to attend to personal matters, which in the Company's opinion are of significant importance. In 2016, 66 requests for Leave without Pay were approved of which 56% were due to various parental reasons. 92% have since returned to work and were still in employment with the Company, while the rest continued to be on Leave without Pay.

Appreciation Programme for Retirees

PETRONAS provides retirement benefit through the employer's additional contribution to the Employees Provident Fund to ensure continuation in the living standard of employees once they retire.

In addition, PDB organised and supported initiatives such as Financial Talk by *Agensi Kawalan dan Pengurusan Kredit* and PDB's appreciation event for long serving employees.

Flexible Working Arrangement

The need for a flexible work arrangement is growing. The Company acknowledges the importance of work life balance for the health and wellbeing of its employees and sustainable organisational performance. Our FWA programme helps to improve employee health and lifestyle, and supports a positive workplace culture.

PDB FWA programme offers flexibility of working locations at selected regions where the employee can perform the work at any location with suitable working environment. During the year under review the project completed its six months pilot run in the Northern Region. The approach operates on trust and empowerment to employees and superiors managing business/ operational results.

From a survey conducted after the pilot programme, 83% of employees confirmed their ability to adapt and to reap benefit for both the Company and themselves personally while 100% wanted the FWA to continue. Currently, 9% of PDB's staff are on the FWA mode. FWA rollout activities will be resumed to cover other regions as well.

Sports Activities

Kelab Sukan dan Rekreasi PETRONAS was established to cultivate and foster a sense of belonging among its employees. It was established in 1975. In addition, KSRP also aims to develop physical fitness, mental and positive personality among the members. The main activities carried out are sports, recreational, social, and cultural welfare of the members.

As a PETRONAS subsidiary, PDB actively participates in sports and recreational activities organised by KSRP. One of the biggest events is *Sukan KSRP 4 Penjuru 2016* which involves the four regions (Central, East Coast, South and North) with 10 sports contested.



The bowling championship, 'Petrobowl' organised by the Infrastructure Planning, Supply and Distribution Division with its objective to instill bonding and togetherness among staff and to encourage healthy lifestyle through sports.

PETRONAS Cultural Beliefs

PDB has adopted six PETRONAS Cultural Beliefs for its employees namely:

Results Matter	I stretch my limits to deliver superior results
Own It!	I own the results and don't blame others
Focused Execution	I plan, commit and deliver with discipline
Nurture Trust	I always keep my promise and build mutual trust
Tell Me	I seek, give and act positively on feedback
Shared Success	I collaborate for the greater good of PETRONAS

During the year under review, PDB has conducted Change Agent Camp for selected employees which will be Agent ambassador of PCB in supporting the Company's target. The session act as a platform to strengthen the relationship among the Agents, to make them understand on their roles and they are able to share success stories in conducting PCB based activities at their workplace. PDB successfully identified a total of 230 agents varies from Top Management and employees. Furthermore, PDB has up skilled 631 Non-Executives on PCB through series of workshop across Malaysia. The objective of the session is to ensure their understanding and apply the PCB tools in daily activity.

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Healthy Workforce Programmes – Ergonomics, Manual Handling and Back Protection Programme and Fitness to Work



For the year under review, PDB continued its effort to manage and control ergonomics risk factors present for aviation refuelers. This programme is an extended initiative from the previous year and was conducted by internal trainers at four Aviation terminals. A total of eight sessions were conducted in April and May 2016 involving approximately 93 participants. The course comprised five customised modules including practical training as well as exercise sessions on back strengthening/ protection in addition to theoretical knowledge. As a result of this programme, employees were able to understand and implement good ergonomics practice in their daily tasks, minimise potential injury during duty at their workplace and reduce defects at refuelling vehicles.

The Company's Fitness to Work Programme aims to ensure all employees are medically fit to perform their jobs and reduce risks of injuries and illnesses caused by a mismatch between physical and mental fitness in meeting job demands. The types of fitness to work assessment include pre employment, pre placement, job specific and 'for cause' health assessment.

The Company ensures that mandatory health assessments are conducted through the Company's panel clinics as part of recertification requirements for road tanker drivers. Health checks include general fitness, visual and hearing impairment, and

absence of ischemic disease, epilepsy and potential heart diseases, among others. It is also a mandatory requirement for the hauler management sector to conduct drug and alcohol tests for all road tanker drivers every six months with one test conducted unannounced.

Elimination of Excessive Working Hours

Working too much and too many hours is not just unfair, it can be counterproductive and also unsafe. Working excessive hours is an issue that is endemic to the various working sectors. Across our workforce, we limit working hours to no more than 39 hours a week with an entitlement of two days rest end of the week for non shift personnel whilst for shift personnel, the limit is 42 working hours per week.

With the help of a work hour tracking tool, the Company monitors the employees' hours of work and is obliged to comply with the regulation on limitation of overtime under the provisions of the Employment Act 1955. We continuously review and monitor employee work hours and during the year under review, a Memorandum on 'Limitation of Overtime Work' was issued to ensure compliance with the regulation.

Compliance to Minimum Wage

A minimum wage is mandatory and it is the lowest wage that employers must legally pay to workers. A minimum living wage would not only have a positive effect on employee wellbeing, it also improves productivity and reduces employee turnover.

PETRONAS complies with the minimum wage requirement as stipulated by the National Wages Consultative Council. Our reviewed salary structure is consistent with the minimum wages declared by the Government.

HEALTH, SAFETY AND ENVIRONMENT

PDB is committed to safeguard the health and safety of its people, business partners, customers, surrounding communities, public and all stakeholders; and puts protecting the environment as one of its priorities in driving a sustainable business and operational excellence.

The Company views the inculcation of HSE practices as a prerequisite in this journey, aiming at making HSE a culture that is embedded in all aspects of its business. In exercising this aspiration, PDB holds on to the governance of HSE Management System, a system that has been established and rolled out to all of the Company's operations since its early days.

Leadership Commitment

PDB's commitment to the HSE is reflected in the PDB HSE Policy. The Policy sets out the Company's intent to put adequate controls in managing risks and hazards related to the business operation. It is made up of the Company's pledge in complying with applicable laws and regulations, ensuring adequate emergency response preparedness, retaining optimum resources for a safe workplace and providing relevant HSE communication to maintain mutual understanding of HSE goals and expectations amongst the workforce and stakeholders. The Policy is supported by an effective HSEMS which is implemented at all levels; from Corporate down to the Operations level at PDB facilities, adhering to the PETRONAS Mandatory Control Framework and PETRONAS Technical Standards.



PETRONAS DAGANGAN BERHAD POLICY ON HEALTH, SAFETY & ENVIRONMENT

- 1. PDB is committed to Health, Safety and Environment (HSE) and shall take practicable steps to prevent or eliminate injuries and occupational illness, and damage to properties. PDB shall take proactive steps towards protection of the environment;
- 2. PDB shall comply with all applicable local HSE regulatory requirements in countries where it operates;
- 3. PDB shall establish Health, Safety and Environment Management System to ensure continual improvement in HSE management and performance;
- 4. PDB shall manage all HSE risks associated with its activities and provide control measures to eliminate or reduce the risks to a level as low as reasonably practicable (ALARP);
- 5. PDB shall ensure an effective response system is established and implemented to mitigate adverse effects and business disruption arising from any emergencies;
- 6. PDB shall provide resources in all its activities to ensure safe working environment and meeting HSE improvement objectives and targets;
- 7. PDB shall engage with stakeholders and communicate relevant HSE matters with the communities where it operates to develop and maintain a mutual understanding of HSE goals and expectations;
- 8. All employees and contractors are expected to strictly adhere to this policy to achieve a desired positive HSE culture.

Mohd Ibrahimuddin Mohd Yunus
 Managing Director/Chief Executive Officer
 PETRONAS Dagangan Berhad

1 February 2014

1.	Management commitment towards HSE
2.	Compliance with HSE regulatory requirement
3.	Commitment to continuous improvement
4.	HSE risk management
5.	Emergency response preparedness
6.	Adequate resource for a safe work place
7.	Communication on HSE awareness to stakeholders and communities
8.	HSE responsibility by all employees and contractors

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Mohamed Firouz Asnan, PDB Non-Independent Non-Executive Director made a management visit to PDB Prai Fuel and LPG Terminals.

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PDB LT demonstrates visible HSE leadership and commitment through a set of exemplary roles in safeguarding the health and safety of our employees. The roles include integrating and balancing HSE aspects in business decisions and leading the development of HSE strategic objectives and targets. The HSE strategic objectives are incorporated into the HSE Plan, cascaded to the respective Divisions and are thereafter closely monitored to ensure everything that has been planned materialises effectively and in a timely manner.

In operationalising the commitment, PDB LT drives HSE initiatives at all levels with clear expectations, targets and objectives. Each member of the Management carries the highest portion of HSE KPIs. The accountability and responsibility are emulated at all levels in order to ensure that the message on the criticality of HSE to each and every single employee is well communicated.

Building HSE Foundation

In ensuring that a HSE plan is executable and effective, PDB provides a firm foundation that includes competent employees, a relevant structure, practical deliberation and decision making platforms, monetary budget and access to critical documents of standards, legislation and other requirements. At all levels, HSE roles and responsibilities

are clearly defined in job or position descriptions and are documented, communicated and reviewed periodically.

HSE Communication

HSE committees focus on relevant HSE issues and provide a platform for communication between Management and employees. The committees are formed to ensure the following elements of a HSE culture are embedded at the workplace:

- i. Stimulate effective two way communication on HSE issues between Management and employees
- ii. Engage all staff in the implementation of HSEMS
- iii. Provide avenue for employees' feedback on HSE matters
- iv. Provide HSE advisory to the Management for informed decision
- v. Provide a platform to monitor adequacy and effectiveness of controls put in place to manage HSE risks.

HSE risks, incidents and performance are also deliberated by PDB LT which is chaired by the MD/CEO, who is also the Director of the Company. Upon deliberation of the HSE report by PDB LT, the HSE report is then presented to the Board on a quarterly basis.



"Safety Campaign 2016" which was held at 11 PDB terminals nationwide serves as a platform for employees and Management to engage, express views and communicate on health and safety aspects. The event was attended by 500 participants from PDB Management, staff and contractors.

During the year under review, we undertook initiatives to engage our business partners, customers as well as contractors to strengthen HSE management in our day to day operations. Engagement with local communities and the public was also embedded into the various programmes implemented. Our initiatives were focused on factors that could cause incidents and how to mitigate HSE risks. We engaged authorities such as MDTCC, DOSH, DOE and APMM to obtain updates on the latest legal requirements that were applicable to PDB facilities. This information was disseminated to all relevant asset owners for compliance with the latest requirements.

At Divisional level, events such as 'HSE Day' which involved participation from both the Management and employees were held to increase employees' awareness on HSE matters. Additionally, various training sessions and talks focusing on first aid, fire safety and prevention, and ergonomics were held across our terminals. New hires at PDB also received a health and safety briefing by a representative from Corporate HSE during the PDB Onboarding Programme.

As part of our continuous communication efforts, PDB provides Information To Public as stipulated in Occupational Safety and Health (Control of Industrial Major Accident Hazards) Regulations 1996. For the year under review, ITP was conducted for three major hazard installations through engagement sessions with neighbouring facilities. This imperative communication provides details of the dangerous substances, the possible major accidents and their consequences and actions to be taken in the event of an accident.

HSE Contractor Day

We expect our vendor and contractors share the same vision as PDB on integrity compliance and HSE excellence. To ensure we are on the same frequency, PDB has organised PDB Contractor Day 2016 on 30 November 2016. At the event, three speakers from PETRONAS shared various incidences involving integrity and HSE issues which occurred in PETRONAS. Sample cases which were shared involved contractor non-compliance, lesson learnt, consequence management and way forward to improve overall process. The last session of the day was the sharing on Contractor Performance Evaluation to the contractors to ensure they understand that they are being monitored in the PETRONAS system in term of their overall performance.



Global/Regional Health Issues

As a company with operations in many areas, PDB remains committed to address regional and global health issues to safeguard the health of our employees.

PDB is guided by the PETRONAS Policy on HIV/AIDS with respect to human rights, dignity and privacy of persons living with HIV/AIDS. The Policy underpins our commitment to ensure that no individual is unfairly discriminated against or stigmatised on account of his or her HIV status.

In response to the current and emerging health issues in 2016 such as prolonged hot and dry weather conditions and the threat of the Zika virus disease, various communications were made via issuance of Health Advisory Infographics to employees and contractors as well as promotional messages to the public via our PETRONAS Brands Facebook page. These communications, were aimed to help raise our employees' and customers' awareness on the risks, symptoms, treatments and precautionary measures to be taken.

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HSE Capability



PDB gives significant emphasis in ensuring its employees and contractors are capable in implementing assigned tasks. Appropriate training programmes are identified and provided to ensure necessary skills and knowledge are acquired prior to performing a job in a safe manner. The basis of identification includes job function, legislative and standards requirements, pre set training according to work disciplines, as well as other best practices by industries with similar operations and activities. These were translated into a common HSE Training Matrix, which provides guidance to identify employee training needs. Compliance to training requirements are monitored through the implementation of the HSE Competence Assurance, to provide the Management with an effective oversight on the status of HSE competency of the Company's workforce.

No. of employees trained in HSE



No. of man hours



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Risk Based Planning and Implementation

The HSEMS supplemented by the PETRONAS Enterprise Risk Management Framework, provides risk oversight to PDB Board, looking into various focus risk areas including HSE risks. With a solid foundation set by the Management, operationalisation begins with HEMP, which calls for identification of hazards, assessment of risks, and implementation of controls. The process not only provides detailed contents of risks but also allows intelligent risk based prioritisation. This a crucial approach in ensuring that plans are structurally and systematically implemented. Several risk assessment tools and techniques are used in HEMP. Each tool and technique examine different aspects of an operation or activity and its suitability for specific areas or stages of operations. Examples of the tools and techniques used in HEMP include Project Risk Assessment, Job Hazard Analysis, Process Hazard Analysis, Chemical Health Risk Assessment, and Environmental Impact Assessment.

Amongst the efforts taken towards enhancing HEMP during the year under review included a Company wide review of the Hazards and Effects Register. The review involved HSE, Subject Matter Expert and Operations personnel from Fuel, LPG and Aviation Terminals, Retail and NGV stations, as well as LPG and Commercial storage facilities; driven by findings from past incidents and near misses, audit findings, newly introduced hazard, facility or process and any change that may introduce new or different level of HSE risks.



Ship to ship operations

Newly introduced business operations will have to go through a risk assessment process to analyse the severity of the risk posed to the Company based on the criticality of the risk. During the year under review, a risk assessment was conducted for a Ship to Ship Operation. The assessment was driven in the spirit of gauging potential risk which could lead to business disruption.

Safety Performance

Indicator	2014	2015	2016
No. of Fatalities			
Staff	0	0	0
Contractor	0	0	2
Fatality Accident Rate (FAR)			
Staff	0	0	0
Contractor	0	0	3.40²
Loss Time Injury Frequency (LTIF)			
Staff	0.2	1	0.49
Contractor	0	0	0.15²
Total Reportable Case Frequency (TRCF)¹			
Staff	0.64	1.17	0.73
Contractor	0	0	0.18²

Note:

¹ No. of TRC = No. of Fatality + No. of LTI

² Total contractor manhours calculated during year under review include Contractor and Krew PETRONAS

For the year under review, it was unfortunate that we have one contractor and one Krew PETRONAS who lost their lives in two separate incidents. We regretted the fatalities and were very concerned with the incidents. In both incidents, thorough investigations were promptly conducted to identify the root causes. Relevant corrective and preventive actions are ongoing to prevent recurrence of such incidents.

Increased FAR, LTIF and TRCF as compared to the same period last year were the result of increased awareness of incident reporting related to business travel, land transport and contractor management.

(For more details on PDB's environmental performance, please refer to page 205)

Continual Improvement

Built around the Plan-Do-Check-Act cycle, HSEMS requires an effective built in improvement system to stay relevant, updated and continually improving. Internal and independent HSE Assurance exercises are carried out, with analysis of findings being presented to the PDB LT, PDB Board and PETRONAS Downstream Executive Leadership Team. Corrective Action Plans were consolidated for Company wide implementation and tracked for closure, providing not only a holistic approach in gap closures; but also ensures sustainability of implementation. This was conducted for the year under review, through a verification of closure of Corrective Actions by PETRONAS Downstream Business.

Analysis from these Assurances together with other inputs from incidents, near misses and external lessons are put together against each sub element of HSEMS, allowing identification of areas within the system that require improvement. This is a formal annual process in place for PDB LT to review the effectiveness of the HSEMS implementation and ensuring continual improvement of the system; and subsequently the Company's sustainability in managing HSE.

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Process Safety

Process Safety Management is key in managing the major hazards in PDB as well as ensuring integrity of our assets. It is a structured framework that covers a wide spectrum of disciplines from engineering design, inspection and maintenance, workforce competency, to embedding the right culture in the workplace. Process safety focus areas are embedded into the HSEMS for an integrated and more sustainable approach. In the year under review, top management was taken through Process Safety Leadership training to ensure that process safety considerations are included in decision making and to set the tone on its importance for the rest of the organisation. A total of 36 participants including members of the PDB LT attended the training.

Process Safety indicators are monitored and reported internally to measure effectiveness of key systems to manage safety critical elements, and to serve as early warning signs of potentially dangerous deterioration within critical systems.

Various risk assessment tools are utilised to identify and assess the hazards posed by our activities, determine the controls, and evaluate their adequacy. The risk assessment provides critical input in deliberating issues with regards to safe operations at our facilities and allows the Company to focus on and prioritise compliance with regulations on process safety management.

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HAZOP leader training was conducted with the objective of developing capability on a systematic method (team based) for assessing risk for complex facilities or processes. A total of 24 participants from various Divisions in PDB attended the session.

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Transport Safety

Preventing and reducing vehicle related incidents remain one of our top priorities. During the year under review, our transporters drove tens of millions of kilometres, transporting fuel from terminals to service stations and commercial sites which translated into about over a million hours on the road.

PDB’s approach to road tanker safety management is governed by the Fleet Management Department Management System, Road Transport Operating Guideline and PETRONAS Technical Standards on land transportation. There are modules covering safety elements such as Leadership and Commitment, Driver Recruitment, Training, Management of Change, Emergency Response, Risk Assessment and Regulatory Compliance among others. These elements aim for PDB APH to achieve the status of “Professional” Haulers and Drivers with a high level of safety excellence as part of the criteria. In addition, PDB also adopted technologies such as On-Truck Computer, Global Positioning System and On Board Camera for a more efficient and pro active management of road safety and security, one of the petroleum land transport sector’s best practices.



“FMDrive 2016” was conducted at our APH facility located in Kuantan, Pahang. The event was attended by over 150 guests who included PDB personnel, Senior Management as well as APH representatives, RKP and exhibitors. This yearly event was held in the spirit of instilling a continuous safety culture among our RKP and APH associates.



PDB organised a Defensive Driving Course for forklift and sales lorry drivers as part of an effort to further enhance safety awareness and driving skills among LPG Dealers’ forklift and sales lorry drivers. There was a total of 128 participants at the training which was conducted by a certified external training consultant.

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Exercise Kidurong 16

Incidents and Emergency Preparedness

All incidents are investigated in a timely manner. Recommendations resulting from investigations which include both corrective and preventive actions are monitored, and their progress is reported to the Management. Lessons learnt from incidents are shared across the Company including with relevant contractors and business partners to prevent recurrence of similar incidents; in the form of specific action items that are monitored and tracked for closure. At all times, lessons are not only learnt at similar operations, but are also extended throughout the Company.

We also place importance on our readiness for any unexpected emergency situations. PDB Crisis and Disaster Management Manual specifies the emergency response structure along with clear roles and responsibilities. We conduct periodic assessments to ensure adequacy and effectiveness of controls to manage emergency scenarios. This includes testing of response equipment's adequacy and readiness; as well as response capabilities through emergency exercises at our operating facilities.

One of the biggest scale emergency response exercises conducted during the year under review was Tier II Emergency Response (Exercise Kidurong 16), which was jointly organised by PDB and PETRONAS MLNG. The exercise was conducted to assess the capability and readiness of our ERT and Unification of Command between MLNG, Central Emergency and Fire Services and various response agencies towards mitigation of the crisis. The exercise included full movement of ERT and deployment of emergency response equipment during emergency with external assistance from other response agencies (BOMBA, police, and hospital).

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HUMAN RIGHTS

As a member of PETRONAS group of companies, PDB respects internationally recognised human rights in areas of our operations, complying with CoBE and all relevant legal requirements which is in line with the United Nations Guiding Principles.

For the year under review, PETRONAS rolled out its Human Rights Commitment to PDB LT and various working levels. The session provides awareness on the PETRONAS Human Rights Commitment and its impact to PDB. In addition, the objective of the commitment is to ensure that our activities are governed by human rights principles, laws, best industry practices and standards to manage impacts in our areas of operation. The Commitment is applicable to all employees and contractors within PDB premises who are performing work and/or doing business for or on behalf of the Company.

As a member of the Malaysian Employee Federation, we uphold and are governed by the prevailing labour legislation. The Company adheres to the Children and Young Persons Employment Act 1966 to prevent child labour.

Our recruitment is guided by the established screening criteria in hiring the employee according to the PETRONAS Talent Sourcing Policy and Procedure.



Engagement with KAPENAS members

Freedom of Association and Collective Bargaining

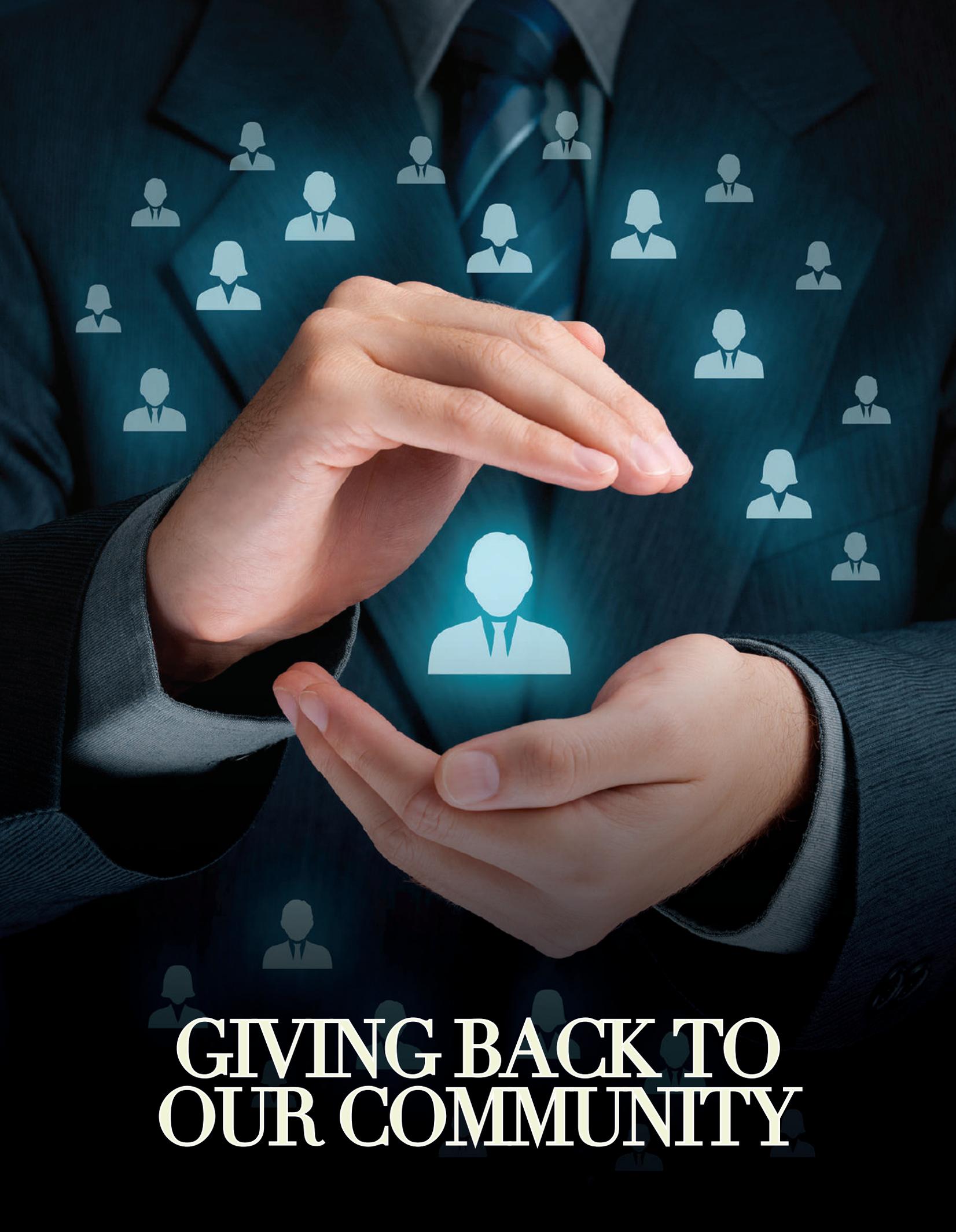
The Company respects the employees' right to freedom of association consistent with Article 10 of the Constitution of Malaysia. The Company is also guided and supported by the CoBE (Part II G) on conduct contrary to duty which is to be adhered to by the employee while involved in such activities and on his/her obligation to serve diligently. Generally, the Company encourages staff to participate in unpaid voluntary public service, associations and other community activities outside working hours.

PETRONAS has established four in house Unions, namely, Kesatuan Kakitangan Petroleum Nasional Berhad (KAPENAS) for Semenanjung Malaysia, Sarawak, Sabah and Wilayah Persekutuan Labuan. The setting up of each Union is in line with the Industrial Relations Act 1967 on Recognition and Scope of Representation of Trade Unions as highlighted in the Collective Agreement between the Company and KAPENAS. The Company recognises each house Union as the sole principal

and collective bargaining body in respect of and on behalf of all employees who are members of the Union and employed by the Company.

PDB has been continuing and sustaining its collaboration with KAPENAS in managing their members towards betterment of the Company and the employees. For the year under review, quarterly meetings with KAPENAS were conducted which saw the participation of Management, Executive and Non-Executive staff. These Unions are entrusted to uphold the wellbeing of employees through continuous engagement sessions, promoting a harmonious relationship between PETRONAS and its employees.

PETRONAS also renewed the Collective Agreement for the period 2016-2018 with KAPENAS, incorporating revisions to the employment terms and conditions. In line with the implementation of the new Collective Agreement, 27 engagements and briefings were conducted in July and August 2016 across the region.



**GIVING BACK TO
OUR COMMUNITY**

CORPORATE SOCIAL INVESTMENT

Community Investment

At PDB, we believe that the prosperity of our Company is tied to the success of its people. In turn, the front facing nature of our Retail business is contributed by the support and loyalty of our customers in Malaysia.

As a brand that fuels communities and acknowledges our customers' contributions, we are committed to giving back in the areas where we operate. Our corporate social investment initiatives provide a platform for PDB and the community to evolve together, through three focus areas namely education, community wellbeing and development of the environment.

Water For Life

Water For Life is the Company's contribution to communities living with limited access to clean, uninterrupted supply of water in areas surrounding its businesses and operations.

This is the fourth year since the inception of the programme, which is held in collaboration with PDB's regional offices and the Malaysian Nature Society. Aside from building the necessary infrastructure to provide water to the communities and improving general sanitation, the programme encourages water conservation advocacy among its recipients to ensure its sustainability for the years to come.

This year, PDB brought its Water For Life programme to three communities in Malaysia: Kampung Peta in Endau Rompin, Johor; Kampung Jongok Batu



Water for Life

in Dungun, Terengganu and Kampung Gayu in Serian, Sarawak. Each of the communities faced the same challenges in getting adequate supply of clean water for their daily needs.

Through the programme, 168 volunteers allocated 18 hours of their time to install 2,150 metres of piping, 43 water storage tanks, six filtration systems and four pumps to provide clean water for the benefit of 1,750 residents from the three different communities. The investment spent to develop the infrastructure in each location is dependent on the specific needs of the communities assisted. However, the investment typically amounts to between RM70,000 and RM80,000 per project.

At Kampung Jongok Batu, PDB provided assistance in the form of school bags and stationery sets to 52 school children from SK Jongok Batu and SK Kampung Syukur. A team from PETRONAS' Young Professionals Club also conducted a half day engagement programme with the students. The same was provided to 114 school children at SK Kampung Gayu in Kampung Gayu, Serian. The Company hopes that the contribution will encourage and motivate the students to do well in their studies.



Coffee Break

Monitoring and updates on the infrastructure provided at each of the communities assisted, ensure that our contribution to the communities under the Water For Life programme continue to bring benefits as intended.

PETRONAS Coffee Break

PETRONAS Coffee Break, the Company's flagship road safety campaign for the Chinese New Year and Hari Raya Aidilfitri festive seasons, took a significant leap in its approach in the year under review. We extended our campaign coverage to over 140 stations nationwide – a more than three fold increase as compared to previous years. This is the 17th year the campaign is held.

Close to 1.8 million cups of freshly brewed coffee were distributed during the bi annual campaign together with a variety of food and beverages. With participation from our business partners, we were able to present a more holistic approach towards advocating road safety, by offering health checks and vehicle safety inspections at selected premises during the campaign period. Leaflets containing safety tips were also distributed to motorists.

We contributed RM40,000 worth of fuel to St. John's Ambulance Malaysia for its 50 ambulances which provided emergency response services during the two festive seasons.

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GIVING BACK TO OUR COMMUNITY

PETRONAS StreetSmart



PETRONAS StreetSmart, which started in 2013, is a programme held in collaboration with Petrosains to instill important messages on road safety to school children. Approximately 1,200 students from 12 primary and secondary schools nationwide took part in the half day workshop, which consisted of interactive activities and science based experiments to pique their interest.

The collaboration was further strengthened with sharing sessions by Team PETRONAS Yamaha-CKJ riders on motorcycle safety.

'Bubur Lambuk' Cooking Sponsorship



PDB's sponsorship of Gas PETRONAS cylinders to Masjid Jamek Kampung Baru, Kuala Lumpur is an annual affair that has been ongoing for the past 14 years. During the year under review, we sponsored 160 LPG cylinders to aid the mosque in its preparation of its signature 'Bubur Lambuk Agong', which was distributed to the public throughout the entire month of Ramadan.

The sponsorship was made more memorable with an 'iftar' spread organised for 50 orphans and underprivileged children from Kompleks Anak Yatim Darul Kifayah Gombak and Rumah Kasih Harmoni Sg Buloh. The 'iftar' coincided with a special appearance by celebrity chef Datuk Redzuawan Ismail, popularly known as Chef Wan.



Charity Programme with the Less Fortunate

The Ramadan Charity Programme with the homeless. It is a collaborative project between PDB and *Pertubuhan Kebajikan Baitul Fiqh*. The objective is to reconnect our hearts and minds with the community, as well as to embrace the spirit of Ramadan with the less fortunate.

Prior to the start of the Ramadan Charity Programme, the organising committee initiated a donation drive among PDB staff, and the proceeds were used to provide 300 people with a meal, basic cleaning needs and 'duit raya'.

Volunteering Opportunities in PDB

At PDB, we believe in providing a well rounded working environment for our employees and this includes the opportunity to invest their personal time into volunteering initiatives as described earlier. Employees are encouraged to participate in community building activities based in their localities as a means to foster closer ties with the surrounding communities and enhance team spirit. The Water for Life programme in particular, is a highlight that many of our employees in the regional offices look forward to. This programme presents a different experience for these employees as it involves working close to nature.

In the future, we will consider the development of a volunteer registration system that would allow employees to receive updates on upcoming CSR projects that require volunteers and to register their participation. Together with our employees, we hope to inspire change and make a difference to society and its environment.

SL1M

SL1M-GEES-PETRONAS was created to improve the quality and employment opportunities of unemployed graduates by providing an experiential learning experience that will equip them with a diverse set of personal attributes in facilitating their transition to work in

business/corporate environment. The candidate must be Malaysian citizen aged not more than 26 years old, possess a minimum qualification of a Bachelor’s Degree and has been unemployed for at least six months to twelve months after graduation. Priority is given to underprivileged graduates from poor family backgrounds, rural areas or the urban poor.

Local Employment and Economic Opportunities

PDB’s operation is well supported by capable local Malaysian companies. PDB adheres to PETRONAS policy and guidelines for soliciting tenders from local contractors and suppliers who have license and registration with PETRONAS under the required scope of work.

Many of our retail operations are part of the local communities they serve, and our presence in these communities has tremendous impact especially when we expand or reduce our workforce. As an equal opportunity employer and responsible member of these communities, our dealers are encouraged to provide high value employment opportunities to the locals, which may include employment at our PETRONAS station that offers on the

job training as Krew PETRONAS. An example is our first commercial fuel station which began operations in Pengerang, Johor in 2015. The service station is owned by Koperasi Pengerang Johor Jaya Berhad, a cooperative representing a majority of the local residents in Pengerang. While the station is intended to provide a steady stream of income to the cooperative, it is at the same time, realising PETRONAS’ objective in increasing local content and empowering communities wherever we operate.

As an equal opportunity employer and responsible member of these communities, our dealers are encouraged to provide high value employment opportunities to the locals, which may include employment with on the job training as a Krew PETRONAS at our service station.



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GIVING BACK TO OUR COMMUNITY

CUSTOMER EXPERIENCE

PDB continues to focus on enhancing the experience of our customers. The Company operates in a highly competitive retail environment, and improving our customer experience remains a core part of delivering our strategy.

Customer Health and Safety

PDB places significant importance in our communicating health and safety of our products to our customers. Clear signage at PETRONAS stations and safety tips are diligently shared with our customers through various channels, stressing on the importance of observing safety guidelines at all times when they are within a station vicinity or during refuelling. PDB has also embarked on various initiatives and collaborations to equip our station dealers and their employees with the necessary capabilities to better handle emergency situations so that our customers feel confident and safe at our stations.



Go-To-Safety-Point launch

"Go-To-Safety-Point" at PETRONAS Stations

The "Go-to-Safety-Point" campaign is a crime prevention and safety programme collaboration between PDB and the Royal Malaysia Police. Through this programme, PETRONAS stations are designated as safety points in case of emergency. Through this collaboration, our PETRONAS

dealers and station employees are given basic training on first aid to assist victims in need of early treatment.

To date, more than 1,000 stations have been designated as safety points which the public can go to for help in case of an emergency.



Cylinder checking at customer's residence

Product Safety

All PDB products are compliant with the Occupational Safety and Health (Classification, Labelling and Safety Data Sheet of Hazardous Chemicals) Regulations 2013. The Safety Data Sheet of PDB products are accessible to the public at <https://sds.petronas.com.my>. These SDSs are used as a means of communicating HSE information to end users and persons that come into contact or handle chemicals.

In addition, PDB organise workshops and various programmes for dealers as well as commercial and non commercial customers to increase awareness and knowledge of our products and safe handling methods. An example was a workshop on LPG product knowledge and cylinder safe handling conducted during the year under review.

Customer Privacy

PETRONAS Group has developed comprehensive policies to ensure the privacy and protection of customer’s data in the organisation. This is important to ensure customer information is protected to instill their confidence towards our organisation. Customer data needs to be secured so as not to jeopardise sensitive information and to maintain the company’s confidentiality and reputation.

As a domestic retailer, PDB offers convenience to customers for their fuelling needs through *Kad Mesra* and PETRONAS SmartPay fleet cards. To safeguard our customers’ privacy, PDB has adopted all data management policies as best practices in the company. In addition, regulations standards and external guidelines such as Personal Data Protection Act 2010, Bank Negara Secrecy Provisions of Financial Services Act 2013, Islamic Financial Services Act 2013, Development Financial Institutions Act 2002 and the Payment Card Industries Data Security Standards are being adhered by the company.

In line with the growth of PDB, the implementation of business digitalisation and new tools have strengthened the communication between PDB and the masses. Similarly, security technologies are also being enhanced to ensure the privacy and protection of customers’ data at all times. These activities are being monitored end-to-end from the point of data collection to the disposal stage with strict adherence.

Customer Engagement and Conflict Resolution Mechanism

In search of profitable organic growth, more and more companies are making huge investments in elevating their end to end customer experience. Investing and practicing it well will lead to an increase in customer loyalty, support and satisfaction.

At PDB, we map and track our customer experience and activities at our PETRONAS stations, through our loyalty programmes, call centres, social media and websites.

Our Mesralink call centre was established as an avenue to assist customers with any difficulties relating to PDB’s services and products. Besides the contact centre, we also monitor, gather and respond to customer feedback from various social media.

We view social media as a strategic platform for increasing our brand equity among social media users. The postings made on the various social media assets attributed to PETRONASBrands are part of an integrated marketing and communications strategy employed by the company to reach, engage and convert customers through positive interaction. In addition to sharing with followers the latest offerings from the company, social media also provides a humanised element to how we communicate and convey our messages, thereby improving trust and credibility towards the brand.

PDB has continued to strengthen its social media presence since 2012. To date, we have garnered 1.1 million fans on Facebook, 125,000 followers on Twitter, 48,000 followers on Instagram and 25.6 million views on YouTube. PDB was also awarded the Malaysian Social Media Week’s Social Media Excellence Award for 2015 and 2016.

PDB has developed a process that will allow our customers to reach PDB and provide feedback.





Hubungi kami

Anda adalah keutamaan kami dan maklum balas anda amat kami hargai. Hubungi kami untuk berkongsi pengalaman atauemukakan sebarang pertanyaan mengenai produk dan perkhidmatan PETRONAS.

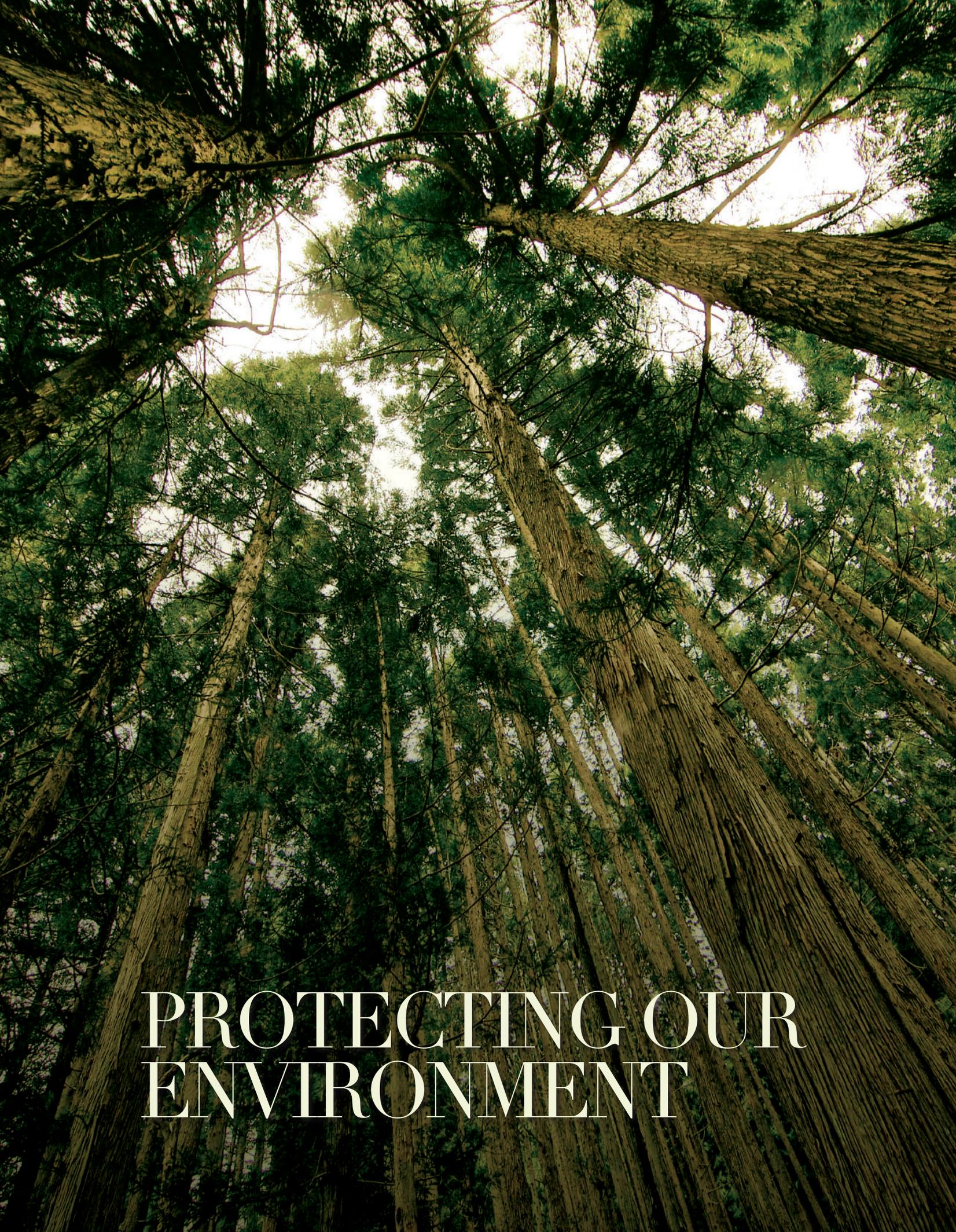
Contact us

You are important to us and we value your feedback. Share with us your experience or make enquiries on any of our PETRONAS products and services.



PETRONAS Mesralink
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PROTECTING OUR
ENVIRONMENT

In line with the Company's HSE Policy, PDB is committed to minimising any impact to the environment by managing our emissions, discharges and wastes responsibly and using energy, water and other resources more efficiently.

Aspects that are material to us and our stakeholder in terms of reducing environmental impact include climate change and emissions to air, management of accidental spills, and waste management.

(For more details on Company's approach in managing these material environmental aspects, please refer to page 189)

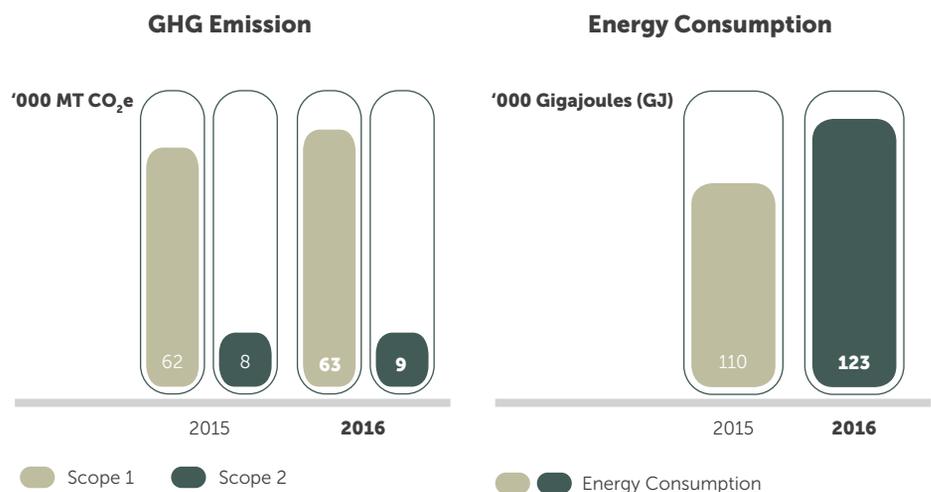
CLIMATE CHANGE AND GHG EMISSION

Climate change continues to be a key global issue that will be a priority across all industries. As a leading retailer and marketer of downstream oil and gas products in Malaysia, PDB recognises the emerging climate change risks and supports the use of renewable energy.

We began our first step in 2015 by disclosing our GHG data. We will continue to leverage on existing standards and processes such as the PETRONAS Technical Standards for GHG Monitoring, Reporting and Verification, to guide us in strengthening our efforts to improve the completeness, accuracy and transparency in monitoring and reporting our GHG emissions. The scope of our GHG disclosure covers direct and indirect emissions from terminal, fleet and office operations in Malaysia. Our direct (Scope 1) emissions are derived from our road tanker operations and company owned vehicles. Our indirect (Scope 2) emissions include emissions from electricity purchased from the grid. In 2016, our total GHG emissions were approximately 72,430 MT of carbon dioxide equivalent (MT CO₂e). No significant change in our GHG emissions was observed in 2016 compared to 2015.



GHG Emissions from road tankers



The Company's road tanker operations and company owned vehicles utilised approximately 19,638 MT of diesel, while electricity consumption from offices and terminal operations was approximately 123,425 GJ increased by approximately 12% from 2015.

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LED lighting at a PETRONAS station



PETRONAS Dynamic Diesel Euro 5 at a PETRONAS station

Energy Efficiency and Renewable Energy

In 2015, PDB commenced installing LED lighting at the forecourt and perimeter, as well as for signage lighting at 10 PETRONAS stations. Apart from improving overall lighting quality and illumination, the use of LED lighting is expected to save as much as 50% electricity as compared to conventional fluorescent lighting. To date, a total of 48 PETRONAS stations have been installed with LED lighting. We are continuously reviewing opportunities to expand the use of LED lighting across our network.

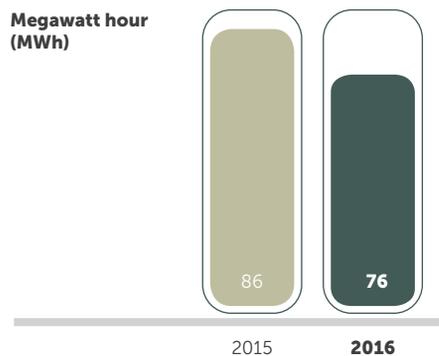
The Company continued with its initiative to convert solar energy into electricity using photovoltaic technology at our PETRONAS Twin Stations (PETRONAS Solaris Putra and PETRONAS Solaris Serdang). In 2016, the solar panel generated approximately 76 megawatt hour of electricity and the power was fed back to the grid.

Amidst concerns over energy security, volatile fuel prices and rising greenhouse gas emissions, many countries are turning towards biofuels as a more environmental friendly alternative to fossil fuels. In line with the Malaysian Government's direction to promote the use of cleaner renewable energy, the implementation of biodiesel initiative has been extended to the whole of Malaysia. B5 biodiesel was introduced at PDB stations in 2011, followed by B7 biodiesel in 2014. In addition to a lower GHG emissions, the use of biodiesel also reduces harmful emissions of polynuclear aromatic hydrocarbons from exhausts compared to conventional petroleum diesel. This year, the introduction of PETRONAS Dynamic Diesel Euro 5, which meets the more stringent diesel fuel standards, retains the B7 blend and is currently available at selected PETRONAS stations.

(For more details on PETRONAS Dynamic Diesel Euro 5, please refer to page 129)

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Solar Power Generated



PROTECTING OUR ENVIRONMENT

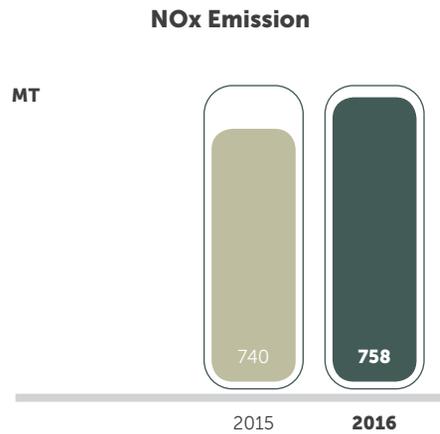
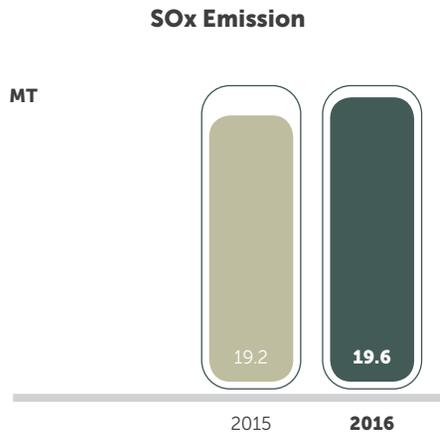


Electric Vehicle Charging Facility

PDB has also accepted a collaboration effort by GreenTech Malaysia to provide charging facilities for electric vehicles at PETRONAS stations. This collaboration is in support of the Malaysian Government’s National Electric Mobility Blueprint, as well as its vision of achieving a 45% reduction in greenhouse gas emissions intensity of GDP by 2030. At the end of the year under review, three PETRONAS stations have been equipped with the charging facilities. More electric vehicle charging facilities will be made available at our stations in the future.

Emissions

Emissions of SOx from our fleet operations and diesel consumption at our Malaysian terminals increased slightly from 19.2 MT in 2015 to 19.4 MT in 2016. NOx emissions also increased slightly from 740 MT in 2015 to 758 MT in 2016.



In line with the recently promulgated Malaysian Environmental Quality (Clean Air) Regulations 2014, PDB has established a risk based approach for the implementation and compliance with the new regulatory requirements for vapour recovery system to capture petrol vapours at selected facilities over several years. This is in addition to the existing control systems already in place that limit the emissions of vapours.



PETRONAS Primax 97 at PETRONAS station

Environmental stewardship in PDB is also translated through the fuel products that we formulate and offer to our customers. In 2015, PDB began introducing PETRONAS Primax 97 with Advanced Energy Formula that meets the more stringent Euro 4M specifications. The fuel has lower sulphur and benzene content compared to the previous Euro 2M fuel. In addition, our PETRONAS Primax 97 with Advanced Energy Formula provides better combustion, thereby reducing overall vehicular exhaust emissions of SOx, NOx, particulate matter and volatile organic compounds.

At the end of the year under review, our cleaner and greener PETRONAS Primax 97 with Advanced Energy Formula have been made available at 692 PETRONAS stations nationwide.

Environmental stewardship in PDB is also translated through the fuel products that we formulate and offer to our customers. At the end of the year under review, our cleaner and greener PETRONAS Primax 97 with Advanced Energy Formula that meets the more stringent Euro 4M specifications is available at 692 PETRONAS stations in Malaysia

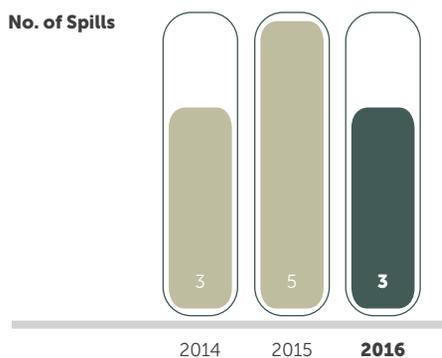
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Spills

In 2016, the number of hydrocarbon spills to the environment greater than one barrel was three, down from five in 2015. Efforts to reduce accidental oil spills included focusing on asset integrity and maintenance programmes, as well as the continued improvement of our risk management processes. All our fuel dispensing systems are equipped with secondary containment, leak detection and monitoring systems to prevent and detect releases to the environment. Spill and overfill control equipment is installed to ensure the filling of underground storage tanks is safe. On going maintenance and upgrading programmes are replacing older components. We continued with our LOPC Prevention Programme, which started in 2014, focusing on design and integrity improvement, maintenance and replacement of piping, storage and associated fittings. To date, work at over 90% of the identified sites under the programme has been completed.

Spills to the Environment (>1 bbl)



We carry out emergency oil spill response exercises at our facilities. These activities are embedded in our emergency preparedness and crisis management programme with the objective of improving our preparedness and response capabilities in the event of spills. We also leveraged on strategic partnerships with relevant authorities and organisations such as the Petroleum Industry of Malaysia Mutual Aid Group to tap into additional resources for initiating faster response and improving vigilance against potential oil spill crises.

(For more details on Incidents and Emergency Preparedness, please refer to page 196)

Hazardous Waste Management

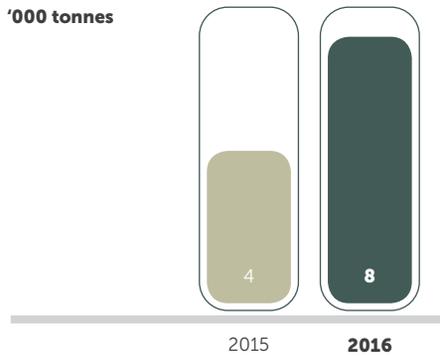
As part of our efforts to strengthen waste management, we revised our existing Waste Management procedure and incorporated tools to help our facilities comply with the regulatory requirements for the handling and disposal of hazardous waste. The revised procedure will be fully rolled out across the Company in 2017 and will also include upskilling of employees who handle and manage waste.

For the year under review, PDB generated about 8,000 MT of hazardous waste consisting primarily of spent filters, oil sludge and oil contaminated materials from all our Malaysian terminal operations. The increase in hazardous waste generated was due to tank cleaning activities at 19 terminals and disposal of oil contaminated matters from spills in the previous year.

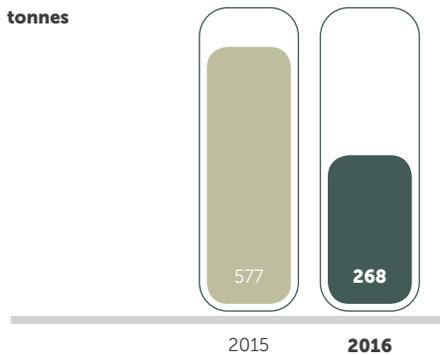
We will continue to collect and analyse our waste data to find ways to minimise generation, reduce disposal and increase recycling and recovery efforts.

PROTECTING OUR ENVIRONMENT

Hazardous Waste Generated



Hazardous Waste Recycled



We continued with the previous year's waste oil recovery initiative at our Bayan Lepas Aviation Terminal's oil interceptor. The initiative did not only record a reduction of waste oil sent for disposal, it continued to save some man hours spent on carrying the task manually and resolved ergonomic issues associated with the task.

We will continue to enhance our initiatives to minimise generation, reduce disposal and increase recycling as well as recovery of hazardous waste at PDB facilities in the coming years.



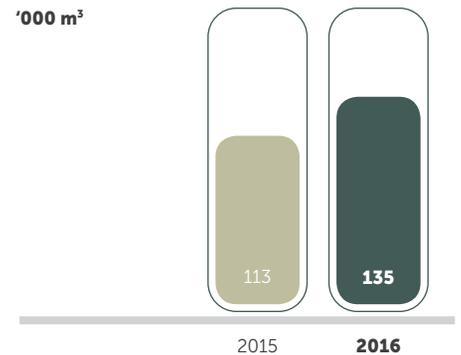
Water

Our terminal operations largely involve storage, handling and distribution of refined fuels, and as such, the use of water in our operations is limited. Nonetheless, we recognise the need to manage water responsibly due to the increasing risks of water scarcity due to growing population, urbanisation and industrialisation which has increased demand for water resources. We began to monitor fresh water withdrawal and effluent quality closely in 2015 and continued to do so in the year under review.

Fresh water withdrawal increased from 113 thousand cubic meters in 2015 to 135 thousand cubic meters in 2016. Water is mainly used for LPG cylinder washing and chain lubrication at our LPG terminals, and sanitary uses at all terminals.

Another way of protecting our fresh water resources is to ensure we minimise the harm when we discharge to the natural waterways. All of our facilities are equipped with oil interceptor systems to prevent any unplanned or uncontrolled discharges from directly entering public drains. Effluent from LPG cylinder washing area is treated in wastewater treatment plant to ensure compliance with applicable regulatory standards before final discharge.

Freshwater Withdrawal



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STATEMENT ON CORPORATE GOVERNANCE

The Board of PDB believes that good corporate governance is an indication of the commitment by the Board to achieve the highest standards of professionalism and strives to ensure that it is practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.

This Corporate Governance Statement seeks to provide investors with vital insights into the corporate governance practices of PDB. In this Statement, the Board reports on the manner the Group has adopted and applied the principles and best practices as set out in MMLR of Bursa Malaysia, MCCG 2012 and MSWG.

BOARD OF DIRECTORS



Board Charter

In discharging the Board's duties and responsibilities effectively, the Board is guided by its Board Charter, a document which sets out the principles and guidelines that are to be applied by the Board and Board Committees. On 8 November 2016, the Board reviewed and approved revisions to the Board Charter, where delineation of the roles of the Chairman and MD/CEO's were inserted. In addition, various provisions were updated to ensure the document remains relevant and consistent with the applicable rules and regulations and recommended best practices.

The Board Charter is accessible to the public for reference on PDB's official website at www.mymesra.com.my.

Principal Roles and Responsibilities of the Board

The Board is entrusted with the overall governance of PDB, the responsibility to exercise reasonable and proper care of PDB's resources for the best interests of its shareholders as well as to safeguard PDB's assets.

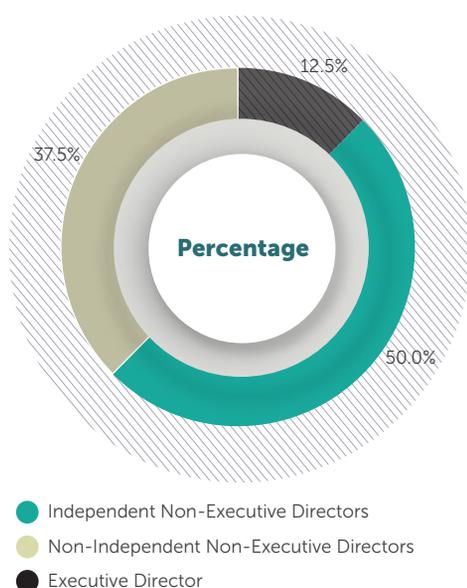
In discharging its fiduciary and leadership functions, the main roles and responsibilities of the Board are as follows:

- To review, approve and monitor the strategic business plans, goals and key policies proposed by the Management to ensure sustainability and optimisation of long term returns;
- To ensure that appropriate policies are in place, adopted effectively and are regularly reviewed;
- To review and approve financial statements;
- To review and manage principal risks and adequacy of PDB's internal control systems including systems for compliance with applicable laws, regulations, rules and guidelines; and
- To ensure that there is an appropriate succession plan for members of the Board and the LT.

Board Composition

The Board currently comprises eight members, one of whom holds an Executive Office, having a dual role as Managing Director and Chief Executive Officer. On 19 February 2016, the Board approved the re-designation of Datuk Anuar Ahmad as an Independent Non-Executive Director effective 15 April 2016. With the re-designation of Datuk Anuar Ahmad, the Independent Non-Executive Directors consist of 50% of the Board's composition. In addition, none of the Board members is a former MD/CEO of PDB for the past two years.

As at the date of this report, the Board's composition is as follows:



The composition of the Board exceeds the requirements of Paragraph 15.02 of the MMLR of Bursa Malaysia in view that 50% of its composition are independent directors. The roles of independent directors are crucial particularly in the areas of related party transactions where their presence is imperative to protect the interest of the minority shareholders.

The Directors are selected based on their individual merits and experience. The current Board's composition comprises individuals of diverse backgrounds with expertise and skills amongst others in the oil and gas industry, economics, engineering, commercial, marketing and corporate planning. The current overall Board's composition has the adequate size and diversity of age, gender and ethnicity. These are important to ensure diversity of views, facilitate effective decision making and constructive board deliberation during its meetings.

The profile of each Director is presented on pages 032 to 047 of this Annual Report.

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

The Independent Non-Executive Directors do not participate in the day-to-day management of the Group nor engage in any business dealing or other relationship with any companies within the Group. The Independent Non-Executive Directors play a significant role in providing unbiased and independent views, advice and judgement taking into account the interests of relevant stakeholders including minority shareholders of PDB. For the year under review, the Independent Non-Executive Directors have reaffirmed their independence based on the criteria of Independent Directors as provided in the MMLR of Bursa Malaysia.

In accordance with the MMLR of Bursa Malaysia, none of the members of the Board holds more than five directorships in listed companies. Prior to acceptance of any other appointment for directorships in other listed companies, the Directors are required to first notify the Chairman to ensure that such appointments would not unduly affect their time commitment and responsibilities to the Board.

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Chairman and MD/CEO

The Board practices a clear demarcation of duties and responsibilities between the Chairman and MD/CEO to ensure a balance of power and authority in the Board. The positions of Chairman and MD/CEO are held by two different individuals.

The Chairman is primarily responsible for the orderly conduct and function of the Board whilst the MD/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group’s strategies and policies. The Chairman of PDB is a Non-Independent Non-Executive Director.

The MD/CEO is assisted by the LT in managing the business on a day-to-day basis, with whom he consults regularly. The LT ensures that effective systems, controls and resources are in place to execute business strategies and decisions taken by the MD/CEO and/or the Board.

Senior Independent Director

Lim Beng Choon who fulfills the criteria of an Independent Director pursuant to the MMLR of Bursa Malaysia was appointed as the Senior Independent Director. As a Senior Independent Director, he acts as the main liaison between the Independent Directors and the Chairman on matters that may be deemed sensitive and also provides an alternative communication for shareholders and stakeholders to convey their concerns and raise issues so that these can be channeled to the relevant parties.

All queries relating to the Group can be channeled to the Senior Independent Director’s email address, bengchoon.lim@petronas.com.my or directed to the following address:

Lim Beng Choon
 Senior Independent Director
 PETRONAS Dagangan Berhad
 Level 68, Tower 1, PETRONAS Twin Towers
 Kuala Lumpur City Centre
 50088 Kuala Lumpur
 Malaysia

The Roles and Responsibilities of Chairman, Senior Independent Director and MD/CEO

The roles and responsibilities of the Chairman

- i) Leading the Board in setting the values and ethical standards of PDB;
- ii) Chairing the Board meetings and stimulating debates on issues and encouraging positive contributions from each Board member;
- iii) Consulting with the Company Secretary in setting the agenda for Board meetings and ensuring that all relevant issues are on the agenda;
- iv) Maintaining a relationship of trust with and between the MD/CEO and Non-Executive Directors;
- v) Ensuring the provision of accurate, timely and clear information to Directors;

- vi) Ensuring effective communication with shareholders and relevant stakeholders;
- vii) Arranging evaluation of performance of Board members, its Committees and individual Directors, including assessment of the independence of Independent Directors;
- viii) Ensuring that all Directors are properly briefed on issues arising at Board meetings and there is sufficient time allowed for discussion on complex or contentious issues and where appropriate, arranging for informal meetings beforehand to enable thorough preparations;
- ix) Allowing every Board resolution to be voted on and ensuring the will of the majority prevails;
- x) Casting his votes in accordance with the prescribed of PDB's constitution;
- xi) Ensuring that all Board members, upon taking up their office, are fully-briefed on the terms of their appointment, time commitment, duties and responsibilities, and the business of PDB; and
- xii) Acting as liaison between the Board and LT, and between the Board and the MD/CEO.

The Roles and Responsibilities of Senior Independent Director

Senior Independent Director acts as the point of contact between the Independent Non-Executive Directors and Chairman on sensitive issues and has been identified as a designated contact to whom shareholders' concerns or queries may be raised, as an alternative to the formal channel of communication with shareholders.

The Roles and Responsibilities of MD/CEO

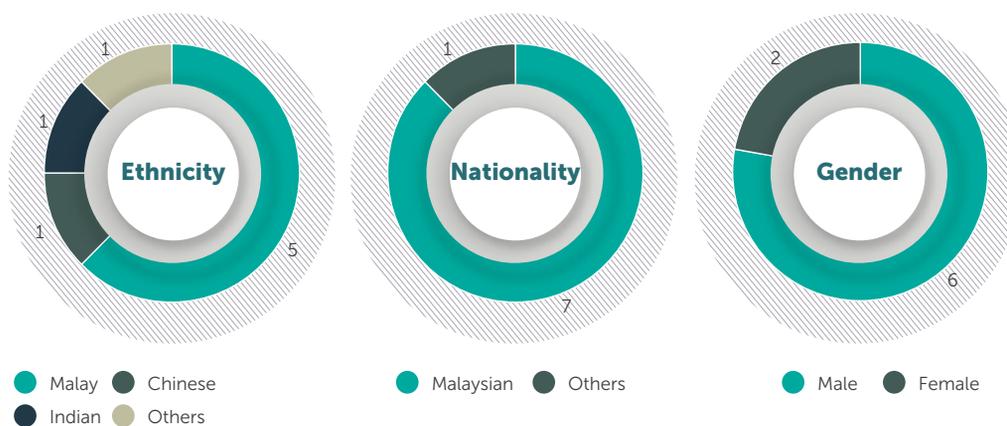
- i) Develop and recommend to the Board the long term strategy and vision for PDB and/or Group that leads to the creation of long term prosperity and stakeholder value;
- ii) Develop and recommend to the Board the business plan and budget that support PDB's and/or Group's long term strategy;
- iii) Foster a corporate culture that promotes ethical practices, encourages individual integrity and the fulfilment of PDB's corporate social responsibilities;
- iv) Maintain a positive and ethical working environment that is conducive to attracting, retaining and motivating a diverse work-force at all levels;
- v) Recommend suitable management structure and operating authority levels which include delegations of responsibilities to the Management;
- vi) Ensure an effective LT below the level of the MD/CEO and to develop an appropriate succession plan;
- vii) Formulate and oversee implementation of major corporate policies;
- viii) Accountable to the Board for the financial management and reporting, including forecasts and budgets of PDB;
- ix) Periodic reporting to the Board on the Group's financial and business performance;
- x) Ensure continuous improvement in quality and value of the PDB's products and services; and
- xi) Serve as spokesperson for PDB.

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Board Diversity

The Board recognises that diversity is a key driver to enhancing its effectiveness by allowing for a broader scope for debate within itself. On 15 August 2016, the Board approved the Diversity Policy with the objective to ensure a mix of member profiles in terms of age, ethnicity and gender. A diverse Board is necessary to provide unique perspectives, experience and expertise to achieve effective stewardship and management.

The current Board's diversity in terms of ethnicity, nationality and gender are as follows:



The current Board's age distribution falls within the respective age groups as follows:

Age Group	51-55	56-60	61-65
Number of Directors	4	2	2

The Board Diversity Policy is accessible to the public for reference on PDB's official website at www.mymesra.com.my.

Board Meetings

The Board meets at least quarterly with additional meetings convened as and when necessary. The Board, Board Committees and AGM meetings for the year under review are scheduled in November 2015 to facilitate the Directors in planning ahead and incorporating the said meetings into their respective schedules. This also serves to provide the members with ample notice of the meetings.

Amongst matters deliberated at the Board meetings include strategies, business plans and budget, financial and business performance report, major investments and financial decisions, corporate risk report, changes to the organisation structure within the Group, key policies and limits of authority. The respective Chairman of Board Audit Committee and Nomination and Remuneration Committee also update the Board on the proceedings of their respective Committees' meetings. All proceedings of Board meetings are duly minuted and signed. Minutes of each Board meeting are properly kept by the Company Secretary.

During the year under review, the Board met a total of five times. All Directors complied with the minimum attendance requirement of at least 50% of Board meetings held during the year pursuant to the MMLR of Bursa Malaysia.

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Supply and Access to Information

Prior to each Board meeting, the agenda and Board papers encompassing comprehensive qualitative and quantitative information which include objectives, background, critical issues, implications, risks, strategic fit, recommendations and other pertinent information are circulated to the Directors to enable an informed decision making by the Board.

The Board papers are circulated to all Directors at least five business days prior to each Board meeting. This enables the Directors to have sufficient time to peruse the Board papers and seek clarifications or further details from the Management or the Company Secretary before each meeting. Any Director may request matters to be included in the agenda. Urgent papers may be presented and tabled at meetings under the item 'Any Other Business', subject to the approval of both the Chairman and MD/CEO.

Presentations and briefings by the Management and relevant external consultants, where applicable, are also held at Board meetings to advise the Board. In this regard, relevant information is furnished and clarification given to assist the Board in making a decision.

Access to Board papers is carried out online through a collaborative software which allows the Directors to securely access, to read and review Board documents and collaborate with other Directors and the Company Secretary electronically at any time.

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

Board Committees

To assist the Board in discharging its duties, the Board has established two Board Committees, namely, the Board Audit Committee and the Nomination and Remuneration Committee. The reports of these two Committees are set out on pages 236 to 245 of this Annual Report.

Continuing Development Programme for Directors

All Directors have attended the Mandatory Accreditation Programme as required under the MMLR of Bursa Malaysia.

The Directors are regularly updated on the Group's business activities and the competitive and regulatory environment in which the Group operates. As an integral part of orientation programme for new Directors, the Company provides comprehensive briefings on the Group's operations and financial performance as well as site visits to the Group's facilities.

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In line with Recommendation 4.2 of MCCG 2012, the Directors recognise the importance and value of attending conferences, training programmes and seminars in order to keep themselves abreast with the development and changes in the industry the Group operates, as well as to update themselves on new statutory and regulatory requirements. During the year under review, the Directors attended and participated in programmes, conferences and seminars that covered the areas of corporate governance, financial, relevant industry updates and global business developments which they considered as useful in contributing to the effective discharge of their duties as Directors. The Directors also participated in the familiarisation visit to the Group's various facilities.

During the year under review, the Directors participated in seminars and training programmes in various capacities including as delegates and/or speakers, the details of which are set out below:

No	Director	Training Programmes attended	Dates
1.	Md Arif Mahmood	<ul style="list-style-type: none"> Downstream Digital Workshop Downstream Commercial Excellence: 2nd Workshop Bain Southeast Asia Transformation Leaders Forum PETRONAS Cultural Beliefs Workshop Offshore Technology Conference Asia 2016 PDB Commercial Excellence Solutioning Workshop Vopak-Global Minds Conference Downstream Operational Excellence Forum and Award 	19 – 20 January 2016 5 February 2016 2 March 2016 8 March 2016 22 March 2016 30 March 2016 5 October 2016 17 October 2016
2.	Mohd Ibrahimuddin Mohd Yunus	<ul style="list-style-type: none"> PETRONAS Cultural Beliefs Engagement Sessions PDB Commercial Excellence Solutioning Workshop Visit to Pengerang Integrated Complex Project Site, Pengerang, Johor Leadership Sharing in Foundation of a Leadership Programme PETRONAS Board Excellence : Essentials for Directorship Programme PETRONAS Cultural Beliefs-Train the Facilitator Session 	16 March 2016 30 March 2016 23 July 2016 22 August 2016 6 September 2016 20 October 2016
3.	Lim Beng Choon	<ul style="list-style-type: none"> Sustainability Engagement Series for Directors and CEO Visit to Pengerang Integrated Complex Project Site, Pengerang, Johor 5th PETRONAS Board Audit Committee Forum MISC Board Annual Training: <ul style="list-style-type: none"> Ethics and Compliance Financial Reporting Updates on Changes in Reporting Standards 	31 March 2016 23 July 2016 16 August 2016 11 November 2016
4.	Vimala V.R. Menon	<ul style="list-style-type: none"> New Auditor's Report – Sharing the UK Experience Corporate Governance Breakfast Series – Improving Board Risk Oversight Effectiveness Ensuring Organisation's Sustainability through Integrated Strategic Corporate Risk Management Programs Visit to Pengerang Integrated Complex Project Site, Pengerang, Johor General and Detailed Sustainability Statements in Annual Report 2017 Best Practices for Board Excellence 5th PETRONAS Board Audit Committee Forum 	13 January 2016 26 February 2016 11 July 2016 23 July 2016 25 July 2016 3 August 2016 16 August 2016
5.	Datuk Anuar Ahmad	<ul style="list-style-type: none"> Putting an Effective Board in Place Updates on the New Companies Bill Visit to Pengerang Integrated Complex Project Site, Pengerang, Johor 	23 March 2016 23 March 2016 23 July 2016
6	Erwin Miranda Elechicon	<ul style="list-style-type: none"> Importance of Good Corporate Governance in Building Business and Sustaining Growth Site Visit – Solaris Putra PETRONAS Station Corporate Directors Training Programmes (Intermediate) 	18 May 2016 7 November 2016 9 – 10 November 2016

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No	Director	Training Programmes attended	Dates
7.	Nuraini Ismail	<ul style="list-style-type: none"> • Board of Directors Development Programme – PETRONAS and Malaysian Directors Academy (“MINDA”) Inception Programme • Visit to Pengerang Integrated Complex Project Site, Pengerang, Johor • PETRONAS Leadership Dialogue: Transformation Engagement • 5th PETRONAS Board Audit Committee Forum • Effective Receivable Management Work for Upstream 	<p>26 February 2016</p> <p>23 July 2016</p> <p>1 August 2016</p> <p>16 August 2016</p> <p>17 August 2016</p>
8.	Ir Mohamed Firouz Asnan	<ul style="list-style-type: none"> • Board of Directors Development Programme – PETRONAS and Malaysian Directors Academy (“MINDA”) Inception Programme • Site Visit to Prai Terminal • Refining and Trading Leadership Team Visit to Tanjung Bin and Pengerang • Visit to the Brackley Plant – AMG Mercedes factory • Speaker for Panel Session at the 32nd Asia Pacific Petroleum Conference (“APPEC 2016”) • The Annual General Meeting – A Practical Insight and Managing Shareholder’s Expectations 	<p>26 February 2016</p> <p>28 March 2016</p> <p>17 May 2016</p> <p>24 May 2016</p> <p>8 September 2016</p> <p>14 December 2016</p>

Re-Election of Directors

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

As per Recommendations 3.2 and 3.3 of MCCG 2012, the tenure of an independent director should not exceed a cumulative term of nine years. Currently, none of the Independent Non-Executive Directors of PDB has served the Board for more than nine years.

Board Effectiveness Evaluation

The Company conducts an annual evaluation of the effectiveness of its Board and Board Committees. It comprises a Board Evaluation, Board Committees Evaluation, Individual Director Self and Peer Evaluation and Board Skills and Experience Mapping (‘Board Evaluation’). The purpose of the Board Evaluation is to measure the effectiveness of the performance of the Board and Board Committees. The Board Evaluation also addresses the Board’s and each Board Committee’s attention on areas for improvement as part of discharging his/her role as a Director of PDB.

The Board provided its feedback and assessment on the MD/CEO and the Chairman. From the Board Evaluation, it was noted that MD/CEO and Chairman's role are balanced and linked to the current strategy and future aspirations of PDB.

The questionnaires on the Board Evaluation are prepared internally incorporating applicable best practices. The indicators for the performance of the Board include factors such as conduct, participation and communication with the Management and stakeholders as well as overall strategy and planning for PDB. The performance indicators for individual Directors include roles, leadership and contribution to PDB.

The analysis on the Board Evaluation was presented to the Nomination and Remuneration Committee for deliberation. A summary of the Board Evaluation was presented to the Board by the Chairman of the Nomination and Remuneration Committee with a view to discuss areas for improvement.

Directors' Fees

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

	Monthly Fees	Meeting Allowance per Attendance		
		Board	Board Audit Committee	Nomination and Remuneration Committee
Chairman	RM9,000	RM4,000	RM3,000	RM3,000
Member	RM6,000	RM3,000	RM2,000	RM2,000

The fees and allowances for Non-Executive Directors are determined by the Board and are subject to the approval of the shareholders of PDB.

The Director's fees and meeting allowances for Non-Independent Non-Executive Directors who are also employees of PETRONAS and holding positions of Vice President and above are paid directly to PETRONAS.

For the year under review, the breakdown of the Directors' fees are as follows:

Name of Directors	Directors Fees (RM)	Board Meeting Attendance Fees [^] (RM)	Audit Committee Meeting Attendance Fees [^] (RM)	Nomination and Remuneration Committee Meeting Attendance Fees [^] (RM)	AGM (RM)	Fuel Allowance (RM)	Total (RM)
Md Arif Mahmood	108,000	20,000	Nil	Nil	4,000	Nil	132,000*
Mohd Ibrahimuddin Mohd Yunus	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Lim Beng Choon	72,000	15,000	8,000	6,000	3,000	3,000	107,000
Vimala V.R. Menon	72,000	15,000	12,000	Nil	3,000	6,000	108,000
Datuk Anuar Ahmad	72,000	15,000	6,000	Nil	3,000	6,000	102,000
Erwin Miranda Elechicon	72,000	12,000	Nil	4,000	3,000	Nil	91,000
Nuraini Ismail	72,000	15,000	6,000	Nil	3,000	Nil	96,000*
Ir Mohamed Firouz Asnan	72,000	12,000	Nil	4,000	3,000	Nil	91,000*
Total	540,000	104,000	32,000	14,000	22,000	15,000	727,000

* Fees paid and payable to PETRONAS

[^] Meeting attendance fees are based on the number of meetings attended by the Directors.

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The Directors' fees are broadly categorised into the following bands:

Range of Remuneration	Number of Directors	
	Executive	Non-Executive
RM50,000 and below	–	–
RM50,001 to RM100,000	–	3
RM100,001 to RM150,000	–	4
RM700,000 to RM1,000,000	1	–

The remuneration package for the Executive Director of PDB is a combination of fixed monthly salary, benefits in kind and performance bonus. As an Executive Director, he is not entitled to receive Directors' fees and meeting allowances.

Mohd Ibrahimuddin Mohd Yunus, MD/CEO and an Executive Director of PDB, is an employee of PETRONAS and is seconded to PDB. In consideration of MD/CEO's service to PDB, PDB is required to pay manpower cost to PETRONAS to cover all payroll-related costs and benefits ordinarily incurred by him in the course of his employment. During the year, PDB paid RM731,909.04 as manpower cost.

Pursuant to Article 84 of the Constitution of the Company, the Directors are entitled to hotel and other expenses incurred by them in attending meetings and for the purposes of performing their duties as Directors of PDB.

RELATIONSHIP WITH SHAREHOLDERS



Communications between PDB and its Investors

The Board recognises the importance of effective communication with PDB's shareholders and other stakeholders including the general public. Information on the Group's business activities and financial performance is disseminated timely through announcements to Bursa Malaysia, postings on PDB's website, press releases, issuance of the Annual Report and where required, press conferences. Immediately after the conclusion of the AGM, PDB will hold a press conference with the media and any materials distributed during the press conference are published in PDB's website.

The MD/CEO together with the CFO and the Company's Investor Relations Unit conduct regular engagement with institutional shareholders and analysts, and hold quarterly analyst briefings to further explain the Group's quarterly financial results. These engagements promote better understanding of the Group's financial performance and operations.

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PDB actively updates its website www.mymesra.com.my with the latest information on the corporate and business aspects of the Group. Press releases, announcements to Bursa Malaysia, analyst briefings and quarterly results of the Group are also made available on the website and this helps to promote accessibility of information to PDB's shareholders and other stakeholders. Communication and feedback from investors can also be directed to the email address, nurasyirin@petronas.com.my or alternatively, they can be addressed to:

Nur Asyirin Ibrahim
 Head, Investor Relations Unit
 Financial Accounting and Operations Department
 Finance Division
 Level 31, Tower 1
 PETRONAS Twin Towers
 50088 Kuala Lumpur
 Malaysia

Annual General Meeting

The AGM is the principal forum of open dialogue with shareholders. The notice and agenda of AGM together with Forms of Proxy are given to shareholders not less than 25 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint proxy to attend and vote on their behalf. Each item of ordinary business included in the notice of the AGM will be accompanied by an explanatory statement on the effects of the proposed resolution.

During the AGM, the MD/CEO presents a comprehensive review of the Group's performance initiatives and value created for shareholders. This review is supported by a visual and graphic presentation of the key points and financial figures. Questions raised by the MSWG prior to the AGM are also shared with shareholders during the AGM together with feedback on pertinent issues and queries relating to PDB's business which is uploaded onto PDB's website prior to the day of the AGM.

At each AGM, shareholders are encouraged and given sufficient opportunity as well as time by the Board to raise questions on issues pertaining to the Annual Report, resolutions being proposed and the business of PDB or the Group in general prior to seeking approval from shareholders on the resolutions. Pursuant to Paragraph 8.29A of MMLR of Bursa Malaysia, each resolution to be tabled at an AGM is to be voted by poll. Consequently, decisions at PDB's AGM scheduled to be held on 19 April 2017 will be conducted via electronic polling. For this purpose, PDB will engage independent scrutineers to validate the voting at the AGM for each proposal presented to shareholders.

The Board, LT and external auditors are present at the AGM to provide answers and clarifications to shareholders.

The minutes of the AGM are accessible to the public for reference on PDB's official website at www.mymesra.com.my.

ACCOUNTABILITY AND AUDIT



Financial Reporting

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

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements is set out on page 248 of this Annual Report.

Risk Management and Internal Control

The information related to Policies and Procedures on RPTs and COI Situations, Risk Management processes and Internal Control procedures can be found in the Statement of Risk Management and Internal Control and the Board Audit Committee Report on pages 227 to 235 and pages 236 to 241 of this Annual Report.

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INTEGRITY AND ETHICS



The Board further acknowledges its role in establishing a corporate culture comprising ethical conduct within the Group. In line with this principle, the Board has adopted the PETRONAS CoBE, the WBP and the ABC Manual. The adoption of these policies is to ensure that the conduct of business of PDB and its employees are consistently carried out ethically and with integrity.

Code of Conduct and Business Ethics

The Group adopts and practices the PETRONAS CoBE. Further information on CoBE can be found on page 087 of this Annual Report.

Whistleblowing Policy

The Group has adopted the PETRONAS WBP which provides an avenue for the Group employees and members of the public to disclose any improper conduct in accordance with the procedures as provided under the Policy.

Further information on the PETRONAS WBP can be found on page 233 of this Annual Report.

Trading on Insider Information

On a quarterly basis, the Company Secretary issued a Notice of Closed Period to Directors and LT, highlighting the requirements with regard to dealing in the Company's shares during "Closed Period"/"Outside Closed Period" as they are in a possession of price sensitive information relating to PDB.

During the year under review, there were no cases reported on insider trading.

Selection of Vendors

The Group has adopted the PETRONAS Tendering process and governing principles that are embedded in the PETRONAS Supply Chain Management Policy for vendors' selection. Generally, the main selection criteria is based on technically acceptable and commercially lowest bid.

The Group has established a Tender Committees to carry out independent assessment on bidders' proposals and to ensure tendering activities are carried out as per the Tender Committee's Terms of Reference.

Tendering processes are as follows:

- i) Tender Plan approval;
- ii) Technical Evaluation;
- iii) Commercial Evaluation; and
- iv) Award Recommendation.

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QUALIFIED AND COMPETENT COMPANY SECRETARY



Both Company Secretaries of PDB are qualified to act as company secretary under Section 235 of the Companies Act 2016. One of them has a legal qualification and the other is a Fellow of the Malaysian Institute of Chartered Secretaries and Administrators. Each acts as an advisor to the Board, particularly with regard to PDB's constitution, Board policies and procedures, and its compliance with regulatory requirements, codes, guidance and legislations.

The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented, and subsequently communicated to the relevant LT for appropriate actions. The Company Secretaries update the Board on the follow-up of its decisions and recommendations by the LT.

The Company Secretaries constantly keep abreast with the evolving regulatory changes and developments in corporate governance through continuous training. The Board is satisfied with the performance and support rendered by the Company Secretaries in discharging their functions.

RELATIONSHIP WITH AUDITORS



External Auditors

Through the Board Audit Committee, PDB maintains a professional and transparent relationship with its External Auditors, KPMG PLT. The Board Audit Committee met the External Auditors once during the year under review without the presence of the LT to review the scope and adequacy of the Group's audit process, the annual financial statements and their audit findings. At the meeting, the External Auditors highlighted to the Board Audit Committee matters that warranted their attention.

The role of the Board Audit Committee in relation to the External Auditors is described in the Board Audit Committee Report on page 239 of this Annual Report.

Internal Audit

PDB's Internal Audit reports directly to the Board Audit Committee and has unrestricted access to the Board Audit Committee. The Internal Audit function is independent of the activities or operations of other operating units. The Internal Audit conducts regular audits on the effectiveness of internal controls and regulatory requirements. The audit reports which highlight any findings, along with the recommendations are tabled to the Board Audit Committee.

Further information on Internal Audit can be found on page 231 and pages 240 to 241 of this Annual Report.

STATEMENT BY THE BOARD ON COMPLIANCE



The Board has deliberated, reviewed and approved this Statement. The Board is satisfied that the Group has fulfilled its obligations under the relevant paragraphs of the MMLR of Bursa Malaysia, MCCG 2012 and MSWG Malaysia-ASEAN Corporate Governance Scorecard on corporate governance and applicable laws and regulations throughout the year ended 31 December 2016.

This Statement is made in accordance with a resolution of the Board of Directors dated 21 February 2017.

Md Arif Mahmood
Chairman

Mohd Ibrahimuddin Mohd Yunus
Managing Director/Chief Executive Officer

STATUS OF OBSERVANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012

The table below sets out the status of the observance of PETRONAS Dagangan Berhad with the principles and recommendations of Malaysian Code on Corporate Governance 2012 during the year under review.

Principle/ Recommendation		Page(s)	Remarks
Principle 1 – Establish Clear Roles and Responsibilities			
1.1	The Board should establish clear functions reserved for the Board and those delegated to management	212-213	Complied
1.2	The Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions	210	Complied
1.3	The Board should formalised ethical standards through a code of conduct and ensure its compliance	222	Complied
1.4	The Board should ensure that the Company's strategies promote sustainability	174-209	Complied
1.5	The Board should have procedures to allow its members access to information and advice	216	Complied
1.6	The Board should ensure it is supported by a suitably qualified and competent company secretary	223	Complied
1.7	The Board should formalise, periodically review and make public its Board Charter	210	Complied
Principle 2 – Strengthen Composition			
2.1	The Board should establish a Nominating Committee which should comprise exclusively of Non-Executive Directors, a majority of whom must be independent. The chair of the Nominating Committee should be the Senior Independent Director	242	Complied

Principle/ Recommendation	Page	Remarks
Principle 2 – Strengthen Composition		
2.2	The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors 243-244	Complied
2.3	The Board should establish formal and transparent remuneration policies and procedures to attract and retain Directors 219	The policy is currently being developed and will be presented to the Board for approval in due course.
Principle 3 – Reinforce Independence		
3.1	The Board should undertake an assessment of its Independent Directors annually 245	Complied
3.2	The tenure of an Independent Director should not exceed a cumulative term of nine years. Upon completion of the nine years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director 218	Not Applicable
3.3	The Board must justify and seek shareholders' approval in the event it retains as an Independent Director, a person who has served in that capacity for more than nine years 218	Not Applicable
3.4	The positions of Chairman and Chief Executive Officer should be held by different individuals, and the Chairman must be a Non-Executive member of the Board 212	Complied
3.5	The Board must comprise a majority of Independent Directors where the Chairman of the Board is not an Independent Director 211	The Chairman of the Company is currently a Non-Independent Non-Executive Director. This is premised on the high level of integration between PDB and PETRONAS Group of Companies. The Board's composition comprises four Independent Non-Executive Directors, three Non-Independent Non-Executive Directors and one Executive Director. The current Board composition is balanced and complies with Paragraph 15.02 of the MMLR of Bursa Malaysia, as 50% of the Board members are Independent Directors. The Company intends to maintain the current Board composition.
Principle 4 – Foster Commitment		
4.1	The Board should set out expectations on time commitment for its members and protocols for accepting new directorships 211	Complied
4.2	The Board should ensure its members have access to appropriate continuing education programmes 216-218	Complied

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Principle/ Recommendation	Page	Remarks
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Principle 5 – Uphold Integrity in Financial Reporting

5.1	The Audit Committee should ensure financial statements comply with the applicable financial reporting standards	238	Complied
5.2	The Audit Committee should have policies and procedures to assess the suitability and independence of External Auditors	239	The Company does not have a policy and procedures to assess the suitability and independence of the External Auditors. However, as part of its annual audit exercise, the Company obtains assurance from the External Auditors confirming their independence through the year under review

Principle 6 – Recognise and Manage Risks

6.1	The Board should establish a sound framework to manage risks	228-230	Complied
6.2	The Board should establish an internal audit function which reports directly to the Audit Committee	231 and 240-241	Complied

Principle 7 – Ensure the Timely and High Quality Disclosure

7.1	The Board should ensure the Company has appropriate corporate disclosure policies and procedures	222	Complied
7.2	The Board should encourage the Company to leverage on information technology for effective dissemination of information	216 and 234	Complied

Principle 8 – Strengthen Relationship between Company and Shareholders

8.1	The Board should take reasonable steps to encourage shareholder participation at general meetings	221	Complied
8.2	The Board should encourage poll voting	221	Effective 2017, voting at general meetings will be conducted via e-polling. Independent Scrutineers and Poll Administrator will be appointed to conduct the polling process and verify the results of the poll.
8.3	The Board should promote effective communication and proactive engagements with shareholders.	220-221	Complied

STATUS OF OBSERVANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The statement is made pursuant to Paragraph 15.26(b) of the MMLR of Bursa Malaysia where the Board of Directors of a listed issuer is required to publish a statement about the state of the internal control of the listed issuer as a group. The MCCG 2012, observance of which is on voluntary basis, requires the Board of Directors of a listed company to establish sound risk management framework and internal control.

The Board is committed to maintain and continuously improve the Group's system of risk management and internal control. The Group is currently operating in a challenging environment in which risk management and internal control system must be responsive in order to be able to support its business objective.

The Board is pleased to provide the following statement which outlines the nature and scope of risk management and internal control of the Group during the year under review.

BOARD ACCOUNTABILITY

The Board acknowledges the importance of maintaining a sound risk management system and internal control practices for good corporate governance with the objective of safeguarding the shareholders' interest and the Group's assets. The Board affirms its overall responsibility for overseeing the Group's system of risk management and internal controls and has undertaken a review of the adequacy and effectiveness of those systems and compliance with relevant laws, regulations and guidelines.

The Group has established a process for identifying, evaluating, monitoring and managing significant risks that may materially affect the achievement of its objectives and strategies identified during the year under review. This process is being implemented throughout the Group and the Board will continuously review this process periodically and enhance its relevance to ensure sustainability.

In view of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate the risks that hinder the Group from achieving its objectives. Hence, it can only provide reasonable, but not absolute assurance against material misstatements or losses or the occurrence of unforeseeable circumstances.

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RISK MANAGEMENT

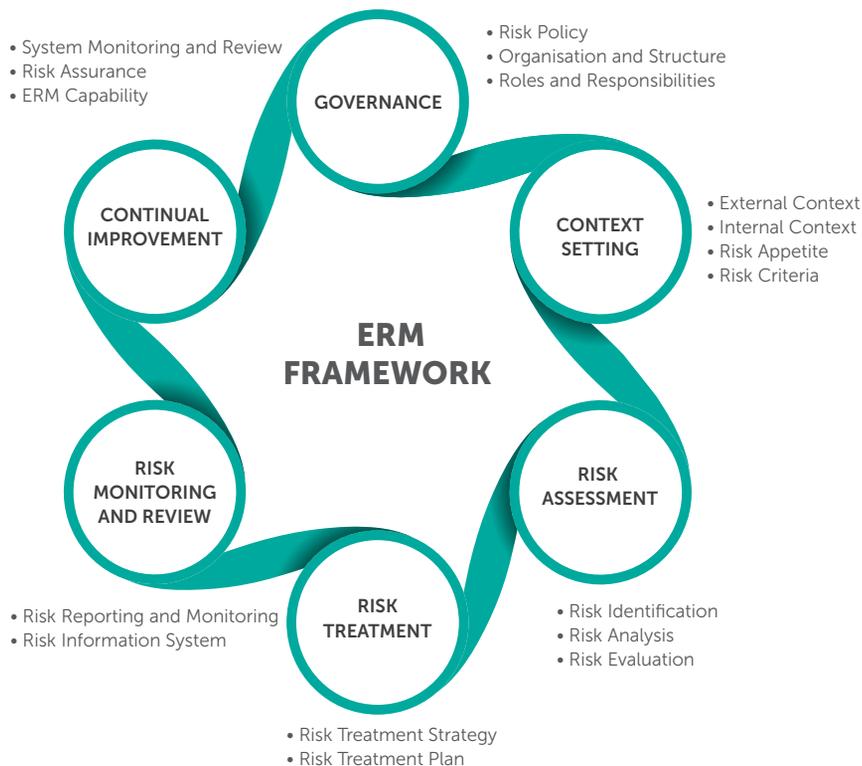
Risk Management is regarded by the Board to be an integral part of the Group’s organisational processes, with the objective of maintaining a sound system and ensure its continuity, adequacy and integrity. The Group has established risk management practices to safeguard business interest from risk events that may impede achievement of business strategy, enable value creation and growth through identification of opportunities.

To provide an integrated and holistic view on the overall strategy for managing risk, the Group has adopted the PETRONAS Resiliency Model that focuses on three areas of business resiliency, namely ERM, CM and BCM.

Risk Management Framework Implementation

(a) Enterprise Risk Management

PDB adheres to PETRONAS ERM Framework as depicted in the diagram below adopts the principles and guidelines under ISO 31000:2009 on Risk Management, which outlines the elements and processes as the foundation of ERM practices to identify, assess, treat and monitor risks impacting its business and supporting activities.



PETRONAS Enterprise Risk Management Framework

(For more details on PETRONAS Resiliency Model and risk management framework, please refer to Our Management of Risk on pages 088 to 092)

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Risk Oversight Structure

The Group risk oversight structure allows risk information flow for effective oversight on risk management implementation at all levels. The Group has in place a risk operations mechanism covering the areas of system, processes, reporting of risks, knowledge management and assurance activities.

At Group level, the RMC, chaired by the MD/CEO will ensure that a risk management framework is in place and implemented throughout the Group. The Board Audit Committee is authorised by the Board to review the adequacy and effectiveness of risk management policies, frameworks and practices of PDB Corporate Risk Profile. The Board Audit Committee also deliberates the Business Risk Report on quarterly basis, including highlights on KRI breaches and mitigation action status, subsequent to review by RMC.

There are other risk committees such as HSE Committee, Credit Control Committee, Tender Committee and Business Information Technology Management of Change Committee to support the management in specific risk areas and good governance practices.

The following structured process was adopted to ensure compliance with the ERM Framework:

<p>Context Setting</p> 	<ul style="list-style-type: none"> • Define the scope of the risk assessment. • Understand external environment and consider the strategic, organisational/business objectives, KPI, stakeholder’s expectation, preliminary risks. • Determine the Risk Appetite.
<p>Risk Assessment</p> 	<p style="text-align: center;">Risk Identification</p> <ul style="list-style-type: none"> • Develop risk description and risk statement. • Assign risk ownership. • Identify causes and consequences. <p style="text-align: center;">Risk Analysis</p> <ul style="list-style-type: none"> • Identify and assess existing mitigations. • Calculate current potential loss. • Establish current risk rating by assessing the current impact and likelihood. <p style="text-align: center;">Risk Evaluation</p> <ul style="list-style-type: none"> • Evaluate the level of the identified risk – High, Medium and Low. • Evaluate which risks need treatment. • Prioritise risk which requires treatment implementation.
<p>Risk Treatment</p> 	<ul style="list-style-type: none"> • Identify Risk Treatment Strategy. • Identify new mitigations for each identified risk. • Calculate new potential loss. • Establish Target Risk Rating by assessing the target Impact and Likelihood.
<p>Risk Monitoring and Review</p>	<ul style="list-style-type: none"> • Identify KRI as triggering mechanism. • Monitor risk updates through risk information system. • Periodical report risk status to RMC, Board Audit Committee and Board.

During the year under review, the Group has established its risk profile based on the ERM process consisting of key risks in the areas of Strategy, HSE, Finance, Operations and Technology. The likelihood and impact of these risks were assessed and evaluated against PDB’s risk appetite and tolerance level. Each risk has a dedicated owner who is responsible for the effective implementation of control measures which are regularly reviewed and reported in RMC, Board Audit Committee and Board.

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In the Group's effort to institutionalise the risk management practices, several other risk management activities were carried out:

- Risk assessments on key projects and initiatives to support decision making by the Management;
- Risk mitigation validation to assess effectiveness of the identified mitigations; and
- Capability building program to upskill risk practitioners at divisional level.

(b) Crisis and Business Continuity Management

PDB has in place a three-tier response system that provides clear demarcation of response control when an emergency or crisis situation occurs. BCM is also in place to ensure continuation of business during a prolonged disruption. By adopting the PETRONAS BCM Framework as a systematic approach for consistent BCM practice, PDB is committed in building its capability for business resumption following a prolonged disruptive incident to safeguard the interests of its key stakeholders, reputation, brand, and value-creating activities.

(For more details on our PETRONAS BCM Framework, please refer to Our Management of Risk on pages 091 to 092)

Throughout the year, PDB has participated in the following activities to ensure its preparedness in response to crisis situations:

- "OPS SEPADU 2016", an exercise organised by one of PDB's transporter with the objective of assessing the readiness of our Emergency Response Team in managing crisis; and
- "Exercise Kidurong 16" which was conducted by Malaysia LNG Sdn Bhd in Bintulu. The objective of the testing was to assess the capabilities of the Emergency Management Team and the Unification of Command towards mitigation of the crisis at the MLNG complex where PDB's bunkering facility is located.

To ensure its preparedness in response to prolonged business disruption situations PDB has conducted Ex-Terbang 1, an exercise to test the robustness and effectiveness in managing business continuity specific to aviation operations at KAFS in the event of supply disruption due to facility failure.

Moving Forward

The Group will continue its focus in implementing key risk management strategies and initiatives towards institutionalisation of risk management as culture throughout the Group.

INTERNAL AUDIT

The Board recognises that the internal audit function is an integral part of the governance process. The Group has its own dedicated internal audit function that provides independent assurance on the adequacy and effectiveness of the internal control systems implemented by the Group. The Group's Internal Audit reports its findings directly to the Board Audit Committee.

The internal audit function includes undertaking reviews of the Group's system of internal controls, its operations and selected key activities based on risk assessment and in accordance with the annual internal audit plan which is presented and approved by the Board Audit Committee.

The Board Audit Committee receives and reviews all Internal Audit reports including the agreed corrective actions to be undertaken by the auditees. Internal Audit monitors the status of the agreed corrective actions through the Quarterly Audit Report submitted by auditees which are assessed and verified by Internal Audit. The consolidated status of the audit issues is submitted and presented to the Board Audit Committee for deliberations on a quarterly basis.

Internal Audit adopts the standards and principles outlined in the International Professional Practices Framework of the Institute of Internal Auditors.

Further information on the internal audit functions are set out in the Board Audit Committee Report on pages 240 to 241 of this Annual Report.

OTHER KEY ELEMENTS OF INTERNAL CONTROL SYSTEMS

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

Board of Directors

The Board meets at least once quarterly in order to maintain its full and effective supervision on the overall governance of the Group. The MD/CEO leads the presentation of board papers and provides comprehensive explanation on pertinent issues. The Board considers and deliberates the LT's proposals prior to making decisions.

The Board is updated on significant issues arising from changes in the business and external environments which may result in significant risks to the Group. Quarterly performance reports and related financial reports of the Group are also presented to the Board.

Further information on the roles and responsibilities of the Board are set out in the Statement on Corporate Governance on page 210 of this Annual Report.

Board Audit Committee

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

Further information on the roles and responsibilities as well as the summary of work of the Board Audit Committee are set out in the Board Audit Committee's Report as presented on pages 238 to 240 of this Annual Report.

Organisation Structure and Leadership Team

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

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

Various functional committees such as the RMC, Credit Control Committee and People Development Committee have been established across the Group to ensure the Group's activities and operations are aligned towards achieving the organisational objectives, governance assurance and transparency.

During the year under review, PDB had undertaken an organisation realignment process in order to address the internal challenges and new strategies as well as to be a more robust and energised organisation. Consequent to this exercise, a new line of LT for PDB was instituted.

Limits of Authority

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

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Following PDB's organisational realignment, the Board had on 8 November 2016 reviewed and approved the revised LOA.

Corporate Financial Policy

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

Credit Risk Framework and Guidelines

The PETRONAS Credit Risk Framework and Guidelines facilitates management of credit risk exposures from customers. It also allows credit exposure to be tracked as a monitoring and control tool to guide credit risk decision. To reduce its credit risk exposure, PDB applies Credit Risk Management processes based on the above-mentioned guidelines whereby the customers are assessed using the PETRONAS Credit Risk Rating System to ensure alignment with the credit assessment process adopted by the PETRONAS Group. The system evaluates the credit worthiness and assigns credit risk ratings to all PDB's external customers. In addition, reviews are conducted on the assigned credit risk ratings of these customers while the trend of the customers' financials are also analysed to detect early signs of financial distress and to provide early warning to the Management.

Risk Control Self-Assessment

Regular self-assessment of internal controls for key processes are also conducted by the respective divisions based on the RCSA process. Based on the RCSA findings, the Heads of Division will provide assurance on the level of internal controls within their respective areas to MD/CEO and CFO.

Financial Control Framework

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

Business Plan and Budget

The Group undertakes an annual planning and budgeting exercise which includes development of business strategies for the next five years and the establishment of key performance indicators against which the overall performance of the Group, including the respective performance of business segments and companies within the Group, can be measured and evaluated. Detailed operating and capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the LT. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Code of Conduct and Business Ethics

The Group adopts and practices PETRONAS CoBE which emphasises and advances the principle of discipline, good conduct, professionalism, loyalty, integrity and cohesiveness that are critical to the success and well-being of the Group. The CoBE contains policy statements on the standards of behaviour and ethical conduct expected of each individual of the Group. The Group also expects that contractors, sub-contractors, consultants, agents and representatives and others performing work or services for or on behalf of the Group to comply with the relevant parts of the CoBE when performing such work or services. The CoBE expressly prohibits improper solicitation, bribery and other corrupt activity not only by employees and directors but also by third parties performing work or services for or on behalf of companies in the PETRONAS Group.

Included as part of the CoBE is the ABC Policy which explicitly prohibits the giving and acceptance of bribes, in whatever form, by employees including giving and receiving of facilitation payments in all business dealings.

(For more details on CoBE, please refer to page 087)

Whistleblowing Policy

The Group has adopted the PETRONAS WBP which provides an avenue for the Group's employees and members of the public to disclose any improper conduct, in accordance with the procedures as provided under the WBP.

Under the WBP, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who is an internal whistleblower will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts and the rules and procedures involved. The process is undertaken by PETRONAS' Whistleblowing Committee.

The WBP is accessible to the public for reference on the PDB's official website at www.mymesra.com.my.

Tender Committee

The Tender Committee structure which comprises cross functional representatives has been established for the purpose of reviewing all major purchases and contracts. The Tender Committee provides the oversight function on tendering matters prior to approval by the relevant Approving Authorities as set out by the LOA.

People and Capability Management

The Group selects talents for employment through a structured recruitment process. The professionalism and competency of staff are continuously enhanced through a structured skill group/functional training and leadership development programme based on identified gaps required for the job/business. A performance management system adopted from the PETRONAS Group measures staff performance against agreed key performance indicators. Periodic reviews are conducted based on continuous performance coaching prior to annual appraisal.

Operating Procedures and Guidelines

The Group has developed OPG which cover business planning, capital expenditure, financial operation, performance reporting, operations, marketing and sales, supply chain management, human resource management, information system and health, safety and environment. The OPG define the policies and procedures for day-to-day operations and act as guidelines to the proper measures to be undertaken in a given set of circumstances. The OPG are also reviewed periodically basis to ensure continuing relevance and effectiveness.

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Information and Communication Technology

ICT is deployed in the Group to automate work processes to enable business transactions and to collect key corporate information. The Group continues to enhance its information and communication systems in ensuring that it can act as an enabler to improve business processes, work productivity and decision making throughout the Group.

In supporting PDB's business objectives, the implementation of business digitalisation and new tools have increased the connectivity between PDB and its stakeholders. PDB relies heavily on the integration and operations of its ICT technologies to handle voluminous and complex business data. In light of this, complementary security technologies were also implemented in ensuring the privacy and protection of all customer and business data at all times. These activities are monitored end-to-end from the point of data collection to the point of data disposal with strict adherence. Internal ICT audit and system reviews are conducted periodically to ensure compliance against PETRONAS Group ICT policies and procedures.

Related Party Transactions and Conflict of Interest

The Group has established Policies and Procedures on RPTs and COI Situations ('Policy and Procedure') to promote continuous awareness and provide consistent approach to all RPTs and RRPTs or COI situations.

The said Policy and Procedure requires the use of various processes to ensure that RPTs/RRPTs are conducted on an arm's length basis, which are consistent with the Group's normal business practices and policies, and will not be to the detriment of the Group's minority shareholders. It aims

to provide guidelines under which certain transactions and situations must be reviewed and endorsed by the various governing parties of the Group, disclosed to the regulators and governing bodies and the processes required to identify, evaluate, approve, monitor and report RPTs/RRPTs and manage COI.

Such processes include identification and screening of transactions, negotiation of transaction and approval/mandate mechanism, monitoring and reporting principles and renewal or changes in the terms or termination of such dealings. In principle, the said Policy and Procedure sets forth the following:

- All sourcing and sales of the Group's products, general merchandise and/or shared facilities/services shall be based on market, industry or negotiated pricing formulas and the terms are not more favourable to the related party than those generally applied to a third party, in order to ensure that the transactions are on an arm's length basis;
- Database is maintained to capture the list of related parties and RPTs/RRPTs which have been entered into;
- If a Director or a related party has an interest in a transaction, he or she will abstain from any deliberation and decision making at the Board or subsidiary company's Board (as the case may be) in respect of the said transaction;
- The Board Audit Committee is responsible for ensuring that the Policies and Procedures relating to RPTs/RRPTs and COI situations are sufficient to ensure that RPTs/RRPTs are carried out on an arm's length basis and not to the detriment of the Group's minority shareholders;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- The Board has the overall responsibility to ensure compliance to the established guidelines and procedures to approve and monitor RPTs/RRPTs and COI situations. The Board and/or BAC may also appoint individuals and committees to examine the RPTs/RRPTs, as deemed appropriate;
- On an annual basis, all Directors and any related party of the Group will declare in writing an annual declaration form, designed to elicit information about current/potential relationships and/or COI situations, involving their interest, either directly or indirectly. All Directors and any related party of the Group shall also notify in writing of any interest in RPT or COI situation when it becomes known to them;
- The Directors have completed the form on declaration of interest for the financial year under review in line with the Policies and Procedures; and
- Bursa Malaysia has granted PDB exemption from having to seek shareholders' mandate for RRPT with PETRONAS, Ministry of Finance and Khazanah Group of Companies. The exemption essentially states that the exempted RRPTs must be transacted on an arm's length basis.

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed this Statement on Risk Management and Internal Control in accordance with International Standard on Assurance Engagements 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information as adopted by the Malaysian Institute of Accountants, and Recommended Practice Guide 5 (Revised 2015), *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report* issued by the Malaysian Institute of Accountants, for inclusion in the Annual Report of the Group for the year ended 31 December 2016. Based on the review by the External Auditors to the Board, nothing has come to their attention that causes them to believe that the statement intended to be included in this Annual Report of the Group, in all material respects:

- has not been prepared in accordance with the disclosures required by Paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- is factually inaccurate.

RPG 5 (Revised 2015) does not require the External Auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and LT thereon. The External Auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Annual Report will, in fact, remedy the problems.

CONCLUSION

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

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

The internal control systems discussed in this Statement do not apply to associate companies which fall under the control of their majority shareholders, and joint ventures which are jointly controlled by its respective shareholders. Nonetheless, the interest of the Group is safeguarded through the representatives on the Board of the joint ventures and associate companies and through the review of management accounts received.

This Statement is made in accordance with a resolution of the Board of Directors dated 21 February 2017.



Md Arif Mahmood
Chairman



Mohd Ibrahimuddin Mohd Yunus
Managing Director/Chief Executive Officer

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BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee is pleased to present its report for the financial year ended 31 December 2016 in compliance with Paragraph 15.15 of the MMLR of Bursa Malaysia.

COMPOSITION

The Board Audit Committee has been established since 3 March 1994.

Datuk Anuar Ahmad was appointed as an additional Board Audit Committee member of PDB effective 15 April 2016.

As at the date of this report, the composition of the Board Audit Committee is as follows:



Chairman
Vimala V.R. Menon
Independent
Non-Executive Director

Date of Appointment
25 June 2012

Tenure on the Board Audit Committee
4 years 8 months

Member
Lim Beng Choon
Senior Independent
Director

Date of Appointment
13 August 2012

Tenure on the Board Audit Committee
4 years 6 months

Member
Nuraini Ismail
Non-Independent
Non-Executive Director

Date of Appointment
1 October 2013

Tenure on the Board Audit Committee
3 years 4 months

Member
Datuk Anuar Ahmad
Independent
Non-Executive Director

Date of Appointment
15 April 2016

Tenure on the Board Audit Committee
10 months

The current composition is in compliance with Paragraph 15.09(1)(b) of the MMLR of Bursa Malaysia and the MCCG 2012 where all four Board Audit Committee members are Non-Executive Directors including three Independent Directors who fulfil the criteria of independence as defined in the MMLR of Bursa Malaysia. None of the Independent Directors has appointed alternate directors.

The Chairman of the Board Audit Committee, Vimala V.R. Menon and Nuraini Ismail are both qualified accountants. Vimala V.R. Menon is a Member of the Malaysian Institute of Accountants and a Fellow of the Institute of Chartered Accountants in England and Wales whilst Nuraini Ismail is a Fellow of the Association of Chartered Certified Accountants, United Kingdom. In this regard, PDB is in compliance with Paragraph 15.09(c)(i) of the MMLR of Bursa Malaysia which requires at least one member of the Board Audit Committee to be a qualified accountant.

During the year under review, the Board assessed the performance of the Board Audit Committee through an annual Board Committee effectiveness evaluation. The Board is satisfied that the Board Audit Committee has discharged its functions, duties and responsibilities in accordance with the Board Audit Committee's Terms of Reference.

TERMS OF REFERENCE

The Terms of Reference of the Board Audit Committee are consistent with the MMLR of Bursa Malaysia and the MCCG 2012 and all the requirements under the Terms of Reference are fully complied with.

The Terms of Reference of the Board Audit Committee are accessible to the public for reference on PDB's official website at www.mymesra.com.my.

MEETINGS AND ATTENDANCE

The Board Audit Committee meetings are scheduled once every quarter with additional meetings convened as and when necessary.

The Board Audit Committee meetings for year 2016 are scheduled in November 2015 to facilitate the members to plan ahead and incorporate the Board Audit Committee meetings into their busy schedules. This also serves to provide members with ample notice of meetings.

During the year under review, the Board Audit Committee held four meetings. The meeting attendance record of the Board Audit Committee members is as follows:

No	Name of Board Audit Committee Members	Attendance	Percentage (%)
1.	Vimala V.R. Menon	4/4	100
2.	Lim Beng Choon	4/4	100
3.	Nuraini Ismail	3/4	75
4.	Datuk Anuar Ahmad*	3/3	100

* Appointed as Board Audit Committee member on 15 April 2016

By invitation, the MD/CEO, CFO and Head of Internal Audit attended the Board Audit Committee meetings to present and provide clarification on the relevant items on the agenda. The relevant auditee was also invited to clarify on specific issues arising from the audit findings. The External Auditors also presented their audit plan for the year as well as the outcome of the statutory audit conducted on the Group. In addition, the Board Audit Committee had a private session with the External Auditors during the year under review without the presence of the Management.

As part of the Board Audit Committee's effort to ensure the reliability of the Group's quarterly financial statements and compliance with applicable Financial Reporting Standards, the External Auditors conducted a limited review of the Group's quarterly financial statements before these were presented to the Board Audit Committee for review and recommendation for the Board's approval and adoption.

The agenda and a set of meeting papers encompassing information relevant to the business of the meeting are distributed via a collaborative software to the Board Audit Committee members not less than five business days from the date of the meeting.

Matters deliberated at the Board Audit Committee meetings included the review of the Group's quarterly results for the announcements to Bursa Malaysia, related party transactions and recurrent related party transactions, external and internal audit, status of open audit findings together with the agreed corrective actions as well as matters relating to risk management and internal control.

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

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SUMMARY OF WORK OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee carried out the following work in 2016:

Financial Reporting

a) The Board Audit Committee reviewed the quarterly results and year end financial statements prior to the approval by the Board, paying particular focus on any change in accounting policies and practices, significant and unusual items, major judgmental areas and any significant adjustments resulting from the audit and was satisfied that the financial statements were prepared in compliance with the Malaysian Financial Reporting Standard (“MFRS”) 134 Interim Financial Reporting, Paragraph 9.22, including Appendix 9B of the MMLR of Bursa Malaysia and Companies Act, 1965.

During the year under review, the Board Audit Committee had reviewed and deliberated the following specific key areas affecting the Group’s financial results, and endorsed recommendations made by Management for:

- i) Impairment indicators on property, plant and equipment and any write-off thereon;
- ii) Impairment and write-off on trade and other receivables;
- iii) Carrying value of inventories and any write-off thereon; and
- iv) Revenue and expenses recognition.

b) The MD/CEO and CFO provided assurance to the Board Audit Committee that:

- i) Appropriate accounting policies had been adopted and applied consistently;
- ii) The going concern basis applied in the Audited Financial Statements and Condensed Consolidated Financial Statements was appropriate;
- iii) Prudent judgements and reasonable estimates had been made in accordance with the requirements set out in the MFRSs;
- iv) Adequate processes and control were in place for effective and efficient financial reporting and disclosures under the MFRSs and MMLR of Bursa Malaysia; and
- v) The Audited Financial Statements and Quarterly Condensed Consolidated Financial Statements did not contain material misstatements and gave a true and fair view of the financial position of the Group and the respective companies within the Group for 2016.

External Audit

- a) Reviewed the external audit report on the quarterly financial statements together with that of the relevant cumulative quarters in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" at the quarterly Board Audit Committee meetings.
- b) Reviewed and approved the External Auditor's annual audit plan for the Group, outlining their scope of work.
- c) Reviewed and endorsed proposed fees for the statutory audit, together with assurance related fees for limited review of the quarterly condensed consolidated financial statements. The Board Audit Committee endorsed the proposed audit fees and the said fees were duly approved by the Board.
- d) Reviewed and approved the non-audit services in relation to the financial review provided by the External Auditors while ensuring there was no impairment of independence or objectivity. This includes monitoring the fee of the total non-audit work carried out by the External Auditors so as not to jeopardise their independent status. In relation to this, the Board Audit Committee reviewed the assurance letter from the External Auditors confirming their independence throughout the year under review.
- e) During the year under review, PDB engaged the External Auditors for non-audit services mostly for quarterly financial reviews. Total fees paid to the External Auditors are as follows:

Particulars	RM'000
<ul style="list-style-type: none"> • 2016 Audit Fees <ul style="list-style-type: none"> – Statutory Audit Fees 	608
<ul style="list-style-type: none"> • Total Non-Audit Fees for 2016 	240
<ul style="list-style-type: none"> • Percentage of Non-Audit Fees over Statutory Audit Fees 	39%

Internal Audit

- a) Reviewed and approved the risk-based annual internal audit plan and budget for the 2017 financial year to ensure adequacy of resources, competencies and coverage of areas to be audited.
- b) Reviewed the internal audit reports, the audit recommendations and the relevant action plans to strengthen PDB's overall system of governance, risk and internal controls. The Board Audit Committee also put forward some suggestions for improvement to reinforce the oversight role and to ensure that Management holds individuals accountable for their internal control, risk and governance responsibilities.
- c) Reviewed the Internal Auditors Competency Framework designed to enhance the competency of Internal Auditors which is also aligned with the Institute of Internal Auditors Global Audit Competency Framework 2013.
- d) Assessed the performance of the Head of Internal Audit and the dimensions of the Internal Audit Department ("IAD") with regard to their ability to provide independent and objective assurance on the effectiveness of governance, risk and controls and to be in conformance with the recognised international standards.

Internal Control

- a) The Board Audit Committee had on two occasions reviewed the LOA with the objective of ensuring business efficiency and alignment with the best practices and effective internal control.
- b) Reviewed the procurement governance in line with the PDB's organisation realignment.

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Annual Reporting

The Board Audit Committee reviewed and endorsed the disclosures on the Statement on Corporate Governance, Board Audit Committee Report and Statement on Risk Management and Internal Control for the financial year ended 31 December 2016 for inclusion in the 2016 Annual Report to ensure that they were prepared in compliance with the relevant regulatory requirements and guidelines.

These statements are as set out on pages 210 to 241 of this Annual Report, respectively.

Related Party Transactions (“RPTs”)/ Recurrent Related Party Transactions (“RRPTs”)

The Board Audit Committee ensured that there were adequate Policies and Procedures in place to identify and monitor RPTs/RRPTs such that they were conducted on an arm’s length basis, and not detrimental to the minority shareholders.

The Board Audit Committee performed a quarterly review of all RRPTs entered by the Group during the year to ensure compliance to PDB’s policies and procedures.

Risk Management

- a) Reviewed and assessed the PDB’s Corporate Risk Profile on the adequacy and effectiveness of risk management practices.
- b) Reviewed PDB’s Business Risk Report on update of KRI and mitigation to ensure critical risks are managed within the Group.

INTERNAL AUDIT

PDB established the IAD on 1 April 2011. It is currently headed by Abu Bakar Baba effective 1 August 2016, succeeding Akmal Nur Anuar who has been given a new portfolio for career advancement within the Group. Abu Bakar Baba reports directly to the Board Audit Committee in line with the Recommendation of Principle 6.2 of the MCCG 2012. Key Performance Indicators of the Head of IAD are reviewed and approved by the Board Audit Committee.

IAD’s mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. IAD’s key objective is to assist the Group accomplishes its goals by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.

The Board Audit Committee has full and direct access to internal auditors and receives reports on all internal audits performed.

IAD’s position within the Group, its authority, responsibilities and scope of work, is defined in the Internal Audit Charter (“Charter”) that has been approved by the Board Audit Committee. The Charter is consistent with the requirement stated in the 2013 International Professional Practices Framework issued by The Institute of Internal Auditors.

In 2016, IAD performed the following audits and reviews:

- i) Audit on PETRONAS Energy Philippines Inc.
- ii) Audit on Operation and Maintenance Activities at Non-KLIA Aviation Terminals (Northern, Eastern and Sarawak)
- iii) Audit on Operation and Maintenance Activities at Eastern Terminals (including Inter Century Sdn Bhd)
- iv) Audit on Development and Upgrading Projects at PDB Terminals
- v) Audit on PDB Customer Relationship Management System
- vi) Audit on PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd
- vii) Audit on PETRONAS Station Dealership Management Activities
- viii) Audit on Retail Non-Fuel Business and Operations
- ix) Audit on Talent Management and Succession Planning for PDB's Critical Positions
- x) Audit on 'Purchase to Pay' Activities for Third Party Transactions (Non-Trade)
- xi) Audit on LPG Business Activities
- xii) Audit on Commercial Business Activities at Southern and Sabah Regions
- xiii) Follow up Review on Audit on Retail Network Planning and Real Estate Management
- xiv) Follow up Review on Audit on Product Costing and Product Supply Chain Management
- xv) Review on PETRONAS Station Dealers' Claim Management
- xvi) Review on Cost Estimates for Price Agreement of General Maintenance Works (Civil, Mechanical and Electrical) at PETRONAS Stations in Peninsular Malaysia, Sabah and Sarawak

For the year under review, the total cost incurred by PDB for its internal audit function was RM2,601,000.00.

REPORTING TO THE EXCHANGE

For the year under review, the Board Audit Committee was of the view that PDB was in compliance with the MMLR of Bursa Malaysia and as such, the reporting to Bursa Malaysia under Paragraph 15.16 of the MMLR was not required.



Vimala V.R. Menon
Chairman
Board Audit Committee

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NOMINATION AND REMUNERATION COMMITTEE REPORT

The Nomination and Remuneration Committee is pleased to present its report for the financial year ended 31 December 2016 in compliance with Paragraph 15.08A of the MMLR of Bursa Malaysia.

COMPOSITION

As at the date of this report, the composition of the Nomination and Remuneration Committee is as follows:



Chairman
 Lim Beng Choon
 Senior Independent Director

Date of Appointment
 7 August 2014

Tenure on the Nomination and Remuneration Committee
 2 years and 6 months



Member
 Erwin Miranda Elechicon
 Independent Non-Executive Director

Date of Appointment
 7 August 2014

Tenure on the Nomination and Remuneration Committee
 2 years and 6 months



Member
 Ir Mohamed Firouz Asnan
 Non-Independent Non-Executive Director

Date of Appointment
 6 October 2015

Tenure on the Nomination and Remuneration Committee
 1 year 4 months

The above composition is in compliance with the requirement of Paragraph 15.08A(1) of the MMLR of Bursa Malaysia and Recommendation 2.1 of the MCCG 2012 where the committee must comprise exclusively Non-Executive Directors with the majority being Independent Directors and the Chairman of the committee is the Senior Independent Director of the Company.

During the year under review, the composition of the Nomination and Remuneration Committee remains unchanged. Based on the Board Effectiveness Evaluation findings, the Board is satisfied with the performance and effectiveness of the Nomination and Remuneration Committee in providing sound advice and recommendations to the Board.

TERMS OF REFERENCE

The Terms of Reference of Nomination and Remuneration Committee are consistent with the MMLR of Bursa Malaysia and the MCCG 2012 and all the requirements under the Terms of Reference are complied with.

The Terms of Reference of Nomination and Remuneration Committee are accessible to the public for reference on PDB's official website at www.mymesra.com.my.

MEETINGS AND ATTENDANCE

During the year under review, the Nomination and Remuneration Committee in discharging its duties and functions as sub-committee of the Board, held two meetings. The meeting attendance record of the Nomination and Remuneration Committee members is as follows:

No	Name of Nomination and Remuneration Committee Members	Attendance	Percentage (%)
1.	Lim Beng Choon	2/2	100
2.	Erwin Miranda Elechicon	2/2	100
3.	Ir Mohamed Firouz Asnan	2/2	100

The MD/CEO and Head of Human Resources Management and any other persons deemed necessary by the Nomination and Remuneration Committee are invited to attend to brief and furnish the Nomination and Remuneration Committee with relevant information and clarification to relevant items on the agenda.

Other members of the Board were also present at the meeting of the Nomination and Remuneration Committee where performance and succession plan of the LT were deliberated.

The agenda and a set of meeting papers encompassing information relevant to the business of the meeting are distributed via a collaborative software to the Nomination and Remuneration Committee members, not less than five business days from the meeting date.

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

The Nomination and Remuneration Committee meetings for the year under review were scheduled in November 2015 to facilitate the members in planning ahead and incorporating the Nomination and Remuneration Committee meetings into their respective schedules.

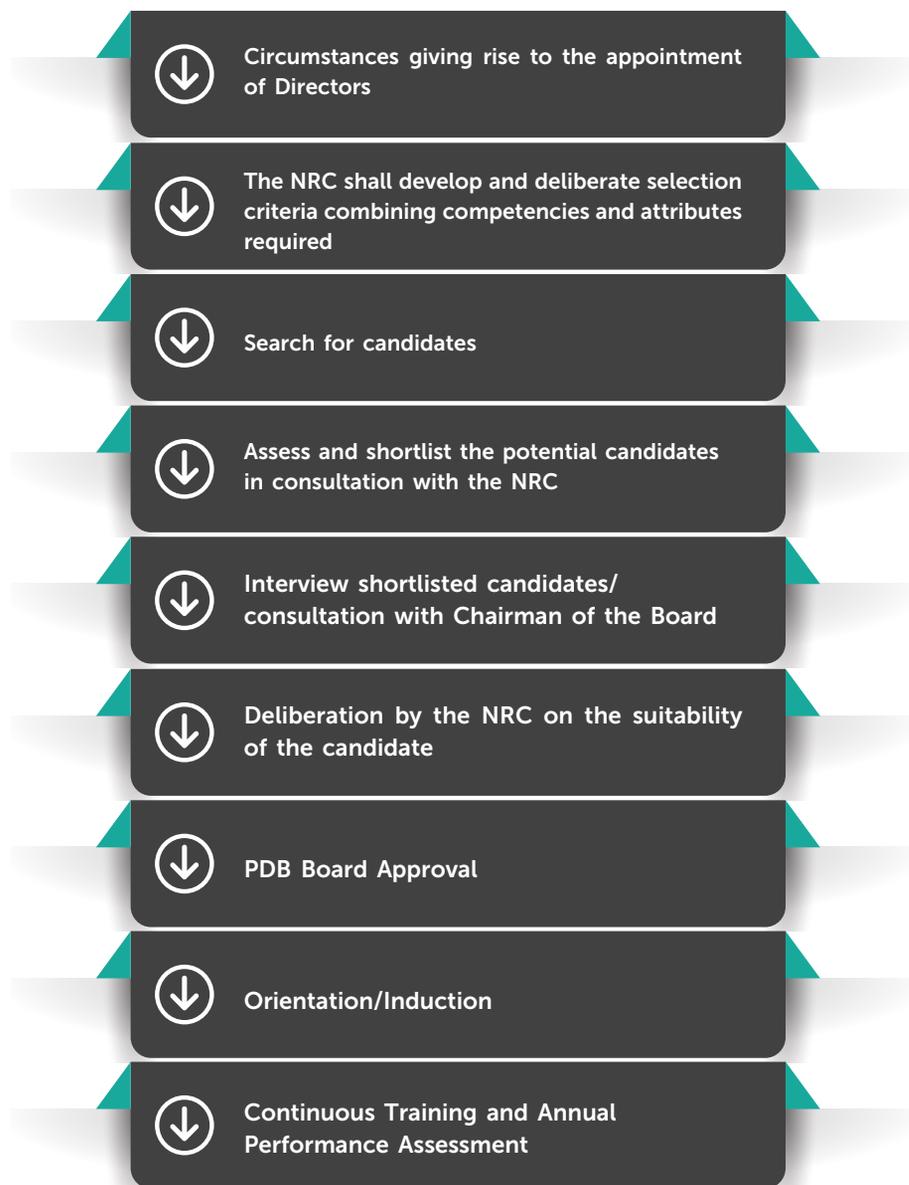
BOARD APPOINTMENT PROCESS

PDB practices a formal and transparent procedure for appointment of new Directors. Nomination of Directors to the Board is made either by PETRONAS being the majority shareholder or through engagement of a professional recruitment firm to find suitable candidates to fill in the position of Independent Non-Executive Directors.

All nominees to the Board are first considered by the Nomination and Remuneration Committee, taking into consideration among others the mix of skills, competencies, experience, integrity and time commitment required to effectively discharge his or her role as a director. Diversity in terms of age, gender and ethnicity are also considered in ranking and selecting the best candidates. Such diversity helps to promote good decision making by harnessing different insights and perspectives.

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The Board appointment process is summarised in the below chart.



DIRECTORS' RE-ELECTION AND RE-APPOINTMENT

Since 2014, the Nomination and Remuneration Committee has implemented a policy whereby independent non-executive directors are appointed for a tenure of three years. Further extension to the tenure will be subject to the review and recommendation of the Nomination and Remuneration Committee and presented to the Board for consideration. The recommendation is based on the performance of the Directors, taking into account their contribution to the Board through their skills, experience, strengths and qualities, particularly level of independence and ability to act in the best interests of PDB.

Based on the schedule of retirement by rotation, the Nomination and Remuneration Committee is also responsible for recommending to the Board those Directors who are eligible to stand for re-election or re-appointment.

NOMINATION AND REMUNERATION COMMITTEE REPORT

Article 93 of the Constitution of the Company provides that one-third of the Directors of PDB for the time being shall retire by rotation at an AGM of PDB provided always that all Directors, shall retire from office once at least in each three years but shall be eligible for re-election at the AGM.

The Nomination and Remuneration Committee at its meeting held on 16 January 2017 has recommended to the Board for Mohd Ibrahimnuddin Mohd Yunus, Datuk Anuar Ahmad and Vimala V.R. Menon to retire and be eligible for re-election at the 35th AGM. Mohd Ibrahimnuddin Mohd Yunus, Datuk Anuar Ahmad and Vimala V.R. Menon have expressed their intention to seek re-election.

There is no new appointment of Directors during the year under review. Hence, the retirement of a newly appointed director and re-election thereon pursuant to Article 96 of the Constitution of the Company is not applicable.

BOARD EFFECTIVENESS EVALUATION

Every year, under the purview of the Nomination and Remuneration Committee, a formal evaluation is undertaken to assess the effectiveness of the following:

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

This is conducted through a Board Evaluation process which consists of a Board and Peer Annual Assessment ("Board Evaluation"). The Board Evaluation focuses on maximising the effectiveness and performance of the Board in the best interests of PDB.

The Board Evaluation assessed the following areas:

- (a) Board Structure;
- (b) Board operations and interactions;
- (c) Board communications; and
- (d) Board roles and responsibilities.

The Nomination and Remuneration Committee has on 16 January 2017, reviewed the outcome of the Board Evaluation for 2016 and discussed areas of improvement.

Pursuant to Paragraph 15.20 of the MMLR of Bursa Malaysia, the Nomination and Remuneration Committee had reviewed the performance of the Board Audit Committee and is satisfied that the Board Audit Committee and its members discharged their functions, duties and responsibilities in accordance with its Terms Of Reference.

SUCCESSION PLANNING FOR DIRECTORS

During the year under review, the NRC reviews the Board Succession Planning. The Board Succession Plan assists the Company in ensuring the orderly identification and selection of new non-executive directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, an unanticipated departure, the expansion of the size of the Board, or otherwise. In addition, a thoughtful Succession Planning can improve the composition and effectiveness of a Board.

ACTIVITIES OF THE NOMINATION AND REMUNERATION COMMITTEE

During the year under review, the Nomination and Remuneration Committee in its meetings held on 2 February 2016 and 7 November 2016 carried out the following activities in discharging its functions and duties:

- Reviewed the Nomination and Remuneration Committee report for Annual Report 2015;
- Reviewed and endorsed the Board Effectiveness Evaluation Questionnaires;
- Assessed the effectiveness of the Board as whole, the Board Committees and the contribution of each individual Director through a Board Effectiveness Evaluation Exercise;
- Carried out a skills mapping exercise for the Directors to review the mix of skills, diversity in terms of gender, ethnicity, age, education and business experience as well as other qualities, including core competencies of the Directors;
- Recommended the Directors who are eligible for re-election and re-appointment at the AGM;
- Reviewed the succession plan for the MD/CEO and the LT;
- Kept abreast on the implementation of the new organisation structure; and
- Identified programmes/events for the continuous education of the Board members to ensure that they are up-to-date on new regulations and conversant with industry trends and developments.



Lim Beng Choon

Chairman

Nomination and Remuneration Committee

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STATEMENT OF DIRECTORS' RESPONSIBILITY

IN RELATION TO THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company as set out on pages 256 to 321, are properly drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2016 and of the results of its operations and cash flows for the financial year ended on that date.

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

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

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company in the course of the financial year remained unchanged as domestic marketing of petroleum products.

The principal activities of the subsidiaries, associates and joint ventures are stated in Note 34, Note 35 and Note 36 to the financial statements respectively. There has been no significant change in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the year	946,467	859,453
Attributable to:		
Shareholders of the Company	944,608	859,453
Non-controlling interests	1,859	–
	<u>946,467</u>	<u>859,453</u>

DIVIDENDS

During the financial year, the Company paid:

In respect of the financial year ended 31 December 2015:

- i. An interim dividend of 20.0 sen per ordinary share amounting to RM198,690,800 on 17 March 2016.

In respect of the financial year ended 31 December 2016:

- i. An interim dividend of 12.0 sen per ordinary share amounting to RM119,214,480 on 8 June 2016;
- ii. An interim dividend of 14.0 sen per ordinary share amounting to RM139,083,560 on 9 September 2016; and
- iii. An interim dividend of 14.0 sen per ordinary share amounting to RM139,083,560 on 8 December 2016.

The Directors had on 21 February 2017 declared an interim dividend of 30.0 sen per ordinary share amounting to RM298,036,200 in respect of financial year ended 31 December 2016.

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DIVIDENDS (continued)

The financial statements for the current financial year do not reflect this declared interim dividend. The dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2017.

RESERVES AND PROVISIONS

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

DIRECTORS OF THE COMPANY

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

Md Arif bin Mahmood – Chairman
 Mohd Ibrahimnuddin bin Mohd Yunus – Managing Director/CEO
 Vimala a/p V.R. Menon
 Lim Beng Choon
 Nuraini binti Ismail
 Erwin Miranda Elechicon
 Datuk Anuar bin Ahmad
 Mohamed Firouz bin Asnan

DIRECTORS' INTERESTS

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

Name	Shares in PETRONAS Dagangan Berhad Number of ordinary shares of RM1.00 each			Balance at 31.12.2016
	Balance at 1.1.2016	Bought	Sold	
Mohd Ibrahimnuddin bin Mohd Yunus	3,000	–	–	3,000

DIRECTORS' INTERESTS (continued)

Name	Shares in PETRONAS Chemicals Group Berhad			
	Number of ordinary shares of RM0.10 each			
	Balance at 1.1.2016	Bought	Sold	Balance at 31.12.2016
Mohd Ibrahimuddin bin Mohd Yunus	6,000	–	–	6,000
Vimala a/p V.R. Menon	20,000	–	–	20,000
Nuraini binti Ismail	10,000	–	–	10,000
Md Arif bin Mahmood	20,000	–	–	20,000
Mohamed Firouz bin Asnan	6,000	–	–	6,000

Name	Shares in PETRONAS Gas Berhad			
	Number of ordinary shares of RM1.00 each			
	Balance at 1.1.2016	Bought	Sold	Balance at 31.12.2016
Nuraini binti Ismail	5,000	–	–	5,000

None of the other Directors holding office at 31 December 2016 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

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

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

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OTHER STATUTORY INFORMATION

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

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets which were unlikely to be realised in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

- (i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

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



MD ARIF BIN MAHMOOD

Director



MOHD IBRAHIMNUDDIN BIN MOHD YUNUS

Director

Kuala Lumpur,
Date: 21 February 2017

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STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 256 to 321 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 40 on page 322 to the financial statements has been compiled in accordance with Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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



MD ARIF BIN MAHMOOD

Director



MOHD IBRAHIMUDDIN BIN MOHD YUNUS

Director

Kuala Lumpur,
Date: 21 February 2017

STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **PUTERI LIZA ELLI SUKMA**, the officer primarily responsible for the financial management of **PETRONAS Dagangan Berhad**, do solemnly and sincerely declare that the financial statements set out on pages 256 to 322 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed **PUTERI LIZA ELLI SUKMA**, I/C No 721215-14-5056, at KUALA LUMPUR in WILAYAH PERSEKUTUAN on 21 February 2017.



PUTERI LIZA ELLI SUKMA

Before me:



COMMISSIONER FOR OATHS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

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	Note	2016 RM'000	2015 RM'000
ASSETS			
Property, plant and equipment	3	3,794,252	3,989,865
Prepaid lease payments	4	476,856	491,950
Investments in associates	6	3,431	3,015
Investments in joint ventures	7	14,234	10,281
Long term receivable	8	3,509	–
Deferred tax assets	9	5,424	9,412
TOTAL NON-CURRENT ASSETS		4,297,706	4,504,523
Inventories	10	803,374	625,558
Trade and other receivables	11	1,832,196	1,649,252
Cash and cash equivalents	12	2,431,637	1,258,637
Assets classified as held for sale	13	–	32,635
TOTAL CURRENT ASSETS		5,067,207	3,566,082
TOTAL ASSETS		9,364,913	8,070,605
EQUITY			
Share capital	14	993,454	993,454
Reserves	15	4,309,520	3,958,865
Total equity attributable to shareholders of the Company		5,302,974	4,952,319
Non-controlling interests	16	33,552	31,693
TOTAL EQUITY		5,336,526	4,984,012
LIABILITIES			
Borrowings	17	84,461	113,321
Deferred tax liabilities	9	142,128	153,066
Other long term liabilities and provisions	18	30,169	27,427
TOTAL NON-CURRENT LIABILITIES		256,758	293,814
Borrowings	17	34,310	98,499
Trade and other payables	19	3,659,660	2,602,174
Taxation		77,659	67,600
Liabilities classified as held for sale	13	–	24,506
TOTAL CURRENT LIABILITIES		3,771,629	2,792,779
TOTAL LIABILITIES		4,028,387	3,086,593
TOTAL EQUITY AND LIABILITIES		9,364,913	8,070,605

The notes set out on pages 265 to 322 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Continuing operations			
Revenue			
– sales of petroleum products		21,764,241	25,034,920
– rendering of services		22,303	25,270
		21,786,544	25,060,190
Cost of revenue			
– cost of petroleum products		(19,621,650)	(23,012,763)
– cost of services		(26,044)	(27,853)
		(19,647,694)	(23,040,616)
		2,138,850	2,019,574
Selling and distribution expenses		(256,135)	(278,168)
Administration expenses		(1,058,826)	(971,703)
Other income		390,487	322,446
Operating profit	20	1,214,376	1,092,149
Financing costs	21	(7,661)	(13,444)
Share of profit after tax of equity accounted associates and joint ventures		5,619	3,779
		1,212,334	1,082,484
Profit before taxation		1,212,334	1,082,484
Tax expense	22	(297,334)	(290,024)
		915,000	792,460
Profit from continuing operations		915,000	792,460
Profit from discontinued operation, net of tax	23	31,467	2,164
		946,467	794,624
Profit for the year		946,467	794,624
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from translation of financial statements of foreign operations		7,693	29,175
Reclassification of foreign currency translation differences to profit or loss on disposal of subsidiary		3,729	–
		11,422	29,175
Total other comprehensive income for the year		11,422	29,175
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		957,889	823,799

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	Note	2016 RM'000	2015 RM'000
Profit attributable to:			
Shareholders of the Company		944,608	789,975
Non-controlling interests		1,859	4,649
PROFIT FOR THE YEAR		946,467	794,624
Total comprehensive income attributable to:			
Shareholders of the Company		956,030	819,150
Non-controlling interests		1,859	4,649
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		957,889	823,799
Basic earnings per ordinary share	24		
from continuing operations		91.9 sen	79.3 sen
from discontinued operation		3.2 sen	0.2 sen
		95.1 sen	79.5 sen

**CONSOLIDATED
STATEMENT OF PROFIT
OR LOSS AND OTHER
COMPREHENSIVE
INCOME**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

← Attributable to shareholders of the Company →							
← Non-distributable				Distributable →			
Note	Share capital RM'000	Foreign currency translation reserve RM'000	Capital reserve RM'000	Retained profits RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
At 1 January 2015	993,454	11,038	(44,053)	3,791,740	4,752,179	39,644	4,791,823
Exchange differences arising from translation of financial statements of foreign operations	–	29,175	–	–	29,175	–	29,175
Profit for the year	–	–	–	789,975	789,975	4,649	794,624
Total comprehensive income for the year	–	29,175	–	789,975	819,150	4,649	823,799
Waiver of loan for a subsidiary acquired under common control business combination in prior year	–	–	(3,069)	–	(3,069)	–	(3,069)
Dividends paid	–	–	–	(615,941)	(615,941)	(12,600)	(628,541)
Total transactions with shareholders of the Company	–	–	(3,069)	(615,941)	(619,010)	(12,600)	(631,610)
At 31 December 2015	993,454	40,213	(47,122)	3,965,774	4,952,319	31,693	4,984,012
	Note 14	Note 15	Note 15	Note 15		Note 16	
At 1 January 2016	993,454	40,213	(47,122)	3,965,774	4,952,319	31,693	4,984,012
Exchange differences arising from translation of financial statements of foreign operations	–	7,693	–	–	7,693	–	7,693
Disposal of subsidiary acquired under common control business combination in prior year	–	–	28,316	(28,316)	–	–	–
Reclassification of foreign currency translation differences to profit or loss on disposal of subsidiary	–	3,729	–	–	3,729	–	3,729
Profit for the year	–	–	–	944,608	944,608	1,859	946,467
Total comprehensive income for the year	–	11,422	28,316	916,292	956,030	1,859	957,889
Reversal of capital contribution on disposal of subsidiary	–	–	(9,303)	–	(9,303)	–	(9,303)
Dividends paid	–	–	–	(596,072)	(596,072)	–	(596,072)
Total transactions with shareholders of the Company	–	–	(9,303)	(596,072)	(605,375)	–	(605,375)
At 31 December 2016	993,454	51,635	(28,109)	4,285,994	5,302,974	33,552	5,336,526
	Note 14	Note 15	Note 15	Note 15		Note 16	

The notes set out on pages 265 to 322 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		22,424,702	25,547,500
Cash paid to suppliers and employees		(20,143,122)	(24,685,761)
		2,281,580	861,739
Interest expenses paid		(1,209)	(2,325)
Taxation paid		(296,027)	(242,775)
Net cash generated from operating activities		1,984,344	616,639
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income from fund and other investments		85,868	54,554
Purchase of property, plant and equipment		(227,661)	(315,010)
Prepayment of leases		(19,370)	(21,012)
Proceeds from disposal of property, plant and equipment		37,350	9,550
Proceeds from disposal of subsidiary, net of cash disposed off	23	(3,813)	–
Net cash used in investing activities		(127,626)	(271,918)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	25	(596,072)	(615,941)
Dividends paid to non-controlling interests		–	(12,600)
Repayment of term loan		(9,973)	(10,066)
Repayment of Islamic medium term notes		–	(300,000)
Repayment of Islamic financing facilities		(17,175)	(16,550)
Net (repayment)/drawdown of revolving credit facilities		(64,369)	42,288
Interest paid on term loan		(1,302)	(1,512)
Profit margin paid for Islamic medium term notes		–	(5,281)
Profit margin paid for Islamic financing facilities		(4,140)	(4,891)
Net cash used in financing activities		(693,031)	(924,553)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,163,687	(579,832)
NET FOREIGN EXCHANGE DIFFERENCES		3,557	4,541
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,264,393	1,839,684
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,431,637	1,264,393

Included in Cash and Cash Equivalents at the end of prior year was an amount of RM5,756,000 categorised as Disposal Group Held for Sale as disclosed in Note 13.

The notes set out on pages 265 to 322 are an integral part of these financial statements.

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Property, plant and equipment	3	3,437,628	3,614,346
Prepaid lease payments	4	476,856	491,950
Investments in subsidiaries	5	280,546	283,425
Investments in associates	6	1,959	1,959
Investments in joint ventures	7	25	25
Long term receivable	8	–	14,231
TOTAL NON-CURRENT ASSETS		4,197,014	4,405,936
Inventories	10	753,526	556,560
Trade and other receivables	11	1,651,114	1,461,397
Cash and cash equivalents	12	2,349,713	1,219,406
TOTAL CURRENT ASSETS		4,754,353	3,237,363
TOTAL ASSETS		8,951,367	7,643,299
EQUITY			
Share capital	14	993,454	993,454
Reserves	15	4,179,158	3,925,080
TOTAL EQUITY		5,172,612	4,918,534
LIABILITIES			
Deferred tax liabilities	9	119,754	133,691
Other long term liabilities and provisions	18	26,954	25,160
TOTAL NON-CURRENT LIABILITIES		146,708	158,851
Trade and other payables	19	3,555,154	2,495,835
Taxation		76,893	70,079
TOTAL CURRENT LIABILITIES		3,632,047	2,565,914
TOTAL LIABILITIES		3,778,755	2,724,765
TOTAL EQUITY AND LIABILITIES		8,951,367	7,643,299

The notes set out on pages 265 to 322 are an integral part of these financial statements.

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Revenue		20,987,628	24,258,120
Cost of revenue		(19,076,305)	(22,430,146)
Gross profit		1,911,323	1,827,974
Selling and distribution expenses		(218,966)	(239,647)
Administration expenses		(956,748)	(893,525)
Other income		405,068	344,818
Operating profit	20	1,140,677	1,039,620
Financing costs	21	(1,947)	(5,709)
Profit before taxation		1,138,730	1,033,911
Tax expense	22	(279,277)	(275,393)
PROFIT/TOTAL COMPREHENSIVE INCOME FOR THE YEAR		859,453	758,518

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	← Attributable to shareholders of the Company →				Total equity RM'000
	Share capital RM'000	Capital reserve RM'000	Retained profits RM'000	Distributable	
Note	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	993,454	26,920	3,758,652		4,779,026
Profit/Total comprehensive income for the year	–	–	758,518		758,518
Waiver of loan for a subsidiary acquired under common control business combination in prior year	–	(3,069)	–		(3,069)
Dividends paid	–	–	(615,941)	25	(615,941)
At 31 December 2015/1 January 2016	993,454	23,851	3,901,229		4,918,534
Profit/Total comprehensive income for the year	–	–	859,453		859,453
Reversal of capital contribution on disposal of subsidiary	–	(9,303)	–		(9,303)
Dividends paid	–	–	(596,072)	25	(596,072)
At 31 December 2016	993,454	14,548	4,164,610		5,172,612
	Note 14	Note 15	Note 15		

The notes set out on pages 265 to 322 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

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	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		21,510,118	24,647,481
Cash paid to suppliers and employees		(19,391,856)	(23,801,289)
		2,118,262	846,192
Taxation paid		(286,400)	(224,732)
Net cash generated from operating activities		1,831,862	621,460
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		1,250	23,400
Interest income from fund and other investments		84,215	52,760
Purchase of property, plant and equipment		(213,928)	(292,994)
Prepayment of leases		(19,370)	(21,012)
Proceeds from disposal of property, plant and equipment		37,350	9,550
Proceeds from redemption of redeemable preference shares		5,000	8,000
Advances to a subsidiary		—	(15,000)
Net cash used in investing activities		(105,483)	(235,296)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	25	(596,072)	(615,941)
Repayment of Islamic medium term notes		—	(300,000)
Profit margin paid for Islamic medium term notes		—	(5,281)
Net cash used in financing activities		(596,072)	(921,222)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,130,307	(535,058)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,219,406	1,754,464
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		2,349,713	1,219,406

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

As of 1 January 2016, the Group and the Company had adopted amendments to MFRS and IC Interpretations (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in Note 37.

The adoption of these pronouncements do not have any material impact to the financial statements of the Group and of the Company.

MASB has also issued new and revised pronouncements which are not yet effective for the Group and the Company and therefore have not been adopted in these financial statements. These pronouncements are set out in Note 38. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 39.

These financial statements were approved and authorised for issue by the Board of Directors on 21 February 2017.

1.2 Basis of measurement

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

1.3 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's and the Company's financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency.

1.4 Use of estimates and judgments

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

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

1. BASIS OF PREPARATION (continued)

1.4 Use of estimates and judgments (continued)

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

- (i) Note 2.4 and Note 3 : Property, Plant and Equipment;
- (ii) Note 2.5 and Note 4 : Prepaid Lease Payments;
- (iii) Note 11 : Trade and Other Receivables;
- (iv) Note 2.12 and Note 18 : Other Long Term Liabilities and Provisions;
- (v) Note 2.14 and Note 9 : Deferred Tax;
- (vi) Note 2.19 and Note 19 : Deferred Revenue; and
- (vii) Note 2.22 and Note 29 : Financial Instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of consolidation

Subsidiaries

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

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

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

Business combinations

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

Business combinations (continued)

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

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

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

Non-controlling interests

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

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

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

Loss of control

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

2.2 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 and other comprehensive income of the equity-accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Associates (continued)

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 associate.

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

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

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

2.3 Joint arrangements

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

Joint arrangements are classified as either joint operation or joint venture. A joint arrangement is classified as joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation. A joint arrangement is classified as joint venture when the Group has rights only to the net assets of the arrangement. The Group accounts for its interest in the joint venture using the equity method as described in Note 2.2.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment and depreciation

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in 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 freehold land and projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Buildings are depreciated over 20 to 30 years or over the remaining land lease period, whichever is shorter.

Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter. Leasehold land is depreciated over the lease term. The leasehold land are categorised into long lease and short lease. Long lease is defined as a lease with an unexpired lease period of fifty years or more. Short lease is defined as a lease with an unexpired lease year of less than fifty years.

The estimated useful lives of the other property, plant and equipment are as follows:

Plant, machinery, tankage and pipeline	2 – 30 years
Office equipment, furniture and fittings	3 – 10 years
Motor vehicles	4 – 15 years
Computer software and hardware	5 years

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial year end 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Leased assets

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

(i) Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability 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 and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

(ii) Operating lease

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

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

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

(iii) Prepaid lease payments

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

The remaining leases of a leasehold land which is not in substance a finance lease, together with prepaid rental for service station sites and depots, are operating leases and recognised as prepaid lease payments.

The payment made on entering into or acquiring such leasehold land and prepaid rental arrangement is amortised over the lease term in accordance with the pattern of benefits provided.

Prepaid lease payments are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease or the period of the agreements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investments

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

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (Note 2.8(ii)).

2.7 Non-current assets held for sale

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

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

Intangible assets, property, plant and equipment and investment properties once classified as held for sale are not amortised nor depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

2.8 Financial instruments

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

(i) Financial assets

Initial recognition

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

(i) *Financial assets (continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.22.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest method (Note 2.8(v)).

Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company 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 method (Note 2.8(v)).

The Group and the Company did not have any held-to-maturity investments during the year ended 31 December 2016.

Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss.

The Group and the Company did not have any available-for-sale investments during the year ended 31 December 2016.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

(ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings (i.e. financial liabilities measured at amortised cost), as appropriate. The Group and the Company determine 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.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses 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 method (Note 2.8(v)).

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

(iii) Derivative financial instruments

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial instruments (continued)

(iv) *Offsetting of financial instruments*

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

(v) *Amortised cost of financial instruments*

Amortised cost is computed using the effective interest 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.

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

Financial Liabilities

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

2.9 Impairment

(i) *Financial assets*

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries, investments in associates and investments in joint ventures) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset’s recoverable amount is estimated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment (continued)

(i) *Financial assets (continued)*

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the 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.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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.

If, in a subsequent period, the fair value of a debt instrument 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, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) *Other assets*

The carrying amounts of other assets, other than inventories, amount due from contract customers, deferred tax assets, non-current assets or disposal groups classified as held for sale and financial assets (financial assets in this context exclude investments in subsidiaries, associates and joint ventures), are reviewed at each reporting date to determine whether there is any indication of impairment.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment (continued)

(ii) *Other assets (continued)*

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

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the profit or loss, a reversal of that impairment loss is also recognised in the profit or loss.

2.10 Cash and cash equivalents

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

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of petroleum products includes direct costs and transportation charges necessary to bring the inventories to their present locations and condition and is determined on a weighted average basis.

Cost of material stores and spares consists of the invoiced value from suppliers.

2.12 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have 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 net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Provisions (continued)

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

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in Note 18.

2.13 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 and the Company.

(ii) Defined contribution plans

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

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

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

2.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the reporting date, 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 reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused tax losses and other unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused tax losses and other unused tax credits can be utilised.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Taxation (continued)

(ii) *Deferred tax (continued)*

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

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

2.15 Foreign currency transactions

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

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

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

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on retranslation of available-for-sale equity instruments, which are recognised in equity.

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia are translated into Ringgit Malaysia at the exchange rates ruling at reporting date, except for goodwill and fair value adjustments arising from business combinations before 1 April 2011 which are treated as assets and liabilities of the acquirer company pursuant to the adoption of MFRS framework.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Borrowing costs and foreign currency exchange differences relating to projects-in-progress

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are capitalised as part of the cost of those assets.

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

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific project-in-progress, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowings will be capitalised.

Exchange differences arising from foreign currency borrowings, although regarded as an adjustment to borrowing costs, are not capitalised but instead recognised in the profit or loss in the period in which they arise.

2.17 Revenue

Revenue from sale of petroleum products is recognised in the profit or loss when the 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 value of services performed during the year.

2.18 Financing costs

Financing costs comprise interest payable on borrowings and profit sharing margin on Islamic Financing Facilities and unwinding of discount for provision of dismantling, removal and restoration costs.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than those capitalised in accordance with the accounting policy stated in Note 2.16. The financing costs on borrowings are recognised using the effective profit/interest method.

2.19 PETRONAS Mesra loyalty programme

PETRONAS Mesra Loyalty Programme is an in-house loyalty programme where members are awarded with PETRONAS Mesra points at the point of sale made at PETRONAS stations and Kedai Mesra. The monetary value attributed to the awarded points is treated as deferred revenue and only recognised as revenue in the profit or loss on redemption, cancellation and expiration of the points. Currently, members can redeem the awarded points for purchase of fuel at PETRONAS stations or items at Kedai Mesra.

On an annual basis, fair value of the deferred revenue will be estimated by reference to the monetary value attributable to the awarded points and point redemption profile. This accounting treatment is in line with IC Interpretation 13, Customer Loyalty Programmes.

2.20 Earnings per share

The Group presents basic earnings per ordinary share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Operating segments

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

2.22 Fair value measurements

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

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(ii) Non-financial assets

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

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

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

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

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

3. PROPERTY, PLANT AND EQUIPMENT

Group	At 1.1.2016 RM'000	Additions RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	Transfer from Disposal Group Held for Sale RM'000	Translation exchange difference RM'000	At 31.12.2016 RM'000
At cost:							
Freehold land	1,018,110	–	–	2,867	–	–	1,020,977
Leasehold land							
– Long lease	603,552	37	(2,351)	15,414	–	(88)	616,564
– Short lease	15,544	–	–	4,921	–	–	20,465
Buildings	2,110,590	216	(15,176)	19,997	–	(5)	2,115,622
Plant, machinery, tankage and pipeline	2,465,573	19,431	(82,393)	105,702	24,892	(1,452)	2,531,753
Office equipment, furniture and fittings	458,543	2,775	(4,212)	26,866	39	(7)	484,004
Motor vehicles	74,647	–	(381)	12,781	31	77	87,155
Computer hardware and software	590,540	7,558	(19,355)	58,899	153	(41)	637,754
Projects-in-progress	361,125	168,224	(4,610)	(260,496)	–	(74)	264,169
	7,698,224	198,241	(128,478)	(13,049)*	25,115	(1,590)	7,778,463

Note 13

* Amount relates to transfer to Prepaid Lease Payments.

Group	At 1.1.2016 RM'000	Charge for the year RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	Transfer from Disposal Group Held for Sale RM'000	Translation exchange difference RM'000	At 31.12.2016 RM'000
Accumulated depreciation and impairment losses:							
Freehold land	809	–	–	–	–	–	809
Leasehold land							
– Long lease	89,818	10,102	1,844	–	–	(35)	101,729
– Short lease	5,165	1,870	–	–	–	–	7,035
Buildings	1,242,187	92,555	(12,379)	–	–	(1)	1,322,362
Plant, machinery, tankage and pipeline	1,485,548	162,624	(75,074)	–	24,082	(128)	1,597,052
Office equipment, furniture and fittings	315,396	35,787	(3,951)	–	39	(11)	347,260
Motor vehicles	62,179	7,014	(381)	–	31	22	68,865
Computer hardware and software	507,257	50,526	(18,812)	–	153	(25)	539,099
	3,708,359	360,478	(108,753)	–	24,305	(178)	3,984,211

Note 13

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3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	At	Additions	Disposals/ Write-offs	Transfers	Transfer	Translation exchange difference	At
	1.1.2015				Group Held		31.12.2015
	RM'000	RM'000	RM'000	RM'000	for Sale	RM'000	RM'000
At cost:							
Freehold land	1,057,864	-	(6,885)	(32,869)	-	-	1,018,110
Leasehold land							
– Long lease	560,589	-	(823)	42,326	-	1,460	603,552
– Short lease	12,262	-	-	3,282	-	-	15,544
Buildings	2,081,657	36	(4,372)	36,142	(3,519)	646	2,110,590
Plant, machinery, tankage and pipeline	2,312,698	28,749	(58,273)	184,960	(38,805)	36,244	2,465,573
Office equipment, furniture and fittings	428,955	6,164	(5,123)	28,665	(294)	176	458,543
Motor vehicles	65,061	1,433	(743)	10,763	(2,592)	725	74,647
Computer hardware and software	567,941	12,113	(1,185)	11,606	(425)	490	590,540
Projects-in-progress	403,608	260,390	(59)	(302,969)	-	155	361,125
	7,490,635	308,885	(77,463)	(18,094)*	(45,635)	39,896	7,698,224

Note 13

* Amount relates to transfer to Prepaid Lease Payments.

Group	At	Charge for the year	Disposals/ Write-offs	Transfers	Transfer	Translation exchange difference	At
	1.1.2015				Group Held		31.12.2015
	RM'000	RM'000	RM'000	RM'000	for Sale	RM'000	RM'000
Accumulated depreciation and impairment losses:							
Freehold land	809	-	-	-	-	-	809
Leasehold land							
– Long lease	75,217	13,868	(200)	-	-	933	89,818
– Short lease	4,832	333	-	-	-	-	5,165
Buildings	1,148,727	96,965	(2,041)	-	(1,751)	287	1,242,187
Plant, machinery, tankage and pipeline	1,404,496	161,998	(52,869)	(216)	(34,582)	6,721	1,485,548
Office equipment, furniture and fittings	289,253	31,492	(5,181)	-	(294)	126	315,396
Motor vehicles	59,641	5,076	(693)	-	(2,377)	532	62,179
Computer hardware and software	476,566	31,733	(1,188)	216	(414)	344	507,257
	3,459,541	341,465	(62,172)	-	(39,418)	8,943	3,708,359

Note 13

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Carrying amounts	
	2016 RM'000	2015 RM'000
Freehold land	1,020,168	1,017,301
Leasehold land	–	–
– Long lease	514,835	513,734
– Short lease	13,430	10,379
Buildings	793,260	868,403
Plant, machinery, tankage and pipeline	934,701	980,025
Office equipment, furniture and fittings	136,744	143,147
Motor vehicles	18,290	12,468
Computer hardware and software	98,655	83,283
Projects-in-progress	264,169	361,125
	3,794,252	3,989,865

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3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	At 1.1.2016 RM'000	Additions RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	At 31.12.2016 RM'000
At cost:					
Freehold land	1,018,110	—	—	2,867	1,020,977
Leasehold land					
– Long lease	592,504	—	(2,322)	15,387	605,569
– Short lease	15,544	—	—	4,921	20,465
Buildings	2,082,916	216	(15,176)	19,979	2,087,935
Plant, machinery, tankage and pipeline	1,862,255	14,853	(49,029)	100,003	1,928,082
Office equipment, furniture and fittings	454,368	3,312	(3,865)	26,239	480,054
Motor vehicles	66,872	—	(312)	12,781	79,341
Computer hardware and software	576,927	7,249	(17,847)	56,238	622,567
Projects-in-progress	351,790	151,282	(4,610)	(251,464)	246,998
	7,021,286	176,912	(93,161)	(13,049)*	7,091,988

* Amount relates to transfer to Prepaid Lease Payments.

Company	At 1.1.2016 RM'000	Charge for the year RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	At 31.12.2016 RM'000
Accumulated depreciation and impairment losses:					
Freehold land	809	—	—	—	809
Leasehold land					
– Long lease	82,981	9,386	1,873	—	94,240
– Short lease	5,165	1,870	—	—	7,035
Buildings	1,218,747	91,146	(12,379)	—	1,297,514
Plant, machinery, tankage and pipeline	1,232,764	128,794	(43,195)	—	1,318,363
Office equipment, furniture and fittings	313,350	36,039	(3,620)	—	345,769
Motor vehicles	57,587	6,098	(312)	—	63,373
Computer hardware and software	495,537	49,030	(17,310)	—	527,257
	3,406,940	322,363	(74,943)	—	3,654,360

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	At 1.1.2015 RM'000	Additions RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	At 31.12.2015 RM'000
At cost:					
Freehold land	1,057,864	–	(6,885)	(32,869)	1,018,110
Leasehold land					
– Long lease	550,989	–	(810)	42,325	592,504
– Short lease	12,262	–	–	3,282	15,544
Buildings	2,051,110	36	(4,372)	36,142	2,082,916
Plant, machinery, tankage and pipeline	1,720,242	9,348	(52,159)	184,824	1,862,255
Office equipment, furniture and fittings	426,543	4,621	(4,874)	28,078	454,368
Motor vehicles	56,556	–	(447)	10,763	66,872
Computer hardware and software	554,795	11,916	(1,101)	11,317	576,927
Projects-in-progress	402,073	251,673	–	(301,956)	351,790
	6,832,434	277,594	(70,648)	(18,094)*	7,021,286

* Amount relates to transfer to Prepaid Lease Payments.

Company	At 1.1.2015 RM'000	Charge for the year RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	At 31.12.2015 RM'000
Accumulated depreciation and impairment losses:					
Freehold land	809	–	–	–	809
Leasehold land					
– Long lease	70,069	13,099	(187)	–	82,981
– Short lease	4,832	333	–	–	5,165
Buildings	1,125,423	95,365	(2,041)	–	1,218,747
Plant, machinery, tankage and pipeline	1,147,850	124,244	(39,330)	–	1,232,764
Office equipment, furniture and fittings	287,377	30,909	(4,936)	–	313,350
Motor vehicles	54,181	3,853	(447)	–	57,587
Computer hardware and software	465,780	30,863	(1,106)	–	495,537
	3,156,321	298,666	(48,047)	–	3,406,940

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3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Carrying amounts	
	2016 RM'000	2015 RM'000
Freehold land	1,020,168	1,017,301
Leasehold land		
– Long lease	511,329	509,523
– Short lease	13,430	10,379
Buildings	790,421	864,169
Plant, machinery, tankage and pipeline	609,719	629,491
Office equipment, furniture and fittings	134,285	141,018
Motor vehicles	15,968	9,285
Computer hardware and software	95,310	81,390
Projects-in-progress	246,998	351,790
	3,437,628	3,614,346

The titles to certain freehold and leasehold land are in the process of being registered in the Company's name.

4. PREPAID LEASE PAYMENTS

Group and Company	At	Additions	Transfer	Disposals	Charge for	At
	1.1.2016		from		the year	31.12.2016
	RM'000	RM'000	Property, Plant and Equipment RM'000	RM'000	RM'000	RM'000
Leasehold land	21,316	1,789	–	–	(1,358)	21,747
Prepaid rental	470,634	–	13,049	(514)	(28,060)	455,109
	491,950	1,789	13,049	(514)	(29,418)	476,856

Group and Company	At	Additions	Transfer	Disposals	Charge for	At
	1.1.2015		from		the year	31.12.2015
	RM'000	RM'000	Property, Plant and Equipment RM'000	RM'000	RM'000	RM'000
Leasehold land	22,737	–	–	–	(1,421)	21,316
Prepaid rental	478,171	–	18,094	(530)	(25,101)	470,634
	500,908	–	18,094	(530)	(26,522)	491,950

The title to certain leasehold land is in the process of being registered in the Company's name.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016	2015
	RM'000	RM'000
Unquoted shares at cost	280,546	283,425

During the year, the Company had:

- i. divested the investment in subsidiary with a cost of investment of RM3 (see Note 23); and
- ii. redeemed preference shares of a subsidiary amounting to RM2,879,000 (2015: RM4,605,000).

Details of the subsidiaries are stated in Note 34 to the financial statements.

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6. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares at cost	1,959	1,959	1,959	1,959
Share of post-acquisition profits and reserves	1,472	1,056	—	—
	3,431	3,015	1,959	1,959

Security

The assets of an associate with the cost of RM12,520,000 (2015: RM12,637,000) have been pledged as security for the term loan facility of a subsidiary as set out in Note 17 to the financial statements.

Summary of financial information on associates:

	Group	
	2016 RM'000	2015 RM'000
Total assets (100%)	43,314	45,429
Total liabilities (100%)	(32,057)	(35,446)
Net assets (100%)	11,257	9,983
Revenue (100%)	16,251	15,568
Profit/Total comprehensive income (100%)	1,138	1,548

Details of the associates are stated in Note 35 to the financial statements.

7. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unquoted shares at cost	1,053	1,053	25	25
Share of post-acquisition profits and reserves	13,181	9,228	—	—
	14,234	10,281	25	25

NOTES TO THE FINANCIAL STATEMENTS

7. INVESTMENTS IN JOINT VENTURES (continued)

Summary of financial information on joint ventures:

	Group	
	2016 RM'000	2015 RM'000
Total assets (100%)	101,990	80,470
Total liabilities (100%)	(56,589)	(37,020)
Net assets (100%)	45,401	43,450
Revenue (100%)	324,988	264,252
Profit/Total comprehensive income (100%)	18,800	8,996

Details of the joint ventures are stated in Note 36 to the financial statements.

8. LONG TERM RECEIVABLE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Loan to a subsidiary	–	–	–	14,231
Other long term receivable	8,896	–	–	–
	8,896	–	–	14,231
Less: Impairment losses	(5,387)	–	–	–
Long term receivable	3,509	–	–	14,231

The loan to a subsidiary in prior year was unsecured, interest-bearing at 3.05% per annum charged semi-annually and was repaid by instalments until 15 April 2020. The amount was novated to the purchaser following the disposal of the said subsidiary during the year.

9. DEFERRED TAX

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

Group	At 1.1.2016 RM'000	Re- classification RM'000	Credited/ (charged) to profit or loss RM'000	At 31.12.2016 RM'000
Deferred tax liabilities				
Property, plant and equipment	(153,066)	(2,543)	3,798	(151,811)
Deferred revenue – Loyalty Programme	–	2,543	7,140	9,683
	(153,066)	–	10,938	(142,128)
Deferred tax assets				
Other provisions	7,895	–	(2,471)	5,424
Unused tax losses	1,517	–	(1,517)	–
	9,412	–	(3,988)	5,424

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9. DEFERRED TAX (continued)

Group	At 1.1.2015 RM'000	Re- classification RM'000	Credited/ (charged) to profit or loss RM'000	At 31.12.2015 RM'000
Deferred tax liabilities				
Property, plant and equipment	(140,189)	–	(12,877)	(153,066)
Deferred tax assets				
Other provisions	3,218	–	(1,701)	1,517
Unused tax losses	5,009	–	2,886	7,895
	8,227	–	1,185	9,412

Company	At 1.1.2016 RM'000	Re- classification RM'000	Credited to profit or loss RM'000	At 31.12.2016 RM'000
Deferred tax liabilities				
Property, plant and equipment	(133,691)	(2,543)	6,797	(129,437)
Deferred revenue – Loyalty Programme	–	2,543	7,140	9,683
	(133,691)	–	13,937	(119,754)

Company	At 1.1.2015 RM'000	Re- classification RM'000	Charged to profit or loss RM'000	At 31.12.2015 RM'000
Deferred tax liabilities				
Property, plant and equipment	(125,304)	–	(8,387)	(133,691)

NOTES TO THE FINANCIAL STATEMENTS

10. INVENTORIES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Petroleum products	800,122	621,484	753,526	556,560
Others	3,252	4,074	–	–
	803,374	625,558	753,526	556,560
Recognised in profit or loss:				
Inventories recognised as cost of sales	19,621,650	23,012,763	19,076,305	22,430,146
Write-down to net realisable value	870	6,723	–	–
Reversal of write-down	(675)	–	–	–
Inventory written off	2,465	7,648	–	5,539
	19,624,310	23,027,134	19,076,305	22,435,685

Inventories are carried at the lower of cost and net realisable value.

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade receivables	960,046	1,049,076	795,431	871,263
Subsidiary receivables	687,218	363,342	687,218	363,342
Other receivables, deposits and prepayments	219,400	143,452	199,160	115,744
Advances and loans to:				
– Subsidiaries	–	–	–	16,298
– Associates and joint ventures	27,150	29,324	20,206	19,693
Amounts due from:				
– Subsidiaries	–	–	1,947	4,903
– Associates and joint ventures	3,067	4,101	–	–
– Related companies	82,023	108,638	81,031	106,551
	1,978,904	1,697,933	1,784,993	1,497,794
Less: Impairment losses	(146,708)	(48,681)	(133,879)	(36,397)
Trade and other receivables	1,832,196	1,649,252	1,651,114	1,461,397

The amounts due from subsidiaries, associates, joint ventures and related companies are unsecured and arose in the normal course of business.

11. TRADE AND OTHER RECEIVABLES (continued)

Included in advances and loans to subsidiaries in prior year were:

- i. an amount of RM15,000,000 relating to a shareholder advances to a subsidiary which bore interest at 3.90% per annum; and
- ii. an amount of RM1,298,000 relating to the current portion of a shareholder loan to a subsidiary which bore interest at 3.05% per annum.

Other advances to subsidiaries and associates are unsecured, interest free and repayable on demand.

Included in impairment losses in the current year is an amount of RM89,959,000 for impairment of subsidy receivables for diesel relating to the period April 2012 to January 2013. The amount has been impaired as no decisions on repayment have been made by the Government.

12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash with PETRONAS				
Integrated Financial Shared				
Services Centre	2,249,440	1,224,508	2,236,442	1,211,753
Cash and bank balances	127,390	25,064	113,271	7,653
Deposits placed with licensed banks	54,807	9,065	–	–
	2,431,637	1,258,637	2,349,713	1,219,406

A portion of the Group's and Company's cash and cash equivalents are held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Services Centre ("IFSSC") to enable more efficient cash management for the Group and the Company.

Included in cash and cash equivalents of the Group are interest-bearing balances amounting to RM2,423,377,000 (2015: RM1,250,980,000).

13. DISPOSAL GROUP HELD FOR SALE

	Note	Group	
		2016 RM'000	2015 RM'000
Assets classified as held for sale:			
Property, plant and equipment	13.1	–	6,217
Inventories		–	5,486
Trade and other receivables		–	15,176
Cash and cash equivalents		–	5,756
		–	32,635
Liabilities classified as held for sale:			
Borrowings	13.2	–	10,896
Trade and other payables		–	13,610
		–	24,506

The amount in prior year represented carrying values of assets owned by two subsidiaries, PETRONAS (Vietnam) Co., Ltd. ("PVL") and Thang Long LPG Company Limited ("TLLCL") with the intention of disposal in the immediate future. The carrying amounts of these assets immediately before reclassification were not materially different from their fair values.

During the year, the sale of PVL was completed as disclosed in Note 23. On 31 January 2017, the Sale and Purchase Agreement ("SPA") to divest TLLCL has been terminated as disclosed in Note 32. Following this, the assets and liabilities of TLLCL have ceased to be classified as held for sale.

Note 13.1

Property, plant and equipment held for sale comprised the following:

	Note	Group	
		2016 RM'000	2015 RM'000
Cost	3	–	45,635
Accumulated depreciation	3	–	(39,418)
		–	6,217

Note 13.2

This comprised an unsecured revolving credit which bore interest at 5.30% per annum.

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14. SHARE CAPITAL

Group and Company	Number of shares		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised:				
Ordinary shares of RM1.00 each	1,000,000	1,000,000	1,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of RM1.00 each	993,454	993,454	993,454	993,454

15. RESERVES

Capital reserve

Capital reserve arose as a result of business combination of entities under the common control of PETRONAS and comprise merger deficit and capital contribution.

(i) Merger deficit

Merger deficit represents the excess of cost of acquisition over the Group's interest in the net carrying value of identifiable net assets, liabilities and contingent liabilities of the acquiree. Merger deficit is classified as part of non-distributable reserves.

(ii) Capital contribution

Capital contribution represents the excess of amount paid or payable to the Company over the cost of acquisition. Capital contribution is classified as part of non-distributable reserves.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from that of the Company's functional currency as well as foreign currency differences arising from the translation of monetary items that are considered to form part of a net investment in a foreign operation.

16. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of a partly-owned subsidiary.

17. BORROWINGS

	Group	
	2016 RM'000	2015 RM'000
Non-current		
Secured		
Term loan	17,452	27,681
Unsecured		
Islamic financing facilities	67,009	85,640
Total non-current borrowings	84,461	113,321
Current		
Secured		
Term loan	9,973	10,066
Unsecured		
Revolving credits	6,345	71,376
Islamic financing facilities	17,992	17,057
Total current borrowings	34,310	98,499
Total borrowings	118,771	211,820

Terms and debt repayment schedule

Group	Total RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000
Secured				
Term loan	27,425	9,973	9,973	7,479
Unsecured				
Revolving credits	6,345	6,345	-	-
Islamic financing facilities	85,001	17,992	18,597	48,412
	91,346	24,337	18,597	48,412

Secured Term Loan

The secured term loan obtained by the Group is secured by way of a charge over assets of an associate (see Note 6).

The secured term loan bears interest at a rate of 3.16% (2015: 4.04%) per annum with principal repayment of 60 equal monthly instalments commencing October 2014.

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17. BORROWINGS (continued)

Unsecured Islamic financing facilities

The unsecured Islamic financing facilities are governed by the Musharakah Mutanaqisah and Commodity Murabahah principles, and bear a profit margin ranging from 3.99% to 4.24% (2015: 4.41% to 4.61%) above the financing bank's cost of fund per annum with principal repayment by quarterly instalments until September 2021.

Unsecured revolving credits

The unsecured revolving credits of the Group bear interest at rates ranging from 2.50% to 2.75% (2015: 2.50% to 2.90%) per annum.

18. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Dismantling, removal and restoration costs	26,954	25,160	26,954	25,160
Other long term liabilities	3,215	2,267	–	–
	30,169	27,427	26,954	25,160

Dismantling, removal and restoration costs

The movement of provision for dismantling, removal and restoration costs during the financial year is shown below:

	Group and Company	
	2016 RM'000	2015 RM'000
Balance at 1 January	25,160	28,336
Net changes in provisions	154	36
Reversal of provisions	(307)	(6,600)
Unwinding of discount	1,947	3,388
Balance at 31 December	26,954	25,160

Under provisions of certain land lease agreements, the Company has an obligation to dismantle and remove structures on certain sites and restore those sites at the end of the lease term to an acceptable condition consistent with the lease agreement.

For these affected sites, the liabilities for dismantling, removal and restoration costs are recognised at present value of the compounded future expenditure estimated using existing technology, at current prices and discounted using a real discount rate.

NOTES TO THE FINANCIAL STATEMENTS

18. OTHER LONG TERM LIABILITIES AND PROVISIONS (continued)

Dismantling, removal and restoration costs (continued)

The present value of the estimated costs is capitalised as part of the asset and the related provisions raised on the date when the obligation arises. The capitalised cost is depreciated over the expected life of the asset. The increase in the net present value of the provision for the expected cost is included as finance costs in the profit or loss.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision.

While the provision is based on the best estimate of future costs and the economic lives of the affected assets, there is uncertainty regarding both the amount and timing of incurring these costs. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade payables	132,727	112,867	118,175	76,946
Other payables	791,269	840,053	723,340	760,216
Deferred revenue	40,435	38,796	40,346	38,708
Amounts due to:				
– Holding company	210,169	253,689	210,186	253,463
– Subsidiaries	–	–	1,010	9,733
– Associates and joint ventures	3,024	3,155	3,024	3,155
– Related companies	2,482,036	1,353,614	2,459,073	1,353,614
	3,659,660	2,602,174	3,555,154	2,495,835

Deferred revenue is attributable to the monetary value of the awarded Mesra points under PETRONAS Mesra Loyalty Programme. The movement has been recorded in the profit or loss. On an annual basis, the fair value of the deferred revenue will be estimated by reference to the monetary value attributable to the awarded points and the points redemption profile.

While the deferred revenue is based on the best estimate of future redemption profile, there is uncertainty regarding the trend of redemption. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

The amounts due to holding company, associates, joint ventures and related companies are unsecured, interest free and arose in the normal course of business.

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20. OPERATING PROFIT

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Included in operating profit are the following charges:					
Audit fees					
– KPMG Malaysia		608	585	500	476
– overseas affiliates of KPMG Malaysia		147	128	–	–
Non-audit fees					
– KPMG Malaysia		240	346	240	298
Amortisation of prepaid lease payments	4	29,418	26,522	29,418	26,522
Staff costs:					
– wages, salaries and others		212,970	199,588	180,388	162,184
– contributions to EPF		31,883	34,191	29,634	31,711
Depreciation of property, plant and equipment	3	360,478	336,866	322,363	298,666
Impairment losses on:					
– trade receivables	29	999	2,543	339	420
– other receivables		97,852	–	97,852	–
– long term receivable	8	5,387	–	–	–
Inventories written down to net realisable value	10	870	6,723	–	–
Inventories written off	10	2,465	7,648	–	5,539
Property, plant and equipment written off		6,569	13,308	5,640	10,035
Rental of:					
– plant and equipment		5,779	5,639	5,660	5,538
– land and buildings		41,927	40,807	33,256	31,031

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20. OPERATING PROFIT (continued)

	Note	Group		Company	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
and credits:					
Gain on disposal of property, plant and equipment		34,566	3,707	33,904	3,597
Gain on disposal of a subsidiary	23	35,610	–	–	–
Dividend income in Malaysia (unquoted):					
– subsidiary		–	–	–	23,400
– joint venture		–	–	1,250	–
Interest income from deposits		82,622	54,511	80,971	52,760
Income from rental of premises		1,904	1,456	27	31
Net gain on foreign exchange		11,442	27,460	11,197	28,559
Reversal of write-down of inventory to net realisable value	10	675	–	–	–
Write back of impairment losses on trade and other receivables	29	824	659	709	393

21. FINANCING COSTS

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Unwinding of discount				
– Provision for dismantling, removal and restoration costs	1,947	3,388	1,947	3,388
Interest on revolving credits	1,122	1,795	–	–
Interest on term loan	1,008	1,115	–	–
Profit margin on Islamic medium term notes	–	2,321	–	2,321
Profit margin on Islamic financing facilities	3,584	4,825	–	–
	7,661	13,444	1,947	5,709

22. TAX EXPENSE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Current tax expense				
Current year	295,772	280,638	281,759	269,321
Prior year	8,512	(2,306)	11,455	(2,315)
	304,284	278,332	293,214	267,006
Deferred tax expense				
Origination of temporary differences	6,552	12,333	3,114	7,843
(Over)/Under provision in prior year	(13,502)	(641)	(17,051)	544
Total deferred tax (income)/expense	(6,950)	11,692	(13,937)	8,387
Total tax expense	297,334	290,024	279,277	275,393

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22. TAX EXPENSE (continued)

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

		2016		2015
Group	%	RM'000	%	RM'000
Profit before taxation		1,212,334		1,082,484
Taxation at Malaysian statutory tax rate	24	290,960	25	270,621
Effect of different tax rates in foreign jurisdictions	–	680	–	56
Non-deductible expenses, net of non-taxable income	2	17,400	2	19,489
Effect of changes in tax rates	–	–	–	(102)
Effect of net deferred tax assets (recognised)/not recognised	(1)	(6,716)	–	2,907
	25	302,324	27	292,971
Under/(Over) provision in prior year				
– current tax expense	1	8,512	–	(2,306)
– deferred tax expense	(1)	(13,502)	–	(641)
Tax expense	25	297,334	27	290,024
Company				
Profit before taxation		1,138,730		1,033,911
Taxation at Malaysian statutory tax rate	24	273,296	25	258,477
Effect of changes in tax rates	–	–	–	(79)
Non-deductible expenses, net of non-taxable income	1	11,577	2	18,766
	25	284,873	27	277,164
Under/(Over) provision in prior year				
– current tax expense	1	11,455	–	(2,315)
– deferred tax expense	(1)	(17,051)	–	544
Tax expense	25	279,277	27	275,393

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23. DISPOSAL OF A SUBSIDIARY

During the year, the Group has disposed 100% of its equity interest in PETRONAS (Vietnam) Co., Ltd. ("PVL") for a net consideration of RM1,728,000. PVL was classified as held for sale as at 31 December 2015.

The net effect of the above disposal on the statement of profit or loss and other comprehensive income, cash flows and carrying amount of assets and liabilities disposed are as follows:

Profit attributable to the discontinued operation

	Group	
	2016 RM'000	2015 RM'000
Revenue	30,055	111,020
Expenses	(34,198)	(108,856)
(Loss)/Profit from operating activities	(4,143)	2,164
Gain on disposal of discontinued operation	35,610	-
Profit for the year	31,467	2,164

Cash flows from disposal of a subsidiary

	Group
	2016 RM'000
Cash flows used in disposal of subsidiary	
Net cash from investing activities	(3,813)

Effect of disposal on the financial position of the Group

	Carrying amount at disposal date RM'000
Property, plant and equipment	19,916
Current assets	23,199
Current liabilities	(33,002)
Borrowings	(30,558)
Other liabilities	(17,166)
Net liabilities disposed off	(37,611)
Foreign exchange translation reserve	3,729
Gain on disposal	35,610
Consideration received, satisfied in cash	1,728
Less: Cash and cash equivalents of subsidiary disposed	(5,541)
Cash flow on disposal, net of cash disposed off	(3,813)

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24. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2016 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2016	2015
Profit for the year attributable to shareholders (RM'000)		
– continuing operations	913,141	787,811
– discontinued operation	31,467	2,164
Number of ordinary shares ('000)	993,454	993,454
Basic earnings per ordinary share (sen)		
– continuing operations	91.9	79.3
– discontinued operation	3.2	0.2

Diluted earnings per ordinary share

No diluted earnings per share is disclosed in these financial statements as there is no potential dilutive ordinary share.

25. DIVIDENDS

	Company	
	2016 RM'000	2015 RM'000
In respect of financial year ended 31 December 2015:		
Interim dividend of 20.0 sen per ordinary share (2015: 22.0 sen)	198,690	218,559
In respect of financial year ended 31 December 2016:		
Interim dividend of 12.0 sen per ordinary share (2015: 12.0 sen)	119,214	119,214
Interim dividend of 14.0 sen per ordinary share (2015: 14.0 sen)	139,084	139,084
Interim dividend of 14.0 sen per ordinary share (2015: 14.0 sen)	139,084	139,084
	596,072	615,941

The Directors had declared an interim dividend of 30.0 sen per ordinary share amounting to RM298,036,200 in respect of the financial year ended 31 December 2016 which has not been accounted for in the financial statements.

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26. RELATED PARTIES DISCLOSURES

Significant transactions with related parties

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and an entity that provides key management personnel services to the Group. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group's and the Company's related parties include subsidiaries, associates, joint ventures as well as the Government of Malaysia and its related entities as the holding company is wholly-owned by the Government of Malaysia.

Key management personnel compensation

	Group and Company	
	2016 RM'000	2015 RM'000
Directors		
– Fees	393	387
– Other short term benefits (including estimated monetary value of benefits-in-kind)	15	15
	408	402

The Company pays management fees to the holding company in relation to services of an Executive Director and also fees for certain Non-Executive Directors of the Company.

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

	Group and Company	
	2016 RM'000	2015 RM'000
Trade activities:		
Sales of petroleum products:		
Related companies	909,119	1,179,541
Federal and State Government of Malaysia	267,730	310,759
Government of Malaysia's related entities	3,242,148	3,041,493
Purchases of petroleum products:		
Related companies	20,972,511	21,784,321
Holding company	707,368	698,955

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26. RELATED PARTIES DISCLOSURES (continued)

Significant transactions with related parties (continued)

	Group and Company	
	2016 RM'000	2015 RM'000
Non-trade activities:		
Information, communication and technology charges:		
Related company	41,376	43,644
Rental of office space:		
Holding company	18,706	18,588
Interest income from PETRONAS IFSSC:		
Holding company	80,397	53,239
Fees for representation in the Board of Directors*:		
Holding company	1,055	1,057

* Fees paid directly to holding company in respect of Directors who are appointees of the holding company.

Information regarding outstanding balances arising from related party transactions as at 31 December 2016 is disclosed in Note 11 and Note 19.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis.

27. COMMITMENTS

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

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment				
Approved and contracted for	4,963	9,104	4,785	8,754
Approved but not contracted for	132,469	185,942	110,310	165,991
	137,432	195,046	115,095	174,745

28. OPERATING SEGMENTS

The Group's reportable segments comprise of Retail, Commercial and Others. Each reportable segment offers different products and services and are managed separately because they require different marketing strategies. The following summary describes the operations in each of the Group's reportable segment:

- Retail – consist of sales and purchase of petroleum products to the retail sector
- Commercial – consist of sales and purchase of petroleum products to the commercial sector
- Others – comprise mainly of aviation fuelling services, technical services and business activities other than retail and commercial segments

For each of the reportable segment, the Group chief operating decision maker, which is the Board of Directors of the Company, reviews internal management reports at least on a quarterly basis.

Performance is measured based on segment profit or loss before tax, depreciation and amortisation, finance costs and interest as included in the internal management reports that are reviewed by the Company's Board of Directors. 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.

Business Segments	2016				2015			
	Retail RM'000	Commercial RM'000	Others RM'000	Group RM'000	Retail RM'000	Commercial RM'000	Others RM'000	Group RM'000
Revenue	11,951,825	9,812,416	22,303	21,786,544	13,456,461	11,578,459	25,270	25,060,190
Depreciation and amortisation	312,542	57,101	20,253	389,896	289,142	54,107	20,139	363,388
Other income/(expense)	334,254	69,780	(13,547)	390,487	263,220	56,168	3,058	322,446
Operating profit/(loss)	681,999	534,522	(2,145)	1,214,376	526,221	539,800	26,128	1,092,149
Finance costs	(2,220)	(1,853)	(3,588)	(7,661)	(4,952)	(3,667)	(4,825)	(13,444)
Share of profit after tax of associates and joint ventures				5,619				3,779
Profit before taxation				1,212,334				1,082,484

Geographical information

There is no disclosure on geographical segment information as the results of the Group's operations outside of Malaysia are not material during the year under review.

Major customers

As at 31 December 2016, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

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29. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

- (i) Loans and receivables ("L&R"); and
- (ii) Loans and borrowings ("L&B").

Group	Note	L&R/(L&B) RM'000	Total carrying amount RM'000
2016			
Financial assets			
Long term receivable	8	3,509	3,509
Trade and other receivables	11	1,804,851	1,804,851
Cash and cash equivalents	12	2,431,637	2,431,637
		4,239,997	4,239,997
Financial liabilities			
Borrowings	17	(118,771)	(118,771)
Trade and other payables	19	(3,597,908)	(3,597,908)
		(3,716,679)	(3,716,679)
2015			
Financial assets			
Trade and other receivables	11	1,616,953	1,616,953
Cash and cash equivalents	12	1,258,637	1,258,637
		2,875,590	2,875,590
Financial liabilities			
Borrowings	17	(211,820)	(211,820)
Trade and other payables	19	(2,572,805)	(2,572,805)
		(2,784,625)	(2,784,625)

29. FINANCIAL INSTRUMENTS

Categories of financial instruments (continued)

Company	Note	L&R/(L&B) RM'000	Total carrying amount RM'000
2016			
Financial assets			
Trade and other receivables	11	1,636,194	1,636,194
Cash and cash equivalents	12	2,349,713	2,349,713
		3,985,907	3,985,907
Financial liability			
Trade and other payables	19	(3,494,830)	(3,494,830)
2015			
Financial assets			
Long term receivable	8	14,231	14,231
Trade and other receivables	11	1,449,459	1,449,459
Cash and cash equivalents	12	1,219,406	1,219,406
		2,683,096	2,683,096
Financial liability			
Trade and other payables	19	(2,467,402)	(2,467,402)

Financial risk management

Petroleum Nasional Berhad (PETRONAS) has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the PETRONAS Group.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board level, where relevant, based on defined methodology and translated into operational thresholds.

The Group and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, the Group and the Company adopt appropriate measures to mitigate these risks in accordance with their view of the balance between risk and reward.

The main financial risks faced by the Group and the Company arising from the use of financial instruments in their normal activities are credit risk, liquidity risk, market risk, profit or interest rate risk and foreign currency risk.

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29. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the potential exposure of the Group and of the Company to losses in the event of non-performance by counterparties. The Group's and the Company's exposures to credit risk arise principally from customers and placement in money market. Credit risks are controlled by individual companies in line with PETRONAS' policies and guidelines.

Trade and other receivables

The Group and the Company minimise credit risk by ensuring that all potential counterparties are assessed prior to registration and entering into new contracts. Existing counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's 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 and the Company further mitigate and limit risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit, Amanah Saham Bumiputera (ASB) and bank guarantees.

The Group uses ageing analysis to monitor the credit quality of the receivables. As at the year end, 96% (2015: 95%) of gross trade receivables of the Group are within the credit terms.

On reporting date, there is a significant concentration of credit risk of the Group arising from an amount owing from a customer constituting 19% (2015: 26%) of the total trade receivables of the Group, of which all outstanding balances are current.

In addition, there is a significant concentration of credit risk of the Group being an amount owing from the Government constituting 76% (2015: 72%) of the total other receivables of the Group relating to subsidies arising from the Automatic Pricing Mechanism governing the sale of petroleum products.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group.

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29. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Trade and other receivables (continued)

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The ageing of trade receivables net of impairment amount as at the end of the reporting period is analysed below:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
At net				
Current	988,409	1,087,025	859,059	956,852
Past due 1 to 30 days	20,383	24,998	8,721	12,189
Past due 31 to 60 days	5,769	12,306	1,311	3,368
Past due 61 to 90 days	2,324	5,648	1,396	1,150
Past due more than 90 days	10,407	13,135	5,973	6,839
	1,027,292	1,143,112	876,460	980,398
Representing:				
Trade receivables (Note 11)	1,042,069	1,157,714	878,409	982,717
Less: impairment losses (Note 11)	(14,777)	(14,602)	(1,949)	(2,319)
	1,027,292	1,143,112	876,460	980,398

With respect to the Group's and the Company's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations except for impairment losses recognised below.

The movements in the allowance for impairment losses of trade receivables during the year are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Opening balance	14,602	12,718	2,319	2,292
Impairment losses recognised	999	2,543	339	420
Reversal of impairment	(824)	(659)	(709)	(393)
Closing balance	14,777	14,602	1,949	2,319

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29. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

Fund and other investments

The Group and the Company are also exposed to counterparty credit risk from financial institutions through fund investment activities comprising primarily money market placement and investments in bonds and trade facilities. These exposures are managed in accordance with existing policies and guidelines that define 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.

Investments are only made with approved counterparties who met the appropriate rating and other relevant criteria, and within approved credit limits, as stipulated in the policies and guidelines. The treasury function undertakes credit risk management activities similar to the credit management and monitoring procedures for receivables.

The maximum exposure to credit risk is represented by the carrying amounts in the statements of financial position.

As at the reporting date, the Group and the Company have only interests in short term domestic money market instrument. In view of the credit rating of counterparties, the Group and the Company do not expect any counterparties to fail to meet its obligation.

Liquidity risk

Liquidity risk is the risk that the Group or the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through use of stand-by credit facilities. The Company's current credit rating enables it to access banking facilities in excess of current and immediate future requirements of the Group and the Company.

29. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

Maturity analysis

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

Group	Carrying amount RM'000	Effective profit margin/ interest rates per annum %	Contractual cash flows RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
2016							
Loans and borrowings							
Unsecured Islamic financing facilities floating rate	85,001	4.12	95,230	18,717	20,126	56,387	–
Unsecured revolving credit floating rate	6,345	2.50	6,362	6,362	–	–	–
Secured term loan floating rate	27,425	3.16	29,112	10,288	10,613	8,211	–
Trade and other payables	3,597,908	–	3,597,908	3,597,908	–	–	–
	3,716,679		3,728,612	3,633,275	30,739	64,598	–
2015							
Loans and borrowings							
Unsecured Islamic financing facilities floating rate	102,697	4.44	116,311	21,334	21,195	62,748	11,034
Unsecured revolving credit floating rate	71,376	2.75	71,736	71,736	–	–	–
Secured term loan floating rate	37,747	4.04	41,207	10,473	10,896	19,838	–
Trade and other payables	2,572,805	–	2,572,805	2,572,805	–	–	–
	2,784,625		2,802,059	2,676,348	32,091	82,586	11,034
Company							
2016							
Loans and borrowings							
Trade and other payables	3,494,830	–	3,494,830	3,494,830	–	–	–
2015							
Loans and borrowings							
Trade and other payables	2,467,402	–	2,467,402	2,467,402	–	–	–

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29. 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 and the Company are exposed to include interest rates and foreign currency exchange rates that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Profit margin or interest rate risk

Profit margin or interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates.

The Group's exposure to the risk of changes in market rates relates primarily to the Islamic financing facilities and term loan of subsidiaries with floating profit margin and interest rate. Changes in the profit margin may expose the Group to a risk of change in cash flows.

The Group's remaining interest-bearing financial asset and financial liability, which consists mainly of fixed rate short term fund placement and short term revolving credit facilities do not have significant exposure to interest rate risk.

All profit or interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines.

As at 31 December 2016, 100% (2015: 95%) of the interest-bearing financial liabilities of the Group are floating rate instruments.

Profit margin risk sensitivity analysis

As at 31 December 2016, it is estimated that an increase/decrease of 100 basis points in profit margin of the Islamic financing facilities or in interest rate of the term loan, with all other variables held constant, would not have any significant impact to the Group's cash flows.

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and/or 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 Company's funds are managed by PETRONAS Integrated Financial Shared Services Centre (IFSSC) whereby foreign currency exposure is internally hedged with IFSSC and IFSSC will execute external hedging where required.

29. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign exchange risk (continued)

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

	Denominated in USD	
	2016 RM'000	2015 RM'000
Group		
Financial assets		
Cash and cash equivalents	223	3,123
Trade and other receivables	122,910	125,238
	123,133	128,361
Financial liabilities		
Trade and other payables	56,289	42,558
	66,844	85,803
Company		
Financial assets		
Cash and cash equivalents	162	3,123
Trade and other receivables	122,910	125,238
	123,072	128,361
Financial liabilities		
Trade and other payables	55,606	22,865
	67,466	105,496

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2016 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2016 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgment and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Group's actual exposure to market prices is constantly changing with changes in the Group's portfolio of among others debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Group. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

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29. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign exchange risk (continued)

The following table demonstrates the indicative pre-tax effects on the profit or loss of applying reasonably foreseeable market movements in the following currency exchange rates:

	2016		2015	
	Appreciation in foreign currency rate %	Effect on profit or loss RM'000	Appreciation in foreign currency rate %	Effect on profit or loss RM'000
Group				
USD	10	6,684	10	8,580
Company				
USD	10	6,747	10	10,550

This analysis assumes all other variables, in particular interest rates, remain constant.

A depreciation in USD would have had equal but opposite effect, on the basis that all other variables remain constant.

Fair value information

The Group's financial instruments consist of long term receivable, borrowings, cash and cash equivalents, trade and other receivables and trade and other payables.

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The following table analyses financial instruments not carried at fair value for which fair value is disclosed, together with the carrying amounts shown in the statement of financial position.

29. FINANCIAL INSTRUMENTS (continued)

Fair value information (continued)

	Fair value of financial instruments not carried at fair value		Carrying amount RM'000
	Level 3 RM'000	Total RM'000	
Group			
2016			
Financial Asset			
Long term receivable	2,397	2,397	3,509
Financial Liabilities			
Islamic financing facilities	76,088	76,088	85,001
Term loan	25,061	25,061	27,425
	101,149	101,149	112,426
2015			
Financial Liabilities			
Islamic financing facilities	88,871	88,871	102,697
Term loan	34,159	34,159	37,747
	123,030	123,030	140,444
Company			
2016			
Financial Asset			
Long term loan to a subsidiary	-	-	-
2015			
Financial Asset			
Long term loan to a subsidiary	14,082	14,082	14,231

Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

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29. FINANCIAL INSTRUMENTS (continued)

Gains and losses arising from financial instruments

Group	Interest income RM'000	Interest expense RM'000	Net impairment loss RM'000	Others RM'000	Total RM'000
2016					
Financial instruments at fair value through profit or loss					
– designated upon initial recognition	–	–	–	(259)	(259)
Loans and receivables					
– recognised in profit or loss	82,622	–	(103,414)	6,057	(14,735)
Financial liabilities at amortised cost	–	(5,714)	–	5,644	(70)
Total	82,622	(5,714)	(103,414)	11,442	(15,064)
2015					
Financial instruments at fair value through profit or loss					
– designated upon initial recognition	–	–	–	(5)	(5)
Loans and receivables					
– recognised in profit or loss	54,511	–	(1,884)	34,269	86,896
Financial liabilities at amortised cost	–	(10,056)	–	(6,804)	(16,860)
Total	54,511	(10,056)	(1,884)	27,460	70,031

NOTES TO THE FINANCIAL STATEMENTS

29. FINANCIAL INSTRUMENTS (continued)

Gains and losses arising from financial instruments (continued)

Company	Interest income RM'000	Interest expense RM'000	Net impairment loss RM'000	Others RM'000	Total RM'000
2016					
Financial instruments at fair value through profit or loss					
– designated upon initial recognition	–	–	–	(259)	(259)
Loans and receivables					
– recognised in profit or loss	80,971	–	(97,482)	5,812	(10,699)
Financial liabilities at amortised cost	–	–	–	5,644	5,644
Total	80,971	–	(97,482)	11,197	(5,314)
2015					
Financial instruments at fair value through profit or loss					
– designated upon initial recognition	–	–	–	(5)	(5)
Loans and receivables					
– recognised in profit or loss	52,760	–	(27)	35,368	88,101
Financial liabilities at amortised cost	–	(2,321)	–	(6,804)	(9,125)
Total	52,760	(2,321)	(27)	28,559	78,971

30. CAPITAL MANAGEMENT

The Group defines capital as total equity and debt. The objective of the Group's capital management is to maintain an optimal capital structure and ensure availability of funds to support its business and maximise shareholders' value. As a subsidiary of Petroliam Nasional Berhad (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 asset ratio to optimise shareholders' value and to ensure compliance with covenants under debt and shareholders' agreements and regulatory requirements, if any.

The debt equity ratio of the Group as at 31 December 2016 is 2.2:100 (2015: 4.2:100).

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

Under the requirement of Bursa Malaysia Practice Note No.17/2005, the Group is required to maintain consolidated shareholders' equity equal to or not less than 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

31. HOLDING COMPANY

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

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32. SUBSEQUENT EVENT

Effective 31 January 2017, Totalgaz Vietnam Limited Liability Company ("TGV") has issued a notice to terminate the Sale and Purchase Agreement ("SPA") to divest Thang Long LPG Company, Ltd. The termination of the SPA is not expected to have any material effect on the Group's financial position.

33. COMPARATIVE FIGURES

The comparatives for the Consolidated Statement of Profit or Loss and Other Comprehensive Income have been re-presented to show the discontinued operation pursuant to the disposal of PETRONAS (Vietnam) Co., Ltd. during the year.

34. SUBSIDIARIES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2016	2015	
Companies incorporated in Malaysia			
Kuala Lumpur Aviation Fuelling System Sdn. Bhd.	65%	65%	To operate aviation fuelling at Kuala Lumpur International Airport, Sepang.
PETRONAS Lubricants Marketing (Malaysia) Sdn. Bhd.	100%	100%	To market and distribute lubricants.
PETRONAS Aviation Sdn. Bhd.	100%	100%	To provide technical consultancy services.
Company incorporated in Netherlands			
*PDB (Netherlands) B.V.	100%	100%	Investment holding company.
Company incorporated in the Philippines			
**PETRONAS Energy Philippines, Inc.	100%	100%	To buy, sell, store, distribute and market liquefied petroleum gas (LPG) and other petroleum products.
Company incorporated in Thailand			
*PETRONAS International Marketing (Thailand) Co., Ltd.	100%	100%	To market and distribute lubricants.
Companies incorporated in Vietnam			
**PETRONAS (Vietnam) Co., Ltd.	—	100%	To store, process and distribute LPG.
**Thang Long LPG Company Limited	100%	100%	To store and bottle LPG and lease jetty.

* Not audited by member firms of KPMG International

** Audited by member firms of KPMG International

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35. ASSOCIATES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2016	2015	
Companies incorporated in Malaysia			
*IOT Management Sdn. Bhd.	20%	20%	To operate and manage a petroleum storage terminal with facilities for receipt, storage and delivery of petroleum products at Senari, Kuching, Sarawak for the users, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd.
*Tanjung Manis Oil Terminal Management Sdn. Bhd.	20%	20%	To operate and manage a petroleum storage terminal with facilities for receipt, storage and delivery of petroleum products located at Bandar Baru Tanjung Manis, Mukah, Sarawak for the users, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd.
Companies incorporated in the Philippines			
**Duta, Inc.	40%	40%	To lease properties to PETRONAS Energy Philippines, Inc.
**Kaparangan, Inc. (wholly owned by Duta, Inc.)	40%	40%	To engage in the business of buying, investing, exchanging, selling securities of every kind and leasing land.

* Not audited by member firms of KPMG International

** Audited by member firms of KPMG International

36. JOINT VENTURES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2016	2015	
Companies incorporated in Malaysia			
PS Pipeline Sdn. Bhd.	50%	50%	To maintain and operate the Multi-Product Pipeline and Klang Valley Distribution Terminal (MPP-KVDT) and the associated facilities for the transportation of the petroleum products on behalf of the MPP-KVDT owners/shareholders.
PS Terminal Sdn. Bhd.	50%	50%	To operate, manage and maintain the joint facilities – terminal, depot, warehouse etc. in Tawau and Bintulu on behalf of the owners, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd.
Company incorporated in Kingdom of Saudi Arabia			
*United Fuel Company Limited (Limited Liability Company) (interest owned by PETRONAS Aviation Sdn. Bhd.)	40%	40%	To provide support, maintenance and operation services for airport facilities and gas fuel, storage equipment and fuel supply to aircrafts in the airports of the Kingdom of Saudi Arabia.

* Not audited by member firms of KPMG International

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37. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2016, the Group and the Company adopted the following pronouncements that are applicable and have been issued by the MASB as listed below:

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*

Amendments to MFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*

Amendments to MFRS 101, *Presentation of Financial Statements: Disclosure Initiative*

Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*

Amendments to MFRS 127, *Separate Financial Statements: Equity Method in Separate Financial Statements*

Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

The initial application of the abovementioned pronouncements do not have any material impact to the financial statements of the Group and the Company.

38. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)*

Amendments to MFRS 107, *Statement of Cash Flows: Disclosure Initiative*

Amendments to MFRS 112, *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

Effective for annual periods beginning on or after 1 January 2018

MFRS 9, *Financial Instruments (2014)*

MFRS 15, *Revenue from Contracts with Customers*

Amendments to MFRS 15 *Revenue from Contracts with Customers: Clarifications*

Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*

IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

Effective for annual periods beginning on or after 1 January 2019

MFRS 16, *Leases*

Effective for a date yet to be confirmed

Amendments to MFRS 10, *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to MFRS 128, *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

NOTES TO THE FINANCIAL STATEMENTS

38. PRONOUNCEMENTS YET IN EFFECT (continued)

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements are not expected to have any material impacts to the financial statements of the Group and the Company except as mentioned below:

i) **MFRS 15, Revenue from Contracts with Customers**

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

ii) **MFRS 9, Financial Instruments**

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

iii) **MFRS 16, Leases**

MFRS 16 replaces existing leases guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives*, and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

39. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*

Amendments to MFRS 2 *Share-based Payment: Classification and Measurement of Share-based Payment Transactions*

Amendments to MFRS 4 *Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*

Amendments to MFRS 140 *Investment Property: Transfers of Investment Property*

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40. RETAINED EARNINGS

The breakdown of the retained earnings of the Group and the Company as at 31 December 2016, into realised and unrealised profits, pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Total retained profits				
– realised	4,485,008	4,119,185	4,257,923	4,004,558
– unrealised	(110,233)	(111,775)	(93,313)	(103,329)
	4,374,775	4,007,410	4,164,610	3,901,229
Total retained profits of associates attributable to the Group				
– realised	1,472	1,056	–	–
Total retained profits of joint ventures attributable to the Group				
– realised	13,180	9,228	–	–
Less: Consolidation adjustments	(103,433)	(51,920)	–	–
Total retained profits	4,285,994	3,965,774	4,164,610	3,901,229

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PETRONAS DAGANGAN BERHAD
(Company No. 88222-D)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of PETRONAS Dagangan Berhad and its subsidiaries (the Group), which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 256 to 321.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Refer to page 279 (Note 2.17 Significant Accounting Policies).

The key audit matter

The main revenue streams of the Group are segregated into retail and commercial. Revenue recognition is a key audit matter due to:

- Revenue recognition is highly dependent on the accuracy of the point-of-sale platforms, which are linked to the integrity of the overall IT system which comprise the Mesra Link and the Centralised Information System ("CIS"); and
- Risk that revenue may be overstated arising from pressure faced by the Group in achieving performance targets as revenue recognition has a direct impact on the results of the Group.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Key Audit Matters (continued)

Revenue Recognition (continued)

How the matter was addressed in our audit

We performed the following audit procedures, among others, around revenue recognition:

- We tested the operating effectiveness of the Group's controls relevant to recognition of revenue;
- We assessed sales transactions taking place as well as credit notes issued, both before and after the year end date to assess whether the revenue was recognised in the correct period;
- We tested sales transactions recorded to the acknowledged customer delivery orders to ascertain validity of sales; and
- We involved our Information Risk Management ("IRM") specialist to test the point-of-sale platform for revenue recognition and overall general IT control environment of the Centralised Information System ("CIS"). We tested IT application controls relevant to recognition of commercial and retail sales.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included Directors' Report and Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Responsibilities of the Directors for the Financial Statements (continued)

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 34 to the financial statements, being accounts that have been included in the consolidated accounts.
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 40 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

INDEPENDENT AUDITORS' REPORT

OTHER MATTER

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

21 February 2017
Petaling Jaya, Selangor

A handwritten signature in black ink, appearing to read 'Chong Dee Shiang'.

Chong Dee Shiang
Approval Number: 02782/09/2018 J
Chartered Accountant

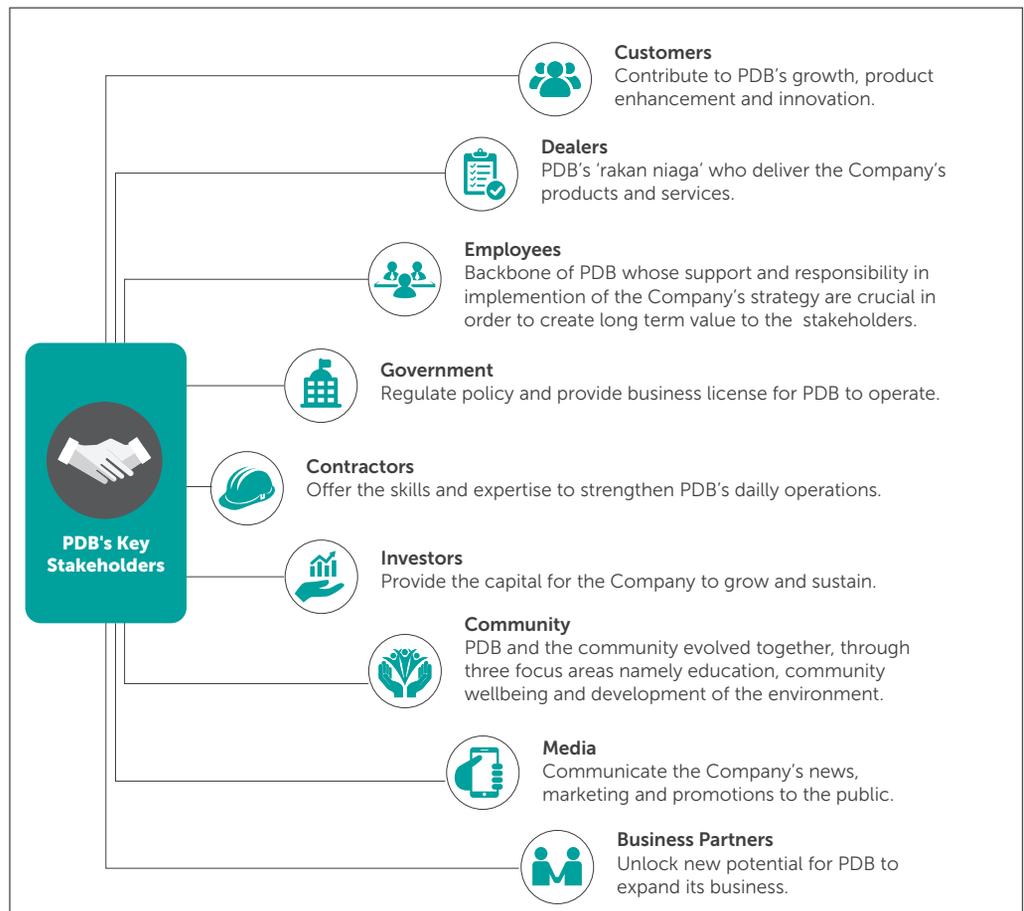
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STAKEHOLDERS' ENGAGEMENT

Stakeholder engagement is a key component of PDB's continued commitment to understand and respond to the needs and interests of our key stakeholders. During the year under review, as part of the Company's business strategy, regular dialogues were held with key stakeholders. PDB's key stakeholders are categorised into nine major groups that include Customers, Dealers, Employees, Government, Contractors, Investors, Community, Media and Business Partners. The individual stakeholders within these groups are highly diverse and represent varying interests in PDB's business.

PDB continues to improve the way we engage and communicate with our significant stakeholders via various formal and informal sessions. Such engagements are crucial in order to identify and address their interests and concerns. These are prioritised depending on their influential status in making decision which could potentially contribute significant impact to our business sustainability.

Engagement sessions with our stakeholders are centred on identified material issues. The diagram and table below set out the types of engagement carried out for each stakeholder group.



MATERIAL ISSUES AND STAKEHOLDER ENGAGEMENTS

How PDB engaged/ Communication Channel	Material Issues	Frequency of engagement
Customers		
<ul style="list-style-type: none"> • Coordination meetings with customer • Customer feedback management • Quick response via Mesralink at www.mymesra.com.my • Loyalty Programmes • Events/consistent dialogues, roadshows, engagement sessions 	<ul style="list-style-type: none"> • B2B Customers Group: competitive price, product specifications, easy transaction processing and the sustainability of supply • B2C Customer Group: competitive price, service sell, availability of quality products and exceptional services • Customer support • Health and Safety 	Weekly and monthly
Dealers		
<ul style="list-style-type: none"> • Dealer conferences • Quarterly meetings • Monthly meetings • Events/consistent dialogues, roadshows, engagement sessions • PMLP • Continuous communication and joint sales planning • Corporate website at www.mymesra.com.my • Mesralink 	<ul style="list-style-type: none"> • Business opportunity • Governance and business ethics • Workforce development • Health and Safety • Human Rights 	Ad hoc, regularly, quarterly and annually
Employees		
<ul style="list-style-type: none"> • Townhall sessions • Top management message • Employee satisfaction survey • Dialogues • Intranet and newsletters • Employee engagement programmes 	<ul style="list-style-type: none"> • Employment creation • Participating in the Company's activities • Consistent engagements • Health and Safety • Workforce development • Human Rights • Capability and career development 	Regularly, monthly and annually
Government		
<ul style="list-style-type: none"> • Formal and informal meetings • Constructive feedbacks sessions • Operational site visits • Consultation on regulatory matters • Dialogue and sharing sessions 	<ul style="list-style-type: none"> • Determining direction, policy formation and oil and gas project planning • Determination of business areas • Taxation • Health and Safety • Governance and business ethics • Environment and climate change 	Ad hoc, weekly, quarterly, bi-annually and annually

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How PDB engaged/ Communication Channel	Material Issues	Frequency of engagement
Contractors		
<ul style="list-style-type: none"> Business review Sharing session 	<ul style="list-style-type: none"> Certainty of payment Competitive pricing Health and Safety Governance and business ethics 	Ad hoc, quarterly and annually
Investors		
<ul style="list-style-type: none"> NDR, regional and global corporate/investment conferences Operational site visits AGM Analyst Briefings 1-on-1/Small Group Meetings Corporate website at www.mymesra.com.my 	<ul style="list-style-type: none"> Business growth Consistent and continuous return on investment Liquidity and gearing Business sustainability Shareholder value Governance and business ethics Corporate social investment Health and Safety Environment and climate change 	Ad hoc, monthly, quarterly and annually
Community		
<ul style="list-style-type: none"> Corporate website Mesralink Annual and sustainability reports Visits, seminars and joint activities Community engagement activities 	<ul style="list-style-type: none"> Ensuring compliance with legislation Corporate social investment Health and Safety Environment and climate change Human Rights 	Ad hoc, regularly and annually

STAKEHOLDERS' ENGAGEMENT

How PDB engaged/ Communication Channel	Material Issues	Frequency of engagement
Media		
<ul style="list-style-type: none"> • Press releases • Press conferences for new product launches/key announcement • AGM • Media coverages • Contract signing ceremonies 	<ul style="list-style-type: none"> • PDB performance reporting and information to public • Consumer rights • Company program information such as products, CSR activities, environment and other business activities • Governance and business ethnics • Corporate social investment • Health and Safety • Environment and climate change • Human Rights 	<p>Regularly</p>
Business Partners		
<ul style="list-style-type: none"> • Progress report • Annual and sustainability reports • Corporate presentations • Signing ceremonies 	<ul style="list-style-type: none"> • Continuous beneficial cooperation • Certainty of payment • Competitive pricing • Availability of products • Ensuring changes to legislation encourage and support growth • Business opportunity • Governance and business ethics • Health and Safety • Environment and climate change 	<p>Regularly, monthly and annually</p>

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SHARE CAPITAL

As at 10 February 2017

Share Capital : RM993,454,000 comprising 993,454,000 Ordinary Shares
 Class of Shares : Ordinary Shares
 Voting Rights : One Vote Per Ordinary Share (On A Poll)

ANALYSIS OF SHAREHOLDINGS

As at 10 February 2017

Size of Holdings	No. of Holders	% of Total Shareholders	No. of Shares	% of Total Shares
Less than 100	222	3.19	1,423	0.00
100 – 1,000	1,694	24.36	1,164,055	0.11
1,001 – 10,000	4,380	62.98	11,716,533	1.18
10,001 – 100,000	468	6.73	15,672,244	1.58
100,001 to less than 5% of issued shares	190	2.73	270,895,745	27.27
5% and above of issued shares	1	0.01	694,004,000	69.86
	6,955	100.00	993,454,000	100.00

CLASSIFICATION OF SHAREHOLDERS

As at 10 February 2017

Category	No. of Holders		No. of Shares		% of Total Shareholding	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
• Individuals	5,630	68	16,141,558	458,724	1.62	0.05
• Body Corporate						
a. Banks/Finance Companies	54	0	141,856,680	0	14.28	0.00
b. Investment Trusts/ Foundation/Charities	1	0	1,400	0	0.00	0.00
c. Other types of companies	179	4	4,481,902	690,000	0.45	0.07
• Government Agencies/Institutions	7	0	7,423,300	0	0.75	0.00
• Nominees	533	479	757,704,713	64,695,723	76.27	6.51
	6,404	551	927,609,553	65,844,447	93.37	6.63

LIST OF SUBSTANTIAL SHAREHOLDERS

As at 10 February 2017

	Direct		Indirect	
	No. of Shares	% of Total Shares	No. of Shares	% of Total Shares
CIMB Group Nominees (Tempatan) Sdn Bhd (Exempt AN for Petroliam Nasional Berhad) (Exempt AN for Petroliam Nasional Berhad (PRF))	694,004,000	69.86	200,900*	0.02

* Deemed interest in 200,900 shares of PETRONAS for Petroleum Research Fund held through CIMB Group Nominees (Tempatan) Sdn Bhd pursuant to Section 8 of the Companies Act 2016.

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LIST OF DIRECTORS' SHAREHOLDINGS

As at 10 February 2017

Name	No. of Shares	% of Total Shareholding
1. Md Arif Mahmood	Nil	Nil
2. Mohd Ibrahimnuddin Mohd Yunus	3,000	0.00
3. Lim Beng Choon	Nil	Nil
4. Vimala V.R. Menon	Nil	Nil
5. Datuk Anuar Ahmad	Nil	Nil
6. Erwin Miranda Elechicon	Nil	Nil
7. Nuraini Ismail	Nil	Nil
8. Ir Mohamed Firouz Asnan	Nil	Nil

LIST OF LEADERSHIP TEAM'S SHAREHOLDINGS

As at 10 February 2017

Name	No. of Shares	% of Total Shareholding
1. Mohd Ibrahimnuddin Mohd Yunus	3,000	0.00
2. Puteri Liza Elli Sukma	Nil	Nil
3. Aadrin Azly	Nil	Nil
4. Ramzulahakim Ramli	Nil	Nil
5. Mahmad Zahri Mahzan	Nil	Nil
6. Mohd Shobri A. Bakar	Nil	Nil
7. Ir Azmi Abd Ghani	Nil	Nil
8. Naina Mohd Shukri Omar	Nil	Nil
9. Nik Faizanira Nik Mohamed Affandi	Nil	Nil
10. Zubair Abdul Razak	Nil	Nil
11. Ruziah Azdi Abdul Rahman	Nil	Nil
12. Hasnizaini Mohd Zain	Nil	Nil
13. Tariq Ashra Sulaiman	Nil	Nil

ANALYSIS OF SHAREHOLDINGS

LIST OF THIRTY LARGEST SHAREHOLDERS

As at 10 February 2017

Name	No. of Shares	% of Total Shares
1. CIMB GROUP NOMINEES (TEMPATAN) SDN BHD (EXEMPT AN FOR PETROLIAM NASIONAL BERHAD)	694,004,000	69.86
2. AMANAHRAYA TRUSTEES BERHAD (AMANA SAHAM BUMIPUTERA)	48,607,400	4.89
3. CITIGROUP NOMINEES (TEMPATAN) SDN BHD (EMPLOYEES PROVIDENT FUND BOARD)	36,676,700	3.69
4. AMANAHRAYA TRUSTEES BERHAD (AMANA SAHAM MALAYSIA)	13,979,900	1.41
5. AMANAHRAYA TRUSTEES BERHAD (AMANA SAHAM WAWASAN 2020)	13,670,900	1.38
6. KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	13,181,400	1.33
7. AMANAHRAYA TRUSTEES BERHAD (AS 1MALAYSIA)	10,982,400	1.11
8. PERMODALAN NASIONAL BERHAD	7,172,100	0.72
9. CARTABAN NOMINEES (ASING) SDN BHD (EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67))	6,936,500	0.70
10. AMANAHRAYA TRUSTEES BERHAD (AMANA SAHAM BUMIPUTERA 2)	6,398,600	0.64
11. AMANAHRAYA TRUSTEES BERHAD (AMANA SAHAM DIDIK)	5,632,280	0.57
12. HSBC NOMINEES (ASING) SDN BHD (BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND)	5,279,300	0.53
13. MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD (GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1))	5,031,100	0.51
14. HSBC NOMINEES (ASING) SDN BHD (EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A))	3,765,578	0.38
15. AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC DIVIDEND FUND)	3,612,700	0.36

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Name	No. of Shares	% of Total Shares
16. DB (MALAYSIA) NOMINEE (ASING) SDN BHD (BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM))	3,482,700	0.35
17. AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC SELECT ENTERPRISES FUND)	3,443,900	0.35
18. CARTABAN NOMINEES (TEMPATAN) SDN BHD (PAMB FOR PRULINK EQUITY FUND)	3,065,300	0.31
19. MAYBANK NOMINEES (TEMPATAN) SDN BHD (MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100))	2,432,000	0.24
20. MAYBANK NOMINEES (TEMPATAN) SDN BHD (MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240))	2,300,000	0.23
21. PERTUBUHAN KESELAMATAN SOSIAL	2,295,200	0.23
22. MAYBANK NOMINEES (TEMPATAN) SDN BHD (SETIAUSAHA KERAJAAN PULAU PINANG)	2,000,000	0.20
23. STATE FINANCIAL SECRETARY SARAWAK	2,000,000	0.20
24. FOH CHONG & SONS SDN BHD	1,884,000	0.19
25. STATE SECRETARY KEDAH INCORPORATED	1,800,000	0.18
26. AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC SECTOR SELECT FUND)	1,791,000	0.18
27. AMANAHRAYA TRUSTEES BERHAD (PUBLIC ITTIKAL SEQUEL FUND)	1,787,200	0.18
28. AMANAHRAYA TRUSTEES BERHAD (PUBLIC ISLAMIC EQUITY FUND)	1,772,700	0.18
29. CITIGROUP NOMINEES (TEMPATAN) SDN BHD (EMPLOYEES PROVIDENT FUND BOARD (NOMURA))	1,449,000	0.15
30. CARTABAN NOMINEES (ASING) SDN BHD (RBC INVESTOR SERVICES BANK S.A. FOR ROBECO CAPITAL GROWTH FUNDS)	1,428,400	0.14

LIST OF THIRTY LARGEST SHAREHOLDERS

NET BOOK VALUE OF LAND AND BUILDINGS OF PDB COMPANY

	Freehold			Leasehold			Total Land			Buildings
	Net Book Value of Land (RM'000)	No. of Lots	Area (sq.ft.)	Net Book Value of Land (RM'000)	No. of Lots	Area (sq.ft.)	Net Book Value of Land (RM'000)	No. of Lots	Area (sq.ft.)	Net Book Value of Buildings (RM'000)
CENTRAL REGION	402,392	113	4,321,192	282,742	87	19,589,674	685,134	200	23,910,866	274,635
NORTHERN REGION	195,368	86	3,727,873	50,454	42	5,704,782	245,822	128	9,432,655	142,883
SOUTHERN REGION	355,780	142	5,750,189	83,704	46	1,656,046	439,484	188	7,406,235	164,016
EAST COAST REGION	65,590	37	1,535,546	38,710	51	1,849,855	104,300	88	3,385,401	102,027
SARAWAK	-	-	-	34,269	40	1,753,996	34,269	40	1,753,996	59,893
SABAH	1,038	3	93,664	34,879	33	2,405,607	35,917	36	2,499,271	46,967
Grand Total	1,020,168	381	15,428,464	524,758	299	32,959,960	1,544,926	680	48,388,424	790,421

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USAGE OF LAND PROPERTIES*

	Bulk Depot	Klang Valley Distribution Terminal	LPG Storage and Bottling Plant	Multi-Product Pipeline	Service Station	Training Centre and Service Station	Vacant Land	Grand Total
CENTRAL REGION	–	2	–	1	188	1	8	200
NORTHERN REGION	3	–	–	–	118	–	7	128
SOUTHERN REGION	–	–	–	–	177	–	11	188
EAST COAST REGION	–	–	1	–	80	–	7	88
SARAWAK	3	–	–	–	35	–	2	40
SABAH	3	–	–	–	32	–	1	36
Grand Total	9	2	1	1	630	1	36	680

* Built on freehold and leasehold land only. The remaining stations were built on land on operating and prepaid leases.

LIST OF TOP 10 LANDED PROPERTIES

As at 31 December 2016

Name of facilities and location	Net Book Value (RM)
LUMUT FUEL TERMINAL Lumut Port Industrial Park, Kg Acheh, 32000 Sitiawan, Perak	15,155,375
PASIR GUDANG LPG Bottling Plant Lot 108, Lorong Sawit 2, Kawasan Pelabuhan Johor, 81700 Pasir Gudang, Johor	11,107,882
PSS JLN KOLAM AYER AMPANG Lot 36904, Jalan Kolam Air Lama, 68000 Ampang, Kuala Lumpur	10,827,866
PSS KM 58 KL-KARAK HIGHWAY Lot 8207 Mukim Bentong, Daerah Bentong, 28400 Bentong, Pahang	7,525,958
PRAI LPG BOTTLING PLANT Lot 93, Prai Industrial Area, 13600 Prai, Penang	6,953,231
PSS PLUS/BESRAYA HIGHWAY KM 305, PLUS Arah Selatan, Lot 896, GRN 46223, Mukim Kajang, 43650 Hulu Langat, Selangor	6,887,903
PSS TELAGA HARBOUR PARK Harbour Park Langkawi, Pantai Kok, 07000 Padang Matsirat, Kedah	6,792,997
PSS JURU LAYBY NORTH BOUND Lot 4290, MK.6, Lebuhraya Utara Selatan, Perhentian Juru, 14000 Bukit Mertajam, Penang	5,827,555
PSS KM0.7 BESRAYA KM 0.7, Lebuhraya Sg. Besi, 43300 Seri Kembangan, Selangor	5,586,965
MELAKA LPG BOTTLING PLANT Lot 1396-1399, Mukim Sg Udang, 76300 Tangga Batu, Melaka	4,932,655

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 35th Annual General Meeting of PETRONAS Dagangan Berhad (“the Company”) will be held at Conference Hall 2, Level 3, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia on Wednesday, 19 April 2017 at 10.00 a.m. for the following businesses:

AGENDA

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.
Please refer to Explanatory Note A.
2. To re-elect the following Directors who retire in accordance with Article 93 of the Constitution of the Company and, being eligible, offer themselves for re-election:
 - (a) Mohd Ibrahimnuddin Mohd Yunus **(Resolution 1)**
 - (b) Datuk Anuar Ahmad **(Resolution 2)**
 - (c) Vimala V.R. Menon **(Resolution 3)***Please refer to Explanatory Note B.*
3. To approve the Directors’ Fees of up to RM1,100,000 with effect from 1 January 2017 until the next Annual General Meeting of the Company payable to the Non-Executive Directors. **(Resolution 4)**
Please refer to Explanatory Note C.
4. To re-appoint KPMG PLT, as Auditors of the Company for the financial year ending 31 December 2017 and to authorise the Directors to fix their remuneration. **(Resolution 5)**
Please refer to Explanatory Note D.
5. To transact any other business for which due notice has been given.

By Order of the Board

HASNIZAINI MOHD ZAIN (LS 0009780)
YEAP KOK LEONG (MAICSA 0862549)
Company Secretaries

Kuala Lumpur
21 March 2017

NOTES:**Proxy and/or Authorised Representative**

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming 35th Annual General Meeting ("AGM"), the Company shall be requesting the Record of Depositors as at 11 April 2017. Only a depositor whose name appears on the Record of Depositors as at 11 April 2017 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.
2. A member of the Company entitled to attend and vote at the meeting may appoint not more than two proxies to attend and vote on his behalf provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint at least one proxy but not more than two proxies in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities accounts.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
5. Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia, not less than 48 hours before the time fixed for holding the meeting.
7. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with this Proxy Form.

Explanatory Notes**Note A****Audited Financial Statements for the Financial Year Ended 31 December 2016**

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

Note B**Re-election of Directors who retire in accordance with Article 93 of the Constitution of the Company**

Article 93 of the Constitution of the Company provides that one-third of the Directors of the Company for the time being shall retire by rotation at an AGM of the Company provided always that all Directors, shall retire from office once at least in each three years but shall be eligible for re-election at the AGM.

The Nomination and Remuneration Committee of the Company determines the eligibility of each Director standing for re-election at the AGM based on the performance of the Directors, taking into account the results of their latest Board Evaluation, contribution to the Board through their skills, experiences, strengths and qualities, level of independence and ability to act in the best interest of the Company in decision making.

The profiles of the retiring Directors are set out in the Profile of the Board of Directors on pages 032 to 047 of the 2016 Annual Report.

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

In view that there was no Director appointed during the financial year under review, there is no retirement pursuant to Article 96 of the Constitution of the Company.

Note C**Non-Executive Directors' Fees**

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

The fee structure of the Non-Executive Directors ("NEDs") of the Company is as follows:

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

The Directors' fees and meeting allowances for Md Arif Mahmood, Nuraini Ismail and Ir Mohamed Firouz Asnan, being the Non-Independent Non-Executive Directors who are also employees of Petroliaam Nasional Berhad ("PETRONAS") and holding positions of Vice President and above are paid directly to PETRONAS. They are not entitled to fuel allowance.

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The shareholders at the last AGM held on 20 April 2016 approved the Directors' fees of RM902,000 for the period from 1 January 2016 until the next AGM of the Company. The actual Directors' fees and other benefits paid to NED for the financial year ended 31 December 2016 is RM727,000.

Directors' Fees for the NEDs for the period from 1 January 2017 until the conclusion of the next AGM is estimated to be RM1,100,000. The calculation is based on the estimated number of scheduled Board's and Board Committees' meetings and on assumption that all the NEDs will remain in office until the next AGM. This resolution is to facilitate payment of the Directors' Fees for FYE2017/2018.

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

Details of the Directors' Fees paid/payable to the NEDs for the financial year ended 31 December 2016 are enumerated on page 219 of the 2016 Annual Report.

Note D

Re-appointment of Auditors

The Board at its meeting held on 21 February 2017 endorsed for the re-appointment of KPMG PLT as External Auditors of the Company for the financial year ending 31 December 2017 be presented to the shareholders for approval.

KPMG had converted its legal entity status from unlimited liability partnership pursuant to Partnership Act 1961 to limited liability partnership pursuant to Section 29 of the Limited Liability Partnerships Act, 2012 ("LLP Act 2012") effective 27 December 2016. Accordingly, KPMG had been registered in the name of KPMG PLT. In this instance, PLT means "Perkongsian Liabiliti Terhad". There was no change to the Partners serving the Company.

In any event, pursuant to Section 36 of the LLP Act 2012 any agreements/engagements already made between the Company and its Group and KPMG will continue to be in force as if KPMG PLT were a party to the agreements. Accordingly, all engagement letters signed with KPMG continue to be in force until these are superseded.

Other Information

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

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ADMINISTRATIVE DETAILS

PETRONAS DAGANGAN BERHAD 35TH ANNUAL GENERAL MEETING

REGISTRATION

1. Registration will start at 8.00 a.m. on 19 April 2017 at the foyer of the Conference Hall 2, Level 3, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur.
2. Please produce your original Identification Card to the registration staff for verification. Please make sure you collect your Identification Card thereafter.
3. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
4. No person will be allowed to register on behalf of another person, even with the original Identification Card of that person.
5. You will also be given an identification tag. No person will be allowed to enter the meeting room without the identification tag. There will be no replacement in the event that you lose or misplace the identification tag. The tag will be used for e-polling purposes.
6. The registration counter will handle only verification of identity and registration.

HELP DESK

1. Please proceed to the PDB's Help Desk for any clarification or enquiry.
2. The Share Registrar's Help Desk will handle revocation of proxy's appointment.

PARKING

1. Please take note that PDB will not be providing cash reimbursement for parking. Instead, you are advised to park at Kuala Lumpur Convention Centre or Suria KLCC. Please bring your original parking ticket for validation at the counter near the Conference Hall 2.
2. By validating the parking ticket, you will not be charged for parking when you leave. Please be advised, that the parking ticket will expire by 3.00 p.m. on 19 April 2017. Any additional cost incurred for parking after 3.00 p.m. will not be borne by PDB.
3. Please be advised that PDB will not reimburse any parking costs incurred at any other locations. As such, please observe the abovementioned parking area.

ANNUAL REPORT

1. PDB's Annual Report for Financial Year 2016 is available on:
<http://www.bursamalaysia.com>
<http://www.mymesra.com.my>

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CORPORATE DIRECTORY

HEAD OFFICE

Level 30-33, Tower 1, PETRONAS Twin Towers,
Kuala Lumpur City Centre, 50088 Kuala Lumpur
Tel: (+603) 2051 5000
Fax: (+603) 2331 1583

REGIONAL OFFICES

Central Region

Level 12, Menara Dayabumi
Jalan Sultan Hishamuddin
P. O. Box 11946
50762, Kuala Lumpur
Tel : (+603) 2783 6000
Fax : (+603) 2260 1527

Northern Region

Lot No. 93
Prai Industrial Estate
13600, Prai, Pulau Pinang
Tel : (+604) 390 7291/7201
Fax : (+604) 399 0211

Southern Region

1st and 2nd Floor
Bangunan PETRONAS
Lot 12106, Bandar Baru UDA
Km 7, Jalan Skudai
81200, Johor Bahru, Johor
Tel : (+607) 233 6000
Fax : (+607) 233 6001

Eastern Region

A-39 and A-43, Jalan Haji Abdul Aziz
25000, Kuantan, Pahang
Tel : (+609) 513 7022/7099
Fax : (+609) 514 4040

Sarawak Region

3rd and 4th Floor
Wisma Naim
Lot 2679, Jalan Rock
93200, Kuching, Sarawak
Tel : (+6082) 255 200
Fax : (+6082) 412 712

Sabah Region

Lot 7AF01-7AF13, Block A, Level 7
Karamunsing Complex
88300, Kota Kinabalu, Sabah
Tel : (+6088) 525 777
Fax : (+6088) 269 817

GLOSSARY

4As	Association of Accredited Advertising Agents
AA	Articles of Association
AAG	Armburst Aviation Group
AAM	Automobile Association of Malaysia
ABC	Anti-Bribery and Corruption
ACCA	Association of Chartered Certified Accountants
AEF	Advanced Energy Formula
AGM	Annual General Meeting
AIDS	Acquired Immune Deficiency Syndrome
AKPK	Agensi Kawalan dan Pengurusan Kredit
AMG	Aufrecht, Melcher and Großaspach
ANGKASA	Angkatan Koperasi Kebangsaan Malaysia Berhad
AOD	Aviation Operation Department
APH	Aspiring Professional Hauler
APMM	Agensi Penguatkuasa Maritim Malaysia
APM	Automatic Pricing Mechanism
ASB	Asian Supply Base Sdn Bhd
ATG	Automatic Tank Gauging
ATM(s)	Automated Teller Machine(s)
B2B	Business to Business
B2C	Business to Customer
BAC	Board Audit Committee
bbl	Billion Barrel
BCM	Business Continuity Management
BCMF	Business Continuity Management Framework
BCP	Business Continuity Plans
Board	The Board of Directors of PDB
Board Evaluation	Board and Peer Annual Assessment
bpd	Barrels per day
Bursa Malaysia	Bursa Malaysia Securities Berhad

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CFO	Chief Financial Officer
CFP	Corporate Financial Policy
CG	Corporate Governance
Charter	Internal Audit Charter
CHRA	Chemical Health Risk Assessment
CIA	Communication in Action
CIAP	Corporate Integrity Action Pledge
CIO	Chief Integrity Officer
CLASS	Classification, Labelling and Safety Data Sheet of Hazardous Chemicals
CM	Crisis Management
CO ₂	Carbon Dioxide
CoBE	Code of Conduct and Business Ethics
COI	Conflict of Interest
CP	Community Point
CRM	Customer Relationship Management
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
DBE	Downstream Business Excellence
DCIC	Downstream Continuous Improvement Convention
Directors	Members of the Board
DOE	Department of Environment
DOEFA	Downstream Operational Excellence Forum and Awards
DOSH	Department of Occupational Safety and Health
ECC6	Enterprise Central Component 6
EON Berhad	Edaran Otomobil Nasional Berhad
EPF	Employees Provident Fund
EPM	Employee Performance Management
EPU	Economic Planning Unit
ERM	Enterprise Risk Management
ERP	Emergency Response Plan
ERT	Emergency Response Team
ESG	Environment, Social and Governance
EU	European Union

GLOSSARY

EVP	Executive Vice President
F&B	Food and Beverage
FAR	Fatal Accident Rate
FBM KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FCF	Financial Control Framework
FLTO	Fuel and LPG Terminal Operations
FLTOD	Fuel and LPG Terminal Operations Department
FMD	Fleet Management Department
FMDrive	Fleet Management Drive
FMDMS	Fleet Management Department Management System
FTSE	Financial Times Stock Exchange
FWA	Flexible Working Arrangement
GDP	Gross Domestic Product
GEES	Graduate Employability Enhancement Scheme
GHG	Greenhouse Gas
Greentech Malaysia	Malaysian Green Technology Corporation
GRI	Global Reporting Initiative
Group	PETRONAS Dagangan Berhad and its subsidiaries
Group HSE	Group Health, Safety and Environment
GST	Goods and Services Tax
GTSP	Go-To-Safety Point
HAZMAT	Hazardous Material
HAZOP	Hazard and Operability Study
HEMP	Hazards and Effect Management Process
HIV	Human Immunodeficiency Virus
HR	Human Resource
HRM	Human Resource Management
HRMD	Human Resource Management Division
HSE	Health, Safety and Environment
HSED	Health, Safety and Environment Department
HSEMS	Health, Safety and Environment Management System
IAD	Internal Audit Department
IC	Investment Community
ICOP	Industry Code of Practice
ICT	Information and Communication Technology
IIA	Institute of Internal Auditors

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IMD	International Marketing Department
INSEAD	Institut Europée d'Administration des Affaires
IR	Investor Relations
ISO	International Organisation for Standardisation
IT	Information Technology
JKJR	Jabatan Keselamatan Jalan Raya
KAFS	Kuala Lumpur Aviation Fuelling System Sdn Bhd
KAFT	KLIA Aviation Fuel Terminal
KAPENAS	Kesatuan Kakitangan Petroliam Nasional Berhad
KL	Kuala Lumpur
KLCC	Kuala Lumpur City Centre
KLCH/DBKL	Kuala Lumpur City Hall/Dewan Bandaraya Kuala Lumpur
KLIA	Kuala Lumpur International Airport
KLSE	Kuala Lumpur Stock Exchange
KPI	Key Performance Indicator
KPMG	KPMG PLT
KRI	Key Risk Indicator
KSRP	Kelab Sukan dan Rekreasi PETRONAS
KVDT	Klang Valley Distribution Terminal
LED	Light Emitting Diode
LIFE	Lubricant Integration For Excellence
LIMA	Langkawi International Maritime and Aerospace Exhibition
LNG	Liquified Natural Gas
LOA	Limits of Authority
LOPC	Loss of Primary Containment
LPG	Liquified Petroleum Gas
LPLFRD	Low Profile Low Flow Rate Dispenser
LPTC	Land Public Transport Commission
LT	Leadership Team
LTIF	Lost Time Injury Frequency
Management	Senior Key Personnel of PDB
MARC	Malaysian Rating Corporation Berhad
MCCG 2012	Malaysian Code on Corporate Governance 2012
MCDF	Malaysian Civil Defence Force

GLOSSARY

MCF	Mandatory Control Framework
MD/CEO	Managing Director/Chief Executive Officer
MDP	Managerial Development Programme
MDTCC	Ministry of Domestic Trade, Cooperatives and Consumerism
MEF	Malaysian Employee Federation
MFRS	Malaysian Financial Reporting Standard
MINDA	Malaysian Directors Academy
MISC	Malaysia International Shipping Corporation
MLNG	Malaysia Liquefied Natural Gas
MMbpd	Million barrels per day
MMLR	Main Market Listing Requirements
MOF	Ministry of Finance
MOGAS	Motor Gasoline
MoU	Memorandum of Understanding
MPC	Malaysian Productivity Corporation
MPIC	Ministry of Plantation, Industries and Commodities
MPP	Multi-Product Pipeline
MS830	Malaysian Standard 830
MSOSH	Malaysian Society for Occupational Safety and Health
MSWG	Minority Shareholders Watchdog Group
MT	Metric Tonnes
NACRA	National Annual Corporate Report Awards
NDR(s)	Non-Deal Roadshows
NEDs	Non-Executive Directors
NENT	Non-Executive Non-Technical
NET	Non-Executive Technical
NGV	Natural Gas Vehicle
NIOSH	National Institute for Occupational Safety and Health
NLDF	Non-Executive Learning and Development Framework
No _x	Nitrogen Oxide
OEAD	Operational Excellence Assurance Departments
OEE	Overall Equipment Efficiency
OEM(s)	Original Equipment Manufacturer(s)
OOC	Other Oil Companies

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OPEC	Organisation of the Petroleum Exporting Countries
OPG	Operating Procedures and Guidelines
OSH	Occupational Safety and Health
OTP	On Time Performance
PAT	Profit After Tax
PAVSB	PETRONAS Aviation Sdn Bhd
PCB	PETRONAS Cultural Beliefs
PCG	PETRONAS Chemicals Group Berhad
PCSB	PETRONAS Carigali Sdn Bhd
PDB	PETRONAS Dagangan Berhad
PDB DGP	PDB Downstream Grounding Programme
PDSB	PETRONAS Dagangan Sdn Bhd
PECAS	PETRONAS Competency-based Assessment System
PEMANDU	Performance Management Delivery Unit
PEPI	PETRONAS Energy Philippines, Inc.
PETCO	Petronas Trading Corporation Sdn Bhd
PETRONAS	Petroleum Nasional Berhad
PETRONITA	The Ladies' Association of PETRONAS
PIMTCL	PETRONAS International Marketing (Thailand) Co. Ltd
PLISB	PETRONAS Lubricant International Sdn Bhd
PICL	PETRONAS International Corporation Ltd
PLMMSB	PETRONAS Lubricant Marketing (Malaysia) Sdn Bhd
PME	Palm – Oil Methyl Ester
PMLP	PETRONAS Mesra Loyalty Programme
PNB	Permodalan Nasional Berhad
PPMSB	PETRONAS Penapisan (Melaka) Sdn Bhd
PPTSB	PETRONAS Penapisan (Terengganu) Sdn Bhd
PV	Photovoltaic
PVL	PETRONAS (Vietnam) Co. Ltd
QSR(s)	Quick-Serve-Restaurants
R&D	Research and Development
RAPID	Refinery and Petrochemical Integrated Development Project
RCSA	Risk Control Self-Assessment
RKP	Rakan Khidmat Penghantar

GLOSSARY

RM	Ringgit Malaysia
RMC	Risk Management Committee
RON	Research Octane Number
ROACE	Return on Average Capital Employed
RPT	Related Party Transaction
RRPTs	Recurrent Related Party Transaction
RTOG	Road Tanker Operations Guidelines
SAP	Systems, Applications and Products
SDD	Supply and Distribution Division
SDS	Safety Data Sheet
SPAD	Suruhanjaya Pengangkutan Awam Darat
SICDA	Securities Industry (Central Depository) Act, 1991
SIRIM	Scientific and Industrial Research Institute of Malaysia
SK	Sekolah Kebangsaan
SL1M	Skim Latihan 1 Malaysia
SME	Small Medium Enterprise
SOCSSO	Social Security Organisation of Malaysia
SORMIC	Statement On Risk Management and Internal Control
So _x	Sulphur Oxide
STARs	Scheduling Transport Automatic Replenishment
TC	Time Charter
TLLCL	Thang Long LPG Company Ltd
TM	Technical Managers
TMCA	Technical Managers Capability Assessment
TRCF	Total Recordable Cases Frequency
TSER	Talent Sourcing and Employee Relations
TTLR	Tank Truck Loading Rack
TTM	Trans Thai-Malaysia (Malaysia) Sdn Bhd
UK	United Kingdom
ULG	Unleaded Gasoline
U.S.	United States of America
USD	United States Dollar
VP	Vice President
WBP	Whistleblowing Policy
WCC	World Constructors' Championship
ZeTo	Zero Tolerance

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PROXY FORM



PETRONAS

Number of Ordinary Shares Held	
CDS Account No.	

I/We _____ Tel: _____

of _____

being a member of PETRONAS Dagangan Berhad ("the Company") hereby appoint:

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

and/or (delete as appropriate)

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

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the 35th Annual General Meeting of the Company to be held at **Conference Hall 2, Level 3, Kuala Lumpur Convention Centre, Jalan Ampang, 50088 Kuala Lumpur, Malaysia** on Wednesday, 19 April 2017 at 10.00 a.m. and at any adjournment thereof.

Resolution	*Ordinary Business	For	Against
1.	Re-election of Mohd Ibrahimuddin Mohd Yunus as a Director		
2.	Re-election of Datuk Anuar Ahmad as a Director		
3.	Re-election of Vimala V.R. Menon as a Director		
4.	Directors' Fees of up to RM1,100,000 with effect from 1 January 2017 until the next Annual General Meeting of the Company payable to the Non-Executive Directors		
5.	Re-Appointment of KPMG PLT as Auditors of the Company		

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

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

Date: _____

Signature/Common Seal of Shareholder(s)

Notes:

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming 35th Annual General Meeting, the Company shall be requesting the Record of Depositors as at 11 April 2017. Only a depositor whose name appears on the Record of Depositors as at 11 April 2017 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.
2. A member of the Company entitled to attend and vote at the meeting may appoint not more than two proxies to attend and vote on his behalf provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint at least one proxy but not more than two proxies in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities accounts.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
5. Where a member or the authorised nominee appoints two proxies, or where an exempt authorised nominee appoints two or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia, not less than 48 hours before the time fixed for holding the meeting.
7. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with this Proxy Form.

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AFFIX STAMP
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Symphony Share Registrars Sdn Bhd

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

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