



PLAY TO WIN



PETRONAS
mesra
MERNIS SL001 1380

PETRONAS DAGANGAN BERHAD has always been a leading player in Malaysia downstream petroleum products industry. With our customers in mind, we have trailblazed many innovations in product technology and service delivery. We offer winning fuels to our customers and a winning experience driven by a deep-rooted desire to keep challenging the norm to fulfil our obligations with all our stakeholders. Our ambition is catalysed by a WINNING FORMULA to elevate our efficiencies while delivering greater value to people within our ever-widening circle of influence. We chose PLAY TO WIN as the theme for our 2017 Annual Report because it reflects a high-performance culture and commitment to excellence at PDB that is seeing us conquer new grounds in the markets we are in. As we move into the future, we continue to be fuelled with positive dynamism that will see us create more wins for everyone.

ABOUT THIS REPORT

This is the second year we are embarking on our integrated reporting journey and the 25th report that we have produced since 1994. Our integrated reporting journey is based on the intent to present a more comprehensive updates of PDB's objectives, strategies and performance for the year. We recognised that we have a wide range of stakeholders with different interests in our business and operations. The objective of integrating our material financial, economic, social, environmental and governance issues are to be able to demonstrate more clearly and in a holistic manner to each group of stakeholders how we seek to create value for them.

By reading this report:

- Our stakeholders will understand our strategies for sustainable growth;
- Our customers will appreciate the importance we place on offering products and services of a consistently high quality;
- Our business partners, dealers and contractors will recognise how we seek to foster win-win solutions with them; and
- Employees will see how we nurture a stimulating and rewarding work environment.

We also highlight initiatives undertaken to enhance the well-being of local communities, and actions that underline our commitment in protecting the environment.

The process of fully integrating our report will necessarily take time. We intend to progress every year towards our ultimate goal, to have a fully integrated report in line with the International Integrated Reporting Council Framework.

This year, we continued our efforts to improve PDB's integrated reporting with the introduction of new sections – 'What Differentiates Us' and 'Approaching the Financial Statements' – which adds clarity to how we maintain our competitive edge, and how to navigate our financial report, respectively. In addition, we added further linkages and connectivities throughout this report for the purpose of integrating our narratives.

Our financial statements, audited by KPMG PLT, have been prepared in accordance to MFRS and requirements of Companies Act 2016. In producing our non financial report, we have been guided by the International Integrated Reporting Council Framework and MMLR of Bursa Malaysia. Meanwhile, our Sustainability Statement adheres to MMLR of Bursa Malaysia under the Amended Listing Requirements for Sustainability Statements.

FORWARD LOOKING STATEMENTS

This Annual Report contains certain forward looking statements, typically with words such as 'aim', 'may', 'plan' and 'will', or other similar expressions. These statements discuss future expectations concerning the results of assets or financial conditions or provide other forward looking information. These forward looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control and may cause actual results to differ materially from those expressed in the statements contained in this Annual Report. Readers are cautioned not to put undue reliance on forward looking statements.

NAVIGATION

PDB's impact on the six capitals of value creation described in the International Integrated Reporting Council Framework are addressed in an integrated manner throughout this report.

-  **Manufactured capital**
-  **Financial capital**
-  **Human capital**
-  **Social and Relationship capital**
-  **Intellectual capital**
-  **Natural capital**

These navigational icons can be found in the following sections:

- **Business Model**
- **Business Review**
 - Retail
 - Commercial
 - LPG
 - Lubricant

WE ARE GUIDED BY

- Companies Act 2016
- Main Market Listing Requirements of Bursa Malaysia
- Malaysian Financial Reporting Standards
- International Integrated Reporting Council Framework

SUSTAINABILITY STATEMENT

Bursa Malaysia Sustainability Reporting Toolkits

WHAT'S INSIDE

36th

ANNUAL GENERAL MEETING

Date : Wednesday, 25 April 2018
at 10.00 a.m.

Venue : Sapphire Ballroom, Level 1,
Mandarin Oriental Kuala Lumpur,
Kuala Lumpur City Centre,
50088 Kuala Lumpur, Malaysia

THROUGHOUT THE REPORT LOOK OUT FOR THESE.

 Reference to other pages within the report

 Reference to further reading online

01 WHO WE ARE

2017 at a Glance _____	05
Business Highlights _____	05
Financial Highlights _____	06
Achievements _____	07
Awards and Accolades _____	07
Understanding PDB _____	08
About PDB _____	08
• Vision	
• Mission	
• Shared Values	
What Differentiates Us _____	10
Key Milestones in 2017 _____	12
PDB's Structure _____	14
Group Corporate Structure _____	14
Group Organisation Structure _____	15
Board of Directors _____	16
Leadership Team _____	22
Value Creation Through Our	
Extensive Network _____	28
Areas of Operation _____	28
Business Model _____	30
Integrated Value Chain _____	32

02 STRATEGIC BUSINESS CONTEXT

Management Discussion	
& Analysis _____	35
MD/CEO's Statement _____	35
Operating Environment and	
Market Outlook _____	39
The Strategy _____	42
• Winning Operations _____	43
• Winning More Business _____	45
• Winning Innovation _____	47
• Winning Customer Experience _____	49
Chief Financial Officer's Review _____	52
Financial Calendar _____	55
KPI Scorecard _____	56
Relationships That Help Us Deliver	
Strategy _____	58
Stakeholders _____	59
• Strategic Alliances _____	62
Material Matters Impacting Our	
Strategy _____	63
Understanding Our Risks _____	64

03 BUSINESS REVIEW

Products and Services _____	66
Retail _____	68
Commercial _____	73
LPG _____	76
Lubricant _____	79

04
**EMBEDDING
RESPONSIBILITY**

Sustainability at The Highest Level _____ **83**
Materiality Assessment _____ **85**
Sustainability Initiatives _____ **86**
Sustainability Performance _____ **112**

05
**A FRAMEWORK
OF TRUST**

Governance _____ **114**
 Board at a Glance _____ 114
 Governance Overview _____ 115
 PDB's Governance Structure _____ 116
 How The Board Operates _____ 117
 Board Audit Committee Report _____ 127
 Nomination and Remuneration Committee Report _____ 132
 Statement on Risk Management and Internal Control _____ 138
 • Business Continuity Management 143
Corporate Integrity and Ethics _____ **148**
Shareholder Relations _____ **150**
 Investor Relations _____ 150
 • Share Price and Market Capitalisation _____ 154

06
**FINANCIAL
REVIEW**

Approaching The Financial Statements _____ **158**
5-Year Group Financial Highlights **160**
5-Year Group Financial Summary **161**
Simplified Group Statement of Financial Position _____ **162**
Segmental Analysis _____ **163**
Group Quarterly Financial Performance _____ **164**
Key Interest Bearing Assets and Liabilities _____ **165**
Statement of Value Added _____ **166**
Distribution of Value Added _____ **167**
Financial Statements
 Statement of Directors' Responsibility in Relation to the Financial Statements _____ 168
 Directors' Report _____ 169
 Statement by Directors _____ 174
 Statutory Declaration _____ 175
 Consolidated Statement of Financial Position _____ 176
 Consolidated Statement of Profit or Loss and Other Comprehensive Income _____ 177
 Consolidated Statement of Changes in Equity _____ 179
 Consolidated Statement of Cash Flows _____ 181
 Statement of Financial Position _____ 183
 Statement of Profit or Loss and Other Comprehensive Income _____ 184
 Statement of Changes in Equity _____ 184
 Statement of Cash Flows _____ 185
 Notes to the Financial Statements _____ 187
 Independent Auditors' Report _____ 242

**ADDITIONAL
INFORMATION**

Share Capital _____ 246
 Analysis of Shareholdings _____ 246
 List of Thirty Largest Shareholders _____ 248
 Net Book Value of Land and Buildings of The Company _____ 250
 Usage of Land _____ 251
 List of Top 10 Landed Properties _____ 252
 Notice of Annual General Meeting _____ 253
 Administrative Details _____ 257
 Corporate Information _____ 258
 Corporate Directory _____ 259
 Glossary _____ 260
 Proxy Form _____ •

Section

01

WHO WE ARE

2017 at a Glance _____	05	PDB's Structure _____	14
Business Highlights _____	05	Group Corporate Structure _____	14
Financial Highlights _____	06	Group Organisation Structure _____	15
Achievements _____	07	Board of Directors _____	16
Awards and Accolades _____	07	Leadership Team _____	22
Understanding PDB _____	08	Value Creation Through Our	
About PDB _____	08	Extensive Network _____	28
• Vision		Areas of Operation _____	28
• Mission		Business Model _____	30
• Shared Values		Integrated Value Chain _____	32
What Differentiates Us _____	10		
Key Milestones in 2017 _____	12		

2017 AT A GLANCE

BUSINESS HIGHLIGHTS

RETAIL



Launched new **PETRONAS Dynamic Diesel Euro 5 with Pro-Drive**



Food Solutions via Mornings@Mesra



PDB Goes Online

COMMERCIAL



Commanding market position

LPG



Malaysia's No. 1 Cooking Gas

LUBRICANT



Top tier domestic lubricant player



Preferred partner in the aviation industry



Sustained market leadership

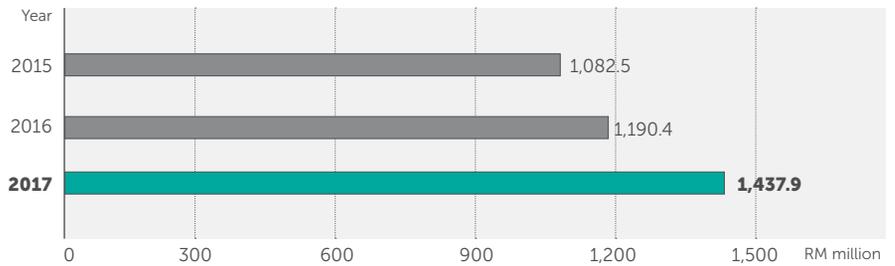


Relaunched the **PETRONAS Sprinta with UltraFlex™** with a new brand proposition and innovative technology

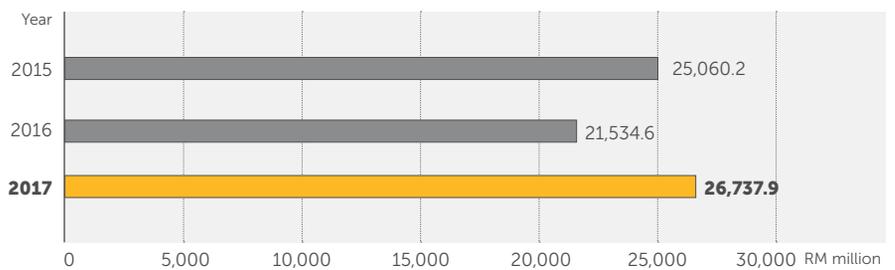
> 2017 AT A GLANCE

FINANCIAL HIGHLIGHTS

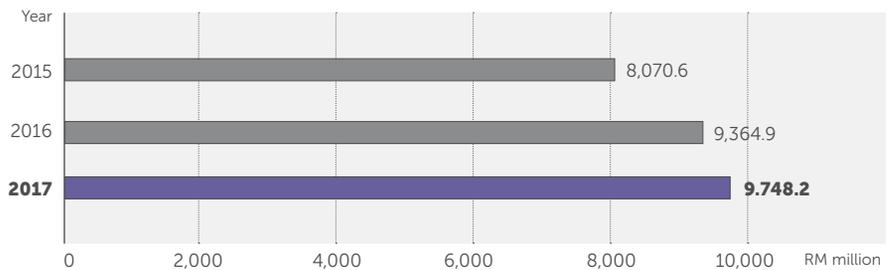
PROFIT BEFORE TAX



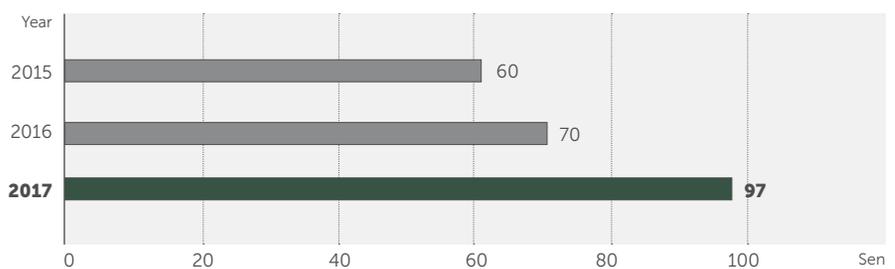
REVENUE



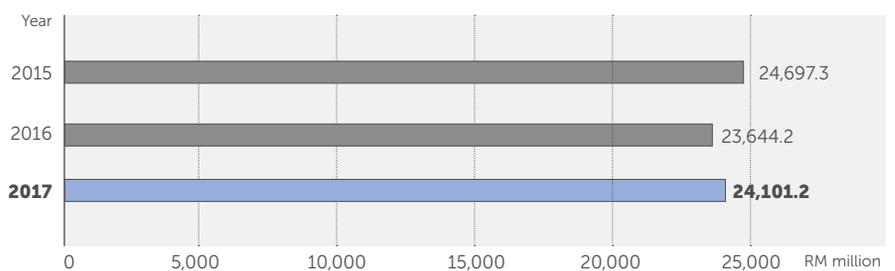
TOTAL ASSETS



DIVIDEND PAYOUT



MARKET CAPITALISATION



ACHIEVEMENTS

AWARDS AND ACCOLADES



NATIONAL ANNUAL CORPORATE REPORT AWARDS 2017

- Platinum Award for Best Designed Annual Report
- Certificate of Merit

ASSOCIATION OF ACCREDITED ADVERTISING AGENTS MALAYSIA - PUTRA BRAND AWARDS 2017

- Gold Award for Automotive-Fuel and Lubricants

GLOBAL COMPACT NETWORK MALAYSIA - GLOBAL RESPONSIBLE BUSINESS LEADERSHIP AWARDS 2017

- Rural Empowerment Excellence – Water for Life Programme

READER'S DIGEST TRUSTED BRAND AWARDS 2017

- Gold Award for Best Petrol Station

PUSAT DARAH NEGARA - MALAM PENGHARGAAN DAN SAMBUTAN HARI PENDERMA DARAH SEDUNIA PERINGKAT KEBANGSAAN 2017

- Anugerah Penganjur Kempen Derma Darah

MSWG - ASEAN CORPORATE GOVERNANCE RECOGNITION 2017

- Industry Excellence Award 2017 – Oil and Gas
- 2nd Place for Excellence Award for Overall Corporate Governance and Performance
- 4th/100 Ranked for Excellence Award for Corporate Governance Disclosure

ARC AWARDS INTERNATIONAL XXXI FOR 2016 ANNUAL REPORT

Retailer and Marketer of Fuel Industry:

- Gold Award for Interior Design
- Bronze Award for Non-Traditional Annual Report
- Honors Award for Printing and Production

IR MAGAZINE AWARDS SOUTHEAST ASIA 2017

- 3rd place for Best IR Website in Southeast Asia

MSOSH OSH AWARDS 2017

Gold Merit:

- Melaka Fuel and LPG Terminals

Gold Class I:

- Prai Fuel and LPG Terminals
- Kuantan Fuel Terminal
- Kertih Fuel and LPG Terminals
- Pasir Gudang Fuel and LPG Terminals
- Labuan Fuel Terminal
- Sandakan Fuel Terminal
- Bintulu LPG Terminal
- KLIA KAFS Terminal
- KLIA FFB Terminal
- Bayan Lepas Aviation Terminal
- Kota Kinabalu Aviation Terminal
- Senai Aviation Terminal

Gold Class II:

- Lumut Fuel Terminal
- Sepang Bay Fuel and LPG Terminals
- Kuching Aviation Terminal

Silver:

- Subang Aviation Terminal

> UNDERSTANDING PDB

ABOUT PDB

PDB IS MALAYSIA'S LEADING RETAILER AND MARKETER OF DOWNSTREAM PETROLEUM PRODUCTS, COMMITTED TO DELIVERING INNOVATIVE PRODUCTS AND DIFFERENTIATED SERVICES IN OUR FOUR CORE BUSINESSES OF RETAIL, COMMERCIAL, LPG AND LUBRICANT.

PDB was incorporated on 5 August 1982 and was listed on the Main Board of Bursa Malaysia on 8 March 1994. Today we are proud to be Malaysia's leading retailer and marketer of downstream petroleum products.

Over the years, we have leveraged on PETRONAS' extensive investments in R&D to deliver world-class petroleum products. PETRONAS Primax and PETRONAS Syntium – developed in partnership with Mercedes AMG – are more than just fuels and lubricant. They are part of the winning formula that has brought in four consecutive Formula One™ World Constructors' Championship victories for the Mercedes AMG PETRONAS Formula One™ Team in 2014, 2015, 2016 and 2017. This year, another superior product has been introduced - the PETRONAS Dynamic Diesel Euro 5 with Pro-Drive, the new generation sulphur-free Diesel proven to deliver smoother drive and superior fuel economy, while promoting better air quality.

Our winning products are available at more than 1,000 PETRONAS stations nationwide. Together with over 760 *Kedai Mesra*, PETRONAS stations have become one-stop convenience centres for fueling, shopping, banking and others, all under one roof. Committed to delivering enhanced customer experience, we embarked on introducing food solutions within our convenience stores such as quick and affordable breakfast through Mornings@Mesra as well as continuously expanding our F&B options with various QSR partners.

Through our Commercial Business, we market Diesel, Jet A-1, Kerosene, Gasoline, Bitumen and others to various commercial customers. In the LPG Business, we offer Malaysia's No. 1 Cooking Gas to households and businesses across the nation. The range of products offered and its availability continued to position us as a market leader.

Our business has been built on an extensive logistics and distribution system that has remained our key competitive advantage. The comprehensive network of bulk and aviation depots, bunkering facilities as well as LPG bottling facilities ensuring a reliable supply of product at all times.

Beyond Malaysia, we operate a Lubricant business in Thailand through our subsidiary, PETRONAS International Marketing (Thailand) Co Ltd.

This year, PDB has forged ahead and ventured into digital platform to offer our gift cards and merchandises through Lazada, Shopee and 11street, and even launching the Gas2u Mobile Application for home gas delivery.

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 are embedded in the culture and mindset of our workforce through programmes supported by a pool of competent HSE practitioners and HSE-minded line managers.

Along with safety, we are committed to carrying out our business in a sustainable manner by contributing to socio-economic growth while ensuring minimal impact on the environment.

Over the last 35 years, the hard work, determination and dedication of our passionate workforce have seen PDB grow from strength to strength. Moving into the future, we are fuelled by an ambition to leap even further. Driven by a Winning Formula, we continue to *Play To Win* to sustain our position as the 'Brand of 1st Choice'.

VISION

BRAND OF 1ST CHOICE

What Does It Mean?

'Brand of 1st Choice' drives the core essence of what PDB 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 embedded 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 its winning fuel for consumers, translated from its four-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'.

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

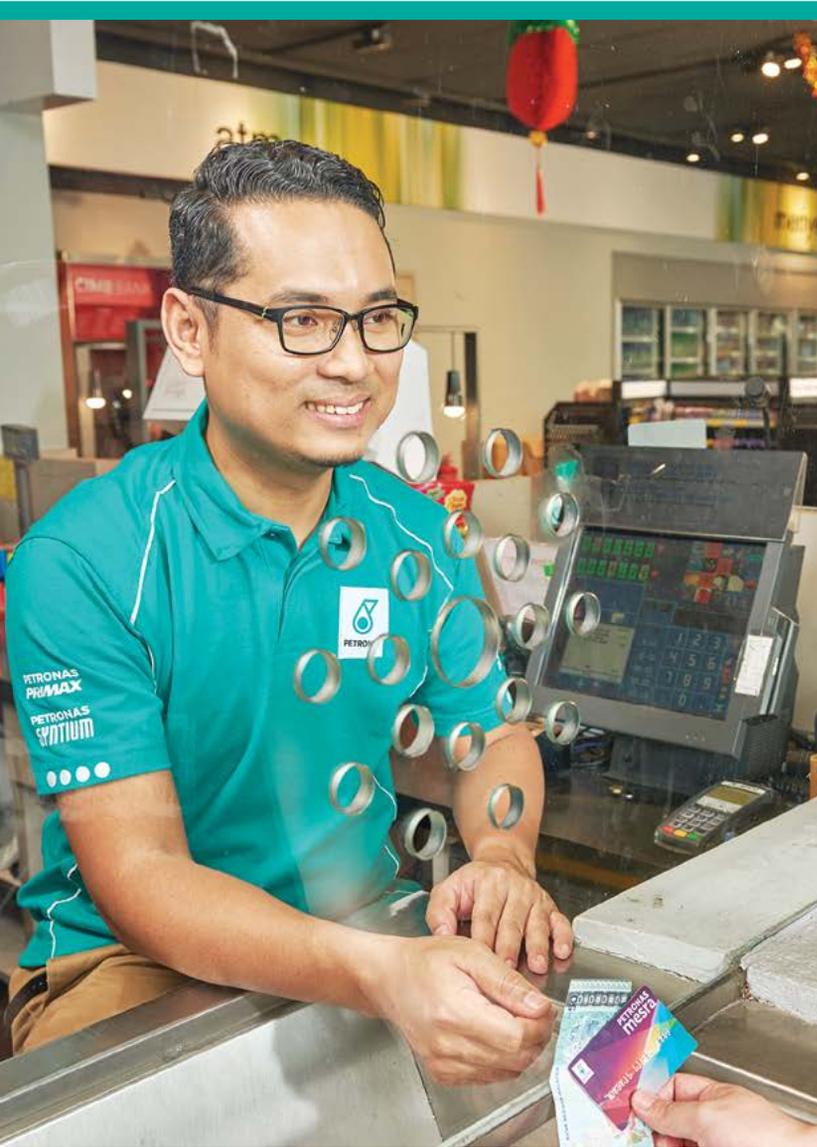


COHESIVENESS

United, trust and respect for each other

> UNDERSTANDING PDB

WHAT DIFFERENTIATES US



1



FULLY INTEGRATED VALUE CHAIN

from terminals to distributors and dealer networks

2



EXTENSIVE DISTRIBUTION NETWORK

spread across strategic locations and to serve various commercial and industrial customers

3



ADDED VALUE TO SHAREHOLDERS AND BUSINESS PARTNERS

through cost-competitive and efficient operations

UNDERSTANDING PDB
WHAT DIFFERENTIATES US



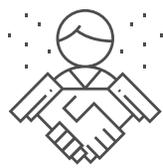
4



HIGHLY COMPETENT WORKFORCE

with diversified skill, relevant experience and knowledge within the industry

5



STRATEGIC PARTNERSHIPS AND ALLIANCES

with leading domestic and international business partners

6



WORLD-CLASS QUALITY PRODUCTS AND SERVICES INNOVATION

inspired by looking through the customers' lens and developed in collaboration with winning partners

KEY MILESTONES IN 2017

March

3 March

PDB GOES GREEN THROUGH DIGITALISATION

PDB became Malaysia's first oil company in the downstream petroleum products industry to go green and digital with the launch of the Digital DN system at its Prai Fuel and LPG terminals, under the Advanced Terminal Operations Management system. The system transforms the way we work, migrating manual paperwork and database to digital-based, that is easily accessible by both PDB personnel and customers.

 For more information on Digital DN System, please refer to Winning Operations on page 44 of this Annual Report

9 March

CHARGEV IN SUPPORT OF NATION'S ELECTRIC MOBILITY BLUEPRINT

Following the Memorandum of Understanding signing with Malaysian Green Technology Corporation, in 2016, PDB officially launched the ChargeEV facility at PETRONAS Station Solaris, witnessed by Y.B. Datuk Seri Panglima Dr. Maximus Johnity Ongkili, Minister of Energy, Green Technology and Water. The target is to install the facility at 100 PETRONAS stations nationwide.

 For more information on ChargeEV, please refer to Winning Innovation on page 48 of this Annual Report

16 March

FOOD SOLUTIONS VIA MORNINGS@MESRA

PDB introduced Mornings@Mesra at more than 450 *Kedai Mesra*, offering breakfast options for commuters on the go.

 For more information on Mornings@Mesra, please refer to Winning Customer Experience on page 50 of this Annual Report



28 March

STAYING AHEAD THROUGH EXCLUSIVE COLLABORATION WITH GRAB

PDB and Grab signed partnership to offer rewarding experience to GrabCar drivers via the exclusive *Kad Mesra* Grab. Through this, GrabCar drivers can enjoy ultimate fuel savings coupled with amazing lubricant deals, fantastic *Kedai Mesra* promotions as well as special reward points for all purchases at PETRONAS stations nationwide.

April

17 April

NEW FORMULATION OF PETRONAS SPRINTA

PLMMSB launched PETRONAS Sprinta with UltraFlex™, formulated to resist engine stress and promote longer motorcycle life.



May

25 May

PROMOTING LOCAL ENTREPRENEURS VIS-A-VIS INCREASING CONVENIENCE FOR FOOD SOLUTIONS

PDB, in partnership with Deluxe Merchant Sdn Bhd, unveiled a'rooma Café at PETRONAS Station Putrajaya Precinct 16, further cementing the Company's leadership in convenience offerings. The opening ceremony was officiated by Tan Sri Haji Mohd Ali Bin Mohd Rustam, Chairman of Perbadanan Usahawan Nasional Berhad.

26 May

ELEVATING CONVENIENCE OFFERING WITH POS LAJU EZIBOX

PDB, together with Pos Malaysia, rolled out the Pos Laju EziBox at PETRONAS Station Jalan Kolam Ayer Lama, Ampang. The EziBox enables customers to have items delivered to the automated smart locker for easy collection. They can also post parcels at the station at their convenience. The offering is available at selected 11 PETRONAS stations.

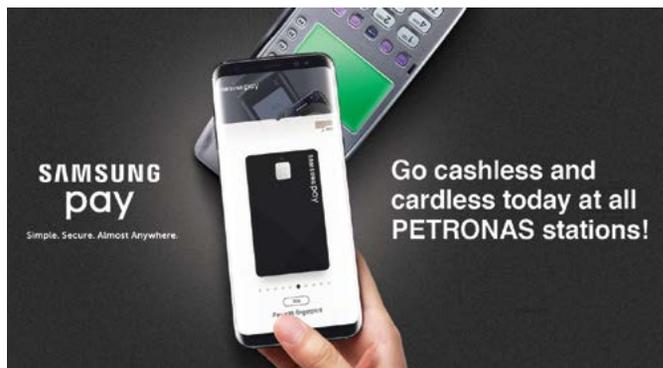
KEY MILESTONES IN 2017

July

5 July
CASHLESS TRANSACTIONS VIA SAMSUNG PAY

PDB introduced the Samsung Pay service, making it the first oil company in the downstream petroleum products industry to offer this solution to provide speed and ease of transactions at its stations nationwide.

For more information on Samsung Pay, please refer to Winning Customer Experience on page 49 of this Annual Report



August

28 August
PDB GOES ONLINE

PDB extended its presence to the digital platform with Shopee, Southeast Asia and Taiwan's fastest growing e-commerce platform. Following this, PDB went on to forge more strategic alliances with other e-commerce platforms such as Lazada and 11street to strengthen its online presence.

For more information on PDB's Digitalisation Initiatives, please refer to Winning Customer Experience on page 49 of this Annual Report



2017

October

1 October
FIRST COOKING GAS ORDERING MOBILE APPLICATION IN MALAYSIA

PDB introduced the first-of-its-kind cooking gas ordering mobile application, Gas2u, allowing customers to place order and schedule delivery based on their convenience. Customers can also track their order delivery live.



November

17 November
LAUNCHED NEW PETRONAS DYNAMIC DIESEL EURO 5 WITH PRO-DRIVE FOR CLEANER, FURTHER AND SMOOTHER DRIVE

PDB launched the new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive. The Pro-Drive technology is made available from PETRONAS' continuous learnings from the Dakar Rally, known to be the world's toughest and most demanding off-road endurance race.

For more information on new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive, please refer to Winning Innovation on page 47 of this Annual Report



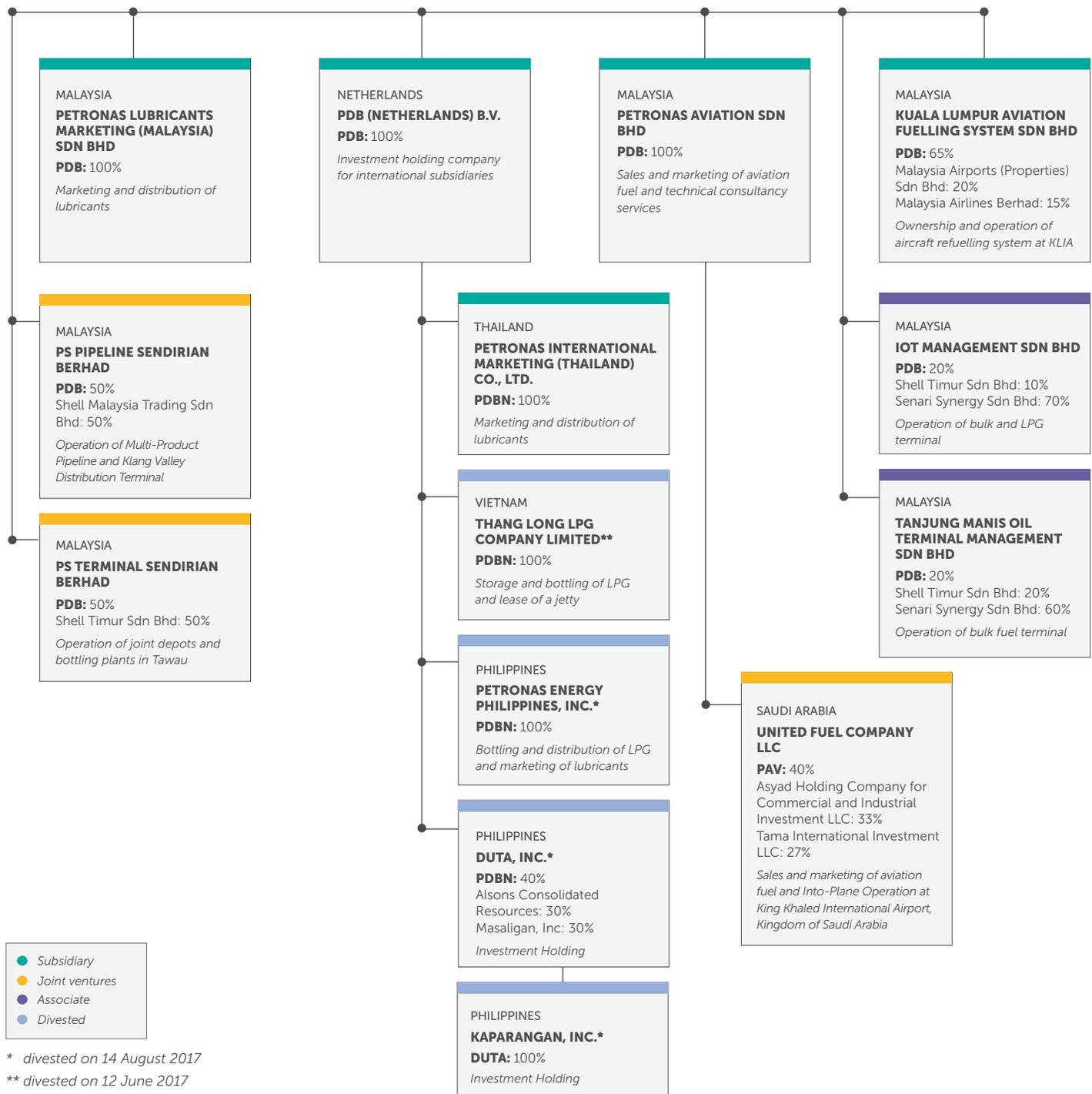
> PDB'S STRUCTURE

GROUP CORPORATE STRUCTURE



PETRONAS

PETRONAS DAGANGAN BERHAD



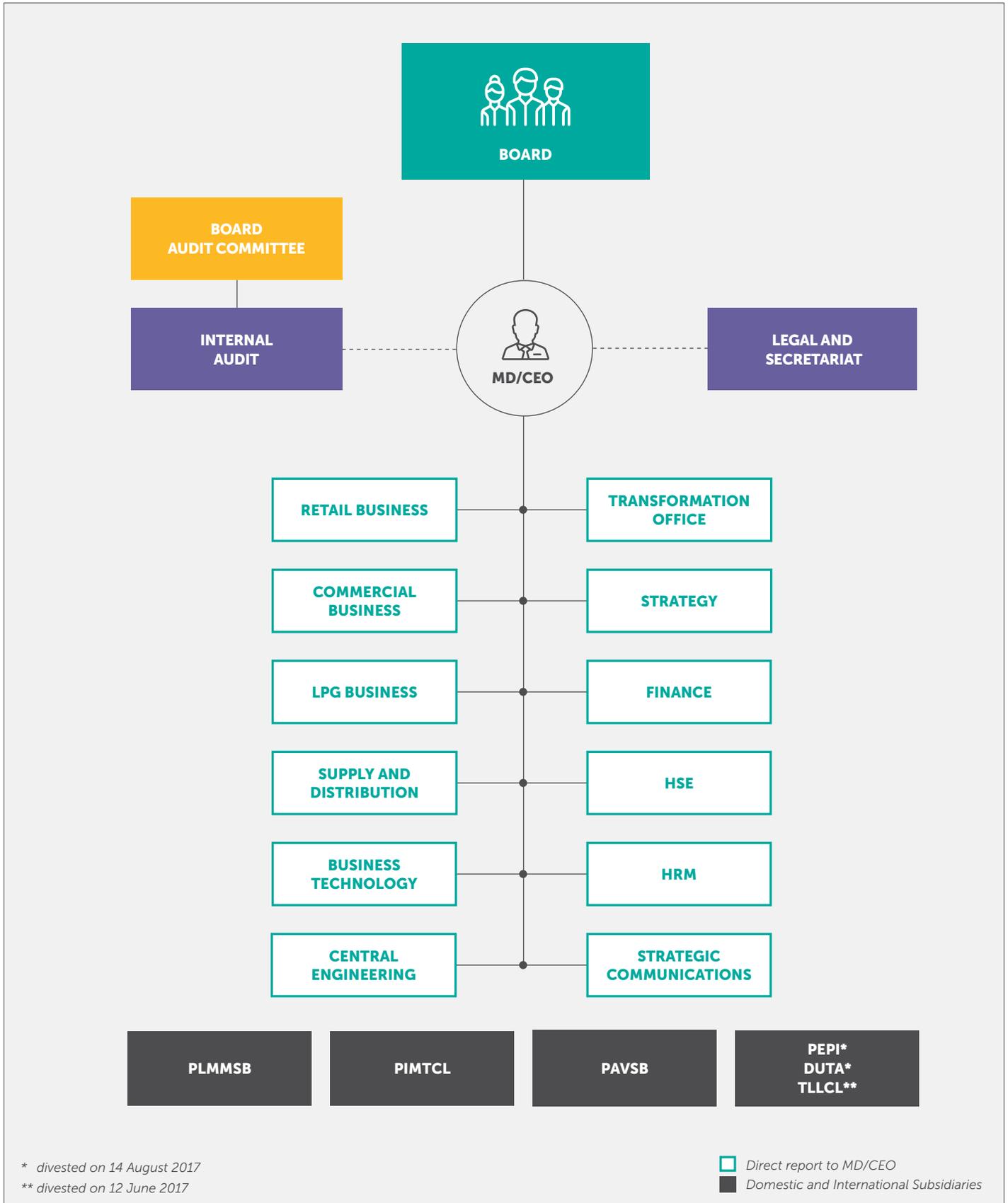
- Subsidiary
- Joint ventures
- Associate
- Divested

* divested on 14 August 2017

** divested on 12 June 2017

PDB'S STRUCTURE

GROUP ORGANISATION STRUCTURE



* divested on 14 August 2017

** divested on 12 June 2017

Direct report to MD/CEO
 Domestic and International Subsidiaries

› BOARD OF DIRECTORS

LEADERSHIP AND EFFECTIVENESS



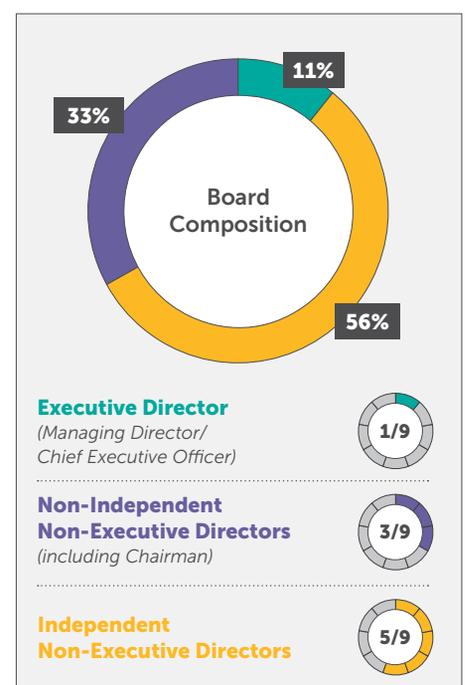
A DIVERSE AND EFFECTIVE BOARD

THE PRIMARY ROLE OF THE BOARD IS TO PROVIDE EFFECTIVE AND ENTREPRENEURIAL LEADERSHIP NECESSARY TO ENABLE THE GROUP'S BUSINESS OBJECTIVES TO BE MET AND TO REVIEW THE OVERALL STRATEGIC DEVELOPMENT OF THE GROUP AS A WHOLE

BOARD COMPOSITION

The Board comprises nine members, one of whom holds an Executive Office, as Managing Director and Chief Executive Officer. As at the date of this report, three new directors were appointed to the Board; Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir as Non-Independent Non-Executive Director, Shafie Shamsuddin and Alvin Michael Hew Thai Kheam as Independent Non-Executive Directors. The Board also accepted the resignations of Erwin Miranda Elechicon and Ir Mohamed Firouz Asnan on 31 July 2017. As per best practice, none of the Board members are former MD/CEOs of PDB in the past two years.

As at the date of this report, the Board's composition is as follows:



BOARD OF DIRECTORS
LEADERSHIP AND EFFECTIVENESS

1. Datuk Md Arif Mahmood
2. Dato' Mohd Ibrahimuddin Mohd Yunus
3. Lim Beng Choon
4. Vimala V.R. Menon
5. Datuk Anuar Ahmad
6. Nuraini Ismail
7. Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir
8. Shafie Shamsuddin
9. Alvin Michael Hew Thai Kheam

 For more information on Board's Profile, please refer to pages 18 to 21 of this Annual Report

The composition of the Board is in line with the requirements of Paragraph 15.02 of the MMLR of Bursa Malaysia and Practice 4.1 of the MCCG 2017, by virtue that 56% 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 interests 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 and education. Five of the Non-Executive Directors have experience in the oil and gas industry. The current overall Board's composition are adequate in size and diversity of age, gender and ethnicity. This is to ensure diversity of views, facilitate effective decision making and constructive board deliberation during its meetings.

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 interests of the shareholders and stakeholders. They contribute to the formulation of policy and decision making through their expertise and experience.

The Independent Non-Executive Directors do not participate in the day-to-day management of the Group nor engage in any business dealing or have any relationships 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. As at the date of this report, the Independent Non-Executive Directors have reaffirmed their independence based on the criteria of Independent Directors as provided in the MMLR of Bursa Malaysia.

To avoid any conflict of interest, all Board members declare their interests where applicable at board meetings.

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 other appointment for directorship in other listed companies, the Directors are required to first notify the Chairman of the Company to ensure that such appointment would not unduly affect their time commitment and responsibilities to the Board.

BOARD OF DIRECTORS
LEADERSHIP AND EFFECTIVENESS

A Board Audit Committee
N Nomination and Remuneration Committee

SKILLS

- I** Finance/Audit
- II** Economics
- III** Engineering
- IV** Commercial/Marketing
- V** Operations
- VI** Corporate Planning and Development
- VII** Human Resource
- VIII** Information Technology

INDUSTRY EXPERIENCE

- Oil and Gas
- Banking and Finance
- Shipping/Logistics
- Education
- Regional/International

Declaration:

Save as disclosed, the Directors have:

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

1

DATUK MD ARIF MAHMOOD

Chairman,
Non-Independent Non-Executive Director

Age/ Gender/ Ethnicity	55/ Male/ Malay
Nationality	Malaysian
Number of Board Meetings Attended	
Date of Appointment	16 April 2015
Key Strengths and Experiences	
Academic/Professional Qualifications	<ul style="list-style-type: none"> • Masters of Business Administration, Massachusetts Institute of Technology, United States of America • Bachelor of Science in Electrical Engineering (<i>summa cum laude</i>), Boston University, United States of America
Present Directorship(s)	Other listed entity: <ul style="list-style-type: none"> • PETRONAS Chemicals Group Berhad Other public company: <ul style="list-style-type: none"> • Nil
Other Principle Appointments	<ul style="list-style-type: none"> • 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 • Member, Talent Council, PETRONAS • Member, Industry Advisory Panel, Universiti Teknologi PETRONAS • Chairman and Director, various companies within PETRONAS
Past Experiences	<ul style="list-style-type: none"> • 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

BOARD OF DIRECTORS
LEADERSHIP AND EFFECTIVENESS

2

**DATO' MOHD IBRAHIMUDDIN
MOHD YUNUS***Managing Director/Chief Executive Officer***54/ Male/ Malay****Malaysian**

1 February 2014



- Bachelor in Economics, York University, Ontario, Canada

Other listed entity:

- Nil

Other public company:

- Nil

- Chairman and Director, various companies within PETRONAS Dagangan Berhad
- Chairman, Leadership Team, PETRONAS Dagangan Berhad
- Chairman, People Development Committee, PETRONAS Dagangan Berhad
- Chairman and Member, various committees within PETRONAS Group
- Member, VISA Asia Pacific Merchant Advisory Council

- 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

3

LIM BENG CHOON*Senior Independent Director***58/ Male/ Chinese****Malaysian**

13 August 2012



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

Other listed entity:

- MISC Berhad

Other public company:

- Nil

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

- 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

4

VIMALA V.R. MENON*Independent Non-Executive Director***63/ Female/ Indian****Malaysian**

18 November 2011



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

Other listed entities:

- PETRONAS Chemicals Group Berhad
- DiGi.Com Berhad

Other public company:

- Nil

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

- Director, Cycle & Carriage Bintang Berhad
- Chairman, Board Audit Committee, Cycle & Carriage Bintang Berhad
- Member, Nomination Committee, Cycle and Carriage Bintang Berhad
- Member, Remuneration Committee, Cycle and Carriage Bintang Berhad
- 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

BOARD OF DIRECTORS
LEADERSHIP AND EFFECTIVENESS

5

DATUK ANUAR AHMAD

Independent Non-Executive Director

A

6

NURAINI ISMAIL

Non-Independent Non-Executive Director

A

Age/ Gender/ Ethnicity	64/ Male/ Malay	55/ Female/ Malay
Nationality	Malaysian	Malaysian
Number of Board Meetings Attended		
Date of Appointment	1 August 2014	18 November 2011
Key Strengths and Experiences		
Academic/Professional Qualifications	<ul style="list-style-type: none"> Bachelor of Science (Econs), London School of Economics and Political Science, University of London, United Kingdom Advanced Management Program, Harvard Business School, United States of America 	<ul style="list-style-type: none"> Fellow, Association of Chartered Certified Accountants, United Kingdom
Present Directorship(s)	Other listed entities: <ul style="list-style-type: none"> E.A. Technique (M) Berhad ENRA Group Berhad Other public company: <ul style="list-style-type: none"> Nil 	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil
Other Principle Appointments	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Vice President, Treasury, PETRONAS Member, Board Audit Committee, PETRONAS Dagangan Berhad Director, various companies within PETRONAS Group Member, various committees within PETRONAS Group
Past Experiences	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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

BOARD OF DIRECTORS
LEADERSHIP AND EFFECTIVENESS

7

**DATO' SRI SYED ZAINAL ABIDIN SYED
MOHAMED TAHIR***Non-Independent Non-Executive Director***55/ Male/ Malay****Malaysian**

31 July 2017



- Bachelor of Science in Civil Engineering, University of Maryland, United States of America

Other listed entity:

- Nil

Other public company:

- Nil

- Vice President, Marketing, Downstream Business PETRONAS
- Chief Executive Officer Faculty (Universiti Teknologi MARA) - Ministry of Higher Education Malaysia
- Industry Advisory Panel of several local universities

- Member, Nomination and Remuneration Committee, PETRONAS Dagangan Berhad
- Independent Non-Executive Director, RHB Islamic Bank Berhad
- Independent Non-Executive Director, RHB Bank
- Board member of various subsidiaries within the PROTON Group
- Group Managing Director, PROTON Holdings Berhad
- Deputy Managing Director, PERODUA
- Executive Director, PERODUA Auto Corporation Sdn Bhd
- Senior General Manager, PERODUA
- Various Senior Positions, HICOM Holdings Berhad
- Senior Executive, Corporate Planning & International Business Development Unit, PETRONAS
- Project Engineer, PETRONAS Gas Berhad

8

SHAFIE SHAMSUDDIN*Independent Non-Executive Director***N****47/ Male/ Malay****Singaporean**

Nil

6 February 2018



- Bachelor of Business Administration, Nanyang Technological University, Singapore

Other listed entity:

- Nil

Other public company:

- Nil

- Member, Nomination and Remuneration Committee, PETRONAS Dagangan Berhad
- President Director and Chief Executive Officer, PT Trans Retail, Indonesia

- Executive Director, Global Talent Management and Organisational Development, Carrefour Group in France
- President and Chief Executive Officer, Carrefour Indonesia
- Managing Director, Carrefour Singapore and Malaysia
- Managing Director, Singapore and South Regional Director Operations, Malaysia
- Store Director, Marcom Director, Non-Food Director and Human Resources, Singapore
- Bazaar Merchandise Manager, Carrefour Indonesia
- Division Manager for Commercial and Merchandising, Carrefour Singapore

9

ALVIN MICHAEL HEW THAI KHEAM*Independent Non-Executive Director***54/ Male/ Chinese****Malaysian**

Nil

6 February 2018



- Master of Business Administration, INSEAD-Europe Campus, Fontainebleau, Ile de France
- Bachelor of Commerce (Honours), Queen's University, Kingston, Ontario, Canada
- Bachelor of Arts (Minor Economics), Queen's University, Kingston, Ontario, Canada

Other listed entity:

- Maxis Berhad

Other public company:

- Nil

- Member, Nomination Committee, Maxis Berhad
- Group Managing Director, Southgate Ventures Pte. Ltd.
- Board Director, SIS Group of Schools

- Board Director, Wine Connection Group
- Board Director, I Can Read System
- Board Director, PSGOURMET Pte. Ltd.
- Board Director and Chairman of Governance Committee, Taipei American School
- Board Advisor, TORO Limited
- Board Director and Co-Chair, Events and Communications, European Chamber of Commerce, Taiwan
- Director and Treasurer, Toronto Condominium Corp YCC 332
- Managing Director, H2O Capital Limited, Taiwan
- Managing Director, L'Oreal Taiwan and Malaysia
- General Manager, Consumer Products, L'Oreal Malaysia
- Project Manager, L'Oreal Paris
- Brand Manager Hair Care, Procter & Gamble, Vietnam
- Brand Manager South Asia, Procter & Gamble AG, Switzerland
- Financial Analyst, Lancaster Financial Inc., Canada
- Account Manager, Toronto-Dominion Bank, Canada

> LEADERSHIP TEAM



**DRIVING
PERFORMANCE,
DELIVERING
EXCELLENCE**

1. Dato' Mohd Ibrahimnuddin Mohd Yunus
2. Norliwati Abdul Wahab
3. Aadrin Azly
4. Ahmad Zahri Mahzan

5. Ramzulhakim Ramli
6. Anton Salleh Hashim
7. Mohd Shobri Abu Bakar
8. Ruziah Azdi Abdul Rahman

9. Naina Mohd Shukri Omar
10. Tariq Ashra Sulaiman
11. Hasnizaini Mohd Zain

Declaration:

Save as disclosed, the LT have:

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

LEADERSHIP TEAM

1

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

2

NORLIWATI ABDUL WAHAB*Chief Financial Officer*

Age/ Gender/ Ethnicity	54/ Male/ Malay	42/ Female/ Malay
Nationality	Malaysian	Malaysian
Date of Appointment	1 February 2014	1 March 2017
Key Responsibilities	Responsible for strategic decisions and guiding the overall operational, financial and sustainable performance of PDB and its subsidiaries.	Responsible for the management of all financial related matters for PDB and its subsidiaries, risk management, supply chain and investor relations.
Number of LT Meetings Attended		
Academic/Professional Qualifications	<ul style="list-style-type: none"> Bachelor's Degree in Economics, York University, Ontario, Canada 	<ul style="list-style-type: none"> Member, Institute of Chartered Accountants in England and Wales Masters in Mechanical Engineering, Imperial College, London
Present Directorship(s)	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil 	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil
Key Strengths and Experiences	<ul style="list-style-type: none"> Economics Commercial/Marketing Operations Human Resource Management Industry Experiences: <ul style="list-style-type: none"> Oil and Gas Shipping and Logistics Regional and International 	<ul style="list-style-type: none"> Accounting and Finance Corporate Finance Strategy and Planning Risk Management Procurement Audit Engineering Industry Experiences: <ul style="list-style-type: none"> Oil and Gas Regional and International
Other Present Appointments	<ul style="list-style-type: none"> 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 Member, VISA Asia Pacific Merchant Advisory Council 	<ul style="list-style-type: none"> Director, various companies within PETRONAS Dagangan Berhad Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad and PETRONAS Finance Member, various committees within PETRONAS Dagangan Berhad
Past Experiences	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Head (Finance and Accounts) PETCO Trading Labuan Co. Ltd. Head Corporate Strategic Planning, PETRONAS Manager (Budget and Management Reporting), PETRONAS Exploration and Production Division Manager (Budget and Management Reporting), PETRONAS Carigali Sdn. Bhd. Chief Accountant, PETRONAS Vietnam Co. Ltd. Various positions, within PETRONAS Group Auditor and Business Advisor PKF Chartered Accountant in Manchester, United Kingdom and Perth, Australia

LEADERSHIP TEAM

* member since August 2017.

3

AADRIN AZLY

Head, Retail Business Division

4

MAHMAD ZAHRI MAHZAN

Head, Commercial Business Division

Age/ Gender/ Ethnicity	40/ Male/ Malay	54/ Male/ Malay
Nationality	Malaysian	Malaysian
Date of Appointment	1 November 2016	1 January 2012
Key Responsibilities	Responsible for Retail Business growth, focused on elevating customer experience.	Responsible for Commercial Business growth and value creation for the petroleum products in the domestic and international markets.
Number of LT Meetings Attended		
Academic/Professional Qualifications	<ul style="list-style-type: none"> Bachelor of Commerce, University of Adelaide, Australia 	<ul style="list-style-type: none"> BSc (Computer Science), Australian National University, Canberra, Australia
Present Directorship(s)	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil 	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil
Key Strengths and Experiences	<ul style="list-style-type: none"> Retail Business Sales and Marketing Corporate Strategy Portfolio Management Planning and Budgeting Mergers and Acquisitions Business Development Industry Experience: <ul style="list-style-type: none"> Oil and Gas 	<ul style="list-style-type: none"> Trading and Marketing Commercial Business Auditing and Risk Management Human Resources Industry Experiences: <ul style="list-style-type: none"> Oil and Gas Regional and International
Other Present Appointments	<ul style="list-style-type: none"> Chairman, PS Pipeline Sdn. Bhd. Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad Member, various committees within PETRONAS Dagangan Berhad 	<ul style="list-style-type: none"> 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 Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad Member, various committees within PETRONAS Dagangan Berhad
Past Experiences	<ul style="list-style-type: none"> 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 of Oil Business, PETRONAS Various positions within PETRONAS Group 	<ul style="list-style-type: none"> 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

LEADERSHIP TEAM

5

RAMZULHAKIM RAMLI

Head, LPG Business Division

6

ANTON SALLEH HASHIM

Chief Executive Officer

PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd

7

MOHD SHOBRI ABU BAKAR

Head, Supply and Distribution Division

41/ Male/ Malay	44/ Male/ Malay	57/ Male/ Malay
Malaysian	Malaysian	Malaysian
1 October 2016	1 August 2017	1 January 2014
Responsible for LPG Business growth and performance to maximise value creation for PDB.	Responsible for strategic decisions and guiding the overall operational, financial and sustainable performance of PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd and its subsidiaries.	Responsible for PDB's overall operational excellence and supply reliability across the integrated value chain.
		
<ul style="list-style-type: none"> Bachelor of Commerce (Accounting), University of New South Wales, Australia Member, Certified Public Accountant, Australia 	<ul style="list-style-type: none"> B.A (Hons) Accounting and Finance, University of Lancaster, United Kingdom 	<ul style="list-style-type: none"> Bachelor of Mechanical Engineering, Universiti Teknologi Malaysia, Malaysia
Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil 	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil 	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil
<ul style="list-style-type: none"> Sales and Marketing Business Development Corporate Finance Financial Accounting Strategic and Business Planning International Downstream Sales and Marketing Risk Management Project Management Industry Experiences: <ul style="list-style-type: none"> Oil and Gas Regional 	<ul style="list-style-type: none"> Sales and Marketing Trading Accounting and Finance Industry Experiences: <ul style="list-style-type: none"> Oil and Gas Lubricant International 	<ul style="list-style-type: none"> Project Management Operations and Infrastructure Management Sales and Marketing Logistic Planning and Distribution Industry Experiences: <ul style="list-style-type: none"> Oil and Gas Lubricant
<ul style="list-style-type: none"> Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad Member, various committees within PETRONAS Dagangan Berhad 	<ul style="list-style-type: none"> Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad Member, various committees within PETRONAS Dagangan Berhad 	<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> General Director/Chief Executive Officer, PETRONAS Vietnam Co. Ltd. and Thang Long LPG Co. Ltd. Chief Financial Officer, PETRONAS Vietnam Co. Ltd. and Thang Long LPG Co. Ltd. Head, Business Development, Vice President Downstream Marketing Office, PETRONAS Project Manager (Thailand), Downstream Marketing, PETRONAS Various positions within PETRONAS Group 	<ul style="list-style-type: none"> CEO, PETCO Trading (UK) Ltd. Head, Light Distillates Trading, PETCO Trading Labuan Co. Ltd. Head, Light Distillates LPG and Petroleum Product Group Various positions within PETRONAS Group 	<ul style="list-style-type: none"> General Manager, Lubricant Business, PETRONAS Dagangan Berhad General Manager, Lubricant Unit, PETRONAS General Manager, Supply and Distribution, PETRONAS Dagangan Berhad Senior Manager, Peninsular Distribution, PETRONAS Dagangan Berhad Operations Manager, Central Region, PETRONAS Dagangan Berhad Various positions within PETRONAS Group

LEADERSHIP TEAM

8

RUZIAH AZDI ABDUL RAHMAN

Head, Strategic Communications Division

9

NAINA MOHD SHUKRI OMAR

Head, Human Resource Management Division

Age/ Gender/ Ethnicity	54/ Female/ Malay	43/ Male/ Malay
Nationality	Malaysian	Malaysian
Date of Appointment	1 December 2015	1 June 2016
Key Responsibilities	Responsible for planning, development and implementing PDB's corporate branding, stakeholder management, strategic communications and reputation management.	Responsible PDB's people strategies, talent development and management as well as human resource services.
Number of LT Meetings Attended		
Academic/Professional Qualifications	<ul style="list-style-type: none"> Bachelor of Science in Business Management (Economics and Finance), University of Tennessee, United States of America 	<ul style="list-style-type: none"> Bachelor of Accountancy with Honours, Universiti Utara Malaysia, Malaysia Certified Coach from the Canadian Council of Professional Certification
Present Directorship(s)	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil 	Other listed entity: <ul style="list-style-type: none"> Nil Other public company: <ul style="list-style-type: none"> Nil
Key Strengths and Experiences	<ul style="list-style-type: none"> Brand Strategy and Management Marketing Communications Media Strategy and Management Reputation and Crisis Management Stakeholder Relations and Management Digital Media Strategy Corporate Social Responsibility Management Industry Experience: <ul style="list-style-type: none"> Oil and Gas 	<ul style="list-style-type: none"> People Planning and Strategy Organisation Development and Design Talent Sourcing People Management Leadership and Capability Development Employee Performance Management Industrial/Employee Relations Remuneration Strategies International HR Coaching and Mentoring Industry Experience: <ul style="list-style-type: none"> Oil and Gas
Other Present Appointments	<ul style="list-style-type: none"> Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad Member, various committees within PETRONAS Dagangan Berhad 	<ul style="list-style-type: none"> Member, Leadership Team Committee, PETRONAS Dagangan Berhad Member, People Development Committee, PETRONAS Dagangan Berhad Member, various committees within PETRONAS Dagangan Berhad Member, various committees within PETRONAS Human Resource
Past Experiences	<ul style="list-style-type: none"> 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 Group 	<ul style="list-style-type: none"> 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

LEADERSHIP TEAM

10

TARIQ ASHRA SULAIMAN*Head, Corporate Health, Safety and Environment Division***39/ Male/ Malay****Malaysian**

16 February 2015

Responsible for all HSE related matters throughout PDB, including driving and implementing HSE governance functions to ensure risks are managed to as low as reasonably practical level.



- Bachelor of Chemical Engineering, Universiti Teknologi PETRONAS, Malaysia

Other listed entity:

- Nil

Other public company:

- Nil

- Operations Safety
- Risk Management
- HSE Assurance
- Industry Experience:
 - Oil and Gas

- Member, Leadership Team Committee, PETRONAS Dagangan Berhad
- Member, People Development Committee, PETRONAS Dagangan Berhad
- Chairman, Technical Review Council, PETRONAS Dagangan Berhad
- Member, Downstream Operations Council
- Member, various committees within PETRONAS Dagangan Berhad

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

11

HASNIZAINI MOHD ZAIN*Head, Legal and Secretariat Division***43/ Female/ Malay****Malaysian**

1 July 2014

Provide legal advisory services to ensure the interests of PDB and its Group of Companies are adequately safeguarded and protected against legal risks and liabilities.



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

Other listed entity:

- Nil

Other public company:

- Nil

- Corporate law
- Dispute resolution
- Company secretarial
- Industrial relations
- Industry Experiences:
 - Oil and Gas
 - Banking
 - Judiciary

- 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

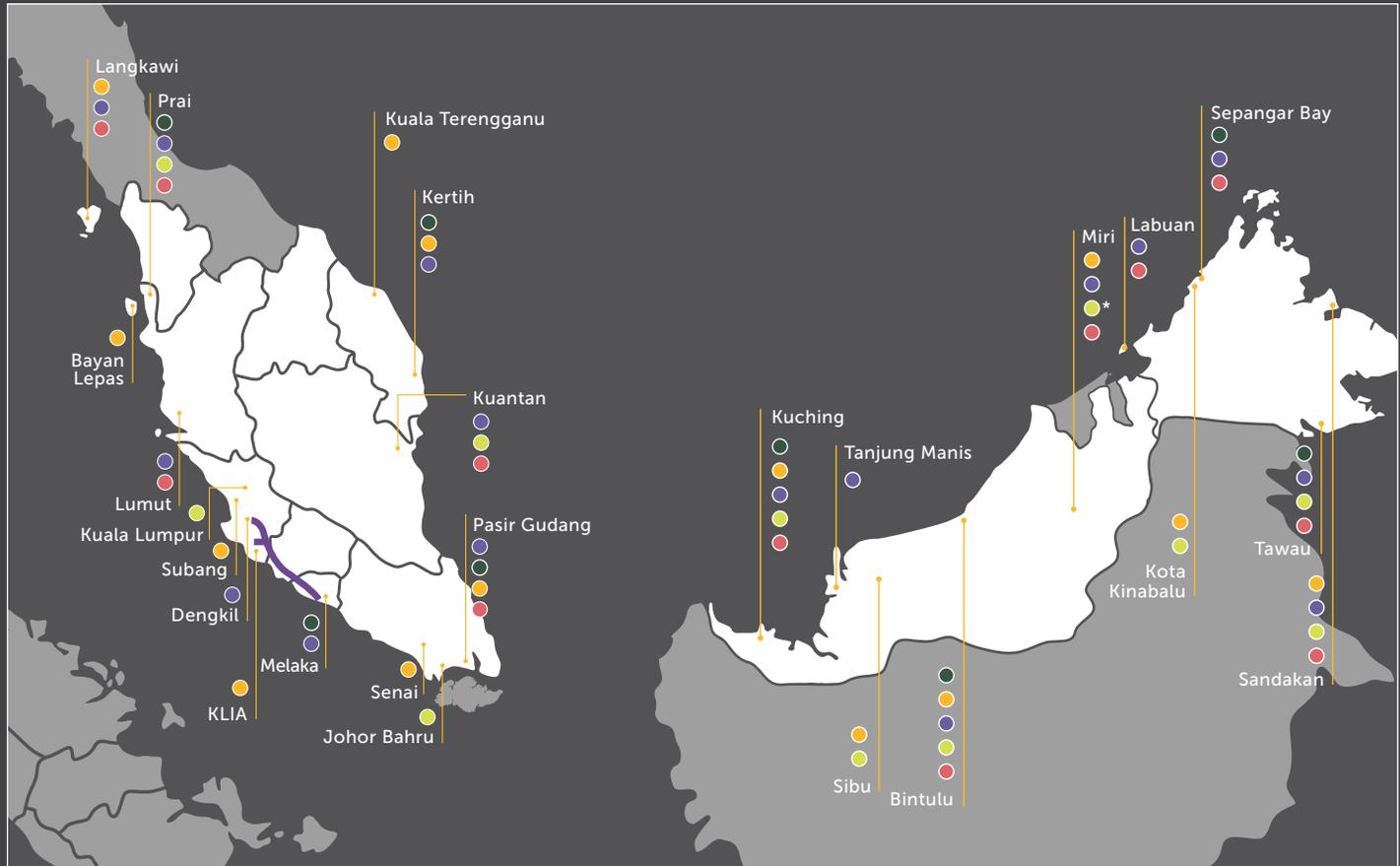
- Senior Manager, Refining and Trading, Group Legal, PETRONAS
- Manager, Downstream Marketing and Special Project, Group Legal, PETRONAS
- Manager, Corporate Services and Technology, Group Legal, PETRONAS
- Various positions within PETRONAS Group
- Deputy Manager, Industrial Relations, Bank Islam
- Advocate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

VALUE CREATION THROUGH OUR EXTENSIVE NETWORK

AREAS OF OPERATION

DOMESTIC

MALAYSIA



Largest Distribution and Network

38

Terminals

17

Fuel Terminals

11

Offices*

13

Aviation Terminals

12

Bunkering Facilities

8

LPG Terminals and Bottling Facilities

* Miri Sales Office was closed on 15 July 2017

JV DEPOTS AND FACILITIES

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

FUEL TERMINALS

1. ASB Labuan (JV)
2. Bintulu (JV)
3. Dengkil (JV)
4. Kertih (Refinery)
5. Kuantan
6. Kuching (JV)
7. Labuan
8. Langkawi
9. Lumut
10. Melaka (Refinery)
11. Miri
12. Pasir Gudang
13. Prai
14. Sandakan

15. Sepang Bay
16. Tanjung Manis (JV)
17. Tawau (JV)

AVIATION TERMINALS

1. Bayan Lepas
2. Bintulu
3. Kertih
4. Klia
5. Kota Kinabalu
6. Kuala Terengganu
7. Kuching
8. Langkawi
9. Miri

10. Sandakan
11. Senai
12. Sibul
13. Subang

LPG TERMINALS AND BOTTLING FACILITIES

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

BUNKERING FACILITIES

1. Bintulu
2. Kuantan
3. Kuching
4. Labuan
5. Langkawi
6. Lumut
7. Miri
8. Pasir Gudang
9. Prai
10. Sandakan
11. Sepang Bay
12. Tawau

OFFICES

1. Bintulu
2. Johor Bahru
3. Kota Kinabalu
4. Kuala Lumpur
5. Kuantan
6. Kuching
7. Miri*
8. Prai
9. Sandakan
10. Sibul
11. Tawau

VALUE CREATION THROUGH OUR EXTENSIVE NETWORK

AREAS OF OPERATION

INTERNATIONAL

PHILIPPINES / THAILAND / VIETNAM



4

LPG Bottling Facilities

4

LPG Terminals and Bottling Facilities

1

Lubricant Warehouse

8

Offices

LPG TERMINALS AND BOTTLING FACILITIES

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

LPG BOTTLING FACILITIES

1. Davao
2. GenSan
3. Go Dau
4. Hai Phong

OFFICES

1. Cebu
2. Danao
3. Hanoi
4. Ho Chi Minh
5. Iligan
6. Iloilo
7. Naga
8. Bangkok

LUBRICANT WAREHOUSE

1. Bangkok

- Lubricant Warehouse
- LPG Terminals and Bottling Facilities
- LPG Bottling Facilities
- Aviation Terminals
- Fuel Terminals
- Offices
- Bunkering Facilities
- Multi-Product Pipeline

> BUSINESS MODEL

OUR COMPETITIVE ADVANTAGES

Strong Financial Position

- Solid balance sheet position
- Healthy cash flow from operations

Extensive Business Reach

- Possess more than 1,000 PETRONAS stations and 760 *Kedai Mesra*
- Wide distribution network to serve various retail, commercial and industrial customers
- Comprehensive marketing channels in all segments

Integrated Value Chain

- Fully integrated operations and distribution networks to provide reliable and uninterrupted supply

Performance-Driven Workforce

- Highly competent employees
- High performance culture inculcated across the organisation

Strong Stakeholder Relationships

- Established and maintain mutual trust with new and existing stakeholders
- Value adding strategic alliances and business partners

Leveraging on Products Innovation and Services

- Established brand name
- Access to R&D to ensure continuous innovation of high quality products
- Capitalise on technology to provide digital solutions

OUR KEY RESOURCES



Access to capital



Superior products as well as differentiated offerings and services



Superior performing assets



Experienced leadership and high-performing employees and culture



Maintained strong relationship with all stakeholders



Established brand and industry specific knowledge

BUSINESS MODEL

Strong Financial Position: For more information, please refer to Chief Financial Officer's Review on page 53 of this Annual Report

Extensive Business Reach: For more information, please refer to Business Review on pages 68 to 81 of this Annual Report

Integrated Value Chain: For more information, please refer to Integrated Value Chain on pages 32 to 33 of this Annual Report

BUSINESS MODEL

HOW WE CREATE VALUE



IMPACT TO STRATEGY

Investors

- Sustainable dividend
- Capital growth on investment

- Volume growth
- Margin maximisation
- Operational excellence

Customers

- Superior products and differentiated offerings
- Responsive organisation to meet customers' needs and expectations
- Security of supply

- Volume growth
- Margin maximisation
- Customer promoter score

Suppliers, Dealers and Business Partners

- Reliable supplies
- Business opportunities
- Timely payment
- Training programmes
- Fair treatment

- Zero HSE
- Volume growth
- Operational excellence

Employees

- Job security
- Competitive remuneration
- Personal development and career progression
- Health and safety assurance

- Zero HSE
- Volume growth
- Margin maximisation
- Zero non-compliance

Government

- Diligent taxpayer
- Conformance to legislation and licensing requirement
- Managing environment impact and waste reduction
- Job creation
- Health and safety assurance

- Zero HSE
- Zero non-compliance
- Volume growth
- Margin maximisation

Communities

- Health and Safety assurance
- Social engagements
- Managing environmental impact
- Philanthropic assistance
- Sponsorship/donation

- Zero HSE
- Zero non-compliance
- Volume growth
- Margin maximisation

Performance-Driven Workforce: For more information, please refer to Workforce Development on pages 87 to 95 of this Annual Report

Strong Stakeholder Relationships: For more information, please refer to Relationships That Help Us Deliver Strategy on pages 58 to 61 of this Annual Report

Leveraging Innovation: For more information, please refer to Winning Innovation on pages 47 to 48 of this Annual Report

> INTEGRATED VALUE CHAIN

PDB'S
VALUE
CHAIN

1

2



SUPPLY

OUR SYSTEM



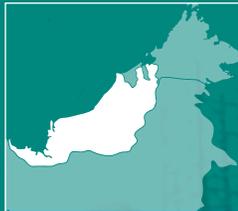
Malaysian Refining
Company Sdn Bhd



PETRONAS Penapisan
(Terengganu) Sdn Bhd



Trans Thai-Malaysia
(Malaysia) Sdn Bhd



Malaysia LNG
Sdn Bhd

IMPORT



- PETRONAS Trading Corporation Sdn Bhd
- PETRONAS Lubricants International Sdn Bhd

3RD PARTY SUPPLY



Location
Exchange



Hospitality
Arrangement



Term Purchase/
Spot Term



PRIMARY DISTRIBUTION



INTEGRATED VALUE CHAIN





TERMINAL

LANGKAWI	● ●
PRAI	●
BAYAN LEPAS	●
LUMUT	●
SUBANG	●
KLIA	●
MELAKA	●
PASIR GUDANG	●
SENAI	●
KUALA TERENGGANU	●
KERTIH	● ●
KUANTAN	●
KUCHING	● ●
TANJUNG MANIS	●
SIBU	●
BINTULU	● ●
MIRI	● ●
LABUAN	●
ASB LABUAN	●
KOTA KINABALU	●
TAWAU	●
SANDAKAN	● ●
SEPANGAR BAY	●
KVDT (DENGKIL)	●

- Aviation Terminal
- Fuel and LPG Terminal
- Fuel Terminal



SECONDARY DISTRIBUTION

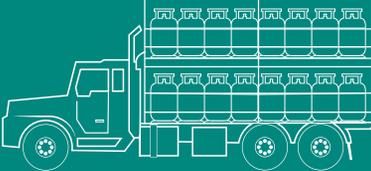


PETRONAS





PETRONAS





CUSTOMER

1

RETAIL

PETRONAS



2

COMMERCIAL



3

LPG



4

LUBRICANT



Section

02

STRATEGIC BUSINESS CONTEXT

Management Discussion & Analysis _____	35	Financial Calendar _____	55
MD/CEO's Statement _____	35	KPI Scorecard _____	56
Operating Environment and Market Outlook _____	39	Relationships That Help Us Deliver	
The Strategy _____	42	Strategy _____	58
• Winning Operations _____	43	Stakeholders _____	59
• Winning More Business _____	45	• Strategic Alliances _____	62
• Winning Innovation _____	47	Material Matters Impacting Our	
• Winning Customer Experience _____	49	Strategy _____	63
Chief Financial Officer's Review _____	52	Understanding Our Risks _____	64

MANAGEMENT DISCUSSION & ANALYSIS

MD/CEO'S STATEMENT

It gives me great
pleasure to report
another record
performance in 2017.



**DATO' MOHD
IBRAHIMNUDDIN
MOHD YUNUS**

*Managing Director/
Chief Executive Officer*





DEAR SHAREHOLDERS OF
PETRONAS DAGANGAN BERHAD



2017 WAS ANOTHER YEAR OF
OUTSTANDING PERFORMANCE. WE
HAVE DEMONSTRATED THAT OUR
COMBINATION OF WINNING FORMULA
AND RELENTLESS *PLAY TO WIN*
PERFORMANCE-DRIVEN CULTURE HAVE
DELIVERED SUSTAINABLE VALUE FOR
OUR SHAREHOLDERS.

I am delighted to share that we have yet again achieved a record-breaking financial performance for PDB. Against the volatility in global crude oil price and challenging business landscape, PDB continued to outperform and demonstrate our ability to maintain a steady growth momentum, increasing our earnings year after year.

Through concerted efforts of our high performing team, we translated our sound strategies to pull together a strong set of operational and financial results. We successfully increased our PBT by 21% through focusing on increasing the efficiency of our assets and alleviating our customers' experiences. The details of our excellent financial performance will be shared by our CFO's Review on page 52.

CHALLENGING PLAYING FIELD

Malaysia recorded an improvement in GDP, which increased by 1.7% to 5.9% in 2017; however, Consumer Sentiment Index remains weak at 79.3, well below the threshold of 100 coupled with the increase in inflation rate from 2.1% in 2016 to 3.7% in 2017, continued to dampen consumer sentiment.

This time last year, I shared about PDB's adaptability to operate in the 'New Normal' market environment where global crude oil prices remained low. Whilst average crude oil prices have increased in 2017, it continued to be volatile throughout the year. These market factors, along with severe megatrend evolutions in transportation, policies and regulations; and digital landscape are threatening to redefine our future. Malaysians are becoming more receptive

towards public transportation following expansion of the LRT and MRT systems in the Klang Valley.

At the same time, they are looking more positively at energy-efficient vehicles and e-commerce business landscape. These megatrends have added to the challenges that have affected the industry. Our entire organisation has been very quick and adept in responding to the challenges.

PLAY TO WIN

As our vision is to be the 'Brand of 1st Choice', we fully recognise that our success heavily depends on gaining and maintaining the trust of our consumers. We *Play to Win* by focusing our efforts and resources on embedding customer-centricity mindset in everything that we do to understand their needs, develop solutions to delight and exceed their expectations.

In addition, we intensely focused on driving operational excellence and striking down cost whilst continuously investing in developing our people.

Retail Business aims to be the 'Most Favoured Retailer' by offering premium fuel and premium non-fuel products coupled with ensuring a consistently superior customer experience.

Commercial Business focused on value-driven growth for all its segments through aggressive sales strategies whilst ensuring cost efficiency and effective inventory management.

LPG Business maximised value and fortified its market leadership by strengthening its distribution channels and providing differentiated services.

MANAGEMENT DISCUSSION & ANALYSIS
MD/CEO'S STATEMENT

During the year, PLMMSB entered into various value-adding strategic alliances and business partnerships. They also strengthened their route-to-market in the Highstreet segment, aspiring to be the domestic lubricant market leader.

All the strategic initiatives implemented have been underpinned by our superior performing assets with prudent HSE and operational excellence.

The prize of *Play to Win* is to become the brand that consumers turn to every time. This is what we mean by the 'Brand of 1st Choice'.

DELIVERING THE WINS

Each of our core businesses continued to focus on winning in their existing markets while creating more business opportunities through growth in all product segments.

During the year under review, Retail Business launched a new Diesel product, called PETRONAS Dynamic Diesel Euro 5 with Pro-Drive, and increased the availability of PETRONAS Primax 97 with Advanced Energy Formula to 700 stations nationwide. It also introduced an extremely successful Mornings@Mesra campaign that sees the *Kedai Mesra* offer locally sourced fresh food to satisfy customers' quick breakfast needs.

In addition, Retail Business transformed an additional 14 *Kedai Mesra* into the new look and feel convenience store concept, and formed new partnerships with Grab Malaysia, Samsung, árooma Café, The Morning After and Pie Face to provide superior customer experience to customers.

Retail Business also embarked on e-commerce journey to widen its market reach and increase sales. Gift card and merchandises are sold through various online platforms such as Lazada, Shopee and 11street.

As part of PDB's early preparation in facing the growing demand of EEV and EV transportations in the future, we continued to add on more ChargeEV facilities. By the end of 2017, we had installed 55 ChargeEV at our PETRONAS stations.

Commercial Business continued to command its market leadership despite operating in a highly competitive business environment. Commercial Business registered volume and margin growth by securing and renewing contracts with new and key customers.

LPG Business recorded its highest ever margin growth via aggressive sales and marketing in the targeted high-density residential areas. LPG Business also created the first-of-its-kind Gas2u Mobile Application in the market, an application that allows customers to order gas cylinders online.

Meanwhile, the Lubricant Business further strengthened its existing customer relationships by winning new contracts from local and international organisations, including a leading European car manufacturing company. In 2017, PLMMSB also successfully secured new contracts with KTMB, Sunway Group and IOI Plantation.

Operational excellence and cost optimisation are vital to ensure we can deliver our winning aspiration. We continued our integrated management of inventory efforts to ensure any exposure on price volatility is minimised. We further intensified our efforts to simplify our system and processes to reduce our operating cost while increasing productivity.

 For more information on *Delivering the Wins*, please refer to our *Winning Operations, Winning More Business, Winning Innovation and Winning Customer Experience* from pages 43 to 51 of this Annual Report

SUSTAINABILITY IN PDB

We place great emphasis on sustainability, which is driven by our keen sense of responsibility to deliver strong financial results while also ensuring we create value and contribute positively to all our stakeholders.

HEALTH AND SAFETY: ALWAYS A PRIORITY

We continue to place utmost emphasis on safety even as we grow in terms of volume and scale. Nothing matters more to us than the safety and well-being of everyone involved in our business, not just our employees but also our contractors, suppliers, distributors, business partners and customers. Targeting zero incident, we ensure our people and stakeholders have the knowledge and tools to carry out their functions safely, and continuously introduce new programmes to further entrench our safety culture in our daily works.

During the year, we launched a PDB Group Behavioural Safety programme, and promoted safety compliance through *Jom Patuh & Tegur* (Let's Comply & Intervene) programme. The number of man-hours spent on safety training was almost double the figure as compared to 2016. Our efforts resulted in an improved performance in almost every safety parameter. While striving to avoid incidents, the high level of risk inherent in our working environment led to one fatality among contractors' staff, which is unacceptable to us.

In addition to corrective measures we had already taken, we will continue to reinforce our contractors' HSE management with enhanced training and capability upskilling to enable them to carry out their functions safely.

MANAGEMENT DISCUSSION & ANALYSIS
MD/CEO'S STATEMENT

**CORPORATE SOCIAL INVESTMENT:
DOING THE RIGHT THING**

We believe that giving back to the community is the right thing to do and in this respect, we have been undertaking a number of long-term programmes that bring significant value to the lives of people and community who have contributed in fuelling our growth. These include the Water for Life initiative under which we work with the Malaysian Nature Society to provide access to clean water supply to affected communities, especially in rural areas.

We conducted educational initiatives such as PETRONAS StreetSmart to nurture a generation of safe and responsible road users. In addition, we continue to organise our flagship Coffee Break Campaign since 1998 to ensure motorists are alert and drive safely during the festive period. This year, we extended the campaign to Kaamatan and Gawai Festivals.

 For more information on our Sustainability in PDB, please refer to Embedding Responsibility from pages 83 to 112 of this Annual Report

FUTURE GAME

Malaysia's economy is expected to grow at a more moderate pace of between 5.0% to 5.5% in 2018, driven by domestic demand and robust exports.

Along with a more bullish economy, we expect demand for products in each of our businesses to increase. The Malaysian Automotive Association projects new car sales in 2018 to grow to 590,000 from 576,6352 in 2017, which will have positive impact to both our Retail and Lubricant businesses. Implementation of infrastructure projects, as well as increased investments in manufacturing plants and machinery to meet growth in export demand, will be a boost to our Commercial Business. Meanwhile, we expect strong demand of LPG from household segment in line with increase in population.

Going forward, we will focus even more on growing in our existing markets while expanding into new ones. We feel encouraged by our successes over the last few years and are now poised to *Play to Win*. While capitalising on a more positive macro-environment, our businesses are committed to push boundaries to achieve operational and commercial excellence. At the same time, we will continue to build upon our strong stakeholder relations, our culture of ethics and unflinching safety mindset to maintain our growth momentum.

ACKNOWLEDGMENTS

I would like to thank various parties who have contributed, in their different ways, to our ongoing journey. They include our shareholders, who have placed their trust in our ability to deliver sound results year after year; our customers, who inspire us to keep innovating to offer the best products and services; and our business partners, who share our values and help us achieve our business objectives. To all these external stakeholders, let me express my appreciation for your continued support.

For and on behalf of PDB's Leadership Team, I would like to express our deepest gratitude to the Board of Directors for their stewardship and commitment to the Group.

To my Leadership Team, I would like to take this opportunity to acknowledge and recognise all of you for your contribution in achieving this record performance. A special note of thanks goes to Puan Puteri Liza Elli Sukma, Encik Zubair Abdul Razak and Ir Azmi Abd Ghani for their contribution during their tenure on the Leadership Team. With their departure, I would like to welcome Cik Norliwati Abd Wahab and Encik Anton Salleh Hashim as our new Leadership Team members.

I feel very fortunate to be surrounded by highly talented leaders who collaborate continuously to keep PDB progressing towards our goals. Ultimately, it is our people who put into motion the plans and strategies that fuel this Company's growth.

To all our employees and our Leadership Team, let me voice my sincere gratitude for your hard work, dedication and commitment to PDB. It is because of you that we have enjoyed many wins to date, and it is because of you, we will continue to *Play to Win* well into the future.

MANAGEMENT DISCUSSION & ANALYSIS

OPERATING ENVIRONMENT AND MARKET OUTLOOK

Climate change is one of the most pressing challenges faced by the world today, and this has united governments in collaboration to manage carbon emissions, with most issuing regulations to protect the environment. Corporations are responding by switching to energy efficient operations and investing in renewable, green energy. It has become increasingly necessary to support the new low-carbon economy not only to meet regulations but also to satisfy our stakeholders' demand for products and services that are environmental-friendly. Another key trend is increasing expectations of consumers to connect with service providers online for quicker and more efficient services. These are among the material matters that we have taken into consideration in developing our sustainability programmes to create greater stakeholder value.

For more information on Material Matters, please refer to Material Matters Impacting Our Strategy on page 63 of this Annual Report



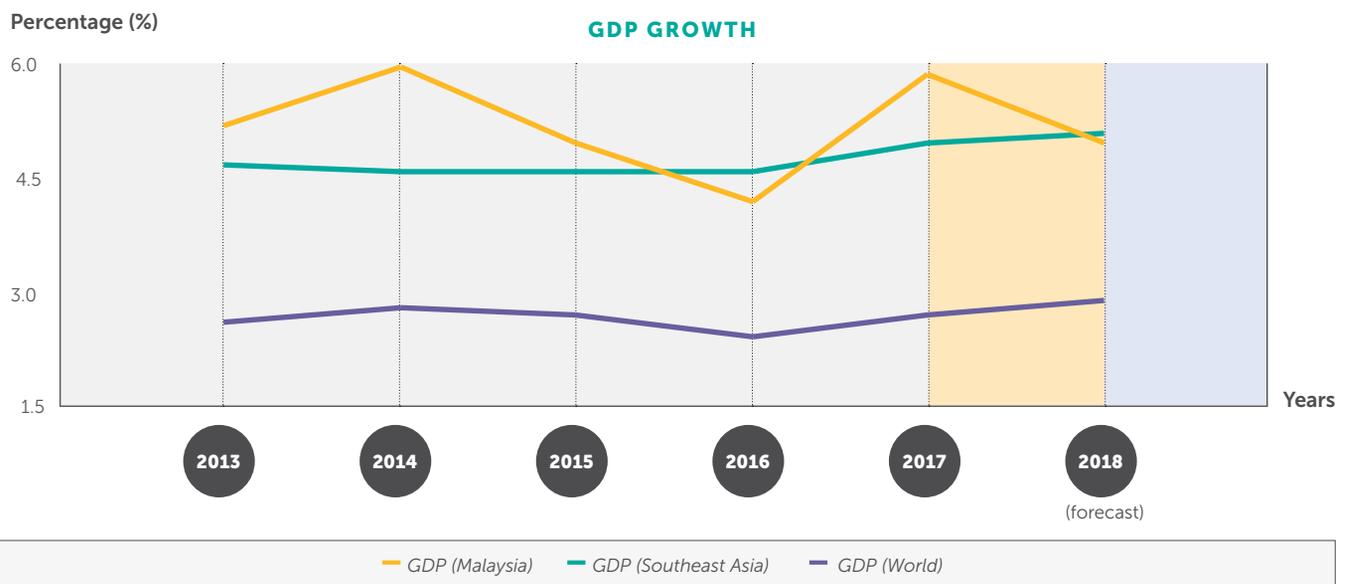
MODERATE ECONOMIC GROWTH AND WEAK CONSUMER SENTIMENT

WHAT HAPPENED

The global economy expanded at 2.7%¹ as compared to 2.4% in 2016, amid a pick-up in manufacturing and trade, rising consumer and business confidence, favourable global financing conditions, and stabilising commodity prices. Growth in Southeast Asia expanded at 5.0% in 2017 as compared to 4.6% in 2016².

In Malaysia, the economy expanded by 5.9% as compared to 4.2% in 2016³. Despite favourable economic growth, consumer sentiment remained weak on the back of anxieties over the rising cost of living. Malaysia recorded an inflation of 3.7% in 2017, higher by 1.6% compared to last year. The Consumer Sentiment Index averaged 79.3 in 2017⁴, which remains below the threshold level of 100.

¹ Source: Global Economic Prospects: A Fragile Recovery, World Bank (June 2017)
² Source: Southeast Asia Economy, Asian Development Bank (Sept 2017)
³ Source: Bank Negara Malaysia (BNM) (Feb 2018)
⁴ Source: Malaysian Institute of Economic Research



THE OUTLOOK

Malaysia's near-term economic outlook remains favourable, reflecting a well-diversified and open economy. Domestic demand is expected to continue to anchor economic growth, supported by continued income growth and a stable labour market, while an improving external environment will contribute positively to demand for Malaysia's tradable goods and services. We expect global GDP growth to be stronger, and Malaysia's economic growth to moderate at 5.0% to 5.5% in the coming year.

MANAGEMENT DISCUSSION & ANALYSIS

CONTINUED VOLATILITY IN GLOBAL OIL PRICES

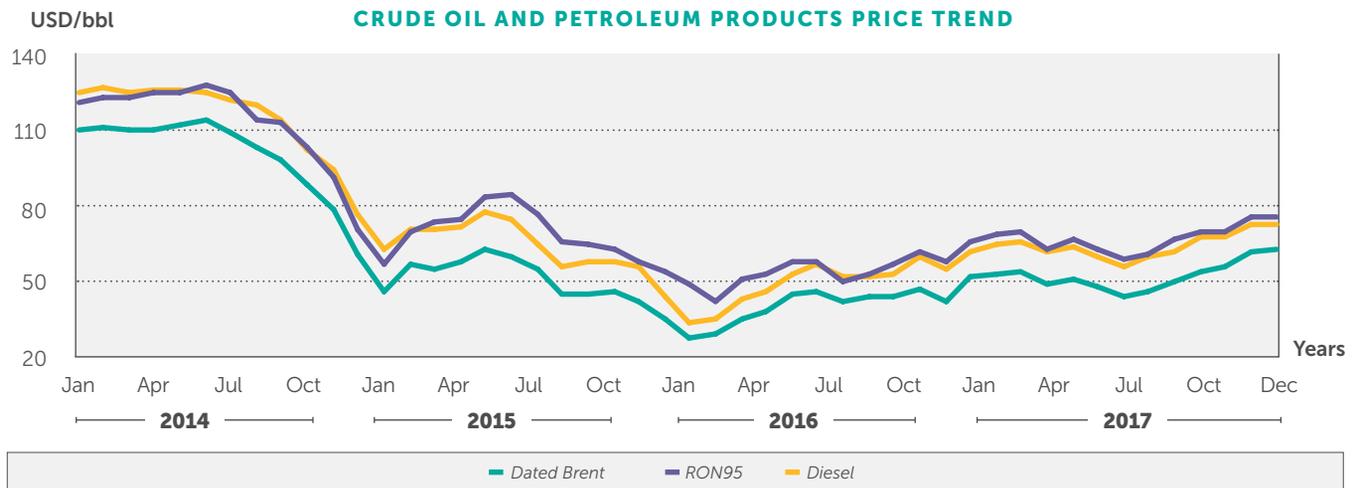


WHAT HAPPENED

Global crude benchmark Dated Brent was volatile during the year. Dated Brent dropped to its lowest of USD44.28/bbl in June, but rebounded to its highest of USD66.54/bbl in December. It averaged at USD54.28/bbl for the year, which was 24% higher than the 2016 average of USD43.78/bbl¹.

The oil price recovered slightly, benefitting from the agreements between OPEC and non-OPEC countries to cut production. However, high global inventory levels constrained gains.

¹ Source: Platts Market Data



THE OUTLOOK

Crude oil price is expected to continue to be volatile in the short-term, and is at risk of staying lower for longer, impacting our business profitability. The current deal for OPEC and non-OPEC production cuts have been rolled over with an extension till end 2018. However, U.S. shale oil producers are showing signs of revving backup which could challenge the efficacy of the production cuts. Oil demand is expected to grow on the back of modestly rising prices which will support economic growth.

INCREASING PROMINENCE IN CLIMATE REGULATION



WHAT HAPPENED

World leaders at the United Nations Framework Convention on Climate Change ratified the Paris Agreement in 2016, which provides the foundation for strengthening global response and mitigation to climate change threats. Under the Paris Agreement, Malaysia has committed to reduce its Greenhouse Gas emissions by 45% by 2030 in relation to the nation's 2005 GDP.

THE OUTLOOK

Global response to climate change and efforts to tackle environmental pollution will continue to set the pace and direction for innovative solutions to meet the push towards low carbon economies. Examples include the rapid adoption of EEV and EV in transportation sectors across major Western economies, China and Japan; and the push for more energy-efficient technologies that reduce operational carbon footprints.

While industry consensus indicates that fossil fuels will still play a significant role and remain relevant in meeting the world's growing energy demands in the near future, we continue to focus on sustainable growth and efficiency improvements, while ensuring we meet our regulatory requirements. There are ongoing efforts and various strategic initiatives to leverage on technology and innovation to gain first-mover advantage to capitalise on the opportunity while tackling climate change threats.

For more information on Environment and Climate Change, please refer to pages 100 to 103 of this Annual Report

MANAGEMENT DISCUSSION & ANALYSIS

MEGATRENDS IN TRANSPORTATION



WHAT HAPPENED

Rail transportation improved significantly. An estimated 1.1 million people travel by trains and buses in Kuala Lumpur every day¹. With the completion of the MRT Sungai Buloh-Kajang Line and the upcoming MRT 2 (Sungai Buloh-Serdang-Putrajaya) and MRT 3, as well as the new LRT 3 (Bandar Utama-Klang), train travel's market share of public transport is expected to increase from 60% to 70%.

Ride hailing is also gaining momentum in Malaysia. E-hailing services such as Uber and Grab are now legal in Malaysia. The services offer lower cost transportation alternatives and better customer access.

¹ Source: Land Public Transport Commission

THE OUTLOOK

It is anticipated that fewer people will drive, or drive shorter distances than they usually do. Megatrends in transportation will happen when a majority of Malaysians shift from driving their own vehicles to using public transport or ride hailing. The disruption will have enormous implications across the transportation and oil industry. This is definitely a major concern for us as a downstream petroleum products marketer. Key to remaining relevant is to co-exist within the disruptive forces and provide complementary services that bring value to customers.

DIGITAL LANDSCAPE



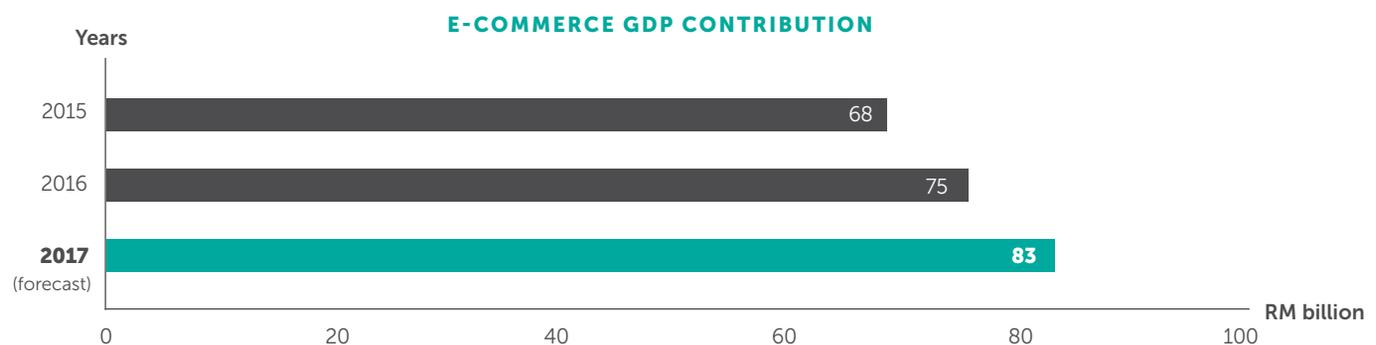
WHAT HAPPENED

Malaysia boldly strides toward embracing the 4th Industrial Revolution along with the rest of the world. The country launched the world's first Digital Free Trade Zone which will provide physical and virtual zones to facilitate businesses to capitalise on the convergence of exponential growth of the internet economy and e-commerce activities.

In 2015, the e-commerce contribution to GDP was 5.9%, or RM68 billion, before increasing to 6.1%, or RM75 billion in 2016¹. The revolution brings changes in connecting with our customers. The number of internet users in Malaysia is increasing. As at 2016, 8 out of 10 Malaysians are internet users². All industries in which PDB participates are increasingly impacted to some extent by the adoption of digital solutions.

¹ Source: Ministry of International Trade and Industry

² Source: Malaysian Communications And Multimedia Commission (Nov 2017)



Source: Malaysia's National e-commerce Strategic Roadmap

THE OUTLOOK

Under Malaysia's National e-commerce Strategic Roadmap headed by the Ministry of International Trade and Industry, the Government aims for e-commerce to contribute to 6.4% to the GDP by 2020, an increase of 37% from RM83 billion in 2017 to RM114 billion in 2020. As we *Play to Win* and stay ahead of the game, we will embrace digital solutions to meet our customers' demands whilst increasing our efficiencies in our operations across our businesses.



Macro-economic environment



Environmental sustainability



Social relationship sustainability

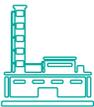


Delivering value-based growth

MANAGEMENT DISCUSSION & ANALYSIS

THE STRATEGY

In response to emerging trends as well as an increasingly challenging and volatile operating environment in Malaysia, we are focusing on three strategic areas to catalyse PDB's transformation into the 'Brand of 1st Choice'. They are: To deliver an excellent customer experience; to drive cost and operational efficiencies; and to develop our people to support our ambitions. With these in mind, our business divisions outlined their own action plans that enabled them to *Play to Win*. Their initiatives and achievements during the year under review are outlined below.

	WHAT WINNING MEANS	HOW WE PLAYED TO WIN	OUR WINS IN 2017
 PETRONAS RETAIL	Delight our customers through excellent services and superior products	<ul style="list-style-type: none"> Enhanced our product offerings with more stations offering PETRONAS Primax 97 with Advanced Energy Formula and new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive Improved customer experience by upskilling each layer of our station operators (from <i>Krew</i> PETRONAS to Territory Managers) and ensure consistent customer experience Rolled out <i>Kedai Mesra</i> reimage to reflect the new look and feel of our revamped convenience store concept 	<ul style="list-style-type: none"> Launched new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive, now available at 60 stations PETRONAS Primax 97 with Advanced Energy Formula now available at more than 700 stations Increase in fuel revenue of 18% and non-fuel revenue of 4% 3% increase in <i>Kedai Mesra</i> transactions across 124 stations Transformed 12 more <i>Kedai Mesra</i> Installed ChargeEV facilities at 55 stations
	Leverage on technology to go the extra mile	<ul style="list-style-type: none"> Penetrated online market through digital presence Revamped the loyalty point structure for <i>Kad Mesra</i> Reinforced strategic alliances through new partnerships 	<ul style="list-style-type: none"> Marked increase in fuel sales to <i>Kad Mesra</i> Grab holders, as compared to individual motorists RM5.8 million in revenue earned from e-commerce Launched contactless mobile payment collaboration with Samsung at all PETRONAS stations nationwide
 COMMERCIAL	A strengthened market position	<ul style="list-style-type: none"> Ensured supply optimisation and continuity Aggressive sales strategies 	<ul style="list-style-type: none"> Sales volume grew by 2% Margin improved by 11%
	Sustain value driven growth	<ul style="list-style-type: none"> Maximised value creation through efficient inventory and cost management 	
 LPG	Fortify market leadership	<ul style="list-style-type: none"> Offered competitive incentive schemes for dealers More aggressive sales and marketing in our core markets Targeted strategic, high-density residential areas Expanded our customer base by venturing into various digital platforms 	<ul style="list-style-type: none"> Achieved highest ever margin growth at 21% Strengthened our market position in various regions Appointed 5 new LPG dealers into our network Secured more than 20 new commercial and industrial customers Successfully launched Gas2u Mobile Application nationwide, the first cooking gas ordering application in Malaysia
	Drive margin sustaining growth	<ul style="list-style-type: none"> Differentiated and customised offerings 	
 LUBRICANT	Winning key customers	<ul style="list-style-type: none"> Entered into value-adding strategic alliances and business partnerships Developed winning solutions that enabled our partners to grow 	<ul style="list-style-type: none"> Extension of Honda first fill contract Signed new Honda after sales contract Extended Equipment On Loan contract with PROTON Signed new contracts with KTMB and started supplying to Sunway Group Renewed contract with IOI Plantation
	Growing in high value segment	<ul style="list-style-type: none"> Revamped our Highstreet route-to-market through business process re-engineering, upskilling our business partners and enhanced brand visibility 	<ul style="list-style-type: none"> 8% increase in sales volume
	Grow business in Thailand	<ul style="list-style-type: none"> Enhanced our distributor management system with a solid business plan Offered initiatives to customise offerings according to the market's needs 	<ul style="list-style-type: none"> Sales volume and revenue increased by 8% and 13%, respectively

MANAGEMENT DISCUSSION & ANALYSIS



WINNING OPERATIONS



OPERATIONAL AND COST EFFICIENCIES ARE KEY TO THE SUSTAINABLE GROWTH OF ANY BUSINESS. AS WE SEEK TO *PLAY TO WIN*, IT IS EVEN MORE CRITICAL FOR US TO INCREASE OUR PRODUCTIVITY AT MINIMAL COST. EACH BUSINESS UNDERTAKES ITS OWN EFFICIENCY PROGRAMMES, SUPPORTED BY SUPPLY AND DISTRIBUTION DIVISION'S EFFORTS TO SECURE PRODUCTS AND DEVELOP THE MOST COST-EFFECTIVE LOGISTICS NETWORK FOR THEIR STORAGE AND TRANSPORT.



MOHD SHOBRI ABU BAKAR
Head, Supply and Distribution Division

HIGHLIGHTS



- 1. *Process Simplification and Enhancement*
- 2. *Operational Enhancements*
- 3. *Cost Optimisation*



50% reduction in data entry through digitalisation



Competitive product cost through renegotiation of contracts



Expansion of Digital DN to include LPG terminals



Enhanced refuelling system at KLIA

During the year under review, SDD launched a new overriding principle guiding its actions, 3ZeroDotCom, which stands for: 1) zero fatality, zero LOPC, zero fire and explosion (3Zero); 2) delivery on time (Dot); and 3) cost management (Com).

Although many initiatives have been implemented over the years to enhance PDB's safety performance, distribution and cost management efficiencies, in 2017 these efforts were intensified. Campaigns to enhance workplace ergonomics and safe behaviours were organised in addition

to safety drills and other programmes that have become integral to our safety culture. In improving our on-time delivery, SDD focused on enhancing the reliability and efficiency of tankers and vessels used to transport our products on land and sea,

MANAGEMENT DISCUSSION & ANALYSIS

as well as the administrative processes supporting all logistics operations. In addition, our support function continued to contribute towards creating a leaner, more cost-effective organisation by restructuring a number of internal processes, enhancing our use of digital technology, collaborating with other oil companies, and negotiating better terms with our suppliers and vendors.

 For more information on Health and Safety, please refer to *Embedding Responsibility* on pages 96 to 99 of this Annual Report

PROCESS SIMPLIFICATION AND ENHANCEMENT

The following initiatives were launched during the year to simplify our processes hence improving our service delivery.

- **Digitised Dossiers** – We have digitised the documentation of vessel operations thus minimising the use of paper, reducing our administrative efforts as well as operating expenditure.
- **Simplified Data Entry for Monthly Lifting Summary** – The new process eliminates duplication in monitoring vessel movements and primary cost elements, cutting down data entry by 50% and reducing the man-hours taken to prepare reports.
- **Report Automation** – SDD, with assistance from the Business Technology Department and PETRONAS IT, has developed new SAP reports that enabled us to compare the Average Moving Price of products against the petroleum product prices thus facilitating efforts to reduce our cost to serve. It also enhanced our Master Lifting Summary to ease the monitoring of our primary costs.

OPERATIONAL ENHANCEMENTS

Various enhancements were made to our customer service delivery.

- **Refuelling System Upgrade at KLIA** – in June, an Aviation Refuelling System was commissioned to enhance our service quality. It comprises the following:
 - **GPS** – to ease tracking
 - **World Flight Info** – to provide real-time data feed and updates
 - **Wireless Connectivity** – to improve flexibility and operations
 - **Auto Meter Reading** – to eliminate errors and discrepancies
 - **Multi-platform** – to provide information as well as to enable the communication online on different types of devices – smartphones, desktops, tablets and others
 - **Back Office Integration** – to expedite invoice processing and collection
- **Digital DN** – Progressing into Phase 2 of our Advanced Terminal Operations Management, this year we embarked on rolling out the Digital DN system at our LPG terminals. The system enables auto refund, auto goods issuance and improved record management. It reduces the need for document storage space at PDB and our customers' premises, while also minimising operational expenditure and operating time given the elimination of physical DN issuances. We progressed into Phase 2 of our Advanced Terminal Automation Management and completed the implementation of Digital DN system to include our LPG terminals.

COST OPTIMISATION

We continued with efforts to integrate our inventory management while reducing costs in our primary and secondary distribution networks through better contracts with vessel owners, the setting up of a new bunker barge hub in Melaka, and collaborating with other oil companies.

- **Integrated Inventory Management** – As part of efforts to deliver products to customers at competitive costs, SDD has continued to execute seamlessly the Integrated Inventory Management initiative to minimise exposure to price volatilities. The initiative started with daily oil price analysis and monitoring of variance between our product cost and market price. PDB was successfully implemented with pre-determined mitigation actions such as more frequent smaller parcel product deliveries to the fuel terminals and managing product intake from refineries for better pricing strategy.
- **Competitive Product Cost** – To reduce our primary distribution costs, SDD continued to renegotiate our time charter hire rates with vessel owners. During the year under review, it has led to savings of approximately RM12.9 million in LPG vessel freight costs. Our support function has also created a barge hub in Sungai Udang Port, Melaka, for all our time charter vessels to bunker.
- **Business Collaboration** – SDD collaborated with other downstream petroleum products industry on throughput arrangements to enhance asset utilisation and improve efficiency thus resulting in reduced costs of terminal operations.

HOW WE MEASURE OPERATIONAL EXCELLENCE

- Average Inventory Days
- Overall Equipment Efficiency
- On Time Performance
- Time Charter Utilisation
- Zero HSE Incident
- Zero Non-compliance

 For more information on Average Inventory Days, please refer to *KPI Scorecard* on pages 56 to 57 of this Annual Report

 For more information on Zero HSE Incident and Zero Non-Compliance, please refer to *Safety Performance* on page 99 of this Annual Report

MANAGEMENT DISCUSSION & ANALYSIS



WINNING MORE BUSINESS

PLAYING TO WIN IN A HIGHLY COMPETITIVE ENVIRONMENT THAT WE ARE INVOLVED IN INVOLVES SUSTAINING INDUSTRY LEADERSHIP, ENSURING CUSTOMER CENTRICITY IN ALL OUR PRODUCTS AND SERVICES, DRIVING INNOVATION AND BEING PROACTIVE IN IDENTIFYING AND PREPARING FOR INDUSTRY DISRUPTORS. OUR OBJECTIVES ARE TO MAINTAIN OUR POLE POSITION IN MARKETS WHERE WE ARE ALREADY THE UNDISPUTED LEADER, AND TO GROW OUR BUSINESS IN OTHER AREAS THROUGH COMMERCIAL AND OPERATIONAL EXCELLENCE.

HIGHLIGHTS

INITIATIVES

1. *Enhancing Sales*
2. *Growing Partnerships*
3. *Marketing and Promotion*

Revenue
surged by
24%

New business partnerships and strategic alliances across all businesses

Over **20 nationwide campaigns** were held to **promote our fuel and *Kedai Mesra* merchandise**

Driving sales through **online platforms**

ChargEV facilities installed at **55 PETRONAS stations**

ENHANCING SALES

We have been able to increase sales by offering superior products and executing aggressive sales strategies as well as reaching out to our customers through a wider network.

- **Superior Products** - During the year under review, a new product, PETRONAS Dynamic Diesel Euro 5 with Pro-Drive which promises a smoother drive and superior fuel economy, was launched. This product is now available at 60 stations with planned expansion to 115 stations nationwide. We also expanded the availability of PETRONAS Primax 97 with Advanced Energy Formula which offers superior acceleration at over 700 stations.
- **Innovative Offerings** – We cater to motorists with electric vehicles by offering ChargEV charging facilities. As

of end of 2017, we installed the facilities at 55 stations nationwide, with a target of 100 sites in total by end of 2018.

- **Aggressive Sales Strategy** – Both our Commercial and LPG teams have been pursuing sales more aggressively. LPG Business has been offering competitive packages to dealers while focusing on high density areas and strengthening its distribution channel to create more direct routes to customers.
- **Digital Sales** – We launched the Gas2u Mobile Application, enabling our customers to order their gas cylinders online. This is the first-of-its-kind application in the country. We also launched the e-commerce platform on popular portals such as Lazada, Shopee and 11street, where customers can purchase our merchandise as well as fuel and gift cards online.

GROWING PARTNERSHIPS

We believe in establishing strategic partnerships that bring mutual benefits to PDB as well as the parties with whom we collaborate. As we continue to widen our network of partners, we have been able to provide increased and improved services, and expanded our customer base accordingly.

- Retail Business continued to grow its portfolio of partnerships to include Grab Malaysia, Samsung, a’rooma Café, The Morning After and Pie Face to provide convenience as well as diverse products and services to customers.
- PLMMSB enhanced its alliance with its current partners namely PROTON, PERODUA and Honda, successfully added new partners such as KTMB and IOI Plantation.
- The Commercial Business grew the number of clients it serves with its wide range of products.

MANAGEMENT DISCUSSION & ANALYSIS

MARKETING AND PROMOTION

Various campaigns, promotions and marketing events were organised throughout the year to attract, reward and incentivise our customers. Some of the highlights are described below:

FUEL

• **Formula One™ World Constructors' Championship**

(16 January - 15 March)

During the three-month campaign, *Kad Mesra* members who purchased fuels were entitled to buy 'The Triple' World Champion T-shirt at 50% discount. Limited edition PETRONAS gift cards were also up for grabs.

• **This is Madness**

(17 April – 30 May)

Kad Mesra members received 5x more Mesra Points for PETRONAS Primax 97 with Advanced Energy Formula and 3x more points for PETRONAS Primax 95 with Advanced Energy Formula purchases.



• **Fuel Frenzy**

(9 June – 31 July)

For every RM30 fuel purchase, *Kad Mesra* members stood to win a year's worth of fuel.



• **PETRONAS - Lazada Great Giveaways**

(20 October – 20 November)

Customers received Lazada vouchers offering discounts with every RM50 of PETRONAS Primax fuel purchases.



KEDAI MESRA IN-STORE MONTHLY PROMOTIONS

Throughout the year, *Kedai Mesra* offered attractive promotions enabling customers to enjoy various discounts and offers. These are, among others, purchasing products at only RM1, a combination of three items at RM5 and 50% discount on second purchases.

MERCHANDISE

• **Kuala Lumpur 2017 Games**

(Launched in July)

In collaboration with Telekom Malaysia Berhad, Kuala Lumpur 2017 Games merchandise was made available for sale at over 300 participating PETRONAS stations nationwide to commemorate the 29th SEA Games and 9th ASEAN Para Games held in August and September, respectively.

• **PETRONAS Motorsport's PRIDE X PERFORMANCE Collection**

(September - December)

PETRONAS Motorsport's PRIDE X PERFORMANCE Collection was made available at 250 participating PETRONAS stations to add to the last edition of the Malaysian Grand Prix excitement.

OTHERS

• **Mesra Points**

Kad Mesra members were entitled to earn more points during festivity periods, such as 8x points on cumulative RM118 fuel spent during Chinese New Year.

• **Samsung Pay@PETRONAS Instagram Contest**

By captioning Instagram posts depicting use of Samsung Pay at PETRONAS stations, customers stood to win Samsung smartphones and other attractive prizes.



• **PETRONAS Syntium Deals**

In conjunction with Chinese New Year, Hari Raya and the Formula One™ PETRONAS Malaysia Grand Prix, special deals were offered for selling PETRONAS Syntium range across retail stations, PETRONAS workshops, authorised service dealers and in Highstreet channels.



HOW WE MEASURE BUSINESS PERFORMANCE

• Volume Growth

• Margin Maximisation

• Financial Targets

For more information on Volume Growth and Margin Maximisation, please refer to Chief Financial Officer's Review on page 53 of this Annual Report

For more information on Financial Targets please refer to KPI Scorecard on pages 56 to 57 of this Annual Report

MANAGEMENT DISCUSSION & ANALYSIS



WINNING INNOVATION

INNOVATION SETS COMPANIES A DIFFERENTIATING EDGE IN ANY COMPETITIVE MARKET. AT PDB, IT GUIDES OUR PRODUCT DEVELOPMENT AND SERVICE DELIVERY, ENSURING WE KEEP DELIGHTING OUR CUSTOMERS WITH HIGH-PERFORMING FLUID TECHNOLOGY SOLUTIONS AND EFFICIENT SERVICE THAT SURPASSES THEIR EXPECTATIONS.

HIGHLIGHTS



- 1. *Entering the Digital Space*
- 2. *Supporting the Green Agenda*
- 3. *Inspiring Innovation in our People*



Launch of new **PETRONAS Dynamic Diesel Euro 5 with Pro-Drive**



Agreement signed with **Malaysian Green Technology Corporation** and **TNBES** which enabled us to tap into the green economy



Bayan Lepas Aviation Terminal team wins Gold at International Convention on Quality Control Circles in Manila through driving process innovation

At PDB, we have the benefit of research and development carried out by our parent company, PETRONAS, as well as by its strategic technology partners. Collaboration over the years with Mercedes AMG PETRONAS Formula One™ Team, as well as with leading truck manufacturer IVECO, have led to a series of superior fuels and lubricant that we are able to share with Malaysian motorists.

With the Mercedes AMG PETRONAS Formula One™ Team, PETRONAS has developed an entire range of PETRONAS Primax fuels – PETRONAS Primax 97 with Advanced Energy Formula and PETRONAS Primax 95 with Advanced Energy Formula – as well as a superior engine oil, PETRONAS Syntium. The combination of the Formula One™ partnership and PETRONAS Syntium has contributed to four consecutive Formula One™ wins on the racing track from 2014.

THIS YEAR, WE INTRODUCED NEW VERSION OF DIESEL - PETRONAS DYNAMIC DIESEL EURO 5 WITH PRO-DRIVE, NOW AVAILABLE AT 60 STATIONS, WITH A VIEW TO INCREASING THE NUMBER TO 115 STATIONS.

Complementing this range, we offer new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive, developed with IVECO whose trucks have had a run of wins at the Dakar Rally. Running on this smoother and superior fuel economy standard, IVECO emerged champion in the truck category on the most demanding off-road endurance event in 2016.

This new fuel is also available at 60 stations to date, with a view to increase the number to 115 stations. The new generation sulphur-free Diesel promises superior fuel economy through a combination of higher quality base Diesel with unique chemical composition. It has a higher cetane number than other Diesel fuels, which helps to improve combustion resulting in smoother drivability, cleaner emission and lower noise.

MANAGEMENT DISCUSSION & ANALYSIS



ENTERING THE DIGITAL SPACE

We launched several innovations that tap into the potential of digital technology in enhancing customer experience as well as increasing our sales. Other than the launch of the Gas2u Mobile Application, we also introduced contactless mobile payment via Samsung Pay at *Kedai Mesra*, and expanded sales of our merchandise to online platforms. In addition, we created greater efficiencies in our systems and processes via a number of initiatives such as digitising dossiers for vessel operations, commissioning an Aviation Refuelling System at KLIA, and issuing Digital DN at our terminals.

SUPPORTING THE GREEN AGENDA

We support transport innovation and the National Electric Mobility Blueprint by making available charging facilities for electric vehicles to Malaysian motorists. Since 2016, we have partnered with Malaysian Green Technology Corporation, an agency under the Ministry of Energy, Green Technology and Water of Malaysia, to install *ChargEV* facilities at our stations. By the end of 2017, we installed the *ChargEV* facilities at a total of 55 PETRONAS stations.

We signed another agreement with Malaysian Green Technology Corporation and TNBES to install *ChargEV* facilities at a total of 100 stations by end of 2018. These stations will be installed with solar Photovoltaic panels, making the energy used to power the *ChargEV* fully renewable and completely carbon-free.

On top of our collaborations to install more *ChargEV* facilities, our SDD team has also piloted Green Initiatives with several vessel owners in view of improving vessel fuel consumption which in turn leads to lower delivery costs. These initiatives underline our commitment to become a greener organisation and contribute towards the Government's vision of achieving a 45% reduction in greenhouse emissions by the year of 2030.

INSPIRING INNOVATION IN OUR PEOPLE

PDB encourages innovation at all levels across the organisation through platforms such as the ICC. Teams from different divisions submit innovative ideas to improve the way we work and those with merit are entered into the PETRONAS Group DCIC and even the ICQCC.

During the year, we emerged as the overall DCIC champion under the ICC category for an initiative to halve the time taken to test LPG cylinders for leaks from one hour to 30 minutes. We also won the Silver Award for a tool that decreases the time taken to fix and install conveyer rivet chains which ultimately reduced downtime. Meanwhile, a team from the Bayan Lepas Aviation Terminal won a Gold Award at the ICQC for ICQCC in Manila for an Oil Inceptor System that improves the recovery of waste oil.



WINNING CUSTOMER EXPERIENCE

THE PRIORITY WE ACCORD TO CUSTOMERS IS REFLECTED IN COMMERCIAL EXCELLENCE BEING INTEGRAL TO OUR WINNING FORMULA. COMMERCIAL EXCELLENCE IS A DRIVING FORCE IN ALL OUR CORE BUSINESSES, SPURRING THEM NOT ONLY TO OFFER PRODUCTS OF UNPARALLELED QUALITY BUT ALSO TO MAINTAIN A CONSISTENTLY HIGH LEVEL OF SERVICE DELIVERY.

HIGHLIGHTS



1. Digitalisation for Customer Convenience
2. Going the Extra Mile at PETRONAS Stations
3. Rewarding Loyal Customers
4. Building Our Complementary Services
5. Customer Engagement and Appreciation
6. Co-create with Our Business Partners



Transformation of PETRONAS stations



Elevating customer convenience through online offerings



New Kad Mesra loyalty point structure offering the highest value in the industry



Enhancing food solutions offered at our stations in collaboration with new partners: **a'rooma Café, The Morning After and Pie Face**

We have a wide range of customers – from individual to commercial as well as industrial. We strive to cement relationships with all of them by adding value to their business and motoring experience. This year, much focus was placed on getting closer to our customers through digitalisation. Various initiatives were implemented to connect with them in a manner that is fulfilling, easy, quick and convenient.

DIGITALISATION FOR CUSTOMER CONVENIENCE

We embarked on various online and digital initiatives to make it easier for our customers to purchase our products.

In 2017, we entered into various online platforms through which Malaysians can purchase prepaid fuel solutions as well as exciting merchandise such as the PETRONAS Motorsport's PRIDE X PERFORMANCE

Collection launched in conjunction with the last edition of the Malaysian Grand Prix, and the limited edition Kuala Lumpur 2017 Games collection. The initiative allows consumers to make purchases wherever they are, whenever they want. Our customers were receptive to the initiative and this was clearly demonstrated during Lazada's 11.11 Online Revolution campaign in November, when PETRONAS gift cards emerged as the highest selling product.

Earlier in July, PDB was the first in the industry to introduce contactless mobile payment via Samsung Pay at PETRONAS stations nationwide. The initiative enables simplified and speedy transactions at PETRONAS stations, affording customers greater payment convenience and supporting the nation's transformation into a cashless society.

Meanwhile, we made it easier for customers to order Gas PETRONAS cylinders with the launch of the Gas2u Mobile Application that can be used nationwide. This is the first-of-its-kind application to be made available in Malaysia, and is gaining traction and popularity among domestic consumers who appreciate the convenience of being able to replace an empty tank at their fingertips.

The rollout of Digital DN is also creating greater convenience for our *Rakan Niaga* and Commercial customers, as it is now available on the e-service portal enabling customers to perform the acceptance function via tablet or PC. Rejected DNs are captured in the system with auto notification to relevant parties.

MANAGEMENT DISCUSSION & ANALYSIS

GOING THE EXTRA MILE AT PETRONAS STATIONS

Aiming to be the 'Most Favoured Retailer', our objectives are to provide and enhance experience at our stations by satisfying customers with professional service delivery and 'extras' that make their day. We have, for example, installed more Multi-Product Dispensers at our stations to cater to customers' fuel preference while increasing our vehicle turnover and promoting speedy transactions.

In terms of service, we translated feedback obtained from customers into value propositions to improve our PETRONAS' station look and feel. Our transformation focuses on five key elements, namely:

- Ensuring a cleaner, brighter and safer ambience;
- Enhancing customer convenience;
- Improving customer turnaround time;
- Providing hassle-free service; and
- Delivering quality fuel.

We are also upskilling and empowering each layer of our station operators (from *Krew PETRONAS* to Territory Managers) to ensure consistent customer experience. As at year end, more than 400 PETRONAS stations have delivered according to these set of improvement standards, translating into higher fuel sales and convenience in delivering store transactions.

At the same time, we continue to transform the overall ambience at *Kedai Mesra* with a more modern and sleeker design accompanied by improved offerings. The new-concept *Kedai Mesra* made its debut in 2016 at PETRONAS Station Sri Hartamas. As at end of 2017, 14 outlets have gone through reimagining, sporting a premium and fresh appearance, with items offered customised to cater to the store's specific customer profile.

In March, we launched Mornings@Mesra to provide breakfast on-the-go for early



commuters. Available at over 450 PETRONAS stations, the breakfast combos are affordably priced and cater to local tastebuds. Since its launch, food service sales have increased by more than 20%.

We also regularly introduced special items at *Kedai Mesra* enabling customers to show their support and be part of exciting motorsports and other national events. This year, in conjunction with the last Malaysian Grand Prix, we made available the PETRONAS Motorsport's PRIDE X PERFORMANCE Collection at 250 stations nationwide between September and December. Earlier in the year, about 300 of the *Kedai Mesra* offered Kuala Lumpur 2017 Games limited edition merchandise commemorating the 29th SEA Games and 9th ASEAN Para Games.

MANAGEMENT DISCUSSION & ANALYSIS

REWARDING LOYAL CUSTOMERS

We believe in rewarding our customers to show our appreciation for their support. In November, we introduced a new loyalty point structure for *Kad Mesra*, whereby members earn three Mesra points for every litre of any fuel purchased. This is the highest value loyalty point structure in the retail fuel market. Our simple registration process for customers to sign up to the programme made available through SMS witnessed increasing new registrations as well as card replacements.

Additionally, we introduced a new loyalty programme in collaboration with Grab Malaysia for their drivers. Through this programme launched in March, GrabCar drivers with *Kad Mesra* Grab get to enjoy savings on fuel and lubricant, as well as *Kedai Mesra* promotions, with attractive reward points for purchases made at PETRONAS stations nationwide.

Lubricant customers, too, now have a loyalty programme just for them. GiftMe, launched in August, enables trade customers to sign up and track their redemption points online. It attracted more than 2,700 sign-ups within three months.

Our loyalty programmes contribute significantly in building our brand equity, inspiring valued customers to choose us every time they fuel up or even for general on-the-go consumer merchandise. We will continue to focus on these programmes as they pave the way for us to become the 'Brand of 1st Choice'.

BUILDING OUR COMPLEMENTARY SERVICES

We continue to enhance our complementary business segment at *Kedai Mesra* with better food solutions, banking facilities, courier services and other conveniences such as carwash and hypermart facilities. During the year under review, we entered into new partnerships with a'rooma Café, which opened in-store cafés at PETRONAS Station Presint 16 Putrajaya and PETRONAS Station Penchala Link Arah KL; The Morning After, which opened a cafe at PETRONAS Station KESAS Arah Timur; and Pie Face, which is now open at PETRONAS Station Cyberjaya.

As at end of 2017, we had around 100 F&B outlets complementing the services provided by *Kedai Mesra*, as well as more than 1,000 ATM terminals, nearly 1,000 e-Pay terminals and more than 280 Touch 'n Go facilities, transforming our *Kedai Mesra* from being merely convenience stores to one-stop lifestyle hubs.

CUSTOMER ENGAGEMENT AND APPRECIATION

Our LPG team engages regularly with commercial and industrial customers, providing more personalised services inclusive of training to ensure the safe use of LPG. Experts are available to provide technical advice, as well as to conduct product and safety handling inspections upon request.

Commercial dealers are recognised and rewarded at our Commercial Dealer Appreciation and Award Ceremony. This year, the event in May was attended by 118 Commercial dealers from all over Malaysia. We also regularly engage with our Commercial dealers and customers through various engagement and briefing sessions to keep them abreast on our latest products and events.

**CO-CREATE WITH OUR BUSINESS PARTNERS**

At PLMMSB, we treat our customers as partners and work closely with them to develop winning products. We have collaborated with PROTON Holdings Berhad on a range of lubricant specifically for its latest products.

HOW WE MEASURE CUSTOMER EXPERIENCE

Net Promoter Score



For more information on Net Promoter Score, please refer to Sustainability Initiatives on page 110 of this Annual Report

MANAGEMENT DISCUSSION & ANALYSIS

CHIEF FINANCIAL OFFICER'S REVIEW

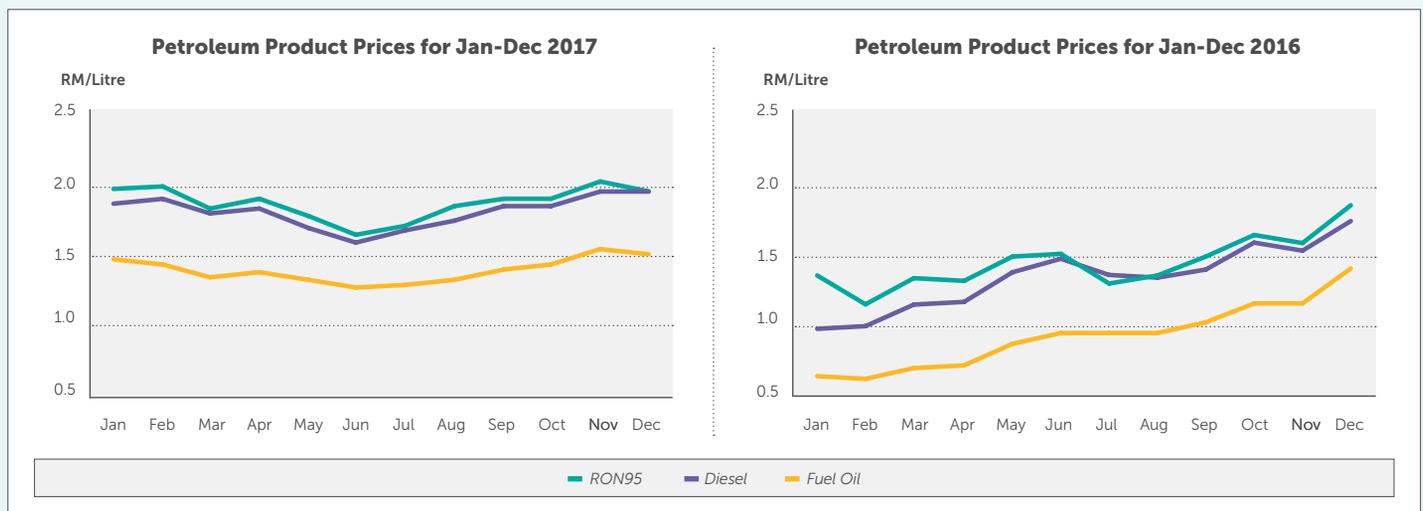


PDB CONTINUED OUR WINNING STREAK BY ACHIEVING ANOTHER RECORD PROFIT IN 2017. THIS WAS OBTAINED IN AN ENVIRONMENT WHERE PETROLEUM PRODUCT PRICES CONTINUED TO BE VOLATILE AND RETAIL MARKET EXPERIENCING SLOWDOWN. THIS ACCOMPLISHMENT IS A CLEAR TESTAMENT OF OUR SUCCESSFUL EFFORTS IN MANAGING OUR INVENTORY AS WELL AS OUR CONTINUED COST OPTIMISATION INITIATIVES.

NORLIWATI ABDUL WAHAB
Chief Financial Officer

During the year, revenue rose by 24% from RM21,534.6 million to RM26,737.9 million while overall volume decreased by only 1% amidst challenging market and intense competition. Gross profit increased by RM258.6 million from RM2,071.6 million to RM2,330.2 million and accordingly profit before tax increased by RM247.5 million to RM1,437.9 million. Along with inventory management, the improved performance also reflects our cost optimisation initiatives undertaken along our value chain which included renegotiation of time charter hire rates with vessel owners and enhancement of asset utilisation.

In addition, as part of our portfolio review exercise to ensure that all our business portfolios are resilient and are creating value to us, the Group completed the divestment of its subsidiaries in Philippines – PEPI and Duta as well as in Vietnam – TLLCL. This resulted in an overall gain on disposal to PDB Group of RM430.8 million and an overall Group PAT of RM1,545.0 million, an increase of 63% from 2016.



MANAGEMENT DISCUSSION & ANALYSIS

SEGMENTAL ANALYSIS

RETAIL SEGMENT

Retail Segment continued to be the highest revenue contributor to the Group, achieving RM13,855.2 million for the year, up 17% from 2016 on the back of higher average selling prices. This was offset by lower sales volume in line with market slowdown which affected all industry players. Despite lower volume, gross profit grew by 15%, following an increase in petroleum product prices trend and effective inventory management which minimised the impact of price volatility.

The higher gross profit was negated by higher operating expenditure by 2% resulting in an overall retail segment's operating profit of RM838.3 million. The increase in operating expenditure was brought about by the transformation activities conducted to enhance customers' experience as well as the numerous promotional campaigns undertaken during the year.

RM million	Retail Segment	
	FY2017	FY2016
Revenue	13,855.2	11,869.2
Operating profit	838.3	660.8

COMMERCIAL SEGMENT

During the year, Commercial Segment's revenue soared by 33% from RM9,643.1 million to RM12,863.1 million following volume growth in Diesel, Jet A-1, Bitumen and bulk LPG as well as due to higher average selling prices. Volume of Jet A-1 grew in line with increased flight frequencies and from new contracts secured whilst increased volume from Diesel and bulk LPG were mainly contributed by higher customer demand.

Operating profit rose by 8% contributed by improved margins from the volume growth and effective management of inventory. This was partially negated by increase in transportation costs in tandem with the higher sales volume.

RM million	Commercial Segment	
	FY2017	FY2016
Revenue	12,863.1	9,643.1
Operating profit	572.1	531.9

FINANCIAL POSITION

TOTAL ASSETS

The Group's total assets grew by 4% from RM9,364.9 million to RM9,748.2 million as at 31 December 2017 mainly due to an increase in cash and cash equivalents and offset by decrease in property, plant and equipment. Cash and cash equivalents rose by RM926.1 million whilst property, plant and equipment reduced by RM422.0 million as a result of depreciation and amortisation charges during the year of RM363.2 million and disposal of subsidiaries' property, plant and equipment of RM98.6 million.



TOTAL LIABILITIES

Total liabilities decreased by 8% from RM4,028.4 million to RM3,707.6 million following lower trade and other payables. The Group has minimal borrowings and as at 31 December 2017, our borrowings further reduced following the divestment of the subsidiaries.



CASH FLOW

The Group has strong cash balance, which has increased by 38% from RM2,431.6 million to RM3,357.7 million. This was attributable to healthy cash flow from operations of RM1,118.7 million in tandem with the Group's increase in profits. In addition, cash generated from investing activities grew by RM703.3 million mainly contributed by proceeds received from subsidiaries' disposal and higher interest income received from improved management of cash. During the year, the Group incurred a higher cash outflow from financing activities which reflects the higher dividend paid out to our shareholders of RM774.9 million.

MANAGEMENT DISCUSSION & ANALYSIS

DIVIDEND

PDB adopts a dividend policy of 50% of the Company's PAT. However, the dividend payout will be approved by the Board after considering various factors such as the Company's affordability, future capital requirements, projected cash flow and other factors.

For FY2017, the Company declared four interim and one special dividend of 75.0 sen and 22.0 sen per ordinary share, respectively. This amounts to 97.0 sen per ordinary share, the highest dividend payout to shareholders since 2012.

Consequently, this represents a dividend payout ratio of 78% and a total dividend declared for the year of RM963.7 million.

MITIGATING KEY FINANCIAL RISKS

The Group is exposed to various financial risks arising from the normal course of business. The most pertinent to our operations are discussed below.

CREDIT RISKS

We manage credit risk by assessing the credit-worthiness of all potential customers prior to entering into new contracts and we conduct regular credit reviews of existing customers. The assessments are conducted in accordance with PETRONAS Credit Risk Framework and Guidelines.

 For more information on PETRONAS Credit Risk Framework and Guidelines, please refer to the SORMIC on page 146 of this Annual Report

TAX RISKS

Tax risks are managed by adopting PETRONAS Corporate Financial Policy which contains guidelines on tax management and by consulting with PETRONAS' Group Tax Division to monitor, perform tax planning and to ensure full compliance with statutory requirements.

 For more information on PETRONAS Corporate Financial Policy, please refer to the SORMIC on page 144 of this Annual Report

FINANCIAL CALENDAR <

2017

FEBRUARY

21 February

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

MARCH

1 March

Announcement of the audited financial statements for the financial year ended 31 December 2016

16 March

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

20 March

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

APRIL

19 April

35th Annual General Meeting

MAY

18 May

Announcement of the unaudited consolidated results for the 1st quarter ended 31 March 2017

JUNE

16 June

Date of payment of the interim dividend for the 1st quarter ended 31 March 2017

AUGUST

21 August

Announcement of the unaudited consolidated results for the 2nd quarter ended 30 June 2017

SEPTEMBER

19 September

Date of payment of the interim dividend for the 2nd quarter ended 30 June 2017

NOVEMBER

10 November

Announcement of the unaudited consolidated results for the 3rd quarter ended 30 September 2017

DECEMBER

8 December

Date of payment of the interim dividend for the 3rd quarter ended 30 September 2017

2018

FEBRUARY

26 February

Announcement of the unaudited consolidated results for the 4th quarter ended 31 December 2017

MARCH

27 March

Date of payment of the interim dividend for the 4th quarter ended 31 December 2017

27 March

Date of Notice of 36th Annual General Meeting and date of issuance of FY2017 Annual Report

APRIL

25 April

36th Annual General Meeting

> KPI SCORECARD

In order for PDB to win, we need to establish leadership in each of our businesses. Our businesses have outlined strategic objectives and towards this end, work to improve our performance of key indicators every year. Our scorecard sets out the Group's overall performance which covers the business, financial and non-financial goals. The non-financial goals in PDB include the elements of HSE, talent development, corporate governance and Corporate Social Investments. The performance of these non-financial goals are elaborated in two separate sections in this report called Embedding Responsibility and Framework of Trust.



- Largest distribution of network and facilities strategically located across Malaysia
- Committed to improve asset integrity whilst ensuring superior product delivery

- Comprehensive management of risk supported by solid internal control and governance
- Continuous inventory optimisation and increasing supply and distribution efficiency

- Internalising PETRONAS Shared Values and Cultural Belief

- Nurturing competent workforce through strategic learning, leadership, technical knowledge and capabilities

- Committed to serve customers and various industries through offerings of value-adding differentiated products and services
- Responsive organisation whilst leveraging on customer feedback to enhance customer experience and improve performance

INDICATORS	AIMS	ACHIEVEMENTS
HSE		
HSE Parameters	Zero HSE incident	For more information on HSE Performance, please refer to page 112 of this Annual Report
FINANCIAL		
Profit After Tax	<ul style="list-style-type: none"> • To maximise value creation • To consistently deliver high returns to shareholders 	PAT (RM Mil) 1,545.0 2016 946.5 2017 1,545.0
Return on Average Capital Employed	To increase the Company's efficiency in generating profits from available capital base	ROACE (%) 27.0 2016 18.1 2017 27.0
OPERATIONAL EXCELLENCE		
Total Volume	To grow sales volume while maximising value	Total volume (Mil Litre) 14,997.4 2016 15,278.4 2017 14,997.4
Average Inventory Days	To minimise exposure to product price volatility	Average inventory days (Day) 4.3 2016 4.2 2017 4.3
TALENT MANAGEMENT		
Ratio of Ready Top Talent to Critical Positions	Increase talent pool for Top Talent and Potential Leaders, to ensure continuous pipeline of leaders	Ratio of Ready Top Talents to Critical Positions 2.2:1 2016 2.8:1 2017 2.2:1
Critical Position Succession Planning	To complete succession planning for all critical positions	Critical Position Succession Planning (%) 100 2016 100 2017 100

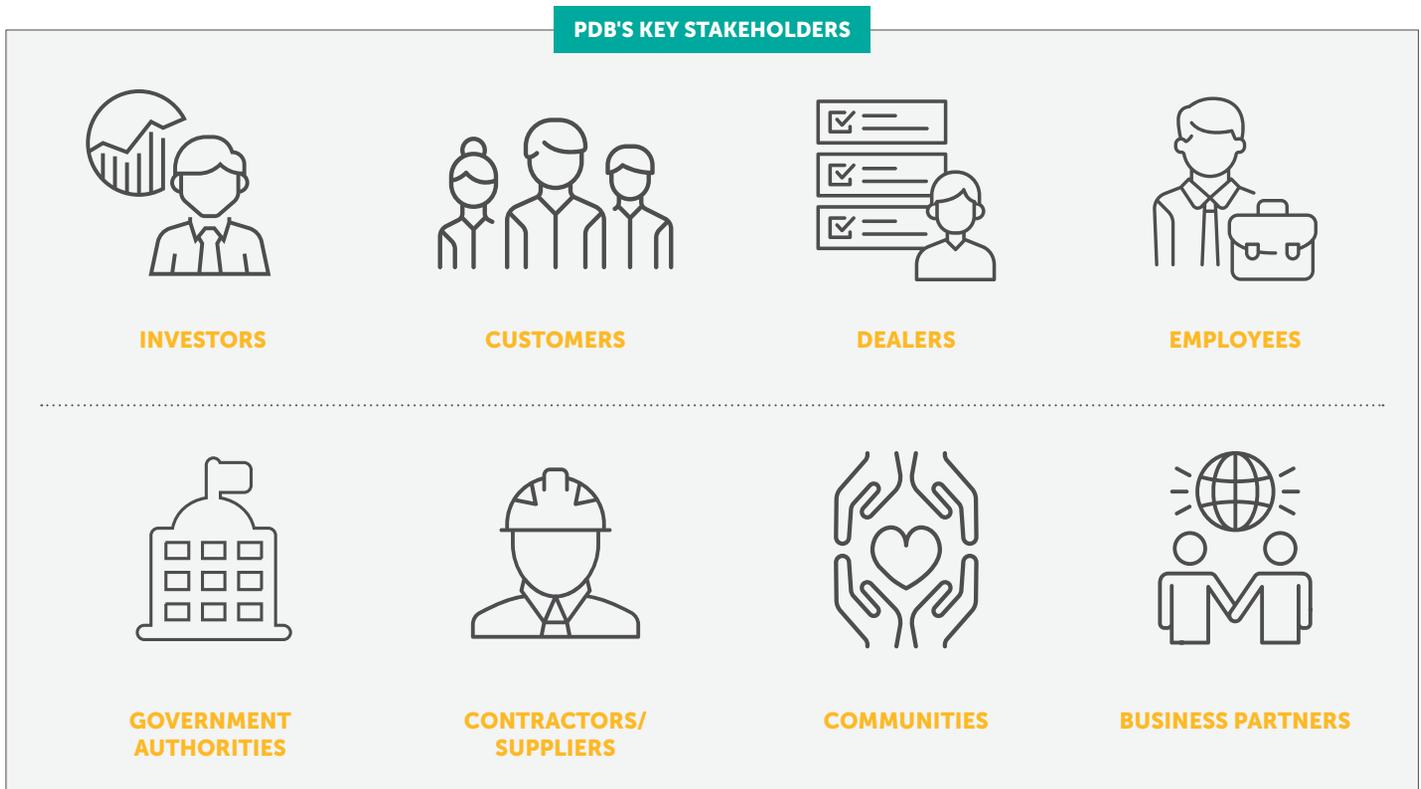
> RELATIONSHIPS THAT HELP US DELIVER STRATEGY

AS THE LEADING COMPANY IN THE DOWNSTREAM PETROLEUM PRODUCTS INDUSTRY, WE HAVE A LARGE AND VARIED GROUP OF STAKEHOLDERS, EACH WITH THEIR OWN INTEREST AND INFLUENCE IN OUR OPERATIONS. WE SEEK TO UNDERSTAND THEIR EXPECTATIONS TO STRENGTHEN OUR RELATIONSHIPS AND CREATE THE LEVEL OF TRUST TO CREATE VALUE FOR BOTH PARTIES.

Through our various engagement sessions, we obtain feedback from our stakeholders and communicate with them on the key messages to help them understand our strategies and objectives, and provide insight into how we intend to create value for them. Some of our engagements comprise training sessions, for example with our dealers and contractors. These help them to improve their productivity and safety.

In addition to face-to-face interaction, we also communicate with our customers via PETRONAS Mesralink, PETRONAS Mesra Loyalty Programme and our corporate website at www.mymesra.com.my. We also provide key information in our Annual Report, which include sustainability statements that highlight our progress in meeting stakeholders' expectations in areas important to them.

Details on communication platforms and topics of interest are illustrated in the following page.



RELATIONSHIPS THAT HELP US DELIVER STRATEGY

STAKEHOLDERS

We incorporated stakeholder's feedback into our materiality review process.

For more information on Materiality Assessment, please refer to Embedding Responsibility on page 85 of this Annual Report



INVESTORS

CUSTOMERS

DEALERS

How We Engage

- Roadshows and corporate conferences
- Group and one-on-one meetings
- Site visits
- Quarterly results announcement
- Annual General Meeting
- Corporate website - www.mymesra.com.my
- Reports - Annual and Sustainability reports

- Customers feedback system
- Market/satisfaction survey
- Corporate website - www.mymesra.com.my
- Social media - Facebook, Instagram and Twitter
- Customer Service Line - PETRONAS Mesralink at 1-300-88-8181
- Events, dialogues, roadshows and engagement sessions

- Dealer conferences, events, dialogue, roadshows, engagement sessions
- Training sessions
- Corporate website - www.mymesra.com.my
- Hotline - PETRONAS Mesralink at 1-300-88-8181

Areas of Interest

- Business growth and challenges
- Consistent and continuous return on investment
- Liquidity and gearing
- Business sustainability
- Governance and business ethics
- CSI
- Health and safety
- Environment and climate change
- Human rights
- Supply chain policy

- Competitive pricing
- Product quality and availability
- Customer support
- Governance and business ethics
- Health and safety
- Environment

- Business opportunity
- Governance and business ethics
- Workforce development
- Health and safety
- Human rights
- Environment
- Customer experience

How We Share The Values We Created



Dividend paid to investors
RM774.9 million
 2016: RM596.1 million



Volume supplied to the Nation
RM14,997.4 million litre
 2016: RM15,278.4 million litre

RELATIONSHIPS THAT HELP US DELIVER STRATEGY
STAKEHOLDERS



EMPLOYEES

GOVERNMENT AUTHORITIES

How We Engage

- Town halls and engagement sessions
- Employee surveys
- Leadership messages through video, newsletters, intranet and e-mail

- Formal and informal meetings
- Constructive feedback sessions
- Operational site visits
- Consultation on regulatory matters
- Dialogue and sharing sessions
- Reports-Annual & Sustainability and various performance reports

Areas of Interest

- Employment creation
- Health and safety
- Workforce development
- Welfare and benefits
- Career progression
- Improved diversity, flexibility and inclusiveness
- Human rights
- Capability and career development
- Grievance mechanism
- Work life balance

- Determining direction, policy formation and oil and gas project planning
- Taxation
- Health and safety
- Governance and business ethics
- Environment and climate change
- CSI
- Workforce development
- Regulatory compliance

How We Share The Values We Created



Salaries paid to employees
RM205.4 million
2016: RM214.2 million



Tax paid to Government
RM319.5 million
2016: RM296.0 million

RELATIONSHIPS THAT HELP US DELIVER STRATEGY
STAKEHOLDERS



CONTRACTORS/SUPPLIERS

- One-to-one meetings
- Contractors forum
- Sharing/training sessions

- Certainty of payment
- Competitive pricing
- Health and safety
- Governance and business ethics
- Environment
- Supply chain policy

COMMUNITIES

- Community engagement and outreach programmes
- Corporate website - www.mymesra.com.my

- Ensuring compliance with legislation
- CSI
- Health and safety
- Environment and climate change
- Human rights
- Local content and employment opportunities

BUSINESS PARTNERS

- One-to-one meetings
- Partners Day
- Corporate presentations
- Reports - Annual & Sustainability and programme report

- 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



Payment to Contractors/Suppliers/Business Partners

RM24,966.8 million

2016: RM19,179.0 million

RELATIONSHIPS THAT HELP US DELIVER STRATEGY
STAKEHOLDERS

STRATEGIC ALLIANCES

Over the years, we have established a number of alliances that are key to sustaining our business performance and achieving our strategies.



BUSINESS PARTNERS

CUSTOMERS

BANKING FACILITIES

GOVERNMENT AUTHORITIES

MATERIAL MATTERS IMPACTING OUR STRATEGY <

MATERIAL MATTERS

MATERIAL ASPECTS	WHY IT IS IMPORTANT TO US AND OUR STAKEHOLDERS	HOW WE CREATE VALUE	HOW WE LINK BETWEEN MATERIAL ASPECTS AND VALUE CREATION CAPITALS
 <p>Financial Performance</p> <p>Reference pages: 52 to 54</p>	<p>Shareholders' value and financial performance of PDB are important in strengthening the shareholders' confidence. By having strong business fundamentals and healthy cash flow, PDB has proven to be a growing Company for its shareholders to invest. Strong market capitalisation is an evidence of a successful Company.</p>	<p>Consistently deliver high returns whilst ensuring business sustainability</p>	
 <p>Corporate Governance and Business Ethics</p> <p>Reference pages: 114 to 149</p>	<p>Good CG and sound risk management enable PDB to operate efficiently, effectively and responsibly by providing clarity on acceptable and expected standards of behaviour.</p>	<p>Good CG helps us build trust among our stakeholders by creating greater transparency in our actions. It is becoming a key consideration among investors, hence builds PDB's reputation within the Investment Community.</p>	
 <p>Workforce Development</p> <p>Reference pages: 87 to 95</p>	<p>We value the knowledge, ideas and skills that our diverse and dynamic workforce bring into the organisation that contribute to our success', enabling us to maintain our competitive advantage.</p>	<p>We provide equal opportunities for our people to pursue their professional and personal growth to further develop and enhance their expertise, skills and experiences in order to enjoy challenging and fulfilling careers in line with their aspirations.</p>	
 <p>Health and Safety</p> <p>Reference pages: 96 to 99</p>	<p>By preventing incidents, we protect our people and assets, ensure business continuity, comply with regulations and preserve a sound reputation.</p>	<p>Good HSE performance ensures our people, dealers, contractors and suppliers go home safe every day, while our customers and communities are protected.</p>	
 <p>Environment and Climate Change</p> <p>Reference pages: 100 to 103</p>	<p>By operating sustainably and responsibly, we protect the surrounding environment and communities where we operate in, as well as protect our reputation.</p> <p>In addition, driven by the threat of climate change, there is increasing demand from stakeholders for renewable energy and energy-efficient products.</p>	<p>Minimising our environmental impact, using natural resources responsibly and reducing our carbon footprint to help meet the needs of current and future generations.</p>	
 <p>Human Rights</p> <p>Reference pages: 104 to 105</p>	<p>We respect the rights of people across our value chain to protect their interests and promote well-being, which is fundamental to ensuring the sustainability of PDB's business.</p>	<p>By upholding the rights of our employees, communities and other stakeholders, we strengthen our relationship and create trust in PDB.</p>	
 <p>Corporate Social Investment</p> <p>Reference pages: 106 to 109</p>	<p>CSI enables us to fulfil our responsibility to give back to communities that have fuelled our business growth. Through volunteerism, our employees feel a deeper sense of satisfaction working with PDB.</p>	<p>We contribute to the well-being of the communities residing in areas which we operate through education, conserving and improving the surrounding environment as well as meaningful on-ground community programmes.</p>	
 <p>Customer Experience</p> <p>Reference pages: 110 to 111</p>	<p>Through excellent customer experience, consumers will recognise the value added by our products and services, which will make us closer to achieving our vision of becoming the 'Brand of 1st Choice'.</p>	<p>Outstanding products and services enhance our customers' lives, providing them with greater satisfaction in their driving experience, while enabling them to carry out on-the-go purchases or even errands more efficiently.</p>	

> UNDERSTANDING OUR RISKS

OUR KEY RISKS

In order to achieve our strategies, we need to understand our risks. PDB undertakes a risk profiling and assessment through a structured process, adopting the PETRONAS ERM Framework, which ensures a comprehensive and consistent approach in assessing and analysing risks faced by the Company.

 For more information on PETRONAS ERM Framework, please refer to SORMIC on pages 140 to 141 of this Annual Report

The Company has identified the key risks as described below:

Risk Categories	 HSE RISK	 TECHNOLOGY RISK	 MARKET RISK
Key Risks	Major HSE incidents due to ineffective management of process and occupational safety	Frequent disruption of IT system impacting the Company's business operations and reputation	Adverse changes in market environment impacting business performance
Mitigations	<ul style="list-style-type: none"> Strengthen HSE processes and behaviours among employees and contractors; Operationalise capability development programmes for employees and contractors; and Conduct asset refresh and preventive maintenance 	<ul style="list-style-type: none"> System disaster recovery plans are in place; and Conduct regular maintenance to minimise system interruptions 	<ul style="list-style-type: none"> Integrated inventory management to minimise exposure of price volatility <p> For more information on Integrated Inventory Management, please refer to Winning Operations on pages 43 to 44 of this Annual Report</p>
Implication	<p>Occurrence of the risks may hinder PDB from achieving its strategic objectives to be the 'Brand of 1st Choice' and as a result, eroding its value and returns to its stakeholders.</p>		



STRATEGIC OBJECTIVES

1

MOST FAVOURED RETAILER

2

VALUE-DRIVEN GROWTH IN COMMERCIAL MARKET

3

MAXIMISE VALUE AND FORTIFY LPG MARKET LEADERSHIP

4

DOMESTIC LUBRICANT MARKET LEADERSHIP AND GROWTH IN SELECTIVE REGIONAL MARKETS

Section

03

BUSINESS REVIEW

Products and Services	66
Retail	68
Commercial	73
LPG	76
Lubricant	79

> PRODUCTS AND SERVICES

FUEL

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



NON-FUEL

- Kedai Mesra
- QSR
- Food Solutions
- Banking Facilities
- Hypermarkets
- Terminal Services
- Courier Services
- Car Wash
- Other Convenience Offerings



CARDS

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



For more information on Retail Business, please refer to Business Review on pages 68 to 72 of this Annual Report

1 RETAIL



We continuously deliver a winning combination of superior fuel products and diverse non-fuel products and services at PETRONAS stations.

DIESEL



JET A-1



BITUMEN



FUEL OIL



GASOLINE



PETROLEUM COKE



KEROSENE



SULPHUR



For more information on Commercial Business, please refer to Business Review on pages 73 to 75 of this Annual Report

2 COMMERCIAL



We offer a wide range of quality petroleum products marketed to various industrial and commercial customers.

PRODUCTS AND SERVICES

3

LPG



We are Malaysia's No. 1 Cooking Gas and Industrial LPG with largest supply and distribution network.

HOUSEHOLD

12kg
Cylinders



14kg
Cylinders



COMMERCIAL/ INDUSTRIAL

50kg
Cylinders



For more information on LPG Business, please refer to Business Review on pages 76 to 78 of this Annual Report

4

LUBRICANT



Our range of premium lubricant is backed by intense R&D on Fluid Technology Solutions ensuring the engines work longer efficiently.

KEY STRATEGIC BRANDS



- PETRONAS Syntium
- PETRONAS Urania
- PETRONAS Sprinta with Ultra Flex™

PASSENGER CAR MOTOR OILS



MOTORCYCLE OILS (4T, 2T AND SCOOTER)



COMMERCIAL VEHICLE LUBRICANTS



AUTOMOTIVE FUNCTIONAL FLUIDS



INDUSTRIAL AND MARINE LUBRICANTS



FULLY BRANDED OUTLETS



For more information on Lubricant Business, please refer to Business Review on pages 79 to 81 of this Annual Report

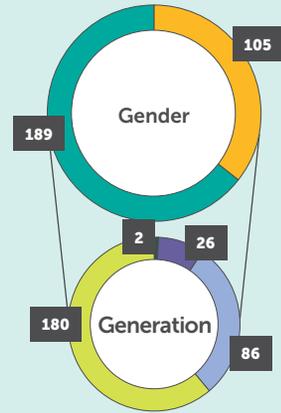
RETAIL



NUMBER OF EMPLOYEES: 294

OUR RETAIL BUSINESS OFFERS FUEL AND NON-FUEL PRODUCTS AND SERVICES TO CONSUMERS AT ITS NETWORK OF MORE THAN 1,000 PETRONAS STATIONS AND 760 KEDAI MESRA ACROSS THE COUNTRY.

Its fuel portfolio boasts a range of premium products developed in partnership with the Mercedes AMG PETRONAS Formula One™ team. This is complemented by the non-fuel segment, comprising on-the-go consumer products, food solutions and other merchandise tailored to local preferences. In addition, Retail Business forms strategic alliances to deliver convenience via QSR, banking, courier and other services under what it calls its Complementary Business. Through these partnerships, it has transformed *Kedai Mesra* into a one-stop convenience centre to meet customers' dining, shopping and other needs. More recently, Retail Business has ventured into e-commerce, establishing and expanding its online presence. Supporting its business, Retail Business rewards loyal customers through the PETRONAS Mesra Loyalty Programme.



KEY HIGHLIGHTS



- Launched new **PETRONAS DYNAMIC DIESEL EURO 5 WITH PRO-DRIVE** - now available at **60 STATIONS NATIONWIDE**
- Expanded availability of **PETRONAS PRIMAX 97 WITH ADVANCED ENERGY FORMULA** at more than **700 PETRONAS STATIONS** nationwide



Revamped **KAD MESRA STRUCTURE**, resulting in more than **5% GROWTH** in number of active members



Entered **E-COMMERCE** market through launch of Mesra e-Shop on

- **LAZADA**
- **SHOPEE**
- **11STREET**



Reinforced strategic alliances through new partnerships with **SAMSUNG, GRAB** and food solution providers such as **A'ROOMA CAFÉ** and **THE MORNING AFTER**



- Entered into tripartite partnership with **MALAYSIAN GREEN TECHNOLOGY CORPORATION** and **TNBES** in catalysing Green Economy Initiative
- Expanded availability of **ChargEV** facilities at **55 STATIONS**



IN 2016, WHEN WE INTRODUCED OUR COMMERCIAL EXCELLENCE PROGRAMME, WE REALIGNED OUR FOCUS TO 'PLAY TO WIN' BY UPLIFTING CUSTOMER EXPERIENCE. SUBSEQUENTLY IN 2017, WE CONTINUED TO WORK WITH AN UNRELENTING DESIRE TO WIN AND NOT COMPROMISE ON DELIVERY. WE FURTHER ENTRENCHED THIS MINDSET INTERNALLY WHILE ENSURING OUR PARTNERS SHARE THE SAME IDEALS

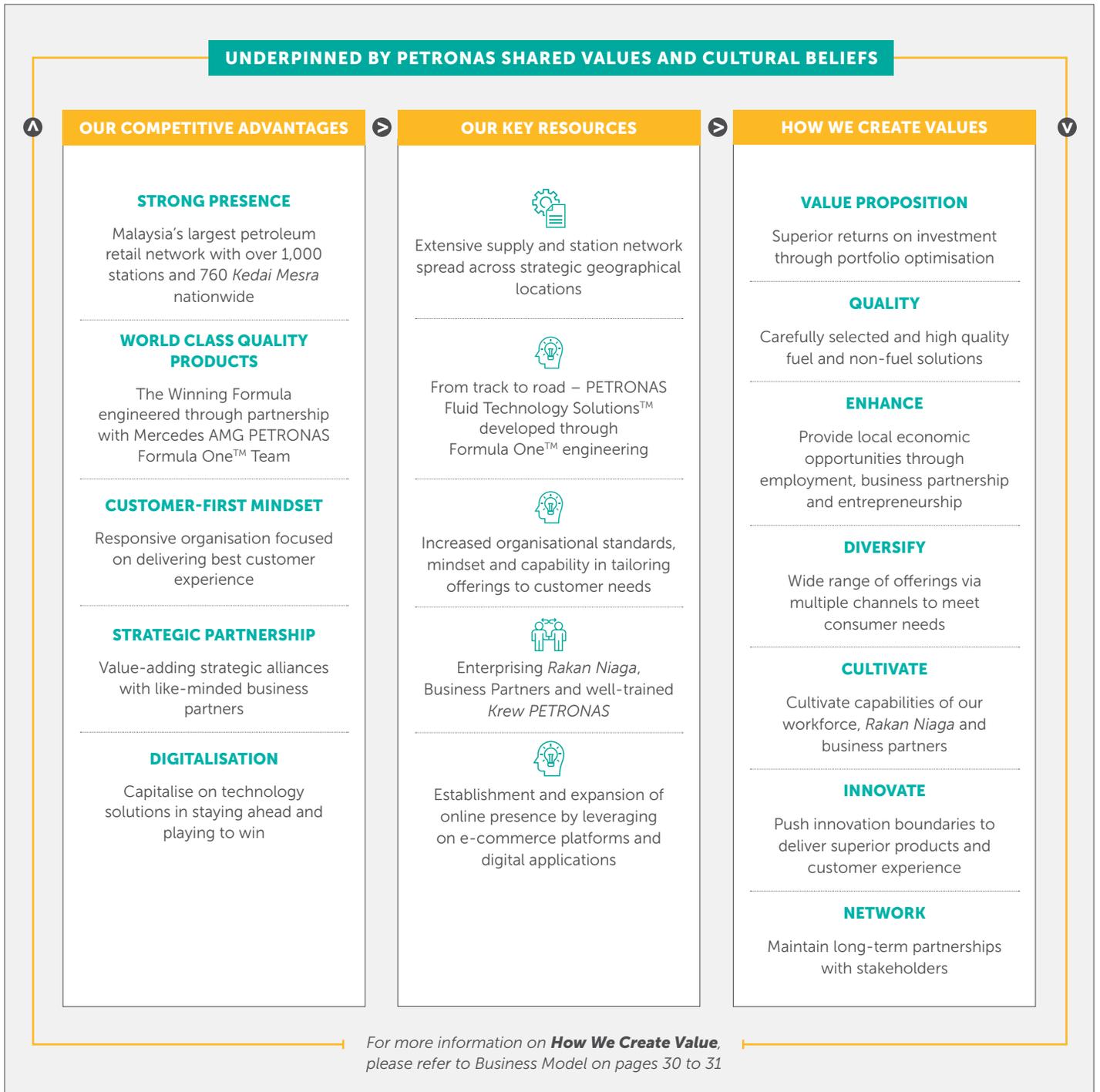
AADRIN AZLY
Head, Retail Business Division

REVENUE



BUSINESS MODEL

Retail Business manages PETRONAS stations via two categories of dealerships, namely Company-Owned, Dealer-Operated and Dealer-Owned, Dealer-Operated. In both instances, the range of fuel products offered has been developed by PETRONAS in collaboration with our technology partners, whilst non-fuel products at the *Kedai Mesra* are sourced by the operators from a list of PDB-approved vendors. All PETRONAS stations are operated by our *Rakan Niaga* who are appointed through a stringent selection process and are provided continuous training to ensure a high level of professionalism and commitment in delivering a superior customer experience.



RETAIL

HOW WE PLAY TO WIN

As the public 'face' of PETRONAS, our Retail Business is driven to appeal to Malaysians and to ensure PETRONAS stations are the stations of choice by offering premium fuel and non-fuel products that are relevant to the demographics of each station, and service of the highest quality. We aim to achieve this by understanding our customer profile at each station and ensuring a high level of professionalism among our operators.

PERFORMANCE REVIEW

Despite market de-growth affecting all industry players, we maintained our position through various Commercial Excellence initiatives focused on aggressive marketing and promotional activities as well as delivering superior customer experience. In terms of products, we increased the number of stations offering PETRONAS Primax 97 with Advanced Energy Formula, and also launched new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive. A newly enhanced *Kad Mesra* loyalty point structure reinforces our customer relationship and contributes towards our aim of becoming the 'Brand of 1st Choice'. Further improving customer experience, we rolled out a station transformation programme that utilises customer feedback to elevate our service delivery. We also embarked on our e-commerce journey and have been rewarded by a wider reach in sales of our gift and fuel cards as well as exclusive and limited edition merchandise.

 For more information on our new Superior Fuel, please refer to Winning Innovation on page 47 of this Annual Report

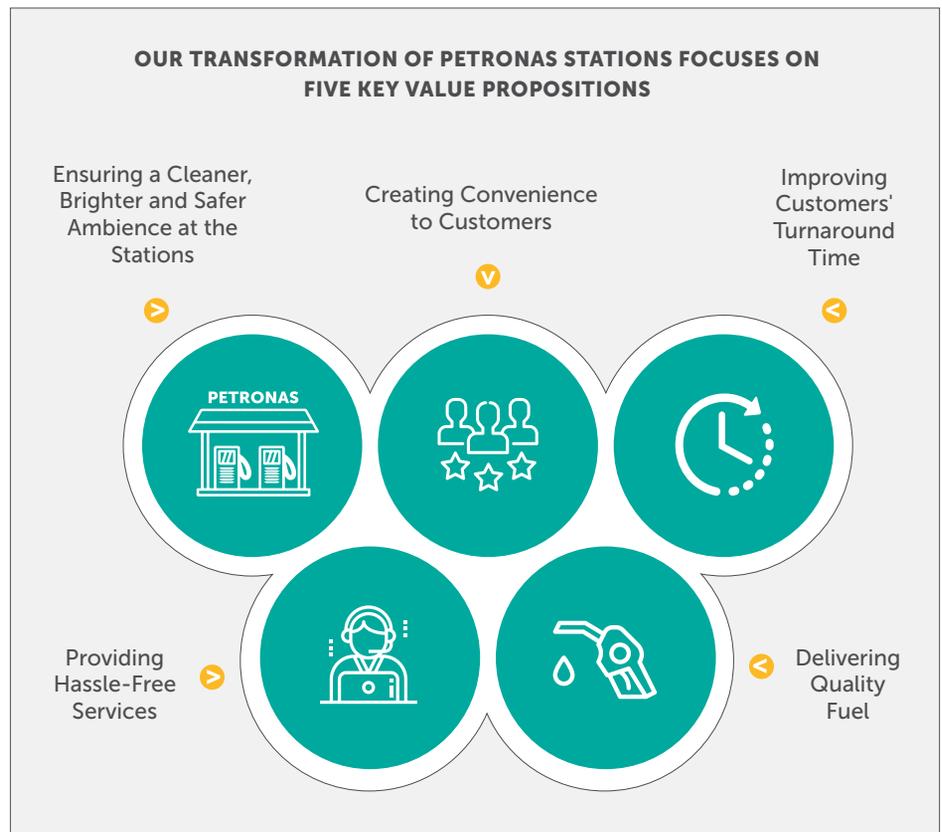
OUR BUSINESSES

PETRONAS STATIONS

We aim to provide the best products and services at our stations to keep delighting our customers. In 2017, we achieved a step-up in both areas with the introduction of yet another superior fuel and the implementation of a station transformation programme.

The transformation programme complements the ongoing 'Clean, Bright, Safe and Works All the Time' initiative. Further building on existing initiatives, we installed more stations with Multi-Product Dispensers which accommodate up to six products. This has helped to increase the turnover of vehicles at the pumps.

Along with these transformation programme, we also focused on the key elements in ensuring a consistently superior customer experience delivered as per diagram below.





KEDAI MESRA

Through our network of more than 760 *Kedai Mesra*, we continue to push the envelope and redefine convenience retailing in Malaysia. We transformed 14 *Kedai Mesra* into the new look and feel convenience store concept to sport a sleeker design, accompanied by improved offerings such as on-the-go breakfast for commuters via Mornings@Mesra campaign.

In 2017, we offered the special edition of sport merchandises, namely Kuala Lumpur 2017 29th SEA Games and 9th ASEAN Para Games as well as the last edition of PETRONAS Motorsport's PRIDE PERFORMANCE Collection. At the same time, Retail Business also introduced Samsung Pay where customers can make their payments at the *Kedai Mesra*'s cashier counters, allowing them to go cashless and cardless at PETRONAS stations. Over and above that, we also catered ATM and reload terminals at our *Kedai Mesra*. As at year end, we have more than 1,000 ATM terminals in addition to over 280 Touch 'n Go facilities comprising reload terminals and Touch 'n Go Spots at PETRONAS stations nationwide.

COMPLEMENTARY BUSINESS

Through our Complementary Business, we take our customer service to an entirely new level with a wide range of offerings from food-to-go to banking facilities, courier services, carwash and hypermarts. These are provided by partners such as Starbucks, Pos Laju, McDonalds and Subway.

As at the end of 2017, we have over 60 business partners, and around 100 F&B outlets complementing the services provided by *Kedai Mesra*.

RETAIL

CARD BUSINESS

PETRONAS Mesra Loyalty Programme (Kad Mesra)

We invest significantly in our loyalty programme through *Kad Mesra*, launched in 2001, to reward our loyal customers. This programme allows members to earn points by fuelling up at PETRONAS stations nationwide and purchasing products at *Kedai Mesra*. The accumulated Mesra points can be redeemed for either fuel or selected items within *Kedai Mesra*, including those offered by our partners and merchants. *Kedai Mesra* card members are also eligible for numerous discounts offered at our stations and by our business partners.

This year, we made it easier for customers to register for the *Kad Mesra* via SMS by simply keying in their *Kad Mesra* number, identification and name. This supplements the existing online facility, allowing customers to register and/or request for card replacements through our corporate website. We also made our loyalty structure the most attractive in the industry by entitling customers to earn three Mesra points (as opposed to one point previously) for every litre spent on all types of fuel.

 For more information on Registration and/or Kad Mesra Replacement, please refer to PDB's corporate website at www.mymesra.com.my



PETRONAS SmartPay and Co-Branded Cards

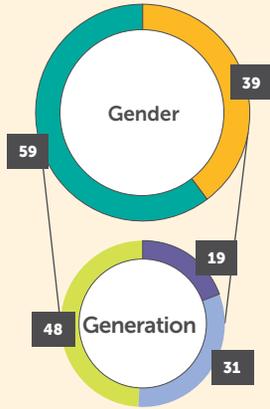
PETRONAS SmartPay is a corporate fleet card programme that facilitates individual or corporate clients to better manage the fuel expenditure of their vehicle fleet. We also have co-branded cards with CIMB and Maybank – the CIMB PETRONAS Debit MasterCard as well as the CIMB and Maybank PETRONAS Credit Cards. Throughout the year, we launched various promotions for cardholders offering cash rebates and exclusive deals at over 4,000 retail outlets.



OUTLOOK

As public transport, ride hailing and energy-efficient vehicles gain a greater foothold in Malaysia, demand for conventional fuels may be affected. We are, however, prepared for this eventuality as we continue to strengthen our product branding and enhance customer experience at PETRONAS stations via reliable facilities, superior fuel products and attractive lifestyle-based offerings – all delivered at a consistently high level of service. This will be supported by our best-in-industry customer loyalty programme as well as a growing e-commerce presence.

NUMBER OF EMPLOYEES: 98



COMMERCIAL <

COMMERCIAL BUSINESS IS A FULLY INTEGRATED BUSINESS FOCUSING ON SALES AND MARKETING OF BULK PETROLEUM PRODUCTS TO THE DOMESTIC COMMERCIAL SECTOR. WE ARE THE MARKET LEADER IN THIS SECTOR WITH A KEY COMPETITIVE ADVANTAGE OF HAVING AN EXTENSIVE DISTRIBUTION NETWORK TO SERVE THE NEEDS OF VARIOUS INDUSTRIES THROUGHOUT THE NATION.

We offer a range of products from Diesel, Jet A-1, Kerosene, Gasoline, Bitumen, Petroleum Coke and Sulphur to various market segments namely manufacturing, aviation, power, oil and gas exploration, agriculture, fishery, construction, timber, bunker and transportation.

KEY HIGHLIGHTS



2%
increase in
SALES VOLUME
IN A HIGHLY COMPETITIVE AND
MATURED MARKET



11%
in overall **MARGIN GROWTH**

TOTAL NUMBER OF CUSTOMERS

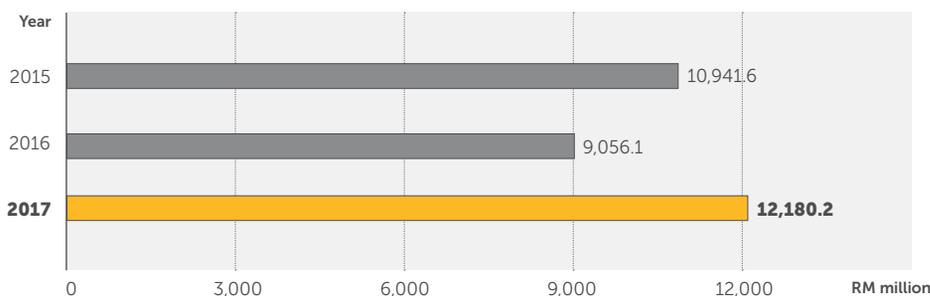


623
Direct Customers

192
Dealers

106
Aviation Customers

REVENUE

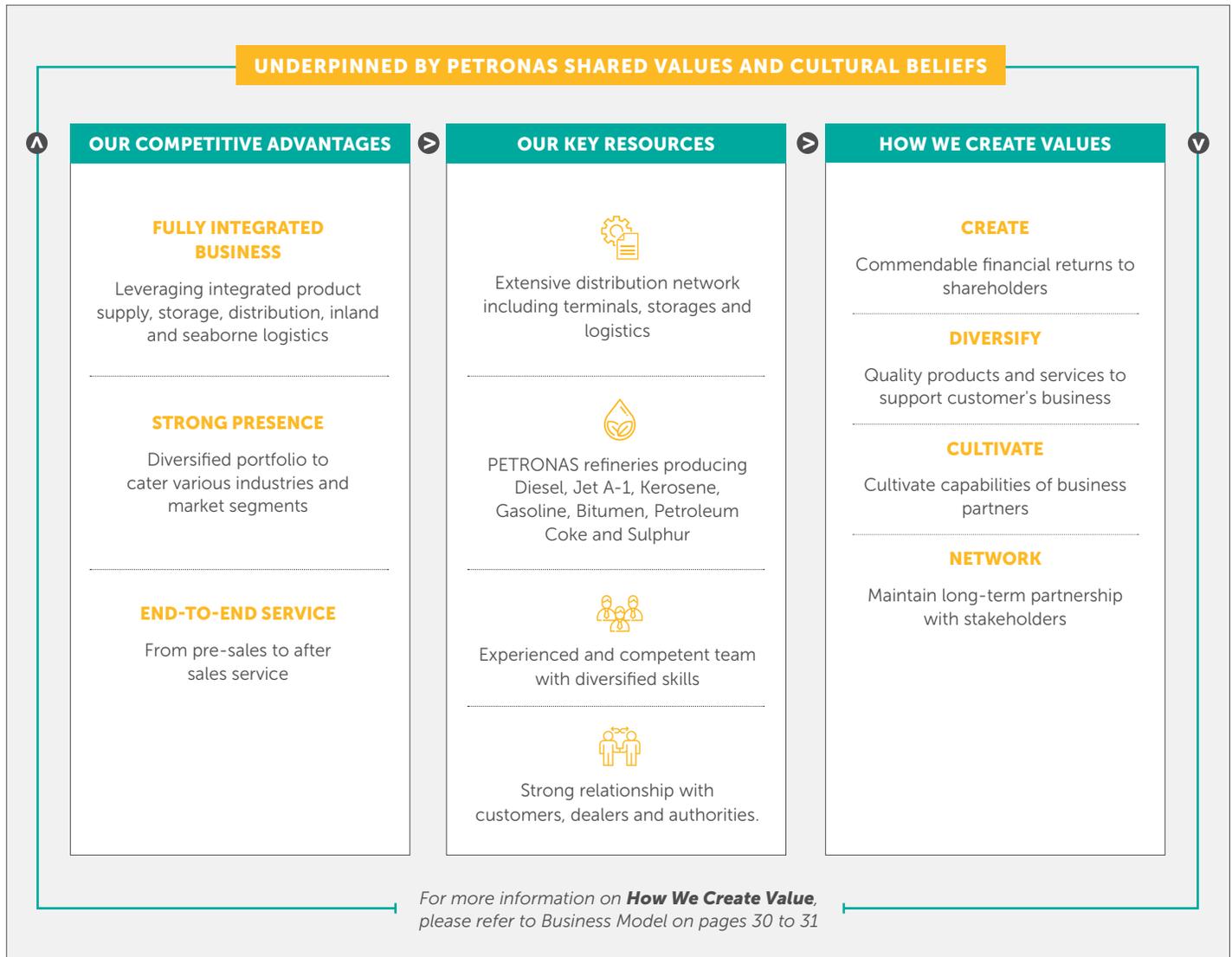


OPERATING IN A MATURED MARKET, COMMERCIAL BUSINESS MAINTAINS OUR LEADERSHIP THROUGH EXCELLENT TEAMWORK AND HAVING A WINNING MINDSET. IN LINE WITH THE GROUP STRATEGY, WE ARE COMMITTED TO IMPROVING OUR CUSTOMER EXPERIENCE IN ORDER TO ESTABLISH LONG-LASTING PARTNERSHIPS WITH OUR STAKEHOLDERS

MAHMAD ZAHRI MAHZAN
Head, Commercial Business Division

COMMERCIAL

BUSINESS MODEL



HOW WE PLAY TO WIN

Commercial Business will continue to defend our market leadership while sustaining value-driven growth for all products in our portfolio through aggressive sales strategies, efficient cost and inventory management. Equipped with innovative and dynamic workforce, Commercial Business is committed to push beyond the current business performance.

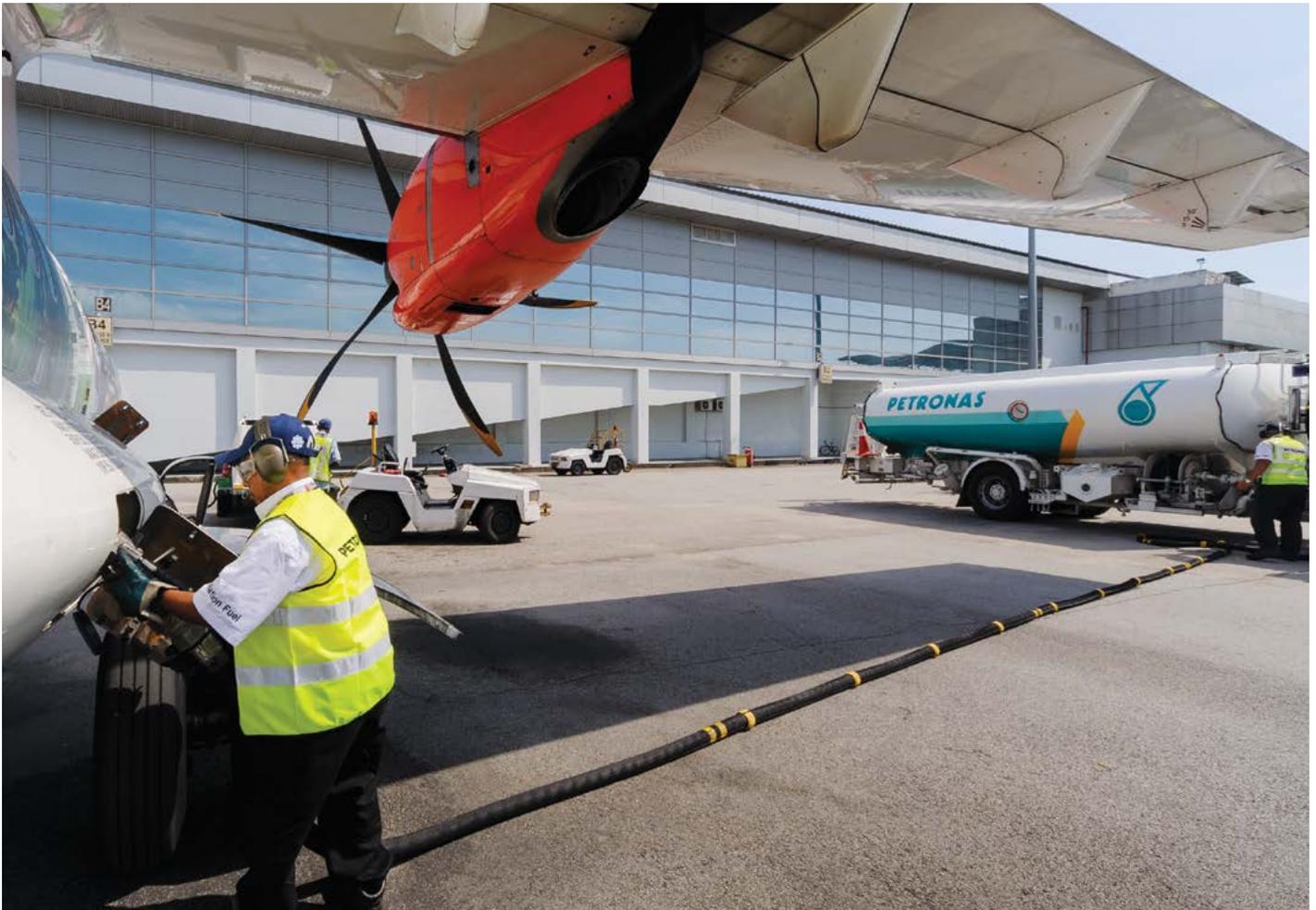
Aiming to provide better value to our customers, Commercial Business will emphasise on enhancing our customers' knowledge and capabilities through series of trainings on product knowledge and safe product handling.

PERFORMANCE REVIEW

Amid a challenging market environment in 2017, we were able to navigate a profitable path by focusing on financial excellence through effective inventory management. Apart from securing new airline customers, we also renewed contracts with key customers and benefitted from increased flight frequencies leading to a growth in sales of Jet A-1. In the increasingly competitive Diesel market, we were able to identify demand from high-yield segments. This, together with effective cost management strategies, led to higher sales volume and profit margins. Despite an adjustment in specification for Bitumen from grade 80/100 to 60/70 which resulted in stiff competition, we still registered volume growth against the previous year as a result of increased demand from infrastructure projects. Although demand for fuel oil was stagnant, we sustained value while ensuring supply continuity to bunker and other industries. For Petroleum Coke and Sulphur portfolios, we are continuing to strengthen our resources and supply capabilities to sustain both portfolios in the long-term.

OUTLOOK

Moving forward, we expect competition in our markets to continue to increase, and new regulations to cause a shift towards cleaner fuels. We are navigating ourselves and spearheading our customers for these changes to maximise our value, defend our current leadership position and steer the business towards sustainable growth.



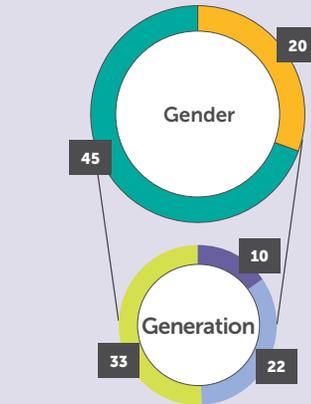
> **LPG**



NUMBER OF EMPLOYEES: 65

THE LPG BUSINESS MARKETS LIQUEFIED PETROLEUM GAS TO HOUSEHOLD, COMMERCIAL AND INDUSTRIAL CUSTOMERS. WE ARE THE INDUSTRY LEADER, CONTROLLING THE LARGEST LPG MARKET IN MALAYSIA.

We aim to deliver a high level of customer service while providing differentiated services and technological solutions for an enhanced experience. Our business is supported by an extensive distribution network that delivers LPG from eight terminals and bottling facilities in Peninsular and East Malaysia to dealers and direct customers.



Female Male Baby Boomers Gen-X Gen-Y

KEY HIGHLIGHTS



Recorded our **HIGHEST EVER MARGIN GROWTH AT 21%**



Maintained **MARKET LEADERSHIP** despite intense competition

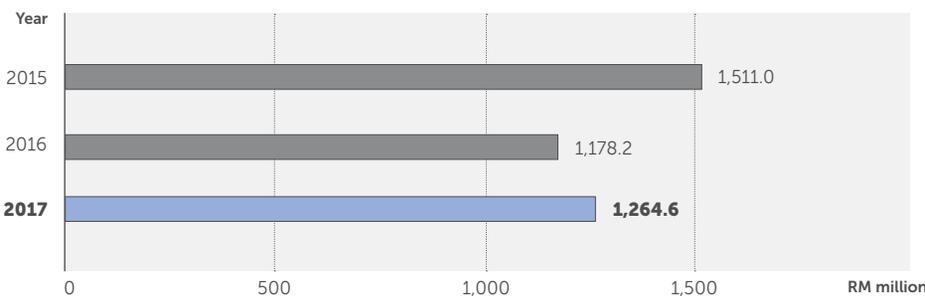


Launched the **GAS2U MOBILE APPLICATION** enabling customers to order gas cylinders online



STRENGTHENED OUR MARKET position in various regions

REVENUE



DESPITE THE CHALLENGING AND COMPETITIVE MARKET ENVIRONMENT, LPG BUSINESS CONTINUES TO FORTIFY ITS MARKET LEADERSHIP, AND PRODUCED STRONG FINANCIAL RESULTS DERIVED FROM STRATEGIES TO DRIVE SUSTAINABLE SALES, WHILE FOCUSING ON STRENGTHENING OUR LPG DISTRIBUTION CHANNELS

RAMZULHAKIM RAMLI
Head, LPG Division

BUSINESS MODEL

We sell LPG cylinders in 12kg and 14kg for the Household segment, in 50kg cylinders for the Commercial segment, and in bulk for the Industrial segment either through an extensive network of premier dealers, dealers and channel members or directly to end-users.



LPG



HOW WE PLAY TO WIN

LPG Business is committed to drive sales volume by strengthening our distribution channels to build resilience against competition in the market. During the year under review, LPG Business continued to provide our customers with convenience and differentiated services through the launch of Gas2u Mobile Application.

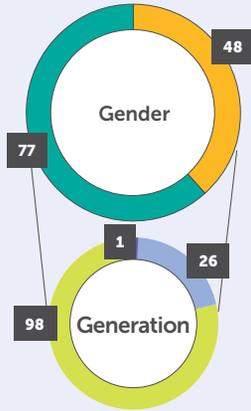
PERFORMANCE REVIEW

Facing a challenging market in 2017, LPG Business embarked on various strategies which include competitive pricing and effective supply optimisation at all terminals. These led to LPG Business recording its best ever financial performance, with a 21% increase in gross margin year-on-year. As part of PDB's portfolio rationalisation strategy, we have exited our business in the Philippines through the divestment of PETRONAS Energy Philippines Inc. on 14 August 2017.

OUTLOOK

Moving forward, demand for LPG is expected to remain robust in line with the growing population of the country. LPG Business is committed to grow its market leadership and continue to deliver value to our stakeholders.

NUMBER OF EMPLOYEES: 125



LUBRICANT <

PETRONAS LUBRICANTS MARKETING (MALAYSIA) SDN BHD WAS FORMED IN 2015 TO UNDERTAKE ALL SALES AND MARKETING FUNCTIONS OF PETRONAS LUBRICANT PRODUCTS IN MALAYSIA.

PLMMSB marketed their products via six channels, namely Operating PETRONAS Unit - to PETRONAS Group of companies; Key Accounts - to large non-PETRONAS accounts; Distributor Accounts - to Industrial and commercial vehicles; Highstreet - to workshops and spare parts shops; Retail - to PETRONAS stations; and to Original Equipment Manufacturers.

KEY HIGHLIGHTS

Continued our long-term partnership with **PROTON** and **PERODUA**



Won one-year after sales contract with **HONDA EFFECTIVE** from August, while extending our first fill contract for six months



Renewed one-year contract with **IOI PLANTATION**, signed new three-year contract with **KTMB**, and started supplying to **SUNWAY GROUP**



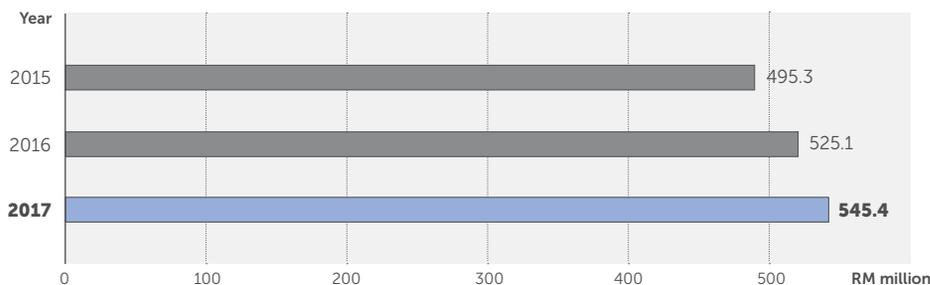
Relaunched the **PETRONAS SPRINTA WITH ULTRAFLEX™** with a new brand proposition and innovative technology



WHILE THE MARKET REMAINS COMPETITIVE WITH THE EMERGENCE OF NEW PLAYERS, PLMMSB CONTINUED TO IMPLEMENT STRATEGIC GROWTH INITIATIVES TO ESTABLISH OUR MARKET LEADERSHIP IN MALAYSIA. WE ARE COMMITTED TO DRIVING PROFITABLE AND SUSTAINABLE VOLUME GROWTH WITH KEY STRATEGIC BRANDS IN ALL SEGMENTS WHILE INCREASING OUR VALUE-ADD SERVICES

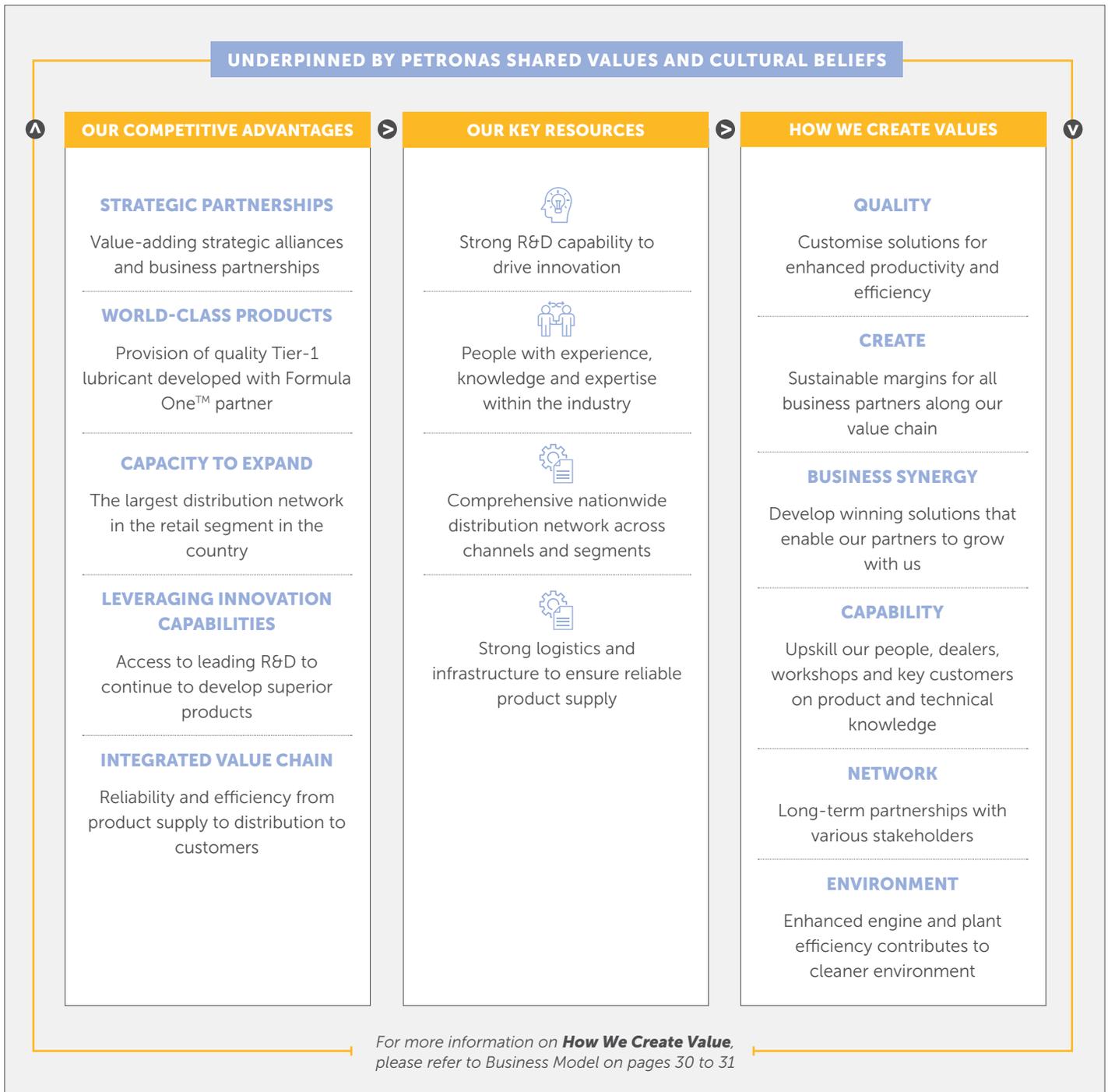
ANTON SALLEH HASHIM
 Chief Executive Officer
 PETRONAS Lubricants Marketing
 (Malaysia) Sdn Bhd

REVENUE



LUBRICANT

BUSINESS MODEL



HOW WE PLAY TO WIN

PLMMSB continued to achieve profitable and sustainable volume growth and increased market share in key segments by establishing strong and synergistic partnerships with key players. We have been upgrading our flagship products, enhancing their performance and relaunching the products. As we develop better and more sophisticated lubricant, we continued to educate our personnel and Market Execution Partners on their superior properties so as to enhance their sales performance.

PERFORMANCE REVIEW

OEM and Highstreet have been identified as our high-value segments and are key areas that PLMMSB is focusing on as we seek to grow our business. As a result of commendable performance following our initial contract with Honda in 2016, we managed to extend our first-fill contract for six months and secured a year's contract for after-sales with the leading OEM in Malaysia. Other new wins in 2017 include a three-year contract to supply KTMB. In the Highstreet channel, we are enhancing our route-to-market with clearly demarcated target areas, a larger and more effective sales team, and greater visibility at our customers' premises. In Thailand, the team has enhanced its distributor management system with a solid business plan and initiatives to customise offerings according to the market's needs. Our speed of delivery has also improved significantly with the establishment of distribution hubs in strategic areas. Meanwhile, new product launches helped to increase PETRONAS brand awareness in the country.

**OUTLOOK**

Although we expect the lubricant market to experience slow growth overall, we will continue to build strong relationships with our partners and enhance our cost-competitiveness via an efficient supply chain as well as through the provision of differentiated products and services to drive sales volume.

Section

04

EMBEDDING RESPONSIBILITY

Sustainability at The Highest Level _____	83
Materiality Assessment _____	85
Sustainability Initiatives _____	86
Sustainability Performance _____	112

SUSTAINABILITY AT THE HIGHEST LEVEL <

SUSTAINABILITY AT PDB IS ENTRENCHED AND DRIVEN BY A KEEN SENSE OF RESPONSIBILITY IN MEETING THE ECONOMIC, ENVIRONMENTAL AND SOCIAL NEEDS OF THE PEOPLE WHOSE LIVES WE TOUCH. IT IS OUR BELIEF THAT FINANCIAL PROFITABILITY AND OUR ABILITY TO DELIVER SUSTAINABLE RETURNS TO OUR SHAREHOLDERS, GO HAND-IN-HAND WITH PROTECTING OUR PEOPLE AND THE ENVIRONMENT, AND CONTRIBUTING POSITIVELY TO OUR CUSTOMERS, BUSINESS PARTNERS AND COMMUNITIES WHERE WE OPERATE.

Understanding and listening to our stakeholders, are key to forwarding our business success. Their trust in us, adds mutual value to meeting the hopes of today without compromising the needs of future generations.

Our business strategy takes into account the Sustainability risks and opportunities affecting the organisation. For climate change issue, for example, an increasing number of stakeholders – particularly investors and regulators – are demanding corporations to demonstrate environmental stewardship through carbon mitigation plans. We recognise that our long-term sustainability hinges on our ability to manage the issue, and have implemented various strategies to reduce our carbon footprint. As a responsible organisation, we are introducing increasingly more environment-friendly products and enhancing the energy-efficiency of our operations. We have also begun our journey in renewable energy and are contributing to the electric mobility ecosystem.

In addition, we have a sound people strategy: We develop highly competent and capable talent to drive value in our organisation. Meanwhile, we protect our people and local communities by maintaining the highest

level of health, safety and environmental protection across all operations. We also support our dealers not only through the provision of business opportunities but also with relevant training and capability building programmes.

We are pleased to note that since 2015, we have been consistently included in the FTSE4Good Bursa Malaysia Index, assuring us that we are on the right track towards balancing our financial with our social and environmental obligations.

As a member of the PETRONAS Group, our sustainability is underpinned by PETRONAS' CoBE as well as Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness. As stated in CoBE 3.1, we are committed to sustainable development to help meet the world's growing energy needs through economical, environmental and socially responsible efforts. To ensure sustainability along our entire value chain, we also hold our partners, contractors and suppliers to similar standards of conduct. PETRONAS' Corporate Sustainability Council, headed by the Senior Vice President of Corporate Strategy, oversees the integration of sustainability across the PETRONAS Group, including PDB.

FTSE4GOOD



FTSE4Good

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 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 criterias and are positioned to capitalise on the benefits of responsible business practices.

SUSTAINABILITY AT THE HIGHEST LEVEL

SCOPE OF SUSTAINABILITY STATEMENT

In presenting this Sustainability Statement, we have adhered to MMLR of Bursa Malaysia under the Amended Listing Requirements for Sustainability Statement.

Unless otherwise indicated, our sustainability disclosure follows the scope and boundaries of our Annual Report, and covers all of PDB's operations comprising Retail, Commercial, LPG, Lubricant and Supply and Distribution, as well as the subsidiaries in which we have operational control.

 For more information on Material Matters, please refer to Material Matters Impacting Our Strategy on page 63 of this Annual Report

OUR SUSTAINABILITY GOVERNANCE

Sustainability governance at PDB is led from the highest level in the organisation, namely our Board of Directors. The Board is provided updates on sustainability matters by our MD/CEO and LT, who ensure sustainability is embedded in all our key actions and decisions. The MD/CEO and LT are supported by our Sustainability Committee, comprising members with diverse areas of expertise who collaborate to design our sustainability plan and initiatives, and ensure these are implemented by the relevant businesses and functions throughout the organisation.



In 2017, a two-day training session was organised for the Sustainability Committee to reinforce the team's understanding of sustainability topics. To create further awareness of sustainability Company-wide, we also launched a series of Brown Bag sessions with several divisions at our headquarters in Kuala Lumpur, and plan to extend these sessions to our regional offices and operations.

MATERIALITY ASSESSMENT <

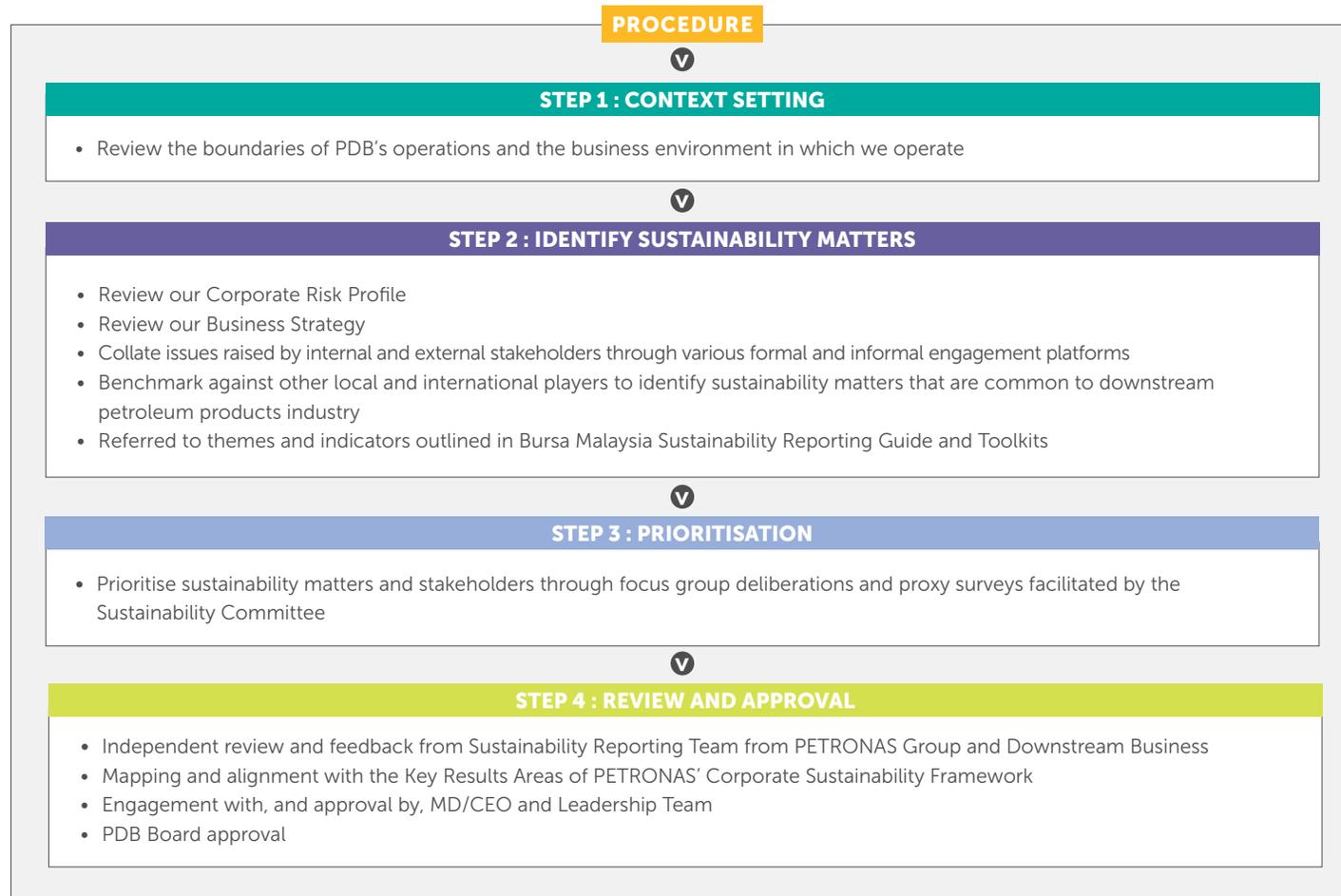
MATERIALITY ASSESSMENT IS ABOUT DETERMINING THOSE ISSUES THAT HAVE THE POTENTIAL TO CREATE AN ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACT ON PDB OR OUR STAKEHOLDERS, AFFECTING OUR ABILITY TO CREATE VALUE.

For the year under review, we conducted a materiality reaffirmation process to assess if any significant change had taken place requiring an update of the Material Sustainability Matters that had been identified in 2016. This was done by reviewing the boundaries of our operations and the context of our operating and business environment, and aligning these with our 2017 risk profile and strategic objectives. We also analysed concerns raised by our stakeholders during the year under review.

The reaffirmation process revealed that there was no significant change in our material matters, namely Workforce Development, Human rights, Health and Safety, Environment and Climate Change, Corporate Social Investment, Customer Experience, Financial Performance and Governance & Business Ethics. In the following pages, we describe initiatives undertaken in the context of the first six matters.

 For more information on Stakeholder Engagement, please refer to Relationships That Help Us Deliver Strategy on pages 58 to 61

The four-step methodology used to conduct our materiality assessment:



Sustainability is by its nature an ongoing journey. At PDB, as we progress along this journey, we intend to strengthen our materiality assessment while expanding the coverage of our reporting with more qualitative as well as quantitative data. At the same time, we aim to improve our internal mechanisms to measure our sustainability performance, thus enhancing our ability to verify data and monitor our progress through yearly comparisons.

We have not undertaken third party assurance for the data presented in this Sustainability Statement, but intend to do so in future.

> SUSTAINABILITY INITIATIVES

WE ARE IN IT FOR THE LONG RUN, AND OUR SUSTAINABILITY INITIATIVES ARE TESTAMENT TOWARDS THOSE COMMITMENTS. AT THE SAME TIME, WE HAVE BUILT OUR COMPANY ON VERY STRONG PRINCIPLES AND VALUES WHICH HAVE SHAPED THE WAY WE DEVELOP OUR STRATEGIC SUSTAINABILITY INITIATIVES AND IN TURN, OUR INTERACTION WITH ALL STAKEHOLDERS.





SUSTAINABILITY INITIATIVES

WORKFORCE DEVELOPMENT

Our people have been a major contributing factor in maintaining our competitive advantage. We strive for a high-performance culture by attracting the best talent and nurturing their capabilities through continuous investment in their development.

Our talent management practices are guided by PETRONAS' People Policies and Procedures as well as strategies that are aligned to our organisational needs. We also adopt PETRONAS' Global Talent Strategy to facilitate a more robust approach in building and managing talent, focusing on three strategic thrusts of Right Leader,

Right Talent and Right Environment, leveraging on the organisation's Employment Value Proposition of Trust, Grow and Reward.

Towards nurturing a diverse workforce at PDB, we provide equal opportunities for employment and subsequently, career advancement to all employees irrespective of gender, race, religion, age, disability or nationality. In line with our Talent Sourcing policies and procedures, our selection criteria focuses on individuals' experience, knowledge and skills using a wide range of recruitment channels. We hire local talent from the areas where we operates which is grounded on the principle of meritocracy.

PART III

Workplace Culture and Environment

2.1 PETRONAS will not tolerate unlawful discrimination in the workplace or on the job.

2.2 You must comply with laws in your local jurisdiction that prohibit workplace discrimination.

GENERATION



Baby Boomers	Gen X	Gen Y	Gen Z
10.0%	21.0%	68.7%	0.3%

ETHNICITY



Bumi	Non-Bumi	Non-Malaysian
89.5%	6.9%	3.6%

GENDER



Male	Female
67.6%	32.4%

RECRUITMENT

Generation



Baby Boomers	2.3%
Gen X	2.3%
Gen Y	94.6%
Gen Z	0.8%

Gender



Male
63.4%

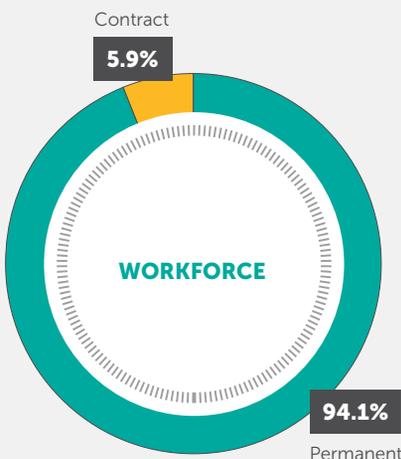


Female
36.6%

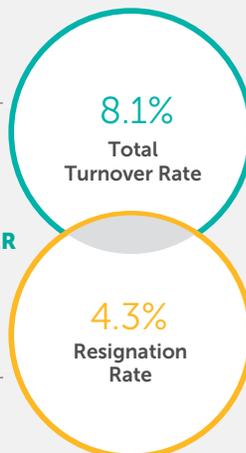
Ethnicity



Bumi	Non-Bumi
75.6%	16.0%
Non-Malaysian	8.4%



TURNOVER



SUSTAINABILITY INITIATIVES



Recruitment Drive Kembara Kerjaya Sabah and Karnival Pekerjaan 2017



PIMTCL Career Roadshow to Srinakarinwirote University, Thailand

As an equal opportunity employer, we create a work environment that is women-friendly. In order to facilitate our female employees to be physically fit to work upon returning from their maternity leave, we increased the provision of maternity leave on full pay from total of 60 to 90 consecutive calendar days for all eligible female employees who met the criteria. This allows them to observe their confinement period and make the necessary arrangements for their newborns' well-being. In addition, understanding their maternal needs, we also allocated dedicated nursing room with conducive facilities for nursing mothers within our working facilities.

PETRONAS Leading Women Network empowers women to thrive in their careers. Activities carried out are anchored on the following objectives:

- To inspire women to strive for leadership and to advance their careers with passion, as well as to have conversations on pertinent issues and share their work-life experiences.
- To reach out to all levels to build a stronger network.
- To provide exposure of the different career opportunities available for all women employees under the network.



To accelerate the journey towards becoming 'The Brand of 1st Choice', we continue to adopt PCB to strengthen the culture of personal accountability in delivering results. We believe that by changing the Company culture, it will transform the organisation and deliver sustainable, safe, reliable and efficient performance. The focus is on our leaders creating the culture by providing the right experience to our employees, which will in turn, create the right beliefs in the organisation.

PETRONAS CULTURAL BELIEFS

As an organisation, PETRONAS has set key results that we want to achieve in order for us to thrive in the current challenging environment. There is an urgent need for us to leap and shift the way we think and act to achieve the desired results. It is no longer business as usual and essentially we needed a shift in culture.

With this shift in mind, PETRONAS developed the six PETRONAS Cultural Beliefs as follows:

<p>RESULTS MATTER I stretch my limits to deliver superior results</p>	<p>OWN IT! I own the results and don't blame others</p>	<p>FOCUSED EXECUTION I plan, commit and deliver with discipline</p>	<p>NURTURE TRUST I always keep my promise and build mutual trust</p>	<p>TELL ME I seek, give and act positively on feedback</p>	<p>SHARED SUCCESS I collaborate for the greater good of PETRONAS</p>
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During the year under review, we implemented several programmes in line with PCB's aspiration to ensure our people internalised PCB across the organisation.

SUSTAINABILITY INITIATIVES

TALENT AND CAPABILITY DEVELOPMENT

As part of its Employee Value Propositions, we pay close attention to employees' professional and personal growth. The organisation identifies employees' aspirations to further develop their potential and provides opportunities for them to enhance their expertise, skills and experience to enjoy challenging and fulfilling careers.

At PDB, our Capability Framework outlines the functional and behavioural capabilities required to perform particular jobs supported by the development approach, tools and infrastructure. The development approach adopted for each employee typically represents a mix of formal, social and experiential learning.

Approximately 3% of our manpower cost every year is channelled towards employee training. During the period of review, this amounted to RM5.6 million – encompassing a total of 2,154 training man-days averaging two training man-days per employee.

Functional training accounted for 64% of the training man-days which were mainly Marketing and Sales-related training on Market Knowledge, Market Intelligence, Negotiation Skills and Project Delivery. 25% of the training man-days was for HSE and Technical related training while the remaining 11% of training man-days were focused on leadership development skills.

**Internship and Familiarisation Programmes**

We have specific programmes for undergraduates as well as new or recent transferred in employees to equip them with an overview of our business operations and work culture with the aim to provide a positive experience and facilitate their assimilation. The internship programme also provides the undergraduates opportunities to apply their academic knowledge in the professional work environment.

**PDB Internship Programme (Experiential Learning)***Internship Programme*

The PDB Internship Programme was designed for undergraduate students to undertake their internship for a duration as per stipulated by their respective academic institutions.

Purpose

Opportunity for undergraduate students to apply their academic knowledge while acquiring additional business and people skills through working with us. During the year under review, we offered placement to 78 students within different durations, as specified by their academic institutions.

SUSTAINABILITY INITIATIVES



PDB On-Boarding Programme (Social Learning)

On-Boarding Programme

The PDB On-boarding Programme is a familiarisation programme to integrate new or recently transferred in employees and interns into the organisation. It is also a platform to engage with PDB Management Leaders.

Purpose

To acquire knowledge and provide an overview of our business, HSE matters and work culture; and to obtain tips in pursuing professional career and personal growth through sharing by our leader. During the year under review, four On-Boarding sessions were organised for a total of 47 employees and interns.

Functional and Behavioural Programmes

Our employee development programmes are focused on technical and non-technical employees, guided by our Capability Framework. In ensuring we have a pipeline of competent people, training and development opportunities are provided to ensure all employees are competent and capable in performing their job functions. With structured training programmes, employees' productivity is improved through skills development and career growth.



Accelerated Capability Development Coaching (Social Learning)

Executive Capability Development

Personal coaching and knowledge sharing by discipline resource persons.

Purpose

As one of the interventions to close identified gaps in their respective functional areas or subject matters. During the year under review, the focus was for Project Management fraternity; a group of technical experts in managing our projects.



PECAS (Formal Training)

Non-Executive Capability Development

PETRONAS Competency-based Assessment System introduced in 2006, a structured skill assessment system for our non-executive technical employees that covers elements of knowledge, skills and attitude.

Purpose

To ascertain our non-executive technical competency level against PETRONAS Occupational Skill Standard. In FY2017, 96 employees completed their assessments.

SUSTAINABILITY INITIATIVES

**Value of Integrity Training (Formal Training)***Integrity Programme*

As part of PDB Integrity Programme, Value of Integrity training was conducted to our middle management staff on how to manage potential misconducts within their units or department.

Purpose

- To identify misconducts which among others include Conflict of Interest, Abuse of Power, Corruption, Bribery, etc.
- To exercise the duty of an employee to report breaches and violations as made clear in CoBE Part II H: Disclosure Duties
- To instil and strengthen the Integrity value among the middle management.

During the year under review, we conducted six Value of Integrity training sessions, attended by 108 managers and above.

Leadership Development Programme

Leadership programmes are designed to help individuals develop leadership skills and continue until the level of leading self, i.e. becoming committed to own goals, managing challenges and risks, and recognising own strengths and development areas. To assist our new managers make the transition into leadership roles, conditioning programmes are introduced to enhance self-awareness, equip them with essential knowledge as well as key skills to effectively lead themselves and others to effect change in the business. Ultimately, our leaders are trained to make the efficient transition into strategic implementers.

**Leadership Excellence at PETRONAS (Formal Training)***Leadership Development Programme*

LEAP programme is designed for leaders who are transitioning into senior management roles. It is a rigorous programme consisting of workshops, coaching sessions and a final presentation to a panel of experienced leaders from various fields.

- LEAP Strategic Excellence - leaders who are transitioning into General Managerial roles
- LEAP Tactical Excellence - for leaders who are transitioning into Senior Managerial roles

Purpose

To accelerate the development in the areas of 'Lead Self', 'Lead Others', 'Lead Change' and 'Lead Business' as well as, eventually, leading leaders to deliver impactful business results. Through the programme, participants are equipped with the competencies to bring about positive change in the organisation and deliver the performance required. As at 2017, a total of 50 leaders out of 56 attended the programme.

SUSTAINABILITY INITIATIVES



Leadership Circle (Experiential Learning)

Leaders-Develop-Leaders

Informal sessions held on a quarterly basis for small groups of our top talent and potential leaders to discuss specific leadership topics, facilitated by a PDB leader.

Purpose

Through PDB leaders sharing their insights and aspirations, our talents would be influenced and that would assist them to better manage their professional and personal lives. In 2017, four Leadership Circle sessions were conducted, each drawing positive feedback from participants.

Dealer Capability Programme

Serving customers through our extensive network, we endeavour to ensure that our *Rakan Niaga* uphold the drive and values that keep PDB ahead of the game. Similar to our employees, there are specially catered development modules for dealers to consistently deliver quality customer experience at our stations.



PDB Training Centre conducts numerous capability training programmes for our *Rakan Niaga* and their employees, *Krew PETRONAS*. More than 30 sessions for nearly 600 participants were held on topics such as PDB transformation aspirations, site management and operational excellence reinforcement at PETRONAS stations (e.g. merchandising and communication), financial management as well as HSE.

Purpose

To ensure consistent customer experience by equipping our *Rakan Niaga* and *Krew PETRONAS* with guidance, policies, procedures and tips, as they represent the PETRONAS brand at our vast station network.

Succession Management

We undertake a rigorous talent identification and review exercise to build our talent pipeline. Each identified talent is reviewed under a holistic approach to determine his or her strengths and areas of development to help chart individualised career plans, mapped against critical positions within PDB.

To ensure uninterrupted operations, we regularly review our succession plan for senior management positions and ensure there are suitable successors for critical positions at all times. We also developed succession plans for critical positions. Annual reviews are conducted on the succession plans to ensure their feasibility.

Employee Performance Management

Our EPM emphasises the importance of continuous engagement in managing performance with the ultimate objective of becoming a High Performing Organisation. The EPM framework focuses on Coaching, Review and Feedback to empower employees in managing their performance delivery in line with the Company's business objectives and targets. Performance results based on differentiated performance standards is linked to the meaningful reward and right consequence to motivate and sustain High Performance Culture in ensuring continuous performance achievement.

We extend a helping hand to employees who fall behind agreed performance delivery targets via a structured Performance Improvement Plan. The employees are then provided with monthly coaching with their superiors for constructive reviews of their performance.



SUSTAINABILITY INITIATIVES

WELFARE AND BENEFITS

We adopt PETRONAS’ policies on employees’ welfare and benefits which cover both tangible and non-tangible elements that are standard for our full-time employees. The provision among others includes medical benefits, life insurance, allowances, leaves and other general provisions.

Compliance with Minimum Wage

PETRONAS complies with the minimum wage requirement as stipulated by the National Wages Consultative Council. The Company continuously makes efforts in reviewing the salary structure which is consistent with the minimum wages declared by the Government. PETRONAS also reviews the salary structure for KAPENAS members every three years through review of the Collective Agreement between Management and KAPENAS’s representatives.

Elimination of Excessive Working Hour

We take a positive stand to ensure our employees do not work too many hours, not only because it infringes on their rights but also because it is counterproductive and unsafe. At PDB, non-shift personnel are encouraged not to put in more than 39 hours a week and are entitled to two days rest at the end of the week, while personnel who work shifts have a cap of 42 working hours.

Legally, we are bound by the Employment Act 1955 including the Employment (Limitation of Overtime Work) Regulations 1980 that stipulates limit of overtime hours of not more than 104 hours a month.

With the help of a tracking tool, we monitor employees’ overtime hours and ensure the work schedules for shift and non-shift employees are properly planned to guard against fatigue at work. We compensate employees for extra hours put in via special overtime rates, especially for work performed on rest days and public holidays. Any requirement to work beyond our overtime limits has to be reported to our Human Resource Management for proper risk assessment of the jobs.

Parental Leave

Maternity Leave – Facilitate employees to observe their confinement period, recover from the rigours of pregnancy, labour and birth and enable more bonding time with their newborn.

Paternity Leave - Male employees who are active in service, inclusive of new hires (experienced and fresh graduates), to enable them to attend to matters of the birth of their child.

Maternity



No. of employees entitled

422

Taken Leave

35

Returned from Leave

32

Paternity



No. of employees entitled

969

Taken Leave

71

Returned from Leave

71

Leave

Leave Without Pay - Facilitate employees in managing personal matters that are important and that require them to be away from work for an approved duration after exhausting the Company’s other leave provisions.

Taken LWP

Gender



Male

8(1.0%)



Female

21(5.0%)

Returned from LWP

Gender



Male

8(1.0%)



Female

20(4.7%)

Note:

90% of employees took LWP were due to parental reason

Appreciation Programme for Retirees

We run a programme designed specifically for employees approaching retirement to help them manage their finances, health and time once they retire. It is offered to those within three to five years prior to retirement, allowing for sufficient time to plan and prepare for leaving employment.

SUSTAINABILITY INITIATIVES

Flexible Working Arrangement

We believe in assisting our employees to strike a good work-life balance, and have embraced various PETRONAS initiatives toward this end.

In 2017, PETRONAS Management approved Flexible Work Option for all non-shift employees across the Group comprising:

- **Compressed Work Week** - allowing employees to end their working hours at noon on the fifth day of the week upon completing 39 working hours for the week.
- **Flexible Working Hours** - allowing employees to choose the time they start and end work while ensuring they complete a minimum of eight hours per day, and seven hours on Fridays (or Thursday for those locations observing weekends on Friday and Saturday).

In addition, PDB has introduced a Flexible Working Arrangement since 2016 enabling employees to work from locations other than the standard place of work using appropriate communications technology. A total of 142 positions benefited under the Flexible Working Arrangement.

Employee Assistance Programme



The EAP has been designed to help employees deal with issues that could adversely impact their health, work performance or well-being. The collaboration between Human Resource Management Division and Group Health Safety, Security and Environment covers emotional distress, major life events (deaths, accidents, sickness, healthcare concerns, family relationship issues, etc) and substance misuse. Counselling is provided by trained professionals from Turning Point Integrated Wellness Sdn Bhd with experience in counselling, clinical psychology, organisational development and training and community social work. EAP was soft-launched during the MESTIfit4health event on 17 May.

Sports and Recreation - Kelab Sukan dan Rekreasi PETRONAS

KSRP was established in 1975 to cultivate and foster close camaraderie among employees. Through sports, recreational, social and cultural activities organised, it also enhances employees' physical fitness and mental well-being.

We encourage our employees to participate in KSRP activities as well as in events organised by the respective divisions. One of the biggest events on the PETRONAS calendar is *Liga Bola* PETRONAS which involves the Central, East Coast, South and North regions.



PDB employees and LPG dealers on an expedition to conquer Mount Kinabalu



PDB organised a trek up the 400m-high Broga Hill in Semenyih, Negeri Sembilan

SUSTAINABILITY INITIATIVES

EMPLOYEE RELATIONS

Employee relations refer to relationships shared among employees in the organisation. We strive to ensure our people are comfortable with each other for a healthy working environment at work.

Workplace Culture and Environment Standard

As made clear in CoBE Part III Workplace Culture and Environment stating that PETRONAS is committed to providing, in collaboration with employees, a safe, secure and conducive workplace culture and environment, where the values of mutual and reciprocal respect, trust and confidence are upheld and actively promoted.

Any improper work-related behaviours which are not in accordance to employees' obligation towards PETRONAS shall be treated as misconduct as clearly stated in CoBE Part IV Discipline, Disciplinary Process and Sections. Such misconduct for which an employee covered by CoBE may be liable for disciplinary action, subject to the requirement of applicable law; which includes harassment, bullying, bribery, corruption, conflict of interest and breach of terms amongst others.

We pay serious attention to issues of bribery and corruption; including harassment or bullying at work as it disrupts our working environment, and the physical, emotional and psychological well-being of our employees. Our policies on work culture and conduct spelt out in CoBE are communicated to all employees through various platforms.

Alongside with CoBe, our People Policy and Procedure among others provides the procedures in managing non-compliance and misconduct. We encourage employees and other stakeholders to report any observed infringement of our policies or expected standards of behaviour through our Whistleblowing channel. Key persons have been trained to handle reports on potential misconduct. We have in place structured procedures to conduct investigations into alleged incidents and, if there has been any non-compliance of our regulations, take up the necessary follow-through actions.

Every year, we monitor the number of non-compliance within PDB. Additionally, PETRONAS periodically reviews the effectiveness of its CoBE.

Grievance Management

One of PETRONAS' initiatives to maintain industrial harmony at the workplace is having a formal platform for employees to lodge official complaints on issues such as breach of the terms and conditions of their employment contract, as well as harassment and employment discrimination.

We have adopted PETRONAS' Grievance Management process, under which grievances are managed according to outlined procedures with the aim for both parties to reach amicable agreements at the lowest possible level in the organisation. This goes a long way towards maintaining continuous good relations between PDB and our employees.

"Jom Patuh & Tegur" – Let's Comply and Intervene

To achieve a culture of compliance, the organisation practices "Patuh & Tegur" which is manifested as part of a Behaviour Observation. Offer Appreciative Feedback for those who demonstrate safe behaviour and Constructive Feedback for those who demonstrate unsafe behaviour.



In order to mobilise the organisation, we took the manifesto a step further where communication happened at all levels. We inserted key messages in MD/CEO's monthly messages, had integrity conversations at Division/Department meetings and concluded with a "Jom Patuh & Tegur" programme to six regions nationwide.

The roadshow was intended to educate PDB employees on the importance of safety, integrity and governance.

SUSTAINABILITY INITIATIVES



HEALTH AND SAFETY

Being in the downstream petroleum products environment; where there is consistent interface and interactions with customers, public, or even passers-by, the safety, health and well-being of our stakeholders are always given the utmost priority. It is critical for the inherent hazard of our products and operations to be managed effectively and kept away from our employees, contractors, business partners, customers and public at large.

Guided by a well-established HSE MS, we commit to our HSE Policy where we pledge to comply with applicable laws and regulations, ensuring adequate emergency response preparedness and optimum resources for a safe workplace, while continuously communicating our goals and expectations to our people and stakeholders. The policy is operationalised through PDB HSE MS throughout the organisation; from the corporate level to the operations and shop-floor levels. PDB HSE MS is aligned to PETRONAS HSE Mandatory Control Framework and PETRONAS Technical Standards, embracing the general approach of our parent company, PETRONAS. It provides a platform for a complete cycle of managing HSE, from planning, implementation, checking and providing assurance, and continual improvement; ensuring an effective and sustainable management system.

 For more information on PDB's Environmental Initiatives, please refer to pages 100 to 103 of this Annual Report

BUILDING HSE FOUNDATION



PDB's Chairman engagement with employees

Leadership Commitment

PDB LT demonstrates HSE leadership by integrating and balancing HSE aspects in business decisions, and leading the development of HSE strategic objectives and targets. These objectives and targets are incorporated into our HSE Plan and cascaded to the respective divisions. Each head of division provides assurance on their commitment to reducing the risk to employees, assets, the environment and business reputation.

The LT drives HSE initiatives at all levels to inculcate an HSE culture. Through continuous employee engagement, they set clear expectations, targets and objectives for each employee, while themselves carrying the highest portion of HSE KPI weightage. During the year under review, 32 leadership visits were conducted, including "Jom Patuh & Tegur" programmes that focused on safety compliance and intervention.

Our annual PDB HSE scorecard, comprising key performance indicators, is developed based on historical statistics with the aim of improving our safety performance year-on-year, and ultimately achieving zero fatality. HSE risks, incidents and performance are also deliberated and presented to the LT on a monthly basis. Subsequently, the HSE performance is reported to the Board on a quarterly basis.

HSE Communication

HSE communication among and between management and employees take place at each HSE committee's worksite. Site-specific HSE issues, programmes and performance are deliberated at monthly site-level HSE Committee meetings or Operation meetings which include both employees and management representatives. HSE issues are also discussed at quarterly Corporate HSE Steering Committee meetings chaired by the MD/CEO.

Risk Management

We apply a risk-based approach to HSE which allows us to identify and assess risks, and manage these to levels as low as reasonably practicable through the implementation of controls and preventive measures. The process not only provides an understanding and analysis of HSE risks and their impacts on our people, assets, reputation and the environment, but also allows for risk-based prioritisation.

Several risk assessment tools and techniques are used to identify potential hazards and address the risks in our day-to-day operations or activities. These include Project Risk Assessment, Job Hazard Analysis, Process Hazard Analysis, Chemical Health Risk Assessment, and Environmental Impact Assessment.

The risk-based approach is applied throughout the value chain for new projects and existing operations. For example, an assessment of new project was conducted on potential suppliers of bottled mineral water for *Kedai Mesra*. As part of the on going assessment, we continued our efforts in assessing risks by conducting Control of Industrial Major Accident Hazard reviews at six major hazard installations, at our fuel and LPG terminals.

SUSTAINABILITY INITIATIVES

HSE Competency and Education

We ensure all our employees and contractors have the knowledge to carry out their functions safely. We identify HSE training needs specific to job functions and work disciplines, and organise targeted programmes throughout the year. We also monitor the HSE training records of all our employees and contractors to ensure they meet the relevant HSE requirements before allowing them to commence work.

There was a significant increase in number of personnel trained in 2017 due to a newly rolled-out Behavioural Safety programme and enhanced focus on safe systems of work such as Permit-To-Work and Job Hazard Analysis training.

Behavioural Safety

According to our analysis, a number of incidents and safety non-compliance could have been avoided via safe behaviours. During the year under review, we embarked on Behavioural Safety programme driven by PETRONAS for all Downstream employees. To lead the initiative, 57 Behavioural Safety focal persons have been appointed by respective Heads of Department. Among other functions, these focal persons will compile and submit Behavioural Safety observations. To date, a total of 2,125 submissions have been received and analysed under the programme, which will continue in 2018.

Other than audits, we communicate with our contractors through platforms such as PDB Contractors Day and HSE Clinics at which we share HSE knowledge and our expectations. These engagement sessions also provide our contractors the opportunity to upskill their capabilities. The HSE performance of our contractors and suppliers were also evaluated upon the completion of contracts. Any gaps were recorded for future improvement, and consequence management was undertaken for serious non-compliance.

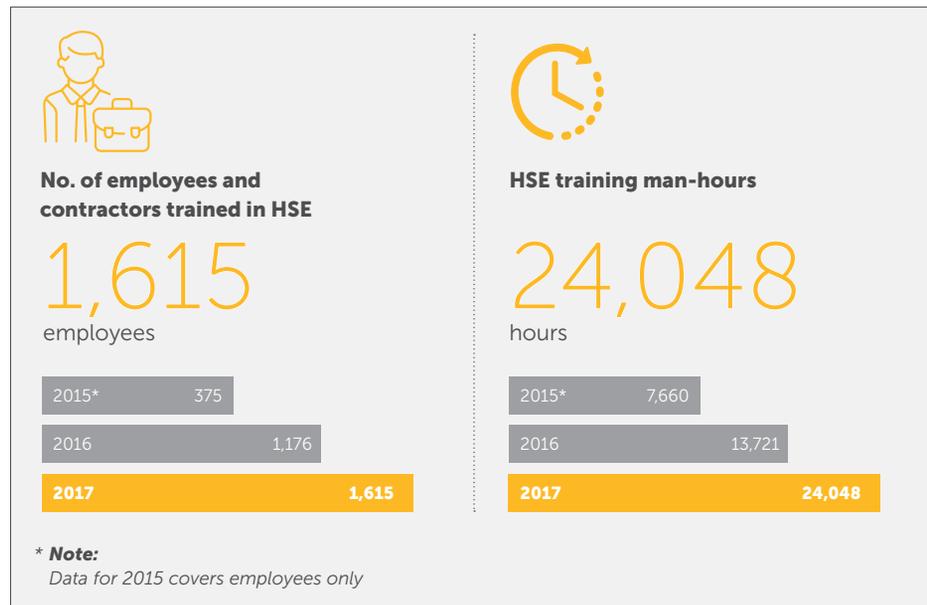
HEALTH AND WELL-BEING

We strive to provide a safe and healthy environment for all employees and contractors working at our facilities. During the year under review, we continued to strengthen various occupational health and hygiene programmes across the business covering key risks such as fitness to work, fatigue, noise, ergonomics and chemical exposure. Our continuous efforts allow us to evaluate, analyse, monitor and manage our risks effectively towards achieving a healthy workforce.

As part of our commitment to improve the well-being of our workforce, we have adopted PETRONAS' EAP. This programme provides employees with access to confidential professional counselling to assist them with any problem that may impact their job performance, health, mental or emotional well-being.

PROCESS SAFETY

Managing Process Safety and asset integrity are key to preventing major incidents with serious impacts. PDB applies Process Safety principles in building, operating and maintaining our facilities to ensure design, technical and operational integrity.

**CONTRACTOR AND SUPPLIER HSE MANAGEMENT**

Contractors and suppliers are expected to inculcate our HSE culture as outlined in PDB HSE Policy. They are screened for HSE criteria, and are required to have a written HSE policy that complies with our requirements and HSE regulations more generally.

During the year under review, we strengthened our contractual reviews against HSE criteria prior to tendering, and conducted 11 HSE audits on contractors and suppliers during the execution of contracts.

SUSTAINABILITY INITIATIVES

During the year under review, we revised our Process Safety journey to address new requirements and implementation challenges. This included the establishment of leading Process Safety indicators for more detailed analysis and insight into how PDB facilities are doing in terms of design and technical integrity. We also appointed nine Technical Authorities to strengthen our technical governance through proper reviews.

TRANSPORT SAFETY

Top priority is given to transportation safety to ensure a reliable supply of fuel to our customers as well as to protect our drivers, other road users and the environment from any harm.

PDB monitors the performance of the drivers and transport companies. During the year, our Fleet Management Department enhanced the In-Vehicle Management System to enable real-time monitoring and tracking of driving violations made by the driver such as harsh braking, harsh acceleration and exceeding speed limits. This also strengthens the reliability of our drivers' safety performance record.

In addition, the transport companies' performance, such as vehicle condition and fatigue management of its drivers, are monitored as part of contractor management.

We are also investing in driving safety programmes. For better road safety performance overall, in 2017, we extended the requirement to attend defensive driving courses to light vehicle drivers. This covers all those who drive frequently for business, drivers of company owned vehicles, and those who drive in high-risk areas.

EMERGENCY PREPAREDNESS

PDB is committed to ensuring optimum readiness for emergencies or crises to minimise their impact on our people and the environment while safeguarding our assets and reputation.

We have a Crisis and Disaster Management Manual outlining our emergency response structure as well as the roles and responsibilities of people at various levels. We develop scenario planning for possible high-risk emergency situations and periodic assessments to ensure the adequacy and effectiveness of emergency controls. This includes testing our response equipment as well as conducting emergency response exercises at our operating facilities.

HIGHLIGHTS OF 2017

- A Crisis Management Team Table Top Exercise led by our MD/CEO was conducted, in addition to various Emergency Management Team Table Top Exercises at different regions, each simulating a different scenario. We also reviewed our Emergency Response Procedure for terminals and its coverage.
- We conducted a large-scale Tier II Functional Emergency Response Exercise at a PETRONAS station in Sarawak involving Fire and Rescue Department of Malaysia, the police, hospitals, DOSH, DOE and MDTCC. The exercise assessed the capability and readiness of our ERT and Emergency Management Team, as well as the efficiency of communication between PDB and the external agencies in deploying emergency equipment to manage the crisis.
- We engaged with local communities on seven separate occasions to discuss possible emergency situations and the response mechanisms in place to manage them.

 For more information on our Crisis Management, please refer to SORMIC on page 142 of this Annual Report



Tier II Functional Emergency Response Exercise in Sarawak

SUSTAINABILITY INITIATIVES

SAFETY PERFORMANCE

Our aim is to achieve zero fatality and zero lost time due to injury. The company has recorded lower LTIF and TRCF for employees and contractors. The decreased number was the result of intervention plans to prevent recurrence of incidents. While our performance improved year-on-year, we regretted that there was one fatality involving a contractor's personnel in December 2017 while conducting preventive maintenance work at our pipeline.

	2015	2016	2017
No. of Fatalities			
Employees	0	0	0
Contractors	0	2	1
Fatality Accident Rate (FAR)			
Employees	0	0	0
Contractors	0	65.69 ¹	24.86
No. of Lost Time Injury (LTI)			
Employees	4	2	0
Contractors	0	9	3
Lost Time Injury Frequency (LTIF)			
Employees	1.0	0.49	0
Contractors	0	2.95 ¹	0.57
No. Total Reportable Case (TRC)			
Employees	5	3	1
Contractors	0	11	5
Total Reportable Case Frequency (TRCF)			
Employees	1.17	0.73	0.35
Contractors	0	3.61 ¹	1.30

Note:

¹ Adjusted FAR, LTIF and TRCF for Contractors, excluding Krew PETRONAS man-hours

 For more information on Environmental Performance, please refer to Environment and Climate Change on pages 100 to 103 of this Annual Report

FAR = Recordable Fatalities per 100 million man-hours

LTI = Lost Time Injury (injury, including fatality and permanent total or partial disability, resulting in inability to work the next day/shift)

LTIF = No. of LTI per million man-hours

TRC = No. of Total Recordable Case (cases involving LTI, restricted work due to injury and medical treatment case)

TRCF = No. of TRC per million man-hours

All incidents are investigated in a timely manner. Recommended corrective and preventive actions are monitored and their progress is reported to the management and tracked for closure. Lessons learnt from incidents are shared across the Company, and with our contractors and business partners, to prevent any recurrence. Factors that contributed to the incidents are analysed to identify gaps and areas for improvement.

As reflected in our HSE Policy, the Management remains committed to reducing incidents and driving continuous improvement in our HSE performance with the LT reviewing the effectiveness of our HSE MS annually.

During the year under review, 15 HSE audits were undertaken at our terminals, business partners' and regional offices. These audits and the annual HSE MS review are carried out as part of a continual improvement cycle.

SUSTAINABILITY INITIATIVES



ENVIRONMENT AND CLIMATE CHANGE

Climate change issues have elicited a global response for innovative solutions that support low-carbon economies. While oil and gas products will continue to account for a high proportion of global and Malaysian energy demand for decades to come, there has been a discernible shift towards energy-efficient products and solutions, and use of renewable energy as well as of EEV including EV.

At PDB, we acknowledged greater demand from consumers, investors and other stakeholders for energy-efficient products and solutions as well as for efforts to minimise carbon emissions through renewable sources of energy. We also recognised the need to manage our distribution and marketing activities to ensure minimal environmental impact, hence protecting our reputation.

Actions to entrench our environmental stewardship are guided by the Company's HSE Policy, which commits us to managing our emissions, discharge and waste responsibly; and using energy, water and other resources sustainably. We have tools to assess the environmental risks and impacts of every aspect of our operations, and take appropriate action to mitigate those risks.

Aspects that are material to us and our stakeholders include climate change, emissions to air, accidental spills and waste. We monitor our performance in each area, and discuss our data throughout this section.

 For more information on Management Approach in Managing Our Material, Health, Safety and Environmental Aspects, please refer to Embedded Responsibility on page 96 of this Annual Report

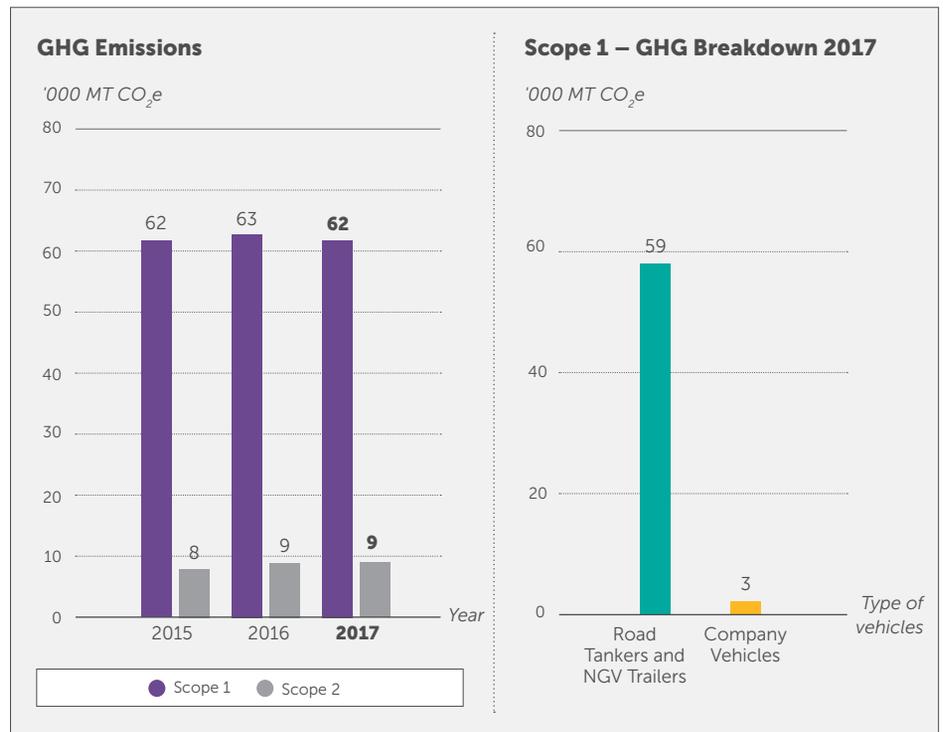
GHG EMISSIONS AND ENERGY USE

PDB recognises that emissions of CO₂ and other GHG from our operations contribute to global climate change. We are focused on reducing these emissions via greater operational efficiencies, supporting PETRONAS' Position Statement on Climate Change.

PETRONAS' POSITION STATEMENT ON CLIMATE CHANGE

We duly recognise our corporate responsibility as a player in the global energy sector to balance the issue of climate change with the challenge to sustainably produce affordable and reliable energy.

Our GHG emissions reporting covers direct and indirect emissions from our terminals, fleet and office buildings. Direct GHG emissions (Scope 1) are defined as those from a company's assets. For PDB, this includes our road tanker operations, NGV trailers and company-owned vehicles such as forklifts, bowsers and dispensers. Indirect GHG emissions (Scope 2) are those generated by the consumption of electricity. We have been able to measure this at our regional office buildings and training centre. In 2017, our total GHG emissions measured approximately 71,000 metric tonnes of carbon dioxide equivalent (MT CO₂e).



In December 2017, independent verification of our GHG emissions was conducted by PETRONAS' Downstream Business against the requirements of PETRONAS Technical Standards that is aligned with ISO 14064 (Part 3). The exercise also served to help us meet international requirements over the long-term.

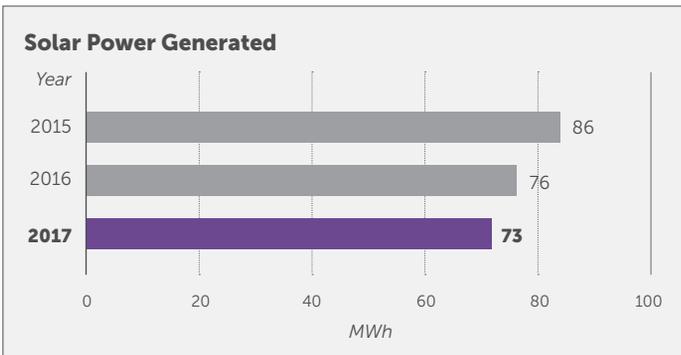
SUSTAINABILITY INITIATIVES

Renewable Energy

We support and contribute towards the Government’s target to reduce the nation’s GHG emissions by 45% by 2030 from the 2005 baseline. One initiative towards this end is the installation of solar panels at our PETRONAS Station Solaris Putra and PETRONAS Station Solaris Serdang. During the year under review, these solar panels generated approximately 73 MWh of electricity, which was fed back to the grid.



Solar panel at PETRONAS Station, Solaris Putra



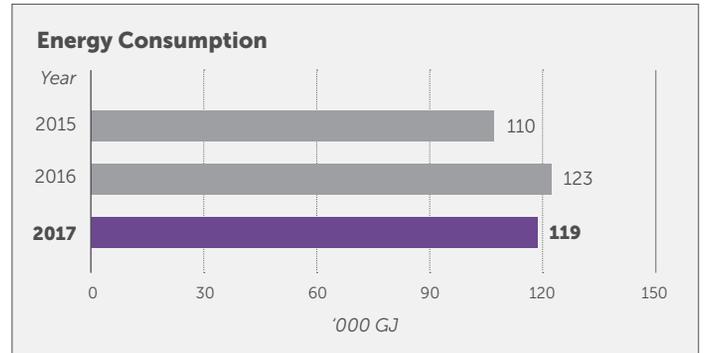
We have installed 55 ChargeEV facilities and are at the forefront of the downstream petroleum products industry to promote a low carbon energy landscape. In October 2017, we entered into a tripartite partnership with GreenTech Malaysia and TNBES to install ChargeEV and solar photovoltaic panels at 100 stations by end of 2018. The stations will also be equipped with LED lighting.



Customer charging at ChargeEV facility

Energy Efficiency

As the cost of energy continues to rise, energy consumption is becoming more significant in the total cost of our operations. During the year under review, PDB consumed 19,000 MT of Diesel, while electricity consumption from our terminal operations, training centre and regional offices measured approximately 119,000 GJ.



To increase our energy efficiency, we installed Variable Speed Drives in four hydrant pumps at KAFS Terminal and Kuantan Fuel Terminal. These pumps are expected to reduce our electricity consumption by more than 10% compared to conventional pumps.

In addition, we installed an energy-efficient “hybrid” split air conditioning system at the Melaka Fuel and LPG Terminal in a pilot project. The system is expected to reduce our energy consumption by 40% - 50% by recovering heat generated by the split unit air-conditioner.

In 2015, PDB began investing in energy-saving LED lighting as well as solar photovoltaic technology. LED lights were installed in the forecourt and perimeter of our stations, and was used for their signages. Apart from improving overall lighting quality, the LED lights are expected to save as much as 50% electricity compared to conventional fluorescent lights. To date, a total of 76 PETRONAS stations have been installed with LED lighting.



LED lighting at PETRONAS station

SUSTAINABILITY INITIATIVES

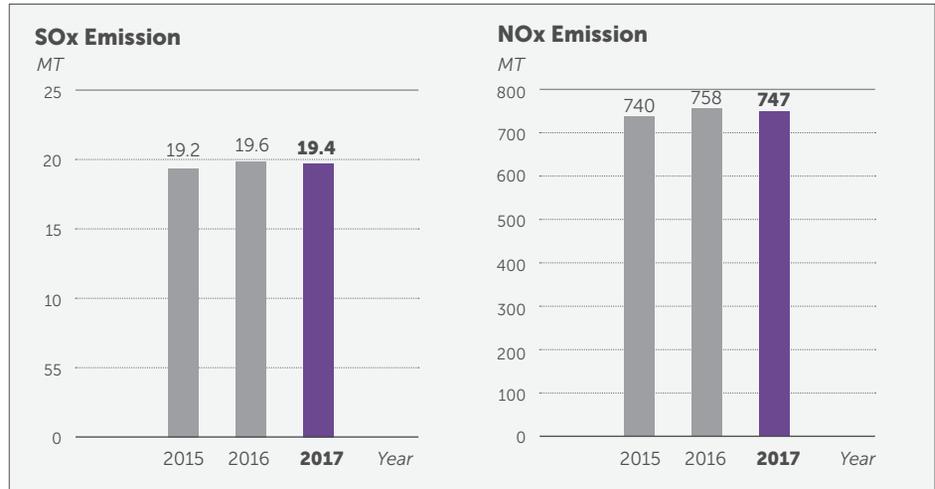
AIR EMISSIONS

Air emissions are gaseous pollutants, most commonly SOx and NOx. At PDB, these are released by our fleet operations and Diesel consumption at our terminals. During the year under review, both SOx and NOx emissions reduced slightly, from 19.6 MT in 2016 to 19.4 MT and from 758 MT to 747 MT, respectively.

As part of our environmental stewardship, we invest in R&D to develop energy-efficient fuel products. Over the years, we have been able to formulate fuels that enhance engine performance with lower emissions. Following the successful launch of PETRONAS Primax 97 with Advanced Energy Formula in 2016, this year, the Company launched the new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive, a new-generation sulphur-free Diesel which meets Euro 5 standards, while delivering superior fuel economy. With a higher cetane number, PETRONAS Dynamic Diesel Euro 5 with Pro-Drive improves combustion resulting in an overall reduction in vehicular emissions of SOx and NOx, particulate matters and volatile organic compounds. We now have over 700 stations supplying PETRONAS Primax 97 with Advanced Energy Formula, while PETRONAS Dynamic Diesel Euro 5 with Pro-Drive is currently available at 60 stations with planned expansion to 115 stations by the middle of 2018, including Sabah and Sarawak.



Customer fuelling with Biodiesel



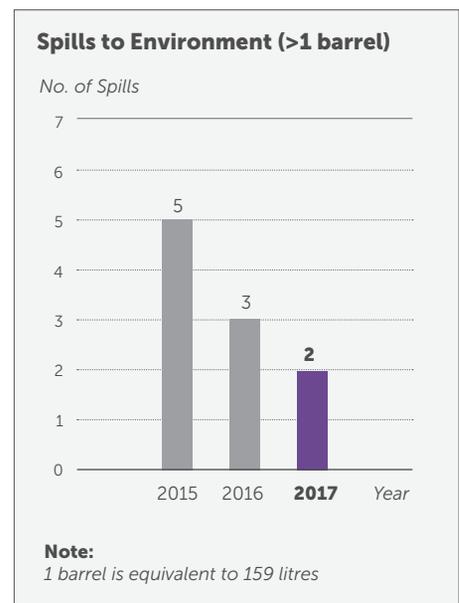
SPILLS

We have clear requirements and procedures to prevent operational spills, on both water and land, with particular emphasis on risk management, operations integrity and containment capabilities. Asset integrity and process safety are integral to the maintenance of our facilities and pipelines.

All our fuel storage and dispensing systems are equipped with secondary containment, leak detection and monitoring systems to prevent and detect releases into the environment. Spill and overfill control equipment ensure the filling of underground storage tanks is safe. To enhance our asset integrity, old components are replaced through regular maintenance and upgrading programmes. In 2014, we embarked on a Spill Prevention Programme, which is ongoing, focused on design and integrity improvement, maintenance and replacement of piping, connections, storage and associated fittings. In 2017, more than 97% of piping replacement work was completed at 160 PETRONAS stations under Phase 3 of the programme.

The number of hydrocarbon spills greater than one barrel reduced to two from three incidents in the previous year.

Emergency oil spill response exercises are carried out as part of our emergency preparedness and crisis management programme. We leverage strategic partnerships with relevant authorities and organisations such as the Petroleum Industry of Malaysia Mutual Aid Group to enhance our vigilance and ensure faster response in the event of an oil spill.



SUSTAINABILITY INITIATIVES

WASTE

We recognise the need to manage our waste responsibly to meet regulatory requirements. This includes efforts to reduce the amount of waste generated, and to recycle or recover materials where possible.

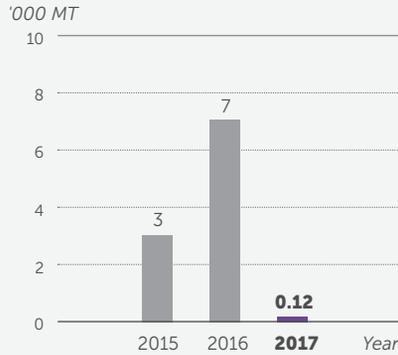
In 2017, we generated a total of 382 MT of hazardous waste compared to 8,000 MT in 2016, consisting primarily of waste oil and oily sludge from our terminals. 209 MT was recovered, mainly spent hydraulic oil and spent lubricant. We will continue to collect and analyse our waste data to find ways to minimise generation, reduce disposal and increase our recycling and recovery efforts.

The volume of waste generated and disposed in 2016 was high due to spills leading to oil-contaminated materials. As a result of concerted efforts to prevent spills, our performance improved significantly in 2017.

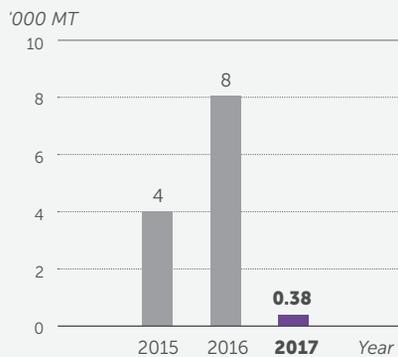


A seven-month recycling campaign organised in the KLCC office collected a total of 0.65 MT of paper and glass waste

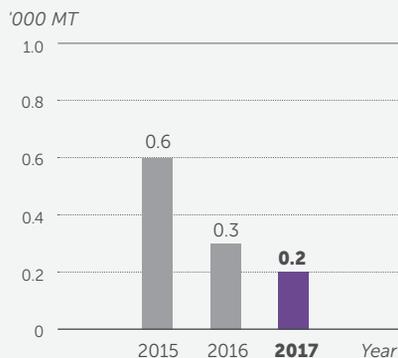
Hazardous Waste Disposed



Hazardous Waste Generated



Hazardous Waste Recycled



WATER

At our terminals, we use water primarily for washing, maintenance and chain lubrication, and a smaller volume to satisfy employees' needs. Although our withdrawal is not high compared to other downstream operating units, we believe in using water responsibly as it is becoming a

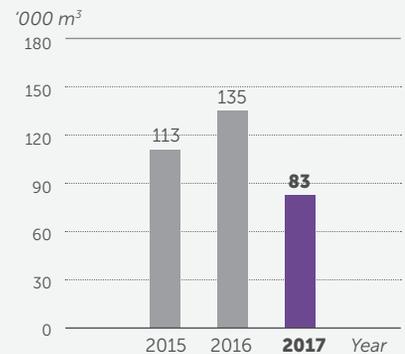
scarce resource amid growing population, urbanisation and industrialisation.

We have continuously worked to reduce the amount of water withdrawal throughout our operations by reusing of water for LPG cylinder washing where appropriate, conducting piping inspection to check for leakages and carrying out repairs. This has resulted in significant reduction of freshwater withdrawal during the year under review to 83,000 m³ from 135,000 m³ in 2016.

As part of our efforts to reduce freshwater withdrawal, we installed a rainwater harvesting system at Sepangar Bay LPG terminal and Labuan Fuel Terminal which includes a 4,500-litre tank with associated piping. Rain water in gutters around the filling plant is channelled into the harvest tank, and then used for cleaning and gardening.

We are now extending our water-related initiatives beyond our terminals. During the year under review, we embarked on a programme to reduce water use at PETRONAS stations by replacing the conventional water taps in the toilet with more efficient designs. To date, the taps in 15 stations have been replaced and we target to complete the exercise at 300 stations in 2018.

Freshwater Withdrawal



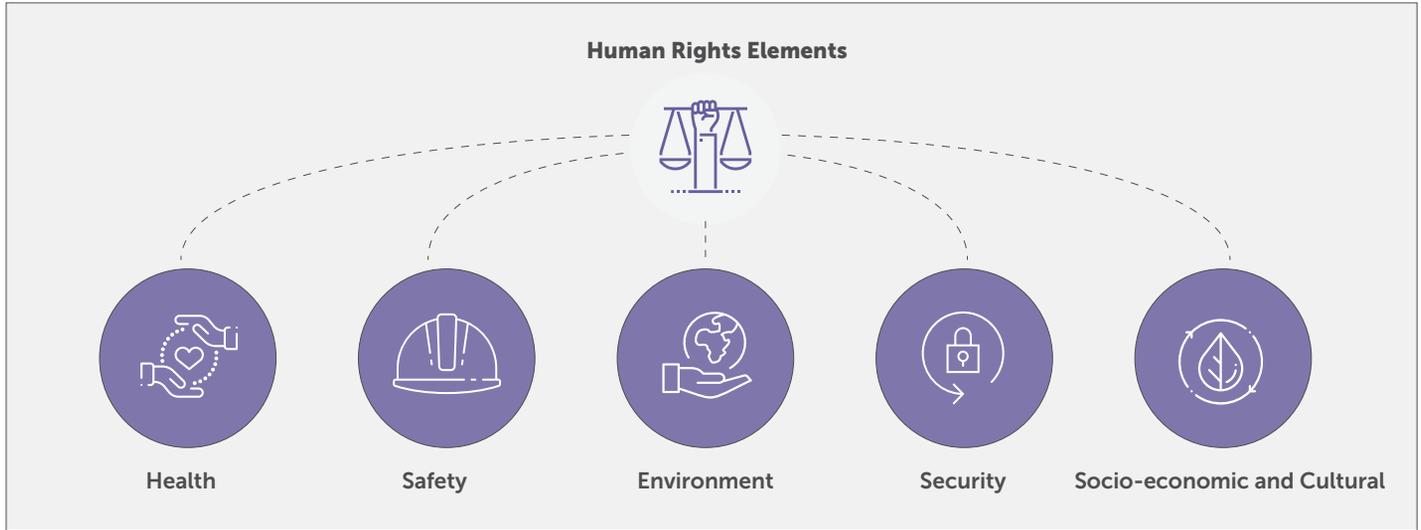
SUSTAINABILITY INITIATIVES



HUMAN RIGHTS

At PDB, we acknowledge our responsibility to ensure that the rights of people impacted by our operations are not compromised, and to avoid complicity in potential human rights violations in our relationships with dealers, contractors, suppliers and the community.

To guide us in our actions, we have adopted PETRONAS' Human Rights commitment, which is in line with the UN's Guiding Principles on Business and Human Rights. Having rolled out the commitment Group-wide in 2016, we are targeting our communication efforts and attention at our dealers, suppliers and contractors for the next few years.



In July 2017, we strengthened our human rights commitment by incorporating the requirements of the General Terms and Conditions of PETRONAS' Contractors Code of Conduct on Human Rights in all new contracts. We also embarked on a Social Risk Assessment of our Retail Business, covering new and existing operations, to identify and manage salient human rights issues. The SRA covers elements related to Community Well-Being, Supply Chain, Responsible Security and Labour and Working Conditions.

PDB participated in the inaugural PETRONAS Sustainability Exchange Day that was held to further enhance sustainable development awareness. External speakers from United Nations Development Programme and IPIECA were invited to bring in their wealth of knowledge about Sustainable Development Goals that includes Human Rights aspects

SUSTAINABILITY INITIATIVES

FORCED AND CHILD LABOUR

As a socially responsible organisation, we uphold and are governed by the prevailing labour legislation. The Company adheres to the Employment Act 1955 which states that all employment shall be based on contract of service. At PDB, all employment offers are based on "Offer and Acceptance" where employees enter into contract of service on their own free will.

We fully comply with the Children and Young Persons Employment Act 1966 and have never engaged children or young persons in our business operations. We abide strictly with PETRONAS' Talent Sourcing Policy and Procedure which has clear guidelines and criteria in hiring employees.

NON-DISCRIMINATION ON HIV STATUS

PDB is guided by PETRONAS' Policy on HIV/AIDS in respecting human rights, dignity and the 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.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

The Company respects employees' right to freedom of association, consistent with Article 10 of the Constitution of Malaysia, and encourages staff to participate in voluntary public service, associations and other community activities outside of working hours. At the same time, employees are expected to adhere to CoBE Part II G on Conduct Contrary to Duty, i.e. to fulfil their obligation to serve diligently while involved in such activities/associations.

PETRONAS has four in-house unions under the KAPENAS umbrella, with different entities serving employees in Peninsular Malaysia, Sarawak, Sabah and Labuan. The establishment of these unions is in line with the Industrial Relations Act 1967. We recognise each union as the sole principal and collective bargaining body for member employees whom are entrusted to uphold the well-being of employees through continuous engagement and promoting a harmonious relationship between PETRONAS and its employees.

PDB maintains a good relationship with KAPENAS for the benefit of the Company and the 677 employees who are union members. During the year under review, six engagement sessions were held with KAPENAS which saw the participation of Management, executive and non-executive staff to address concerns pertaining to monetary and non-monetary provisions. Non-monetary provisions include the health and safety of employees, such as the provision of relevant personal protective equipment. Agreed outcomes will be incorporated into the Collective Agreement when it is renewed.

PETRONAS renews its Collective Agreement with KAPENAS every three years. The current Collective Agreement is for the period 2016-2018.



Engagement with KAPENAS members

In addition, PDB makes provisions for executives to register with professional bodies, especially when this is necessary to carrying out their job functions. We reimburse such employees for the entry fees as well as the subsequent annual/monthly subscription fees to the professional body or association.

SUSTAINABILITY INITIATIVES



CORPORATE SOCIAL INVESTMENT

PDB takes our community outreach programmes to heart as we believe that contributing to the well-being of the people and the community residing in areas where we operate in is the right thing to do. CSI is an important platform through which we are able to give back to communities that have fuelled our business growth.

Our approach to CSI is guided by the Group’s philosophy of integrating into the communities where we operate and empowering members of these communities through educational and social development programmes, as well as environmental protection.

Through educational initiatives, we seek to shape young minds in a way that will enhance their lives, and that of community at large. Efforts such as PETRONAS StreetSmart, for example, help to nurture a generation of responsible road users. This is supported by our flagship Coffee Break Campaign, through which we remind

motorists to drive safely when they travel during festivities. Our community well-being and development programmes are geared towards uplifting communities. We have identified clean water supply as a key area in which we can make a difference, and have completed 14 water supply projects nationwide since inception in 2013, benefitting a total of 6,000 villagers. Meanwhile, through various environmental efforts, we seek to conserve natural resources for current and future generations.

We also encourage participation of our employees in our CSI initiatives as it represents an opportunity for them to have a positive impact on local communities and the environment, which enhances their personal and professional development. To encourage volunteerism, and demonstrate the extent to which PDB values our communities, employees’ participation and contribution are recognised by the Company. During the year under review, 600 employees took part in various programmes organised.



PETRONAS Coffee Break Campaign

The Company’s flagship safety campaign to ensure safety on the roads during festivals such as Chinese New Year, Hari Raya and Kaamatan and Gawai festivals.

Mechanism



Provision of **complimentary coffee and snacks** at selected PETRONAS stations

Impact



Over **1.6 million** cups of coffee were given away at more than **130 PETRONAS stations** nationwide

SUSTAINABILITY INITIATIVES



PETRONAS StreetSmart

A road safety awareness programme to educate on the need to stay vigilant and safe on the road among primary and secondary school students.

Mechanism



Half-day programme carried out at schools nationwide in collaboration with **PETRONAS Science Discovery Centre (PETROSAINS)**

Impact



Reached over

1,000
students



Water For Life

The programme provides communities access to supply of clean water especially those living in the rural areas. It also serves to advocate water conservation amongst the locals to ensure sustainability of the resource for the years to come. The programme is carried out in collaboration with the Malaysian Nature Society.

Mechanism



Development of necessary infrastructure to provide clean water supply

Impact



Benefitted over

2,050 residents in **3 villages**

SUSTAINABILITY INITIATIVES



Bubur Lambuk Sponsorship

Yearly Ramadan programme with Masjid Jamek Kampung Baru Kuala Lumpur to foster closer relationship with the local community. Throughout the Ramadan month, the mosque prepares and distributes over 5,000 packs of *Bubur Lambuk* daily. PDB's sponsorship helped to ensure the continuation of this yearly tradition.

Mechanism



Sponsorship of Gas PETRONAS cylinders for the preparation and distribution of *Bubur Lambuk*

Impact



More than **5,000** packs of **Bubur Lambuk** distributed



Delivering Happiness

A week-long community programme with Grab Malaysia to encourage Malaysians to donate to underprivileged children.

Mechanism



Grab drivers picked up school-related items donated by Malaysians and delivered to collection centres established at **20 PETRONAS stations** nationwide

Impact

10,000 items donated to **900** underprivileged children in **13 orphanages**

SUSTAINABILITY INITIATIVES

LOCAL ECONOMIC OPPORTUNITIES

In all ways possible, we support the local economy by engaging local suppliers and contractors. All our distributors and dealers are Malaysian-owned companies who have registered with PETRONAS and have the necessary licence to carry out the required scope of work. These include our *Rakan Niaga* at more than 1,000 PETRONAS stations. In addition to providing business to our dealers, we support them with capability development training.

During the year under review, we further increased the number of local suppliers we support by initiating Mornings@Mesra through which we offer quick and affordable breakfast options to customers at over 450 participating PETRONAS stations. Since launching the programme in March, we have engaged more than 500 SME food suppliers selected based on non-compromising guidelines by PDB. The programme has helped us increase food services sales by more than 20% as compared to 2016. Given the overwhelming response, we will endeavour to continuously enhance this initiative for the benefit of customers and local vendors alike.

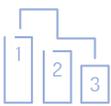
Standard guidelines provided to station dealers include criteria on:

	Food selection
	Food presentation (e.g. hygiene standards, promotional material, food display methods)
	Food server 'uniform' (e.g. apron, beret)

INCREASE IN FOOD SERVICES SALES

Average **FY 2017** vs **FY 2016**  **>20%**

INITIATIVE REACH

			
SME FOOD SUPPLIERS ~500 nationwide	OUTLETS PARTICIPATING >450 nationwide	TOTAL FOOD SALES Nearly 5% contribution to <i>Kedai Mesra</i> monthly sales	TOP-SELLING FOOD <i>Nasi Lemak</i> , Noodles, Sandwiches, assortment of rice, cakes and snacks

LOCAL EMPLOYMENT



Krew PETRONAS are trained to deliver consistent service delivery

PDB contributes to economic growth through direct employment, by helping to create jobs and supporting local businesses. Our dealers are encouraged to provide various employment opportunities to locals, especially at PETRONAS stations where they receive on-the-job training as *Krew PETRONAS*. This was evident through the employment of over 9,700 Malaysians at PETRONAS stations nationwide. In addition, employment opportunities are also made available through businesses appointed to supply locally-made products for sale at *Kedai Mesra*.

SKIM LATIHAN 1MALAYSIA

Skim Latihan 1Malaysia, or the Graduate Employability Enhancement Scheme, is a government-led soft skills training programme aimed at enhancing the marketability and employability of Malaysian graduates. The programme is open to youths aged 26 years or below old with a minimum of a Bachelor's degree, who have been unemployed for at least six months after graduation. Priority is given to underprivileged graduates.

During the year under review, 14 trainees from across the country including Sabah and Sarawak were given the opportunity to undergo the programme in PDB.

SUSTAINABILITY INITIATIVES



CUSTOMER EXPERIENCE

We strive to deliver customer experience through the lens of our consumers. We constantly work towards designing an unforgettable experience for our customers whilst fulfilling their daily needs. Their feedback guides us in designing programmes and promotions suited to their demands and preferences. The following are several key initiatives launched during the year under review, inspired by what our customers had to say:

- Mornings@Mesra was introduced to make it simple for our customers to grab a quick bite at a reasonable price at our convenience stores.
- 3x Mesra Points was introduced to reward our customers for their loyalty, in addition to giving them added value on their transactions at our stations.
- Introduced PETRONAS Motorsport's PRIDE X PERFORMANCE Collection at affordable prices, as well as collaborated with Telekom Malaysia to make Kuala Lumpur 2017 Games merchandise available for sale at our stations.
- Actively leveraged on e-commerce platforms as another channel for our customers to purchase PETRONAS gift cards and other merchandise at their convenience.

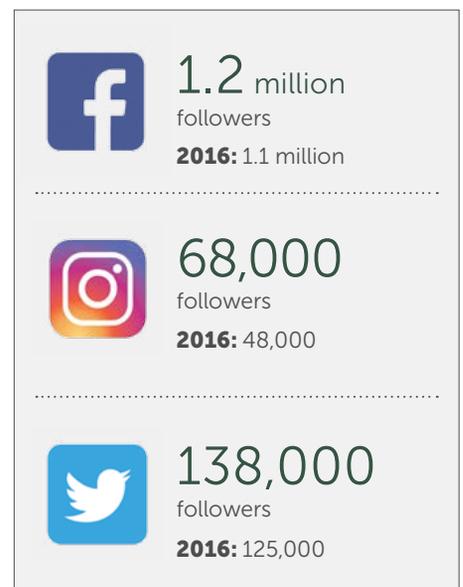


We continuously measure our delivery of customer experience by closely monitoring our NPS. The NPS indicates how well we are doing from our customers' point of view. A higher score reflects a larger number of loyal customers advocating our brand.

CUSTOMER ENGAGEMENT

Being a customer-centric organisation, we engage customers in many ways through various channels. This is crucial for us to understand their views. That way, not only are we able to connect with them effectively, we would also be able to improve our service delivery to fulfil their needs. Customers are able to reach us by calling or writing to our Mesralink service line, sharing their experiences on our website and social media platforms, as well as speak to our station operators.

To serve our customers better, we have designed processes to address their queries or concerns promptly through an established mechanism, where we are able to document all their feedback and identify effective solutions for improvement. We set a service level standard as an indicator to track customer feedback and our resolution promptness.



SUSTAINABILITY INITIATIVES

CUSTOMER PRIVACY

In delivering convenient solutions to customers via *Kad Mesra*, PETRONAS SmartPay fleet cards and, more recently, embarking on digital technology through contactless mobile payment, we deem it paramount that customer privacy is handled with utmost care, so as not to jeopardise sensitive information. We have adopted all data management best practices aside from adhering to regulations and external guidelines such as the Personal Data Protection Act 2010, Bank Negara Secrecy Provisions of Financial Services Act 2013, Islamic Financial Services Act 2013, Development Financial Institutions Act 2002, as well as the Payment Card Industries Data Security Standards.

In addition, not only have digitalisation and implementation of new tools allowed swift communication between PDB and customers, they also provide structured records and trails to reinforce security processes. Collectively, data protection activities are monitored end-to-end from the point of data collection to its disposal with strict adherence.

CUSTOMER HEALTH AND SAFETY

PDB places significant importance on communicating the proper way of handling our products to protect customers' safety. Safety tips are shared diligently through various channels. At our stations, we have clear signage on safe behaviours that must be adhered to before, during and after refuelling. Our Commercial and LPG personnel, too, ensure customers have adequate knowledge to be able to use our products safely. Going a step further, we train our station dealers and their employees to handle non-station related emergencies.

Go-to-Safety-Point Programme

Launched in June 2016 in collaboration with the Royal Malaysia Police, the Go-to-Safety-Point programme assists members of the public facing emergency situations by transforming PETRONAS stations into 'safe spaces'. As at end 2016, PETRONAS station personnel across all regions have been trained to handle trauma victims and administer first aid, in addition to seeking assistance from the police and relevant authorities.

During the year under review, more than 50 cases have been reported across PETRONAS stations nationwide, served under this programme. These included robberies, burglaries, health-related and fire incidents. As this programme, which is part of the National Blue Ocean Strategy has proven to be beneficial to the masses, we look to continue reinforcing its effectiveness across all stations.

**Go-to-Safety-Point Programme**

The programme has been effective in assisting members of the public facing emergency situations. As seen here at the Machap PETRONAS Station Arah Selatan, our *Rakan Niaga* and *Krew PETRONAS* rendered assistance to a motorcyclist involved in a road accident by giving first aid and promptly attending to his needs.

Gas Safety

As part of our product stewardship activities in ensuring customer health and safety, we conduct rigorous inspection of LPG cylinders at our terminals to ensure their reliability and safety. Cylinders that do not meet the set standards are sent for reconditioning. Our dealers are also always ready to explain correct usage and handling of the cylinders to customers through safety talks and inspections upon customers' request. In addition, we participated in events organised by PETRONAS and government agencies such as MDTCC, DOSH and Fire and Rescue Department of Malaysia, using these as opportunities to further educate the public.



Safety inspection at home

SUSTAINABILITY PERFORMANCE

Material Matters	Indicators	Unit	2015	2016	2017
 Environment and Climate Change	Greenhouse Gas Emissions	'000 MT CO ₂ e	70	72	71
	Total Energy generated from Solar Photovoltaic Installations	MWh	86	76	73
	Spill to Environment above 1 barrel (159 Litre)	Number	5	3	2
	Sulphur oxides (SOx) emissions	MT	19.2	19.6	19.4
	Nitrogen oxides (NOx) emissions	MT	740	758	747
	Hazardous waste disposed	'000 MT	3	7	0.12
 Health and Safety	Fatalities	Number			
	• Employees		0	0	0
	• Contractors		0	2	1
	Fatality Accident Rate	Recordable fatalities per 100 million man-hours			
	• Employees		0	0	0
	• Contractors		0	65.69	24.86
 Workforce Development	Lost Time Injury Frequency	No. of LTI per one million man-hours			
	• Employees		1.0	0.49	0
	• Contractors		0	2.95	0.57
	Total Reportable Case Injury	No. of TRC per one million man-hours			
• Employees		1.17	0.73	0.35	
• Contractors		0	3.61	1.30	
 Human Rights	Total employees	Number	1956	1565	1498
	Female Employee Composition				
	• Total Workforce	%	31	32	32
	• Leadership Team		50	30	25
	• Board Composition		22	25	25
	Contract Workforce	%	18	6	6
	Employee Turnover	%	NA	12	8
	Manpower Investment* (salaries and benefits excluding training)	RM Mil	213	223	193
	Training Investment*	RM Mil	7.48	7	5.6
Average Training Man-days per employee*	Days	2.52	2.0	2.26	
Talent Ratio per Critical Positions*	Ratio	2:4:1	2:8:1	2:2:1	
 Corporate Social Investment	Employees under Collective Bargaining Agreements	Number	648	594	590
	Water for Life Output	No. of receivers reached	1,500	2,000	2,050
	StreetSmart Output	No. of receivers reached	1,700	900	1,120
	Coffee Break Output	No. of receivers reached	300,000	974,000	1,625,000
Skim Latihan 1Malaysia	No. of trainees	4	13	14	

*Numbers exclude PDB subsidiaries

Section

05

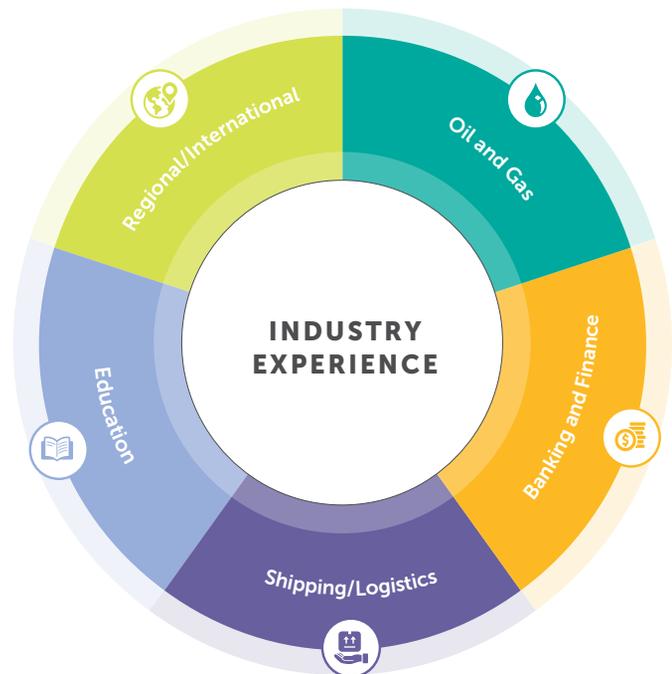
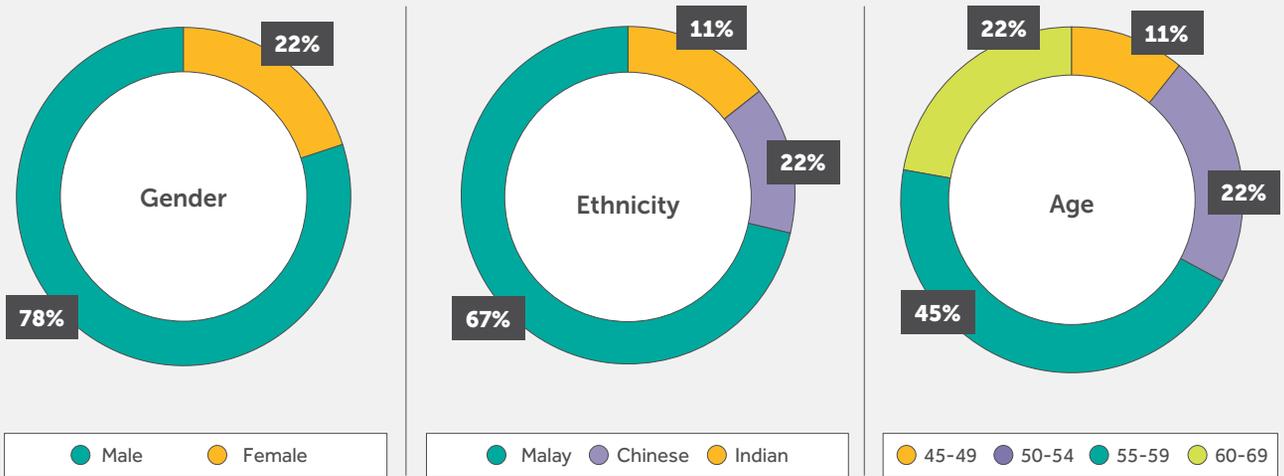
A FRAMEWORK OF TRUST

Governance _____	114	Statement on Risk Management and Internal Control _____	138
Board at a Glance _____	114	• Business Continuity Management	143
Governance Overview _____	115	Corporate Integrity and Ethics _____	148
PDB's Governance Structure _____	116	Shareholder Relations _____	150
How The Board Operates _____	117	Investor Relations _____	150
Board Audit Committee Report _____	127	• Share Price and Market Capitalisation _____	154
Nomination and Remuneration Committee Report _____	132		

> **GOVERNANCE**

BOARD AT A GLANCE

DIVERSITY



* Includes tertiary and professional experience.

GOVERNANCE OVERVIEW <



COMMITTED TO ACHIEVING HIGH STANDARDS OF CORPORATE GOVERNANCE IN THE BOARDROOM AND THROUGHOUT THE GROUP

DEAR SHAREHOLDERS,

I am pleased to present the Company's Corporate Governance Overview Statement for the financial year ended 31 December 2017. This Overview Statement explains how the Board operates and how our governance structure contributes to the achievement of the Group's long-term strategic objectives.

This Overview Statement together with the report from the Board Audit Committee and Nomination and Remuneration Committee provide a description of how the Group has applied and complied with the relevant provisions of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia), Malaysian Code on Corporate Governance 2017 (MCCG 2017) and ASEAN Corporate Governance Scorecard.

We remain committed to achieving full compliance with the MCCG 2017 and to achieving high standards of corporate governance both in the boardroom and throughout the Group. We have used the core principles of the MCCG 2017 as the framework within which we explain our governance practices in this Overview Statement.

LEADERSHIP

One of the important aspects of my role is to ensure appointment of the right leaders which involves having directors with the right range and balance of skills, knowledge, experience and attributes for the Board and for the Company. As at the date of this report, we have made good progress in this area with the appointments of Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir, Shafie Shamsuddin and Alvin Michael Hew Thai Kheam.

Central to an effective Board and to the effectiveness of the contributions of Non-Executive Directors is to ensure that the Board is provided with the right information at the right time. I continue to place great emphasis in ensuring that this is done and that Board and Board Committees agendas cover the right issues.

The Board's role is to review and guide the strategy for the Group and ensure effective implementation whilst monitoring business performance and ensuring the timely and effective assessment and management of business risks. Our goal is to build a sustainable and profitable business admired by customers and stakeholders whilst achieving a strong returns for our shareholders. As the Group continues to evolve, the Board is focused in ensuring that the Group remains on course in achieving its target and long-term value creation.

EFFECTIVENESS

The Nomination and Remuneration Committees is responsible to assist the Board in assessing the effectiveness of individual Directors, the Board as whole and its committees and the contributions of each individual Directors.

In 2017, the Company has appointed an independent third party consultant to assist with the Board Effectiveness Evaluation. The purpose of the evaluation is to measure the effectiveness and performance of the Board and the Board Committees as well as to address the areas for improvement in discharging their role as Directors of the Company. The result of the Board Effectiveness Evaluation was presented to the Board at its meeting held on 26 February 2018.

ACCOUNTABILITY

The Board spent time discussing the areas of risk assessment, risk management and internal control system and assessing the long term prospects of the Company. In addition, we continue to improve the quality of our Financial Reporting to ensure the independence, quality and effectiveness of the external audit process.

RELATIONS WITH SHAREHOLDERS

As Chairman, I am responsible for effective communication with shareholders and for ensuring that the Board understands the views of our shareholders. During the year under review, I have met and spoken with many shareholders at our Annual General Meeting. I believe shareholders support our strategy and are very comfortable with our approach to corporate governance.

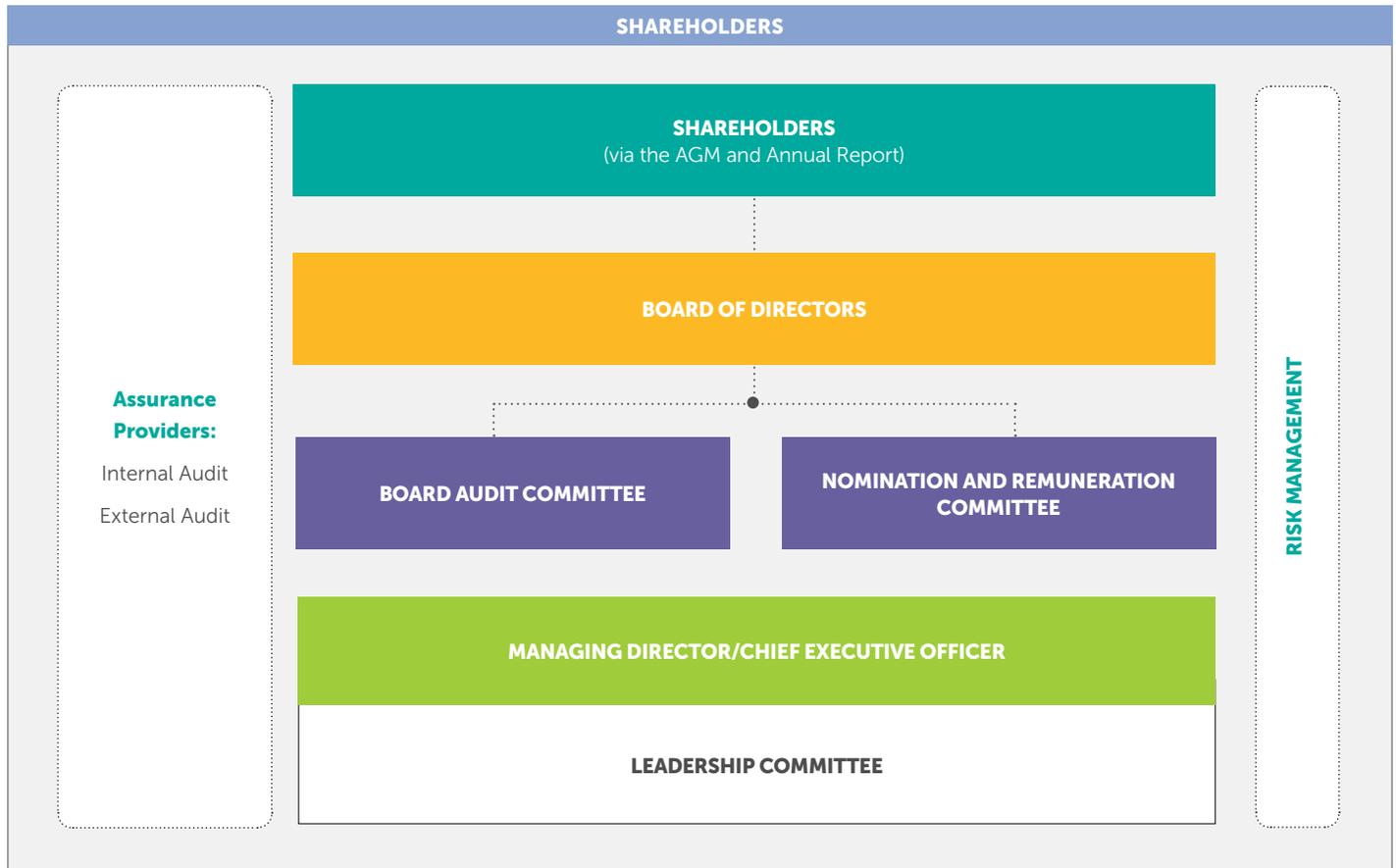
MALAYSIAN CODE ON CORPORATE GOVERNANCE 2017 APPLICATION STATEMENT

As at the date of this report, I am pleased to inform that the Company has generally complied with the Practices of the MCCG 2017. The status of the Company's application is reported in our CG report, which is accessible to the public at the Company's corporate website www.mymesra.com.my.

DATUK MD ARIF MAHMOOD
Chairman

> PDB'S GOVERNANCE STRUCTURE

The Board is committed to ensuring there is a strong and effective system of corporate governance in place to support the successful execution of the Group strategy. The table below describes the Company's governance structure, an overview of the key Committees of the Board and other administrative committees.



HOW THE BOARD OPERATES

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;
- To ensure that there is an appropriate succession plan for members of the Board and the Leadership Team; and

- To be accountable to its shareholders, and to some extent, the Board may also be accountable towards a wider range of stakeholders affected by PDB's decision such as employees, suppliers, customers, the local community and the state/country where PDB is operating.

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

 For more information on Board Charter, please refer to PDB's corporate website at www.mymesra.com.my.

INDIVIDUAL ROLES

The effective working of the Board is crucial to the long-term prospects and strategic aims of the Company. This is achieved through strong and open working relationships between the Directors and, in particular, the Chairman and Senior Independent Director.

Additionally, the Board practices a clear demarcation of duties and responsibilities between the Chairman and Managing Director/Chief Executive Officer (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. A short summary of their roles and division of responsibilities is set out below.

CHAIRMAN

DATUK MD ARIF MAHMOOD

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

 For more information on Chairman's profile, please refer to page 18 of this Annual Report

- Leading the Board in setting the values and ethical standards of PDB;
- Chairing the Board meetings and stimulating debates on issues and encouraging positive contributions from each Board member;
- Consulting with the Company Secretary in setting the agenda for Board meetings and ensuring that all relevant issues are on the agenda;
- Maintaining a relationship of trust with and between the MD/CEO and Non-Executive Directors;
- Ensuring the provision of accurate, timely and clear information to Directors;
- Ensuring effective communication with shareholders and relevant stakeholders;
- Arranging evaluation of performance of Board members, its Committees and individual Directors, including assessment of the independence of Independent Directors;
- 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;
- Allowing every Board resolution to be voted on and ensuring the will of the majority prevails;
- Casting his votes in accordance with the prescribed PDB's Constitution;
- 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
- Acting as liaison between the Board and Management, and between the Board and the MD/CEO.

HOW THE BOARD OPERATES

MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER

DATO' MOHD IBRAHIMNUDDIN MOHD YUNUS

The MD/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group's strategies and policies and is assisted by the Leadership Team in managing the business on a day-to-day basis, with whom he consults regularly.

 For more information on MD/CEO's profile, please refer to page 19 of this Annual Report

- 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;
- Develop and recommend to the Board the business plan and budget that support PDB's and/or Group's long-term strategy;
- Foster a corporate culture that promotes ethical practices, encourages individual integrity and the fulfillment of PDB's corporate social responsibilities;
- Maintain a positive and ethical working environment that is conducive to attracting, retaining and motivating a diverse workforce at all levels;
- Recommend suitable management structure and operating authority levels which include delegations of responsibilities to the Management;
- Ensure an effective Leadership Team below the level of the MD/CEO and to develop an appropriate succession plan;
- Formulate and oversee implementation of major corporate policies;
- Accountable to the Board for the financial management and reporting, including forecasts and budgets of PDB;
- Periodic reporting to the Board on the Group's financial and business performance;
- Ensure continuous improvement in quality and value of the PDB's products and services; and
- Serve as spokesperson for PDB.

SENIOR INDEPENDENT DIRECTOR

LIM BENG CHOON

Lim Beng Choon fulfills the criteria of an Independent Director pursuant to the MMLR of Bursa Malaysia was appointed as the Senior Independent Director of the Company.

 For more information on Senior Independent Director's profile, please refer to page 19 of this Annual Report

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 or directed to the following address:

Lim Beng Choon

Senior Independent Director
 PETRONAS Dagangan Berhad
 Level 28, Tower 1, PETRONAS Twin Towers
 Kuala Lumpur City Centre
 50088 Kuala Lumpur
 Malaysia

HOW THE BOARD OPERATES

BOARD DIVERSITY POLICY

PDB has a diversity policy to ensure that the mix and profiles of our Board members, in terms of age, ethnicity and gender, provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management. The Board also supports the country's aspirational target of 30% representation of women directors.

We believe that a truly diverse and inclusive Board will leverage on differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and geographical background, age, ethnicity and gender which will ensure that the Company retains its competitive advantage.

In connection with its effort to create and maintain a diverse Board, the NRC will:

- Adhere to the recruitment and sourcing process that seeks to include diverse candidates, including women in any director search.
- Assess the appropriate mix of diversity including gender, ethnicity, age, skills, experience and expertise required on the Board and address gaps, if any.
- Make recommendations to the Board in relation to the appointments and maintain an appropriate mix of diversity, skills, experience and expertise on the Board.
- Periodically review and report to the Board on requirements in relation to diversity on the Board, if any.

The NRC will review and assess annually the composition of the Board in respect to gender, experience, skills, age and knowledge. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

BOARD MEETINGS

The Board meets at least quarterly with additional meetings convened as and when necessary. The Board, Board Committees and Annual General Meeting (AGM) meetings for the year under review were scheduled in November 2016 to facilitate the Directors in planning ahead and incorporating the said meetings into their respective schedules.

At all meetings, the Board practices strong culture of open debate and raises challenging questions. Amongst matters deliberated at the Board meetings include strategies, business plans and budget, financial and business performance report, divestments and financial decisions, corporate risks report, key policies, limits of authority and corporate governance. The respective Chairman of Board Audit Committee and Nomination and Remuneration Committee also updates 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 held a total of four meetings. 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.

The details of the meetings of the Board, Board Committees and AGM convened during the year under review are set out below:

	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Nomination and Remuneration Committee Meeting	● 16 January 2017	● 17 May 2017		● 12 October 2017
Board Audit Committee Meeting	● 16 February 2017	● 12 May 2017	● 16 August 2017	● 7 November 2017
Annual General Meeting		● 19 April 2017		
Board Meeting	● 21 February 2017	● 18 May 2017	● 21 August 2017	● 10 November 2017

HOW THE BOARD OPERATES

DIRECTORS' ATTENDANCE AT BOARD OF DIRECTORS, BOARD COMMITTEES AND ANNUAL GENERAL MEETING

Name of Board Members	Designation/ Independence	Attendance			AGM
		Board	Committee		
			BAC	NRC	
CHAIRMAN					
Datuk Md Arif Mahmood	<i>Chairman, Non-independent Non-Executive Director</i>		-	-	√
EXECUTIVE DIRECTOR					
Dato' Mohd Ibrahimuddin Mohd Yunus	<i>Executive Director</i>		-	-	√
NON-EXECUTIVE DIRECTORS					
Lim Beng Choon	<i>Senior Independent Director</i>				√
Vimala V. R. Menon	<i>Independent Non-Executive Director</i>				√
Datuk Anuar Ahmad	<i>Independent Non-Executive Director</i>			-	√
Nuraini Ismail	<i>Non-Independent Non-Executive Director</i>			-	√
Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir <i>(Appointed on 31 July 2017)</i>	<i>Non-Independent Non-Executive Director</i>		-		N/A
Ir Mohamed Firouz Asnan <i>(Resigned on 31 July 2017)</i>	<i>Non-Independent Non-Executive Director</i>		-		√
Erwin Miranda Elechicon <i>(Resigned on 31 July 2017)</i>	<i>Independent Non-Executive Director</i>		-		√

BOARD STRATEGIC CONVERSATION

The Board Strategic Conversation with the Leadership Team of PDB was held on 13 October 2017 to deliberate on the market outlook, external environment analysis, business strategies and growth plans.

INFORMATION AND SUPPORT

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 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.

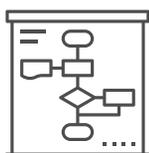
Presentations and briefings by the Management and relevant external consultants, where applicable, are also held at Board meetings to advise the Board. In this regard, relevant information is furnished and clarifications are given to assist the Board in making a decision.

HOW THE BOARD OPERATES

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.

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.

HIGHLIGHTS OF BOARD ACTIVITIES DURING 2017



STRATEGY



- Divestment of entire interest in PETRONAS Energy Philippines Inc. and Duta Inc.
- PDB Readiness Towards Market Deregulation
- Divestment of Thang Long LPG Company Limited
- Business Plan and Budget for FY2018 to FY2022
- External Environment Analysis
- Key Strategy for Retail Transformation
- PDB Growth Strategy Deliberation
- Competitive Landscape
- New Business Model for Dealership

PERFORMANCE



- Quarterly Group Performance
- Audited Financial Statements for FY2016
- Quarterly Results
- Quarterly Interim Dividend

RISK AND INTERNAL CONTROLS



- Quarterly PDB Business Risk Report
- PDB HSE Policy Review
- PDB Corporate Risk Profile
- Quarterly PDB's General Litigation and Arbitration Cases
- Quarterly Audit Status Report

GOVERNANCE



- 2016 Annual Report Statements
- Board Selection Criteria
- PDB Sustainability Plan and Material Sustainability Aspects
- Analysis on Performance Evaluation for Board of Directors and Board Committee Members
- Renewal Terms of Independent Director
- Companies Act 2016 : Highlights of Key Changes
- Malaysian Code on Corporate Governance 2017

HOW THE BOARD OPERATES

CONTINUING DEVELOPMENT PROGRAMME FOR DIRECTORS

As at the date of this report, all the Directors except Shafie Shamsuddin have attended the Mandatory Accreditation Programme (MAP) as required under the MMLR of Bursa Malaysia. Shafie Shamsuddin will attend the MAP from 12-13 March 2018.

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 on-boarding 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.

In line with Paragraph 15.08 of MMLR, 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, finance, global business developments and relevant industry updates which they considered as useful for the effective discharge of their duties as Directors.

During the year under review, the Directors participated in seminars and training programmes, the details of which are set out below:

DIRECTOR	DEVELOPMENT PROGRAMME
<p style="text-align: center;">1</p> <p style="text-align: center;">DATUK MD ARIF MAHMOOD</p>	<ul style="list-style-type: none"> I 5 April 2017 SPE Asia Pacific Health, Safety, Security, Environment & Social Responsibility Conference (SPE AP HSSE –SR) <hr/> II 7 - 9 May 2017 19th Asia Oil & Gas Conference (AOGC 2017) <hr/> III 13 – 14 November 2017 Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) <hr/> IV 13 December 2017 Appreciating the PETRONAS Cultural Beliefs
<p style="text-align: center;">2</p> <p style="text-align: center;">DATO' MOHD IBRAHIMUDDIN MOHD YUNUS</p>	<ul style="list-style-type: none"> I 26 January 2017 Media Spokesperson Training <hr/> II 1-2 March 2017 PETRONAS Top Leaders Dialogue <hr/> III 25-26 July 2017 Invest Malaysia Kuala Lumpur <hr/> IV 11 December 2017 Effective Strategy for Stakeholder Management <hr/> V 13 December 2017 Appreciating the PETRONAS Cultural Beliefs
<p style="text-align: center;">3</p> <p style="text-align: center;">LIM BENG CHOON</p>	<ul style="list-style-type: none"> I 7 - 9 May 2017 19th Asia Oil & Gas Conference (AOGC 2017) <hr/> II 15 September 2017 Fundamentals of Digital Marketing, Social Media and e-Commerce <hr/> III 23 November 2017 Malaysia Code on Corporate Governance

HOW THE BOARD OPERATES

DIRECTOR	DEVELOPMENT PROGRAMME
<p data-bbox="303 463 337 506">3</p> <p data-bbox="224 512 416 534">LIM BENG CHOON</p>	<p data-bbox="522 378 794 406">IV 23 November 2017 Corporate Financial Reporting – MFRS9</p> <p data-bbox="522 453 1009 512">V 23 November 2017 Understanding and Evaluating Cyber Risk</p> <p data-bbox="522 523 1239 583">VI 5 December 2017 CG Breakfast Series for Directors : Leading Change @ The Brain</p> <p data-bbox="522 593 1040 653">VII 13 December 2017 Appreciating the PETRONAS Cultural Beliefs</p>
<p data-bbox="303 868 337 910">4</p> <p data-bbox="214 917 429 938">VIMALA V.R. MENON</p>	<p data-bbox="522 712 1042 772">I 7 - 9 May 2017 19th Asia Oil & Gas Conference (AOGC 2017)</p> <p data-bbox="522 783 1305 842">II 24 May 2017 Executive Briefing: Malaysian Code on Corporate Governance Update</p> <p data-bbox="522 853 1214 946">III 19 September 2017 Malaysia Institute of Accountants: MFRS9 Financial Instruments: Gearing Up for First-Time Adoption</p> <p data-bbox="522 957 1100 1017">IV 26 September 2017 Fraud Risk Management with PWC – Bursa Malaysia</p> <p data-bbox="522 1027 1040 1087">V 13 December 2017 Appreciating the PETRONAS Cultural Beliefs</p>
<p data-bbox="303 1251 337 1293">5</p> <p data-bbox="211 1300 449 1321">DATUK ANUAR AHMAD</p>	<p data-bbox="522 1153 1422 1212">I 29 March 2017 Being Financially Literate: An Introduction to Understanding Financial Statements</p> <p data-bbox="522 1223 1346 1283">II 15 August 2017 Briefing on Impact of Mandatory Adoption of MFRS to Financial Reporting</p> <p data-bbox="522 1293 872 1353">III 15 August 2017 MCCG 2017 vs MCCG 2016</p> <p data-bbox="522 1364 1040 1423">IV 13 December 2017 Appreciating the PETRONAS Cultural Beliefs</p>
<p data-bbox="303 1606 337 1649">6</p> <p data-bbox="237 1655 406 1676">NURAINI ISMAIL</p>	<p data-bbox="522 1508 991 1568">I 19 January 2017 The Women in Leadership Summit Asia</p> <p data-bbox="522 1578 991 1638">II 1 - 2 March 2017 PETRONAS Top Leaders Dialogue 2017</p> <p data-bbox="522 1649 1305 1708">III 24 May 2017 Executive Briefing: Malaysian Code on Corporate Governance Update</p> <p data-bbox="522 1719 1278 1779">IV 26 July 2017 PETRONAS Leading Women Network - Step Out In Style Workshop</p>
<p data-bbox="303 1855 337 1898">7</p> <p data-bbox="158 1904 485 1964">DATO' SRI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR <i>(appointed on 31 July 2017)</i></p>	<p data-bbox="522 1885 1040 1944">I 13 December 2017 Appreciating the PETRONAS Cultural Beliefs</p>

HOW THE BOARD OPERATES

BOARD	DEVELOPMENT PROGRAMME
<p>8</p> <p>ERWIN MIRANDA ELECHICON <i>(resigned on 31 July 2017)</i></p>	<p>I 17 January 2017 Boards and C-Level Executives : Balancing Trust and Constructive Tension</p>
<p>9</p> <p>IR MOHAMED FIROUZ ASNAN <i>(resigned on 31 July 2017)</i></p>	<p>I 22 March 2017 Remuneration Committee: Attracting and Retaining The Best Talents</p> <hr/> <p>II 4 - 6 April 2017 Asia Pacific Health, Safety, Security, Environment & Social Responsibility Conference (SPE AP HSSE –SR)</p> <hr/> <p>III 30 April - 2 May 2017 Middle East Petroleum & Gas Conference (MPGC 2017)</p> <hr/> <p>IV 7 - 9 May 2017 19th Asia Oil & Gas Conference (AOGC 2017)</p>

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 Management for appropriate actions. The Company Secretaries update the Board on the follow-up of its decisions and recommendations.

The Company Secretaries constantly keep abreast with the evolving regulatory changes and developments in corporate governance through continuous training. During the year under review, the Company Secretaries attending the following training programmes:

COMPANY SECRETARIES	DEVELOPMENT PROGRAMME
<p>1</p> <p>HASNIZAINI MOHD ZAIN</p>	<p>I 22-23 August 2017 Suruhanjaya Syarikat Malaysia National Conference – Implementing the Companies Act 2016. “Moving Together, Greater Together”</p> <hr/> <p>II 4 October 2017 Training on Related Party Transactions</p> <hr/> <p>III 7 November 2017 Updates on Malaysian Code on Corporate Governance 2017</p> <hr/> <p>IV 21 November 2017 Bursa Engagement with PETRONAS on Bursa Rules on Mineral, Oil & Gas</p>
<p>2</p> <p>YEAP KOK LEONG</p>	<p>I 20 September 2017</p> <ul style="list-style-type: none"> • Anatomy of Company under the New Regime of Companies Act 2016 • Managing the Registered Office, Statutory Books, Returns and Other Documents under Companies Act 2016 <hr/> <p>II 13-15 November 2017 ADP Partner Executive Convention</p> <hr/> <p>III 6 November 2017</p> <ul style="list-style-type: none"> • Key Offences under Companies Act 2016 and Role and Responsibilities of Directors • Auditors and Company Secretaries under Companies Act 2016

HOW THE BOARD OPERATES

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 on timely basis 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 corporate website.

The MD/CEO together with the Chief Financial Officer 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.

PDB actively updates its corporate 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.

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 28 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint a 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. Answers to the queries by MSWG prior to the AGM was also shared with the shareholders during the AGM and the same was uploaded on PDB's website prior to the AGM day.

At each AGM, shareholders are encouraged and given sufficient opportunity 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. Since 2017, decisions at PDB's AGM are carried out via electronic voting and on a poll. PDB has engaged independent scrutineers to validate the voting at the AGM for each proposal presented to shareholders.

The Board, Leadership Team and external auditors are present at the AGM to provide answers and clarifications to shareholders.

 For more information on minutes of AGMs, please refer PDB's corporate 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 by Directors in respect of preparation of the annual audited financial statements is set out on page 174 of this Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The information relating to Policies and Procedures on Related Party Transactions and Conflict of Interest 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 138 to 147 and pages 128 to 129 of this Annual Report respectively.

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 Code of Conduct and Business Ethics (CoBE), the Whistleblowing Policy and the Anti-Bribery and Corruption Policy. 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.

 For more information on CoBE and Whistleblowing Policy, please refer to pages 148 to 149 of this Annual Report.

HOW THE BOARD OPERATES

TRADING ON INSIDER INFORMATION

On a quarterly basis, the Company Secretary issues a Notice of Closed Period to Directors and Leadership Team, 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 for vendors' selection. Generally, the main selection criteria is based on technically acceptable and commercially lowest bid.

The Group has established tender committees to carry out independent assessment on bidders' proposals and to ensure tendering activities are carried out in transparent manner.

Tendering processes are as follows:



RELATIONSHIP WITH AUDITORS

EXTERNAL AUDITORS

Through the Board Audit Committee, PDB maintains a professional and transparent relationship with its External Auditors, Messrs KPMG PLT. The Board Audit Committee met the External Auditors once during the year under review without the presence of the Management 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 highlights to the Board Audit Committee any matters that warranted their attention.

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 compliance to regulatory requirements. The audit reports which highlight any findings, along with the recommendations are tabled to the Board Audit Committee.

 For more information on Internal Audit, please refer to page 131 of this Annual Report.

STATEMENT BY THE BOARD ON COMPLIANCE

The Board has deliberated, reviewed and approved this statement and is satisfied that the Group has fulfilled its obligations under the relevant paragraphs of the MMLR of Bursa Malaysia, MCCG 2017 and ASEAN Corporate Governance Scorecard on corporate governance and applicable laws and regulations throughout the year ended 31 December 2017.

This statement is made in accordance with a resolution of the Board of Directors dated 26 February 2018.

DATUK MD ARIF BIN MAHMOOD

Chairman

DATO' MOHD IBRAHIMUDDIN BIN MOHD YUNUS

MD/CEO

BOARD AUDIT COMMITTEE REPORT <

BOARD AUDIT COMMITTEE

BAC

NRC



VIMALA V. R. MENON

Chairman

As at the date of this report, the composition of the BAC is as follows:

Members	Date of Appointment as Board Audit Committee Member	Tenure on the Board Audit Committee
VIMALA V. R. MENON <i>Chairman, Independent Non-Executive Director</i>	25 June 2012	5 years 8 months
LIM BENG CHOON <i>Member, Senior Independent Director</i>	13 August 2012	5 years 6 months
DATUK ANUAR AHMAD <i>Member, Independent Non-Executive Director</i>	15 April 2016	1 year 10 months
NURAINI ISMAIL <i>Member, Non-Independent Non-Executive Director</i>	1 October 2013	4 years 4 months

DEAR SHAREHOLDERS,

I AM PLEASED TO PRESENT THE BOARD AUDIT COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017.

This report provides an insight into the activities of the Board Audit Committee (BAC) during the year under review and how the BAC plays a key oversight role for the Board. As at the date of this report, the BAC is made up of four Non-Executive Directors.

The current composition is in compliance with Paragraph 15.09(1)(b) of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) where all four BAC members are Non-Executive Directors including three Independent Directors who fulfill 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 BAC, 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 Certified Chartered 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 BAC to be a qualified accountant.

IN ADDITION TO COMPLYING WITH THE REQUIREMENTS OF THE MMLR OF BURSA MALAYSIA BERHAD, AUDIT COMMITTEE SERVES TO ASSIST THE BOARD IN FULFILLING ITS OVERSIGHT RESPONSIBILITIES THROUGH REVIEW OF FINANCIAL INFORMATION AND PROVIDES AN OBJECTIVES REVIEW OF THE EFFECTIVENESS AND EFFICIENCY OF THE COMPANY'S INTERNAL CONTROL

BOARD AUDIT COMMITTEE REPORT

BOARD AUDIT COMMITTEE**TERMS OF REFERENCE**

The Terms of Reference (TOR) of the BAC set out the authority, duties and responsibilities of the BAC which are consistent with the requirements of the MMLR and the MCCG 2017. The TOR of the BAC are accessible to the public for reference on PDB's corporate website at www.mymesra.com.my.

Pursuant to Practice 8.2 of the MCCG 2017, the Board, at its meeting held on 26 February 2018, approved the recommendation made by the Nomination and Remuneration Committee to include in the BAC Selection Criteria the requirement for any former key audit partner to observe a 2-year cooling-off period before being appointed as a member of the BAC.

MEETINGS AND ATTENDANCE

The BAC meetings for the year under review were scheduled in November 2016 to allow the members to plan ahead and incorporate the BAC meetings into their respective schedules.

The BAC meetings are scheduled once every quarter with additional meetings convened as and when necessary. During the year under review, the BAC met four times in discharging its duties and functions as a committee of the Board. The record of attendance of the BAC members can be found on page 120 of this Annual Report.

By invitation, the Managing Director/Chief Executive Officer (MD/CEO), Chief Financial Officer (CFO), Head of Internal Audit and External Auditors as well as Head of Risk Management Department attended the BAC meetings to provide the BAC their input, advice, furnish appropriate relevant information and clarification to relevant items on the agenda.

The Head of Internal Audit Division (IAD) presents the internal audit reports to the BAC. As and when required, relevant members of the Leadership Team are invited to apprise the BAC on specific issues arising from the audit findings. The external auditors also attended the BAC meeting to present the external audit plan for the year and the outcome of the statutory audit conducted on the Company and its subsidiaries. The BAC had a private session with the External Auditors during the financial year under review without the presence of the Management.

As part of the BAC'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 on the Group's quarterly financial statements before these were presented to the BAC for review and recommendation for the Board's approval.

The agenda and meeting papers relevant to the business of the meeting are distributed via a secured collaborative software to the BAC members, not less than five business days from the meeting date. This software eases the process of distribution of meeting papers and minimises leakage of sensitive information, as well as enabling the Directors to have access to the proposal papers electronically, anytime and anywhere.

Matters deliberated at the BAC meetings included the review of the Group's financial statements, quarterly results for the announcements to Bursa Malaysia, related party transactions and recurrent related party transactions, external and internal audit reports, 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 BAC meetings are duly recorded in the minutes of each meeting and the signed minutes of each BAC meeting are properly kept by the Secretary. Minutes of the BAC meeting are tabled for confirmation at the following BAC meeting, after which they are presented to the Board for notation.



WHAT THE COMMITTEE HAS DONE DURING 2017

Principal activities performed during the year under review were as follows:

FINANCIAL REPORTING

1. Reviewed the quarterly financial results prior to the approval by the Board, to ensure compliance to the MMLR of Bursa Malaysia, the applicable financial reporting standards as well as other relevant legal and regulatory requirements. The review and discussion were conducted with the MD/CEO and the CFO of PDB.
2. Reviewed the audited financial statements for the year under review prior to the approval by the Board, to ensure that they were prepared in accordance with the provisions of the Companies Act 2016 and the applicable financial reporting standards. The review and discussion were conducted with the MD/CEO and the CFO of PDB.
3. Reviewed and deliberated specific key areas affecting the Group's financial results, and endorsed recommendations made by Management. The key areas deliberated include assessments on the following areas:
 - Impairment indicators on property, plant and equipment and detailed impairment testing.
 - Recognition of provisions including provisions for decommissioning and restoration costs.
 - Carrying value of inventories and any write-offs thereon.
 - Revenue and expenses recognition.

EXTERNAL AUDIT

1. Reviewed and recommended the terms of engagement of the External Auditors for the Board's approval.
2. 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 Committee meetings.
3. Reviewed and approved the External Auditor's annual audit plan for the Group, outlining their scope of work.
4. 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 BAC endorsed the proposed audit fees and the said fees were duly approved by the Board.
5. 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 BAC reviewed the assurance letter from the External Auditors confirming their independence throughout the year under review.
6. During the year under review, PDB engaged the External Auditors for non-audit services mostly for quarterly financial review. Total fees paid to the external auditors are as follows:

Particulars	2017		2016	
	Group RM '000	Company RM '000	Group RM '000	Company RM '000
Statutory audit fees	619	500	619	500
Non-audit fees	195	195	240	240
Percentage of non-audit fees over statutory audit fees	32%	39%	39%	48%

BOARD AUDIT COMMITTEE REPORT

BOARD AUDIT COMMITTEE

INTERNAL AUDIT

1. 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.
2. Reviewed the internal audit, special reviews and investigation reports, audit recommendations and the relevant action plans to strengthen PDB's overall system of governance, risk and internal controls. The BAC also put forward some suggestions for improvement to reinforce the oversight role and to ensure that Management holds individuals accountable for their internal control, risk and governance responsibilities.
3. Assessed the performance of the Head of Internal Audit and the dimensions of the 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

1. Reviewed the effectiveness of the system of internal controls, taking account of the findings from internal and external audit reports.
2. Reviewed the Statement on Risk Management and Internal Controls (SORMIC), which was supported by an independent review by KPMG PLT.
3. Quarterly review of all Related Party Transactions (RPTs) and Recurrent Related Party Transactions (RRPTs).

ANNUAL REPORTING

The BAC reviewed and endorsed the disclosures on the Corporate Governance Overview Statement, BAC Report and SORMIC for the financial year ended 31 December 2017 for inclusion in the 2017 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 114 to 131 and pages 138 to 147 of this Annual Report respectively.

RISK MONITORING

1. Reviewed and endorsed the Company's critical risks as registered in the Corporate Risk Profile.
2. Reviewed the adequacy and effectiveness of the risk management practices through monitoring of the Key Risk Indicators (KRIs) and mitigations implementation as updated in the quarterly Business Risk Reports.

RELATED PARTY TRANSACTIONS

The BAC 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 BAC performed a quarterly review of all RRPTs entered by the Group during the year under review to ensure compliance to PDB's policies and procedures.

RISK MANAGEMENT

The Board has established an organisation structure with clearly defined lines of responsibility and accountability pursuant to its business and operational requirements while ensuring appropriate risk management processes are in place to protect shareholders and stakeholders value.

The Risk Management Unit (RMU) of PDB has been tasked to conduct assessment of risks for the PDB Group of Companies. RMU reports to the BAC on a quarterly basis or as and when necessary. RMU also reports status of identified control measures through Business Risk

Report (BRR), a reporting tool as per Practice 9.1 of the MCCG 2017. For more information on risk management, please refer to SORMIC on pages 138 to 147 of this Annual Report.

BAC plays a vital role in reviewing the adequacy and effectiveness of risk management processes for the Company. In this regard, BAC reviews and challenges the BRR focusing on the status of KRIs and risk mitigation implementation in ensuring effective management of risk.

INTERNAL AUDIT

The Head of Internal Audit reports directly to the Chairman of the BAC to ensure impartiality and independence in executing its role. The incumbent, Abu Bakar Baba is a Qualified Risk Auditor from Institute of Enterprise Risk Management, Malaysia. He holds a Certificate in Business Management from Duke University, United States of America and a Bachelor of Administration (Honours) degree in Business Studies from University of East London, United Kingdom.

PRACTICES AND FRAMEWORKS

IAD's position within the Group, its authority, responsibilities and scope of work, is defined in the Internal Audit Charter approved by the BAC. IAD's functions are guided by the Internal Audit Manual as well as the International Professional Practices Framework (IPPF).

The IAD adopts the five components set in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), inclusive control environment, risk assessment, control activities, information and communication, and monitoring activities. COSO is an internationally recognised organisation providing guidance on internal control, enterprise risk management and governance.

SCOPE AND COVERAGE

The IAD implements risk-based annual audit plan based on defined criteria. During the year under review, IAD performed the following audits:

- Audit on PDB Risk Control Self-Assessment
- Audit on the Assurance of Cyber Security Risks in PDB
- Audit on Overall Governance (Operation & Maintenance) of PDB Terminals
- Audit on IT Applications at Retail Cards Operation
- Audit on Retail Marketing & Communication Activities
- Audit on Revenue Cycle of Retail and Commercial Business

- Project Management Audit on Selected Projects under Retail Business Division
- Audit on Overall Governance of Retail Business Division

The resulting reports from the audits were reviewed by the BAC and forwarded to the management of the relevant divisions/departments for the necessary corrective actions. The management of the relevant divisions/departments is responsible in ensuring that corrective actions are taken within the stipulated time frame and all outstanding/open items are reported to the BAC. This is performed through the Quarterly Audit Status Report (QASR) submitted by the audit clients which will be assessed and verified by IAD. The consolidated QASR is submitted and presented to the BAC.

RESOURCES

A total of RM3,000,000 was incurred by PDB for its internal audit activities in 2017. All planned activities in 2017 were performed in-house by a group of 12 internal auditors from diverse backgrounds and disciplines such as accounting, finance, business management, marketing and information technology. Their competencies are continuously developed based on the established Internal Audit Competency Framework. In maintaining independence and objectivity, auditors will be assessed and will not be assigned any scopes that would lead to a conflict of interest.

BAC EFFECTIVENESS REVIEW AND PERFORMANCE

During the year under review, the Board assessed the performance of the BAC through an annual Board Committee effectiveness evaluation. The Board is satisfied that the BAC has discharged its functions, duties and responsibilities in accordance with its TOR.

REPORTING TO THE EXCHANGE

For the year under review, the BAC 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

> NOMINATION AND REMUNERATION COMMITTEE REPORT

NOMINATION AND REMUNERATION COMMITTEE



LIM BENG CHOON
Chairman

DEAR SHAREHOLDERS,

I AM PLEASED TO PRESENT THE NOMINATION AND REMUNERATION COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017.

The Nomination and Remuneration Committee (NRC) comprises exclusively Independent Non-Executive Directors (INEDs) in compliance with the requirement of Paragraph 15.08A (1) of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia), which provides that the NRC must comprise exclusively non-executive directors, the majority of whom are independent directors. The NRC is chaired by a Senior Independent Director which is consistent with Practice 4.7 of the MCCG 2017.

As at the date of this report, the composition of the NRC is as follows:

Members	Date of Appointment as Nomination and Remuneration Committee Member	Tenure on the Nomination and Remuneration Committee	Date of Resignation as Nomination and Remuneration Committee Member
LIM BENG CHOON <i>Chairman</i> Senior Independent Director	7 August 2014	3 years 6 months	
VIMALA V.R. MENON <i>Member</i> Independent Non-Executive Director	21 February 2017	1 year	
SHAFIE SHAMSUDDIN <i>Member</i> Independent Non-Executive Director	6 February 2018	2 weeks	
ERWIN MIRANDA ELECHICON <i>Member</i> Independent Non-Executive Director			31 July 2017
IR MOHAMED FIROUZ ASNAN <i>Member</i> Non-Independent Non-Executive Director			31 July 2017
DATO' SRI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR <i>Member</i> Non-Independent Non-Executive Director			6 February 2018



THE NOMINATION AND REMUNERATION COMMITTEE'S PURPOSE, AMONG OTHERS, IS TO ENSURE THAT ANY BOARD APPOINTMENT BRINGS A BALANCE OF SKILLS, KNOWLEDGE, EXPERIENCE, AND DIVERSITY TO THE BOARD



NOMINATION AND REMUNERATION COMMITTEE REPORT



TERMS OF REFERENCE

The Terms of Reference (TOR) of the NRC are consistent with the MMLR of Bursa Malaysia and the MCCG 2017. All the requirements under the TOR are complied with.

For more information on TOR of the NRC, please refer to PDB's corporate website at www.mymesra.com.my.

MEETINGS AND ATTENDANCE

The NRC meetings for the year under review were scheduled in November 2016 to allow the members to plan ahead and incorporate the NRC meetings into their respective schedules.

During the year under review, the NRC met three times to discharge its duties and functions as a committee of the Board. The record of attendance of the NRC members can be found on page 120 of this Annual Report.

At each meeting, the MD/CEO, Head of Human Resources Management and any other persons deemed necessary by the NRC were invited to attend to brief and furnish the NRC with necessary information and clarification to relevant items on the agenda. The Company Secretary acts as Secretary to the NRC.

Each year, the NRC invites all other members of the Board for the January meeting to discuss the performance of the Leadership Team.

The agenda and meeting papers relevant to the business of the meeting are distributed via a secured collaborative software to the NRC members, not less than five business days from the meeting date. This software eases the process of distribution of meeting papers and minimises leakage of sensitive information, as well as enabling the Directors to have access to the proposal papers electronically, anytime and anywhere.

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

BOARD APPOINTMENT PROCESS

PDB practices a formal and transparent process for the appointment of new Directors. The nomination of Non-Independent Non-Executive Directors (NINEDs) to the Board is made by PETRONAS being the majority shareholder of the Company. The nomination of INEDs to the Board is made through the engagement of a professional recruiting firm to find the most suitable candidates to fill the vacant positions.

In its selection of suitable candidates, the NRC refers to the Board Selection Criteria. All nominees to the Board are first considered by the NRC, taking into consideration the mix of skills, competencies, experience, integrity, personal attributes and time commitment required to effectively fulfill his or her role as a director. Diversity in terms of age, gender and ethnicity is also considered during the selection process.

THE BOARD APPOINTMENT PROCESS



NOMINATION AND REMUNERATION COMMITTEE REPORT

NOMINATION AND REMUNERATION COMMITTEE

During the year under review, PDB engaged a professional recruiting firm to assist in the search for new INEDs based on the identified selection criteria approved by the NRC. The NRC shortlisted several candidates for engagement sessions to review the suitability of these candidates prior to recommending to the Board for approval.

Having conducted all relevant reviews and assessments, the NRC in January 2018 recommended two candidates for appointment as INEDs and in February 2018, the Board approved the appointment of two additional INEDs. With these appointments, the INEDs comprise 56% of the total Board composition which is consistent with Practice 4.1 of the MCCG 2017.

DIRECTOR'S RE-ELECTION AND RE-APPOINTMENT

The NRC is responsible for recommending to the Board, directors who are standing for re-election at the Annual General Meeting (AGM) pursuant to Articles 93 and 96 of PDB's Constitution.

EVALUATING THE PERFORMANCE OF DIRECTORS

Every year, under the purview of the NRC, a BEE is undertaken to assess the effectiveness of the following:

Directors' rotation list is presented to the NRC for endorsement prior to recommendation to the Board and thereafter to the shareholders for approval.

Since 2014, the NRC has implemented a policy whereby INEDs are appointed for a tenure of three years. Further extension to the tenure is subject to the review and recommendation of the NRC and subsequently submitted to the Board for consideration. In assessing the candidates' eligibility, the NRC considers their competencies, commitment, their contribution, performance based on the Board Effectiveness Evaluation (BEE) and their ability to act in the best interest of PDB.

In line with the exemplary practice as recommended by the MCCG 2017, the NRC at its meeting held in February 2018, approved the revision to the tenure policy where INEDs total tenure is now capped at nine years with no avenue for further extensions either as a Non-Executive Director or to remain as an INED.



The NRC has engaged an independent third party consultant to conduct BEE for the year under review. Feedback and inputs from selected Leadership Team on the performance of the Board were also obtained.

NOMINATION AND REMUNERATION COMMITTEE REPORT



A set of questionnaires were used for the Board to provide their ratings which covers Board, Board Committees, self and peer evaluation. The following areas were assessed:

AREAS OF BOARD EVALUATION ASSESSMENT

<p>GROUP DYNAMICS AND EFFECTIVENESS</p> <ul style="list-style-type: none"> • Overall Impressions of the Board • Overall Board Effectiveness • Board Involvement and Engagement 	<p>STRUCTURE AND COMPOSITION</p> <ul style="list-style-type: none"> • Organisation/Composition of the Board • Overall Committee Organisation • Board Audit Committee Deep Dive • Nomination and Remuneration Committee Deep Dive • Roles and Duties of Board Members • Looking forward, including Strategy, Succession Planning and Development 	<p>COMMUNICATIONS</p> <ul style="list-style-type: none"> • Communications with Shareholders
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SELF-PEER ASSESSMENT

<p>KNOWLEDGE AND UNDERSTANDING ON</p> <ul style="list-style-type: none"> • Role that a Board plays in governance and as Company Director • Mission and vision • Strategic needs and development • Market • Critical success factors • Business risk • Performance measures • International business • Financial discussions • Legal and compliance duties • Risk management • Board effectiveness 		
<p>SKILLS AND EXPERIENCE</p> <ul style="list-style-type: none"> • Analytical skills 	<p>PREPARATION FOR BOARD MEETINGS</p> <ul style="list-style-type: none"> • Time commitment • Contributions • Differentiate strategy/policy issues and operational matters 	<p>INDEPENDENCE</p> <ul style="list-style-type: none"> • Ability to speak openly and honestly
<p>BUILDING RELATIONSHIP</p> <ul style="list-style-type: none"> • Board colleagues • Management 	<ul style="list-style-type: none"> • Display confidence in other Directors' abilities • Listens attentively to ideas 	<p>PROFESSIONAL DEVELOPMENT</p>

AN EFFECTIVE BOARD

Pursuant to Paragraph 15.20 of the MMLR of Bursa Malaysia, the NRC also reviewed the performance of the Board Audit Committee (BAC) and is satisfied that the BAC and its members discharged their functions, duties and responsibilities in accordance with its Terms of Reference. The results of the BEE 2017 was presented to the NRC on 30 January 2018 where the NRC noted the findings and areas that necessitate further improvements.

NOMINATION AND REMUNERATION COMMITTEE REPORT

NOMINATION AND REMUNERATION COMMITTEE

NRC EFFECTIVENESS REVIEW AND PERFORMANCE

Based on the BEE findings, the Board is satisfied with the performance and effectiveness of the NRC in providing sound advice and recommendations to the Board.

SUCCESSION PLANNING

The Board has put in place succession planning principles and process to ensure the orderly identification and selection of new Non-Executive Directors (NEDs) in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, the expansion of the size of the Board, or otherwise. It is clear to the NRC that a thoughtful Succession Planning can improve the composition and effectiveness of a Board.

The NRC also reviews the Succession Plan for the Senior Management of PDB.

REMUNERATION

PDB takes into account the demands, complexities and performance as well as skills and experience in determining the remuneration package offered to its Board members, Executive Director and Leadership Team.

The Board has established a formal and transparent Directors' Remuneration Framework which set out retainer fees, special fees, meeting allowances and benefits in-kind.

PDB has undertaken a review on the current NEDs remuneration and a benchmarking exercise was carried out against selected companies in Malaysia. Based on the findings, the Board is

recommending an increase in the Directors remuneration for the financial year ended 31 December 2018 in view that the current remuneration is not competitive compared to the market, as well as to reflect the increase in responsibilities of the Chairman and the NEDs. This proposal will be tabled for approval of the shareholders at the forthcoming Annual General Meeting.

DIRECTORS' FEES

The fees structure for the Directors are designed to attract and retain high calibre Board members.

The fee structure of NEDs of PDB consists of the following:

	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

Independent Non-Executive Directors are entitled to fuel allowance of RM6,000 per annum

The fees and allowances for NEDs are determined by the Board and are subject to the approval of the shareholders of PDB.

The Director's fees and meeting allowances for NINEDs who are employees of PETRONAS are paid directly to PETRONAS. The presence and participation of the NINEDs who are employees of PETRONAS give the Board a deeper insight into PETRONAS' operations.

The breakdown of the detailed Directors' fees paid during the year under review is disclosed in the Corporate Governance Report which is accessible to the public for reference at PDB's corporate website www.mymesra.com.my.

The remuneration package for the Executive Director of the Company is balanced between fixed and performance linked elements. A portion of the Executive Director's compensation package is variable in nature and is Key Performance Indicator (KPI) based, which includes the Group's performance. As an Executive Director, he is not entitled to receive Directors' fees or meeting allowance.

Dato' Mohd Ibrahimuddin Mohd Yunus, the MD/CEO and an Executive Director of PDB, is an employee of PETRONAS and is seconded to PDB. In consideration of the service of the MD/CEO, PDB is required to pay a fee to cover all payroll-related costs and benefits ordinarily incurred by him in the course of his employment. During the year, RM906,922.60 was paid for his services as MD/CEO of PDB.

NOMINATION AND REMUNERATION COMMITTEE REPORT



LEADERSHIP TEAM

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

WHAT THE COMMITTEE HAS DONE DURING 2017

During the year under review, the NRC in its meetings held in year 2017 carried out the following activities in discharging its functions and duties:

BOARD MEMBERSHIP

1. Reviewed and endorsed Board Selection Criteria and process flow for appointment of a Director.
2. Carried out 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.
3. Recommended the Directors who are eligible for re-election and re-appointment at the AGM.
4. Reviewed and endorsed the renewal terms of an Independent Director.
5. Conducted search and endorsed the appointment of two new Directors.
6. 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.

PERFORMANCE MANAGEMENT

1. Reviewed and evaluated the Senior Management performance for financial year 2016 and Succession Plan.
2. Reviewed the remuneration framework of the Senior Management and the result of the benchmarking against the market.

ANNUAL REPORTING

Reviewed and endorsed the disclosures on the NRC Report 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.

BOARD EFFECTIVENESS EVALUATION

1. Reviewed and endorsed the BEE Questionnaires.
2. Assessed the findings from the BEE facilitated by an external party.

APPOINTMENT OF AN EXTERNAL CONSULTANT

Reviewed and endorsed the appointment of an independent third party service provider for BEE and search for an Independent Director.



LIM BENG CHOON

Chairman

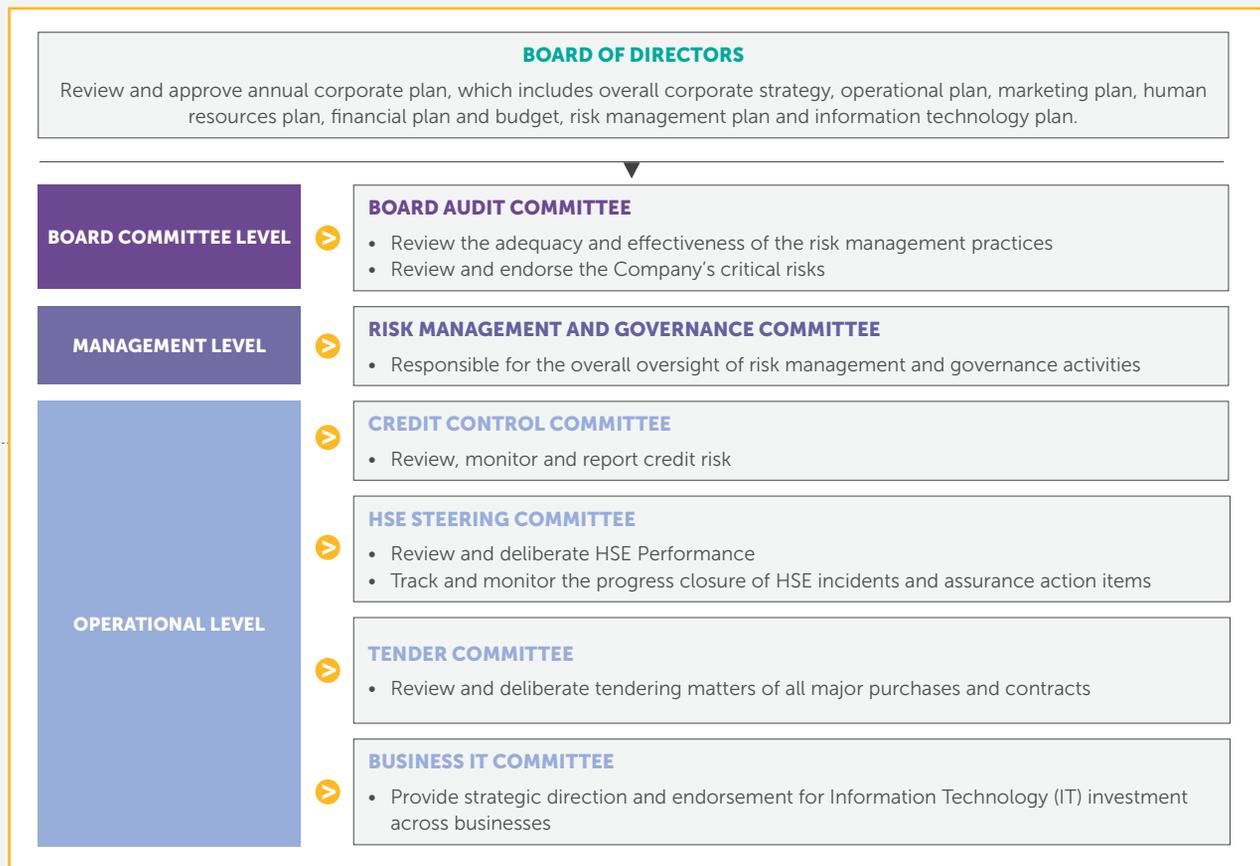
Nomination and Remuneration Committee

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT AND INTERNAL CONTROL AT PDB

MONITORING RISKS THROUGHOUT THE GROUP

The Board is committed to maintain and continuously improve the Group's system of risk management and internal control. The Board acknowledges the importance of 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. It is cognisant that implementation of a sound risk management framework helps the Group to achieve its performance and profitability targets by incorporating risk information for better decision-making, whilst firm internal controls enable appropriate preventive measures to manage risks. The Group's system of risk management and internal control seeks to manage and control risks appropriately. 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.



SUPPORTED BY THREE LINES OF DEFENCE MODEL



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT PHILOSOPHY

Risk Management is an integral part of PDB's activities and processes to address risks that may impact the achievement of its business objectives. The Group has established risk management practices where review and monitoring of critical risks remain a key focus of the Board.

The risk management process is in place to identify, evaluate, manage and monitor the risks. This process continues for the year under review and up to the date of approval of this statement.

RISK OVERSIGHT STRUCTURE

PDB's risk oversight structure allows risk information flow for effective oversight on risk management implementation at all levels. Risks are reviewed at Risk Management and Governance Committee (RMGC) before it is deliberated at Board Audit Committee (BAC) and Board. Head of Risk and Credit Management Department (RCMD), as Secretary of RMGC, provides updates on PDB's overall risk implementation during quarterly RMGC meeting which is chaired by Managing Director/Chief Executive Officer (MD/CEO). The structure also facilitates risk identification and escalation whilst providing assurance to the Board.

In addition to our risk oversight structure, our risk management is backed up by a Three Lines of Defence Model that distinguishes the three groups which are involved in effective risk management. The Group has in place a risk operations mechanism covering the areas of system, processes, knowledge management and assurance activities.

PDB RISK POLICY

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."

RISK STRATEGY

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

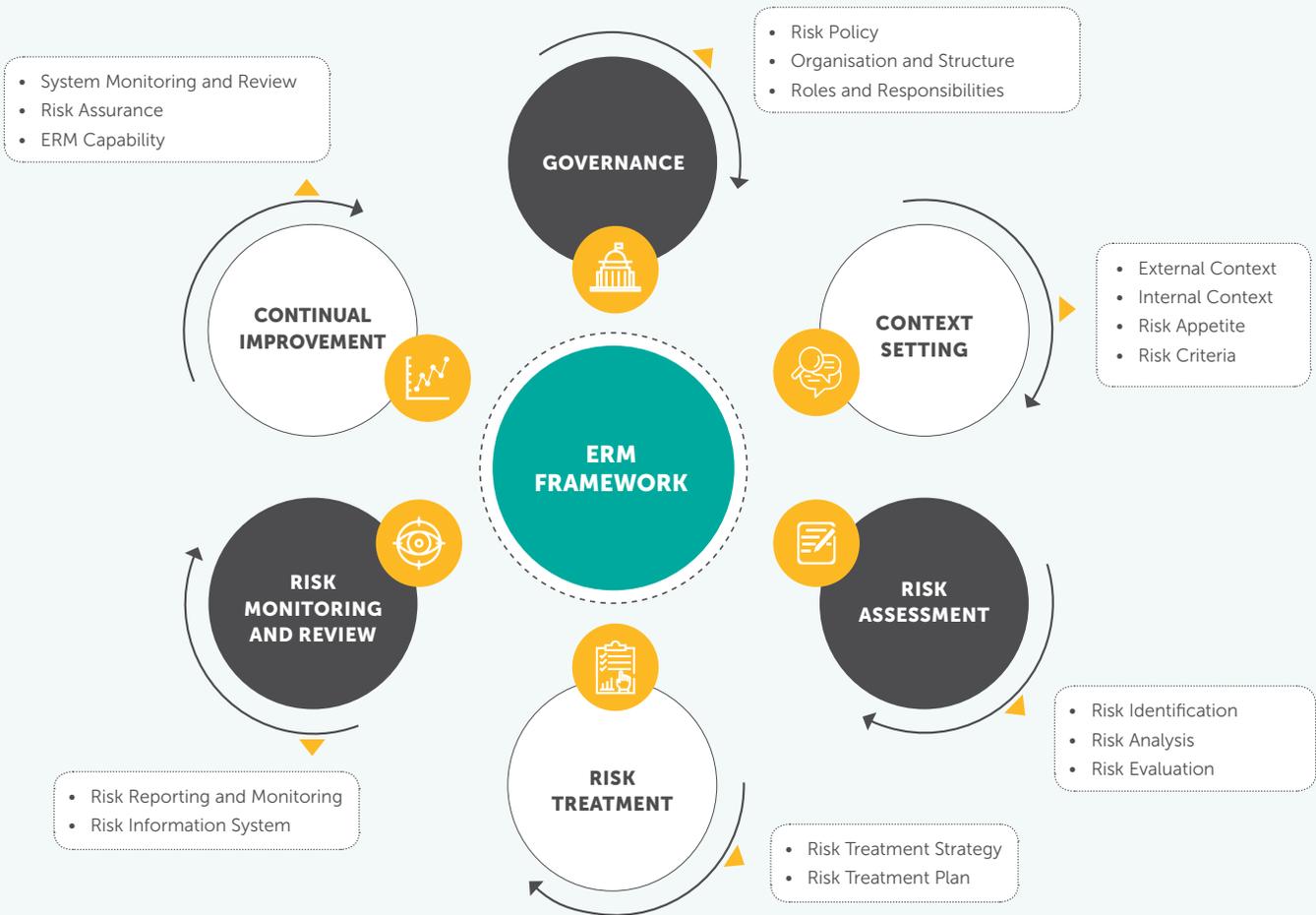


STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK

PDB adheres to the PETRONAS ERM Framework as depicted in the diagram below which is aligned with ISO 31000:2009 on Risk Management.

PETRONAS ENTERPRISE RISK MANAGEMENT FRAMEWORK



- The ERM Framework outlines the elements and processes to identify, assess, treat, monitor and review risks impacting its business.
- It aims to improve the ability to reduce the likelihood and/or impact of identified risks that may affect the achievement of business objectives.
- The framework provides a standard and consistent approach in implementing ERM across the entity.

Risk profiles which consist of identified critical risks and its corresponding risk mitigations as well as key risk indicators are reviewed annually based on the ERM process. It allows actions to be taken to ensure that risks are being effectively managed by respective units, endorsed by the Heads of Division or Department and reported to RMGC, BAC and Board on a quarterly basis.

During the year under review, risk profiling exercises were conducted across the Group with involvement from Management and Subject Matter Experts (SMEs). In performing the exercises, various inputs are analysed in setting the context, which include both internal and external factors as well as emerging risks that may impact the Group’s businesses and operations. The Group’s annual risk profiling and assessment process are guided by its business strategies and plans. On a regular basis, existing risk profile is reviewed to identify significant risks to be escalated to the Corporate Risk Profile (CRP).

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The following structured process within the ERM Framework was adopted:

CONTEXT SETTING

- Define the scope of the risk assessment (i.e. Business Decision/Risk Profile/Project).
- Understand external environment and consider the Group's strategic, organisational/business objectives and stakeholders' expectation.
- Determine the Risk Appetite (the amount of risk that an organisation is willing to pursue).

RISK ASSESSMENT

RISK IDENTIFICATION

- Develop risk description and risk statement
- Assign risk ownership
- Identify causes and consequences

RISK ANALYSIS

- Identify and assess existing mitigations
- Determine the current risk impact
- Establish current risk rating by assessing the current impact and likelihood

RISK EVALUATION

- Evaluate the level of the identified risk – High, Medium and Low
- Evaluate which risks need treatment
- Prioritise risk which requires treatment implementation

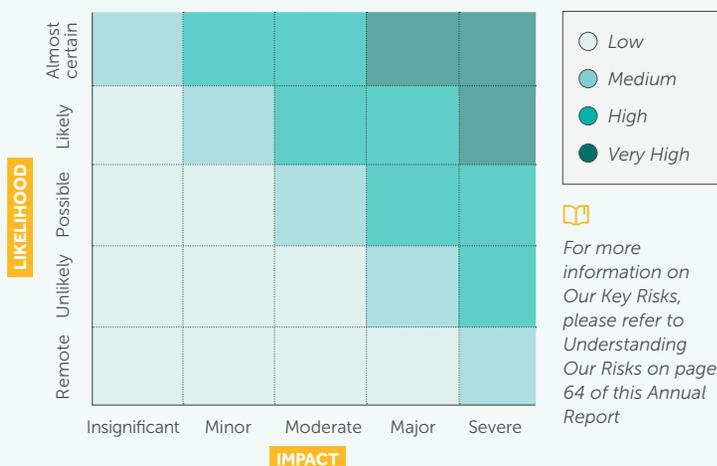
RISK TREATMENT

- Identify Risk Treatment Strategy
- Identify new mitigations for each identified risk
- Determine the new risk impact
- Establish Target Risk Rating by using the Risk Matrix

RISK MONITORING & REVIEW

- Identify Key Risk Indicators (i.e. leading and lagging) as triggering mechanism
- Monitor risk updates through Integrated Enterprise Risk Information System (INTERISK) and ensure Corporate Digital Assurance
- Periodical report risk status to RMGC, BAC and Board

OUR RISK MATRIX



As part of ERM, 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 probability of 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.

Key risk indicators and mitigation actions have also been identified and implemented accordingly. Key risk indicators are identified to facilitate monitoring of the risks and to provide an early warning signal on recognised risks. The key risks and mitigation actions are monitored and reported to RMGC, BAC and Board for deliberation and guidance on a quarterly basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

CRISIS MANAGEMENT

PDB is prepared to manage emergency and crisis in its business operation to minimise impact to People, Environment, Assets and Reputation (PEAR).

PDB Crisis and Disaster Management Manual has been developed to ensure that the Group is capable of dealing and managing crisis and emergency situations for all type of operations in the Group.

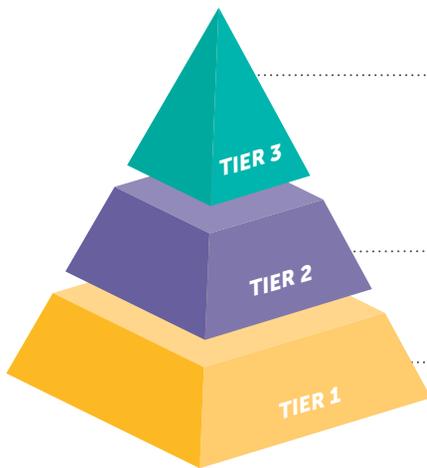
The key elements of the manual are as follows:

1. PDB's three-tiered response protocol which provides clear demarcation of response control practices and the required capability of emergency/crisis team members. Response priorities during emergency/crisis are to protect and save the People, Environment, Assets and Reputation (PEAR).
2. Linkage and integration of PDB Crisis and Disaster Management with host governments as required under the National Security

Council (NSC) Directive 20. Depending on the severity, the authorities will take over command and control of response operations, either for reasons of public safety, national interest or if it is determined by the authorities that PDB is unable to manage the situation. This is achieved by involving government emergency protocols where the Unified Command (UC) shall be established and a handing over process is executed.

3. Contingency support and plan which consist of mutual aid, incident action plan and media response plan are in place to address specific problems that may be encountered at site or location of an incident and additional resources that can be commonly shared and utilised.
4. Compliance assessment of crisis and disaster preparedness programmes is as per the PDB HSE Assurance Programme. The objectives of this assessment are to identify gaps and incorporate feedback for continuous improvement.

PDB THREE-TIERED RESPONSE PROTOCOL



When an emergency/crisis situation occurs, emergency/crisis teams respond according to the designated tier based on emergency escalation and severity.

The Emergency Response Team (ERT) will be mobilised at Tier 1 followed by the activation of Emergency Management Team (EMT) at Tier 2 when required. If the emergency escalates to a crisis, the Crisis Management Team will be activated at Tier 3 to manage the situation.

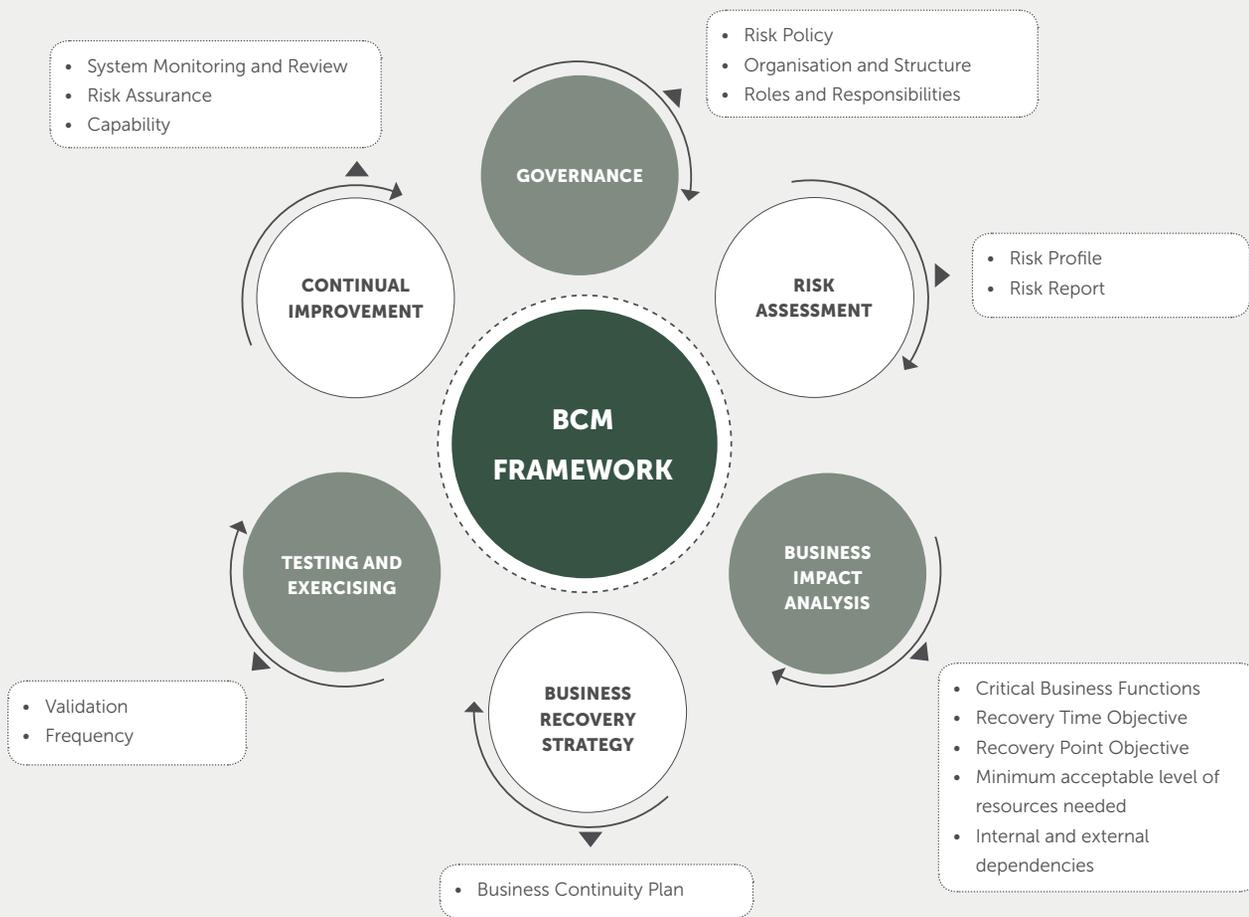
TIER 3	CRISIS MANAGEMENT TEAM (CMT)
A situation where the emergency response is beyond the control and capability of PDB in which the crisis requires involvement and management of external response agencies or authorities. The incident required activation of Crisis Management Team (CMT).	The CMT shall be led by PDB's MD/CEO. This allows PDB to focus on strategic and tactical issues in managing the situation.
TIER 2	EMERGENCY MANAGEMENT TEAM (EMT)
A situation where the emergency response is within the control and capability of PDB with external response agencies and authorities; with or without the activation of Emergency Management Team (EMT).	The EMT shall be led by Regional Manager-In-Charge (MIC) or International Subsidiaries (IS) CEO as the Incident Commander (IC) and convene in the Emergency Control Centre (ECC). IC is accountable and responsible for organising and managing the emergency response operations and to ensure that it is carried out in a safe, effective and efficient manner.
TIER 1	EMERGENCY RESPONSE TEAM (ERT)
A situation where the emergency response is within the control and capability of PDB. The incident requires the activation of Emergency Response Team (ERT) at site in managing the incident.	ERT is the tactical response team to carry out tasks under the direction of On-Scene Commander (OSC). OSC is responsible to ensure that the response is carried out in a safe and efficient manner.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

BUSINESS CONTINUITY MANAGEMENT (BCM)

PDB implements the PETRONAS Business Continuity Management Framework (BCMF) as a systematic approach for consistent BCM practices to ensure effective recovery and continuation of business operation during prolonged disruption or crises.

PETRONAS BUSINESS CONTINUITY MANAGEMENT FRAMEWORK



The BCMF consists of six key elements that makes up the basic requirements to implement and operate BCM for an entity. This framework aims to provide a standard and consistent approach across the organisation in achieving key attributes in business continuity.

During the year under review, the Company reviewed the Business Recovery Strategy (BRS) of relevant departments or divisions to ensure validity of the current BCP following the organisation

realignment in 2016. The review also includes PDB subsidiaries, namely PETRONAS International Marketing (Thailand) Co. Ltd. (PIMTCL), Kuala Lumpur Aviation Fuelling System Sdn Bhd (KAFS), PETRONAS Aviation Sdn Bhd (PAVSB) and PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd (PLMMSB).

Following the completion of the revision of BRS, respective Business Continuity Plans (BCPs) were updated which served as the primary document used for reference during business disruption. The Company also participated

in an integrated testing exercise on the unavailability of PETRONAS Twin Towers as workplace, code named Ex-Siaga 4 which was conducted on 10 and 11 July 2017 that includes building evacuation and mobilisation of key personnel to resume business operations at respective virtual offices.

The outcome and findings from the testing activities were then gathered to identify areas for continual improvement.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTERNAL CONTROLS

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 BAC.

The internal audit function conducts risk-based audit of PDB's system of internal controls, its operations and key activities as per the annual audit plan approved by the BAC. Internal Audit as the third line of defense also ensures the effectiveness of the respective roles executed by the first and the second line of defense.

The BAC 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 BAC for deliberations on a quarterly basis.

Internal Audit adopts the standards and principles outlined in the International Professional Practices Framework (IPPF) and the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

 For more information on the internal audit functions, please refer to the BAC Report on page 131 of this Annual Report

KEY ELEMENTS OF OUR INTERNAL CONTROL SYSTEMS

In delivering 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 proposals prior to making decisions.

The Board is updated on key risks arising from changes in the business and external environments which may result in significant impact to the Group. Quarterly performance reports and related financial reports of the Group are also presented to the Board.

 For more information on the roles and responsibilities of the Board, please refer to the Corporate Governance Overview Statement on page 117 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 BAC.

 For more information on the roles and responsibilities as well as the summary of work of the BAC, please refer to the BAC's Report on pages 129 to 130 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.

Respective Leadership Team serves in advisory capacity to the MD/CEO across the Group in accomplishing the vision, mission, strategies and objectives set for the Group.

Limits of Authority

The Group has established Limits of Authority (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.

Corporate Financial Policy

The Group has adopted the PETRONAS Corporate Financial Policy (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.

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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Included as part of the CoBE is the Anti-Bribery and Corruption 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 information on CoBE, please refer to page 148 of this Annual Report

Whistleblowing Policy

The Group has adopted the PETRONAS Whistleblowing Policy which provides an avenue for the Group's employees and members of the public to disclose any improper conduct, in accordance with the procedures as provided under the Whistleblowing Policy.

Under the Whistleblowing Policy, 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 through PETRONAS' Whistleblowing Committee.

 For more information on Whistleblowing Policy, please refer to PDB's corporate website at www.mymesra.com.my.

Related Party Transaction and Conflict of Interest

Policies and Procedures on Related Party Transactions (RPTs) and Conflict of Interest (COI) Situations (Policy and Procedure) has been established within the Group to promote continuous awareness and provide consistent approach to all RPTs and Recurrent Related Party Transactions (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 BAC 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;
- 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.

Financial Control Framework

The Group has implemented a Financial Control Framework (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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

PETRONAS Economic Sanctions and Export Control Policy and Guidelines

PDB has in place the Economic Sanctions and Export Control Policy and Guidelines and is committed to comply with the relevant economic sanctions and export control regulations in the jurisdictions wherever it operates.

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 within PDB based on the Risk Control Self-Assessment (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.

Guidelines for Competition Law

PDB has put in place the Guidelines for Competition Law which is applicable to all business transactions to manage competition law related risks and ensure compliance with the competition laws of every country in which PDB operates.

Data Secrecy

PDB has developed Data Secrecy Manual to ensure the confidentiality of personal customer data is protected and managed effectively. The manual framework consists of following key elements which includes the roles and responsibilities, data management, access controls, managing breaches and maintaining sustainability of the practice.

Procurement Guideline

PETRONAS' procurement objectives are to ensure timeliness and cost effective activities while ensuring compliance with procurement governance. In order to support PDB's operation, procurement process is guided by PETRONAS Tender & Contract Administrative Manual and Limits of Authority/Summary of Authority wherever applies.

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 Leadership Team. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods.

Employee Performance Management

PDB has adopted PETRONAS' Employee Performance Management (EPM) that emphasise the importance of continuous engagement in managing performance in achieving High Performing Organisation. Its framework focuses on Coaching, Review and Feedback as continuous engagement that accelerates the journey to High Performance Organisation; empowering employees to drive and manage their performance that is aligned with the Company's business objective and targets.

Information Technology

PDB has established a Business Information Technology Committee that shall provide strategic direction and endorsement for Information Technology (IT) investment across its business. The Committee shall be responsible to govern and monitor the implementation of IT initiatives.

The Committee has an overall responsibility for recommendations and decisions regarding IT investment priorities, funding, risk management as well as IT policies and standards. These strategically aligned projects shall provide the highest value and the most investment benefits to the organisation.

Additionally, IT governance policies were also implemented to ensure the privacy and protection of all customers 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 to regulatory requirements. Internal IT audit and system reviews are conducted periodically to ensure compliance against PETRONAS Group IT policies and procedures.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Standard Operating Procedures

The Group has Standard Operating Procedures (SOP) which covers, *inter alia*, capital expenditure, financial operation, operations, marketing and sales, supply chain management, human resource management, information systems and health, safety and environment. The SOPs guide and govern day-to-day operations and ensure the right controls are in place. The SOPs are reviewed periodically to make sure it remains relevant and effective.

HSE Management System

PDB HSE Management System (HSE MS) is a management framework that provides guideline for effective HSE management in PDB operations. The system provides a structured approach in monitoring the overall HSE implementation and identification of gaps for continual improvement. HSE assurances are conducted periodically as an integral part of the HSE MS to review and verify the effectiveness of HSE risk mitigations.

Being an important element of HSE MS, Hazard & Effects Management Process (HEMP) provides assessment of risk and identification of the appropriate controls. HEMP ensures the hazards and the associated risks inherent in PDB operations are systematically identified and assessed.

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 2017. 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:

- a. has not been prepared in accordance with the disclosures required by Paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- b. is factually inaccurate.

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 Leadership Team 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 Leadership Team 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 26 February 2018.


DATUK MD ARIF MAHMOOD

Chairman


DATO' MOHD IBRAHIMUDDIN MOHD YUNUS

MD/CEO

> CORPORATE INTEGRITY AND ETHICS

THE BOARD ACKNOWLEDGES ITS ROLE IN ESTABLISHING A CORPORATE CULTURE WHICH INCULCATES ETHICAL CONDUCT WITHIN THE GROUP. IN LINE WITH THIS PRINCIPLE, THE BOARD HAS, INTER ALIA, ADOPTED THE PETRONAS CODE OF CONDUCT AND BUSINESS ETHICS, THE WHISTLEBLOWING POLICY AND THE ANTI-BRIBERY AND CORRUPTION MANUAL. THE ADOPTION OF THESE POLICIES ARE TO ENSURE THAT THE CONDUCT OF BUSINESS OF PDB AND ITS EMPLOYEES ARE CONSISTENTLY CARRIED OUT ETHICALLY AND WITH INTEGRITY.

PETRONAS CODE OF CONDUCT AND BUSINESS ETHICS

The PETRONAS CoBE is the guiding principle which informs how employees are expected to conduct themselves in their work. The CoBE will not only promote legal and procedural compliance, but it also provides a moral compass to all employees and directors within the PETRONAS Group worldwide to ensure that employee’s individual behaviour is in line with the PETRONAS Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness.

PETRONAS also expects that contractors, subcontractors, consultants, agents, representatives and others performing work or services for or on behalf of PETRONAS will comply with the relevant parts of the CoBE when performing such work or services. Since integrity becomes a vital part of the Company, all employees are expected to conduct themselves accordingly with the Company’s interests in mind.

In particular, 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.

 For more information on CoBE, please refer to PDB’s corporate website at www.mymesra.com.my

PDB INTEGRITY PROGRAMME

The PDB Integrity Programme was introduced to reiterate PDB Management’s commitment in strengthening the Company’s three key foundations which are HSE, Integrity and Culture. The main objectives of the programme are to instil awareness and educate PDB employees on the importance of integrity in ensuring the sustainability of the Company. PDB Integrity Programme is a two-year programme approved by PDB LT on 10 April 2017 with the theme of “Embedding Integrity Culture”. The programme covers the following topics:



THE FOLLOWING INTEGRITY PROGRAMME ACTIVITIES WERE ROLLED OUT DURING THE YEAR



MD/CEO Monthly Message	Monthly
Integrity Talk and Pledge at PDB Town hall	7 Jom Patuh & Tegur sessions and 1 Townhall
Leaders Speak Integrity	8 series of Integrity Video
“Value of Integrity” Training	6 Training Sessions
Integrity Moment/Conversation	Monthly
Industrial Relations Sharing on Aspire	Monthly
Monthly Integrity Topics Email Blast	Monthly

CORPORATE INTEGRITY AND ETHICS

ANTI-BRIBERY AND CORRUPTION

In reaching a zero tolerance policy against all forms of bribery and corruption, PDB has adopted the PETRONAS ABC Manual which provides guidance to employees concerning how to deal with improper solicitation, bribery and other corrupt activities.

In 2017, PDB continued implementing the ABC e-Learning Modules on PETRONAS Compliance Desktop® to all its employees. PETRONAS Compliance Desktop is an integrated online compliance solution which facilitates a whole suite of compliance activities inclusive of 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.

PDB has completed the roll out of ABC to all its subsidiaries. ABC was rolled out to PIMTCL on 23 and 24 November 2017. Adhering to local law, the ABC manual was translated into Thai language and distributed to all employees of PIMTCL.

 For more information on ABC, please refer to PDB's corporate website at www.mymesra.com.my

In supporting the Government's Transformation Plan to reduce corruption, PDB had signed the Corporate Integrity Pledge with Malaysian Anti-Corruption Commission via online system called Corporate Integrity System Malaysia on 12 December 2017.

ANTI-CORRUPTION PRINCIPLES FOR CORPORATIONS IN MALAYSIA

<p>1 Committing to promote value of integrity, transparency, accountability and good corporate governance.</p>	<p>2 Strengthening internal systems that support corruption prevention.</p>	<p>3 Complying with laws, policies and procedures relating to fighting corruption.</p>	<p>4 Fighting any form of corrupt practice.</p>	<p>5 Supporting corruption prevention initiatives by the Malaysian Government and the Malaysian Anti-Corruption Commission (MACC).</p>
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WHISTLEBLOWING

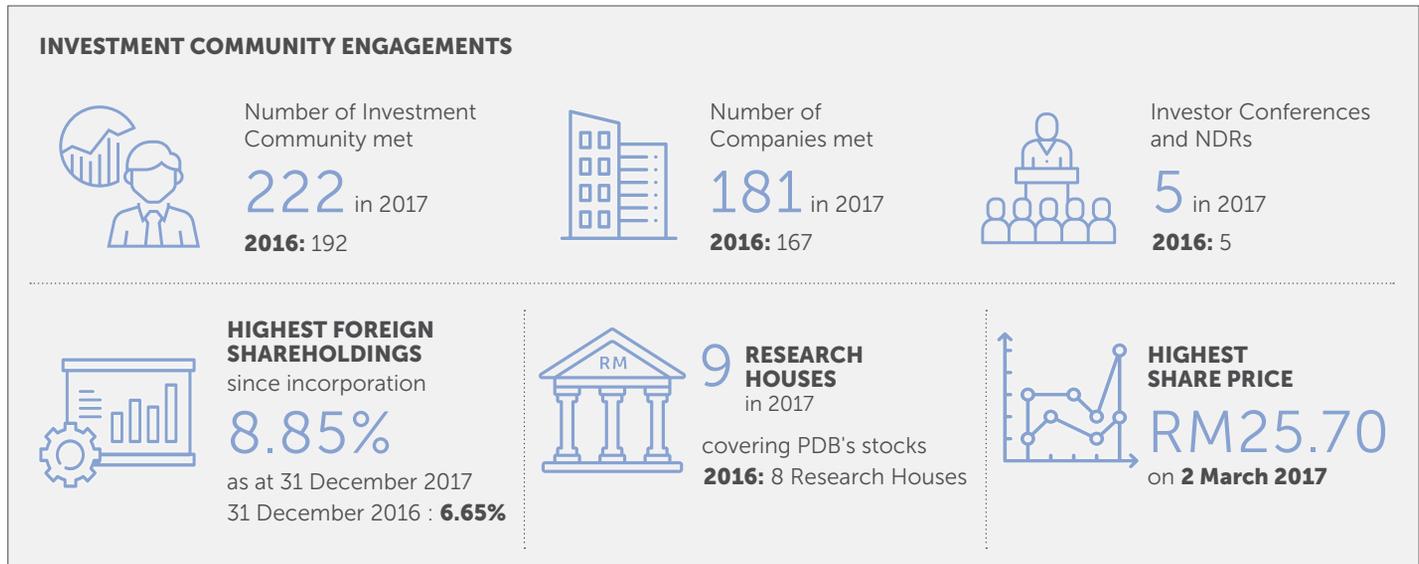
The Group adopts the PETRONAS Whistleblowing Policy which opens an avenue for the Group employees and members of the public to disclose any improper conduct in accordance with the procedures as provided under the Policy.

 For more information on PETRONAS Whistleblowing Policy, please refer to PDB's corporate website at www.mymesra.com.my

> SHAREHOLDER RELATIONS

INVESTOR RELATIONS

KEY HIGHLIGHTS



OVERVIEW

We value our shareholders and seek to uphold their trust in PDB by communicating with them regularly and transparently. We engage with the Investment Community and provide timely updates on our business direction, strategies and performances. We believe the importance of maintaining a fair market value of our share, which in turn, provides value for both shareholders and the Company.

IR engagement is fronted by only authorised spokesperson to ensure credibility and effective communication with PDB's shareholders. The Board's commitment to IR is reflected in its presence at our AGMs.

In addition to the AGMs, information on PDB's business activities and financial performance is disseminated in a timely manner through announcements to Bursa Malaysia, analyst briefings, press releases, and where required, press conferences.

PDB INVESTOR RELATIONS POLICY AND GUIDELINES

All of our IR activities are guided by PDB's Investor Relations Policy and Guidelines, developed in 2011. Our IR Policy and Guidelines have incorporated best practices with reference to the following:

- The MCGG 2007, published by the Securities Commission;
- Investor Relations Put Into Practice, published by Bursa Malaysia;

- Corporate Governance Guide - Towards Boardroom Excellence, published by Bursa Malaysia;
- Powering Business Sustainability - A Guide for Directors, published by Bursa Malaysia; and
- PETRONAS Corporate Governance Statement.

While our Head of IR serves as the main interface between PDB and our Investment Community, our MD/CEO and CFO lead the engagement sessions.

IR COMMUNICATION AND ENGAGEMENT

During the year, IR unit engaged with 222 Investment Community from 181 companies through one-on-one meetings, small group meetings, teleconferences, NDRs, corporate conferences, analyst briefings and site visit. The engagement helps our current and potential investors to be updated with our business operations and financial performance. The underlying objectives of these exercises are to present a fair and accurate view of the organisation, hence allowing the Investment Community to make informed decisions based on a balanced understanding of the Company.

SHAREHOLDER RELATIONS
INVESTOR RELATIONS**QUARTERLY ANALYST BRIEFINGS**

Following the disclosure of our quarterly earnings to Bursa Malaysia, PDB conducted briefings to our Investment Community at our head office in PETRONAS Twin Towers, Kuala Lumpur. The sessions were chaired by our MD/CEO together with our CFO. The information shared during these sessions which includes our business and financial performances and our outlook as well as our press releases are uploaded on our corporate website.

 For more information on Quarterly Analyst Briefings Presentation Packs, please refer to PDB's corporate website at www.mymesra.com.my

**Purpose**

To keep the Investment Community updated on PDB's quarterly performance and outlook for their balanced understanding and fair valuation.

For FY2018, the Analyst Briefings tentative dates are listed below:

Results	Analyst Briefing Dates
Q1 FY2018	Thursday, 17 May 2018
Q2 FY2018	Tuesday, 21 August 2018
Q3 FY2018	Thursday, 22 November 2018

Note:

Quarterly Analyst Briefings will be held at PRC 03 Level 4 Tower 1 PETRONAS Twin Towers, Kuala Lumpur City Centre from MYT 10:00 a.m. to 12:00 p.m.

FY2017 ANALYST BRIEFING DATES AND REPORTS

Results/Dates	Report Summary
Quarter 1 19 May	
Quarter 2 22 August	<ul style="list-style-type: none"> • Strong cash flow • Resilient and/or sustainable volume and earnings
Quarter 3 13 November	<ul style="list-style-type: none"> • Improved inventory management and cost control • Dividend expectations
Quarter 4 27 February	

Note:

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

CORPORATE CONFERENCES AND NDRs

During the year, PDB participated in five corporate conferences and NDRs as per event details below.

**Purpose**

To update on PDB's overall business to the current and potential investors, analysts and fund managers locally and globally.

Events	Dates (2017)
CIMB 9 th Annual Malaysia Corporate Day, Kuala Lumpur	5 January
UOB Kay Hian NDR, Hong Kong	22 May
Macquarie NDR, Singapore	3 July
Invest Malaysia Kuala Lumpur 2017, Kuala Lumpur	26 July
CIMB NDR, London and Stockholm	23-25 October

SHAREHOLDER RELATIONS
INVESTOR RELATIONS

ANNUAL GENERAL MEETING

The AGM is the principal forum of open dialogue with shareholders. The notice and agenda of AGM together with Proxy Form are given to shareholders not less than 28 days before the AGM, which gives shareholders sufficient time to prepare themselves to attend the AGM or to appoint a 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 resolutions.

At the AGM, MD/CEO presented a comprehensive review of the PDB's business and financial performances, strategic initiatives and outlook to the shareholders. Feedback on pertinent issues and queries relating to PDB's business and operations raised by MSWG

were also uploaded onto PDB's corporate website prior to the AGM and shared with the shareholder during the AGM.

PDB's 35th AGM was held on 19 April 2017 which was conducted via electronic polling. For this purpose, PDB engaged independent scrutineers to validate the voting at the AGM for each proposal presented to shareholders.

PDB Board and LT were present at the AGM to provide answers and clarifications to shareholders.

PDB's general meetings are not held at remote locations. Voting in absentia and remote shareholders' participation, is covered by existing proxy forms authorising proxies to vote on behalf of shareholders.

WEBSITE AND FEEDBACK



The IR unit maintains PDB's latest updates on corporate website at www.mymesra.com.my, which serves as an effective platform to provide shareholders access to the Group's IR Policy and Guidelines, announcements, latest financial results, quarterly briefing materials, Minutes of AGM, press releases and disclosure to Bursa Malaysia.

CONTACT US



The Investment Community may forward their enquiries and feedback to PDB's IR unit, as follows:-

1. Nur Asyirin Ibrahim

Head, IR

✉ nurasyirin@petronas.com

2. Natalia Inani Norsalehe

Executive, IR

✉ inani.norsalehe@petronas.com



Purpose

Shareholders to raise questions and engage with PDB's BOD and LT on PDB's financial and business performances.

SITE VISIT

IR unit organised the 6th annual site visit for our Investment Community to our first commercial station at the Pengerang Integrated Complex in Johor Bahru. The visit was held on 11 October 2017 to foster better understanding of PDB's business operation. This site visit also helped to educate and provide awareness to the Investment Community on PDB's extensive distribution facilities as well as further strengthening their confidence in PDB.



Purpose

To educate and provide in depth understanding of PDB's business operations and further strengthen Investment Community confidence in the PDB.

SHAREHOLDER RELATIONS
INVESTOR RELATIONS

DIVIDEND POLICY

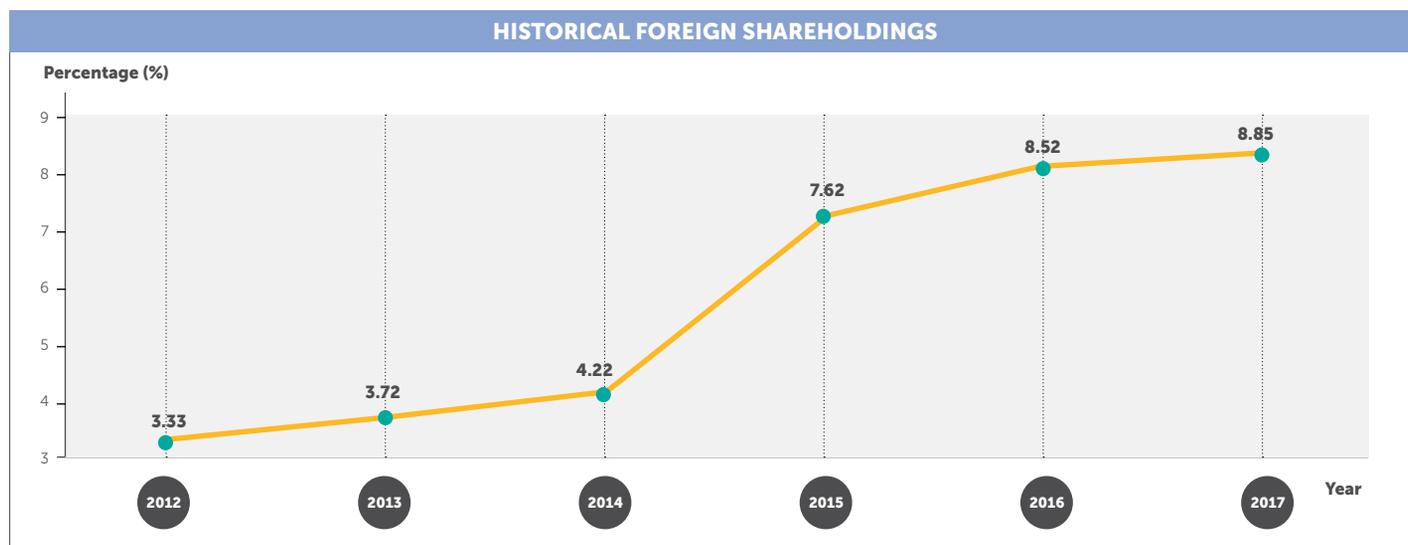
PDB adopts a dividend policy of 50% of PAT at the Company level. The Company's commitment to maximise PDB shareholders' value was demonstrated by the dividend declaration of 97 sen per share amounting RM963.7 million with a dividend payout ratio of 78.0%.

 For more information on Dividend Payout Ratio, please refer to the 5-Year Group Financial Highlight on page 160 of this Annual Report

SHAREHOLDERS

About 91% of our shareholders are Malaysian, comprise of nominees, government agencies/institutions, banks/finance companies, corporations and other type of shareholders. PETRONAS is our largest shareholder, holding close to 70% equity in the Company. Other substantial shareholders include the Employees Provident Fund, Permodalan Nasional Berhad, Amanah Raya Trustees, Kumpulan Wang Persaraan and Pertubuhan Keselamatan Sosial.

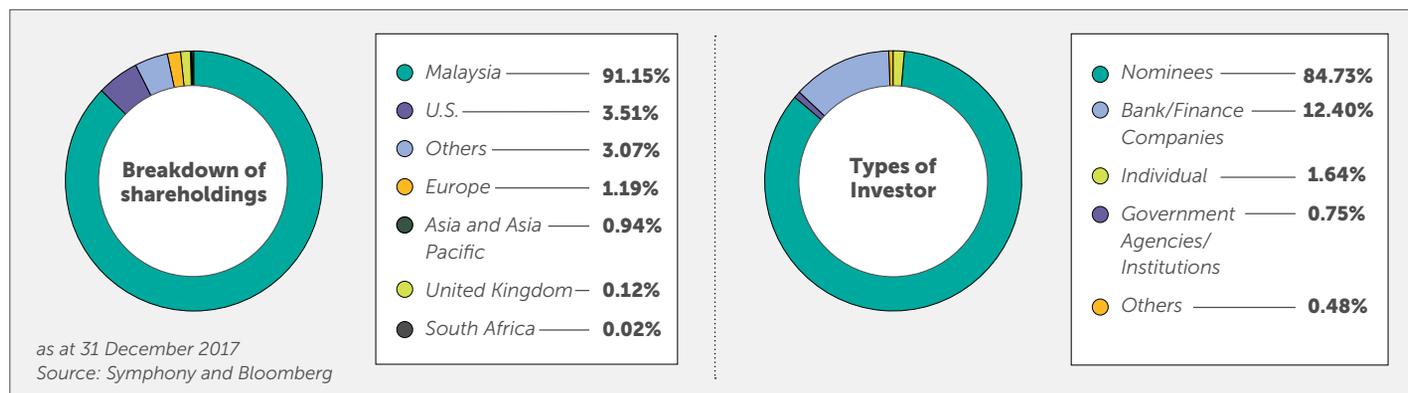
Our foreign shareholding has increased steadily over the years. In 2017, PDB's foreign shareholding reached 8.85%, our highest since being listed in Bursa Malaysia in 1994. This has been achieved through numerous engagements with our Investment Community locally and globally. Most of our foreign shareholders were from the U.S.



MONTHLY FOREIGN SHAREHOLDINGS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FY2016 (%)	7.82	8.49	8.52	8.07	7.81	7.58	7.66	7.47	7.50	6.95	6.77	6.65
FY2017 (%)	6.65	6.59	6.79	7.08	7.52	7.54	7.64	7.66	7.65	7.69	7.88	8.85

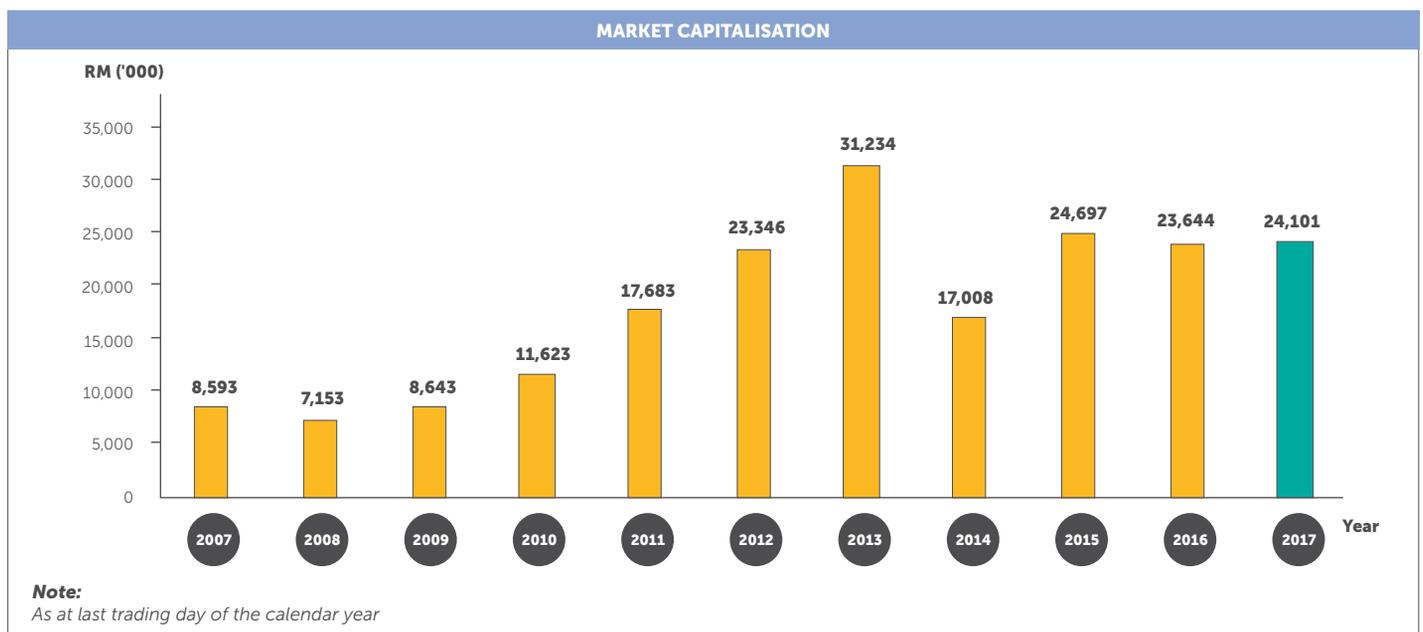
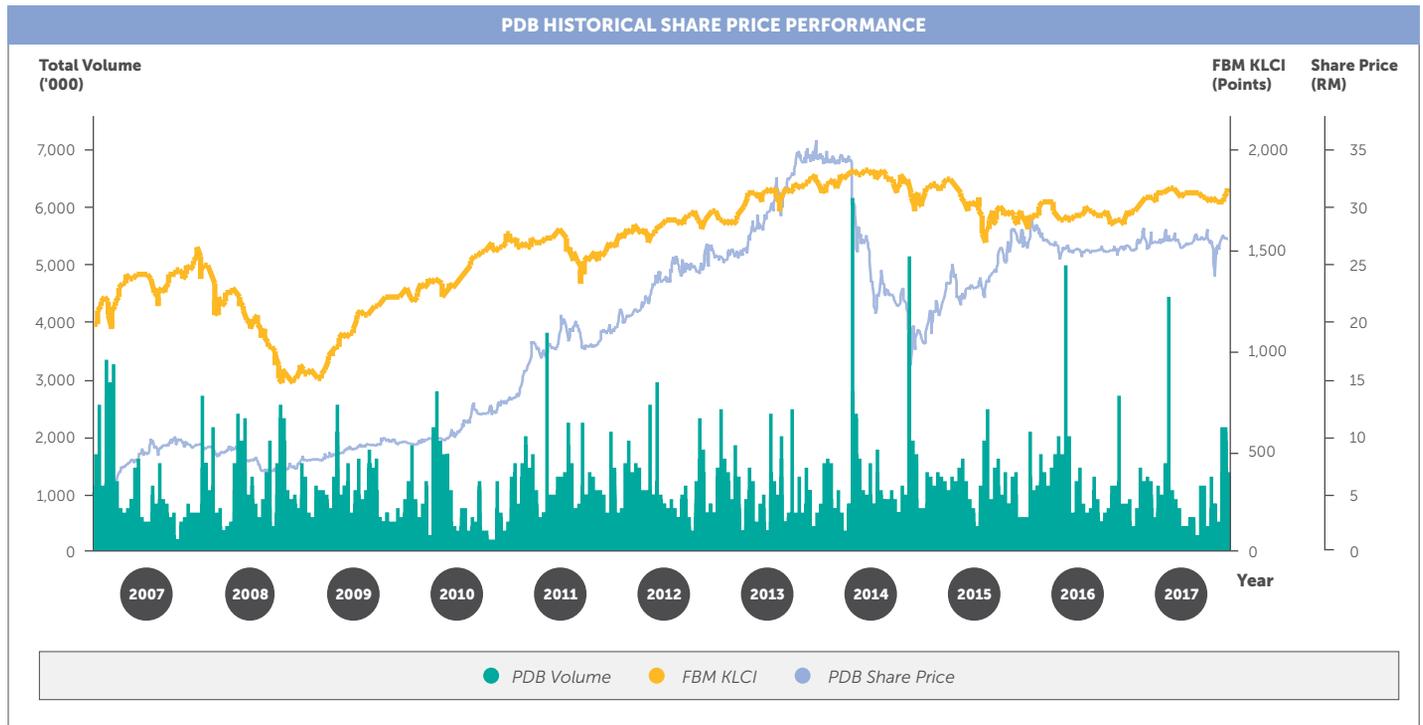
Note:
Shareholding as at month end



SHAREHOLDER RELATIONS
INVESTOR RELATIONS

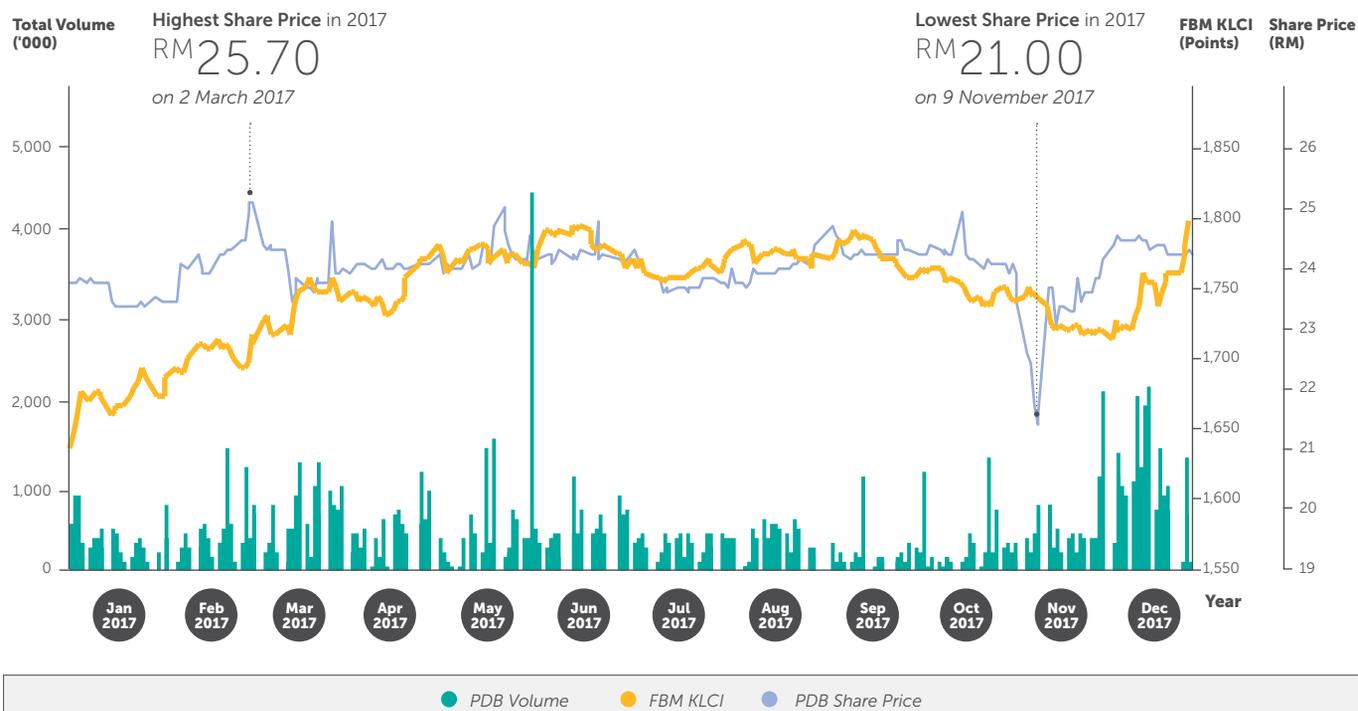
SHARE PRICE AND MARKET CAPITALISATION

Overall, our share price has increased from RM23.80 on 3 January 2017 to RM24.26 on 29 December 2017, reaching its highest of RM25.70 on 2 March 2017 and lowest of RM21.00 on 9 November 2017.



SHAREHOLDER RELATIONS
INVESTOR RELATIONS

PDB SHARE PRICE VS FBM KLCI



PDB Share (2017)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Highest (RM)	23.96	24.60	25.70	24.50	25.30	24.78	24.32	24.48	24.70	25.00	24.26	24.80
Lowest (RM)	23.00	23.40	23.32	23.78	23.88	23.94	23.54	23.62	24.08	23.96	21.00	23.50
Volume (million)	7.29	8.46	14.05	9.05	13.12	9.82	6.52	7.69	3.71	6.46	10.86	20.08
Average (RM)	23.61	24.03	24.14	24.05	24.27	24.23	23.84	23.97	24.33	24.24	23.26	24.40

OTHER INFORMATION

ANALYST COVERAGE

Nine research houses covered our stock in 2017. The list of the analysts as per table below.

Research Houses	Analysts	Research Houses	Analysts
AllianceDBS Research Sdn Bhd	Cheah King Yoong Vice President, Equity Research	Kenanga Investment Bank Berhad	Teh Kian Yeong Vice President, Research
	Abdul 'Azim Muhthar Analyst	Macquarie Securities Sdn Bhd	Isaac Chiow Analyst
BIMB Securities Sdn Bhd	Azim Faris Rahim Analyst	MIDF Amanah Investment Bank	Aaron Tan Wei Min Investment Analyst
CIMB	Raymond Yap Regional Head, Equity Research	TA Securities Holdings Berhad	Kylie Chan Sze Zan Analyst
Hong Leong Investment Bank Berhad	Yip Kah Ming Analyst	UOB Kay Hian Securities (M) Sdn Bhd	Ko Ho Meng Analyst

SHAREHOLDER RELATIONS
INVESTOR RELATIONS

INVESTOR INTERESTS

Key Concerns	Analysts Topic of Interest
Market Deregulation	<ul style="list-style-type: none"> Changes in PDB's Retail Business Strategy to accommodate daily fuel price changes
Strategy	<ul style="list-style-type: none"> Market challenges Strategy to expand the business Strategy to attract more customers Strategy for volume growth
Businesses	<ul style="list-style-type: none"> Highest contribution product segment Growth projection for PDB's businesses New business partners
Dividend Payment	<ul style="list-style-type: none"> Higher dividend payout
Strong Cash Flow	<ul style="list-style-type: none"> Investment plans
Financial	<ul style="list-style-type: none"> Profit contribution from PDB's business segments Capital requirement Cash management plans

CREDIT RATING

MARC has given ratings of AAA_{IS}/MARC-1_{IS} with a stable outlook to 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. The affirmed ratings are on par with MARC's AAA/MARC-1/Stable public information ratings for PETRONAS.

Rating Agency	Issued Date	Rating Classification	Ratings	Outlook
MARC	30 January 2018	Long-Term Ratings	AAA _{IS}	Stable
		Short-Term Ratings	MARC-1 _{IS}	

TICKER CODES

BURSA MALAYSIA	BLOOMBERG	REUTERS
5681	PETD.MK	PETR.KL

FTSE4GOOD BURSA MALAYSIA INDEX

PDB recognises that investors are concerned not only with the Company's financial performance but are also interested in the Company's commitment to good governance, its contributions to society and efforts undertaken to protect the environment. PDB is thus, making a greater effort to communicate our ESG performance in addition to our financial results. This has led to PDB being listed on the FTSE4Good Bursa Malaysia Index since 2015. We intend to maintain and to further improve our position on this index in the future as it reflects the value we place on our stakeholders, including our shareholders.

 For more information on FTSE4Good, please refer to Embedding Responsibility on page 83 of this Annual Report

Section

06

**FINANCIAL
REVIEW**

Approaching The Financial Statements _____	158	Financial Statements	Statement of Financial Position _____	183
5-Year Group Financial Highlights	160	Statement of Directors' Responsibility in Relation to the Financial Statements _____	Statement of Profit or Loss and Other Comprehensive Income ____	184
5-Year Group Financial Summary	161	Directors' Report _____	Statement of Changes in Equity ____	184
Simplified Group Statement of Financial Position _____	162	Statement by Directors _____	Statement of Cash Flows _____	185
Segmental Analysis _____	163	Statutory Declaration _____	Notes to the Financial Statements__	187
Group Quarterly Financial Performance _____	164	Consolidated Statement of Financial Position _____	Independent Auditors' Report _____	242
Key Interest Bearing Assets and Liabilities _____	165	Consolidated Statement of Profit or Loss and Other Comprehensive Income _____		
Statement of Value Added _____	166	Consolidated Statement of Changes in Equity _____		
Distribution of Value Added _____	167	Consolidated Statement of Cash Flows _____		

> APPROACHING THE FINANCIAL STATEMENTS

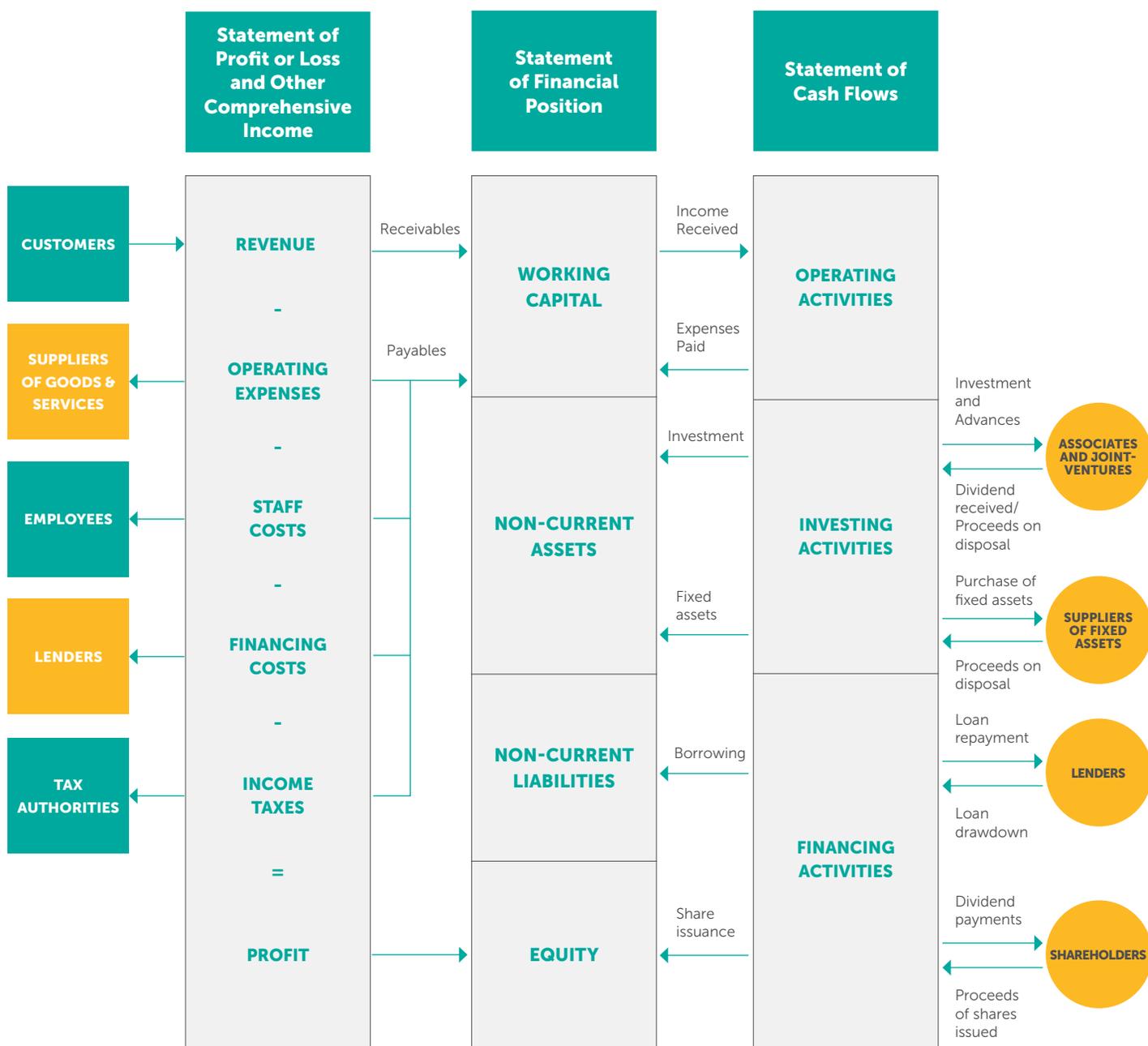
The purpose of financial statements is to communicate the Group’s financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information,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

 <p>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</p>	 <p>STATEMENT OF FINANCIAL POSITION</p>	 <p>STATEMENT OF CASH FLOWS</p>
<p><i>“Financial performance measured by recording the flow of resources over a period of time”</i></p>	<p><i>“A snapshot, taken at a point in time, of all the Assets the company owns and all the claims against those Assets”</i></p>	<p><i>“Where the company gets its cash and how it spends it”</i></p>
<p>The objective of this statement is to present all income and expenses (transactions with non-owners) in a performance statement.</p>	<p>This statement sums up the Group’s economic resources (non-current assets and working capital) and owners’ equity at a particular point of time, in this case, our year end at 31 December 2017. It also shows how the economic resources contributed by lenders and shareholders are used in the business.</p>	<p>This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit reflects the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and impairment losses, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.</p>

APPROACHING THE FINANCIAL STATEMENTS

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

The Group earns revenue from customers through the deployment of non-current assets and working capital. It also pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff and interest costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment for distribution to shareholders as dividends in return for their contribution of funds to the Group. The Group also invests in subsidiaries and other entities and receives dividend income from them in return.



> 5-YEAR GROUP FINANCIAL HIGHLIGHTS

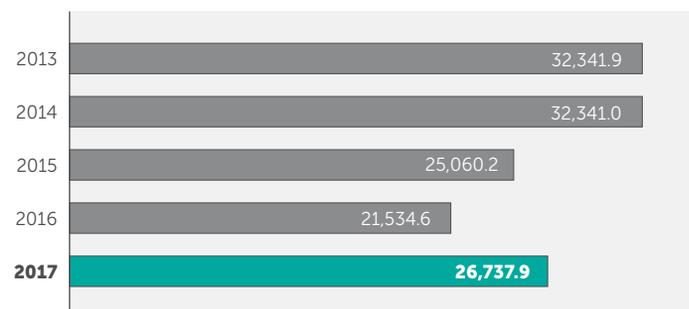
	FY2013	FY2014	FY2015	FY2016	FY2017
OPERATING RESULTS (RM MILLION)					
Revenue	32,342	32,341	25,060	21,535	26,738
Operating profit	1,125	728	1,092	1,191	1,441
Profit before taxation	1,109	709	1,082	1,190	1,438
Net profit attributable to shareholders of the Company	812	502	790*	945*	1,539*
KEY STATEMENT OF FINANCIAL POSITION DATA (RM MILLION)					
Property, plant and equipment	3,892	4,031	3,990	3,794	3,372
Total assets	10,167	9,541	8,071	9,365	9,748
Total borrowings	583	494	212	119	67
Total liabilities	5,338	4,749	3,087	4,028	3,708
Share capital	993	993	993	993	993
Shareholders' equity	4,790	4,752	4,952	5,303	6,002
SHARE INFORMATION					
Per share					
Basic earnings	81.7 sen	50.5 sen	79.5 sen*	95.1 sen*	155.0 sen*
Gross dividend	70 sen	60 sen	60 sen	70 sen	97 sen
Share price as at financial year end	RM31.44	RM17.12	RM24.86	RM23.80	RM24.26
FINANCIAL RATIOS					
Return on average capital employed	16.6%	10.4%	16.0%	18.1%	27.0%
Return on total assets	8.1%	5.3%	9.8%	9.6%	11.2%
Debt to equity ratio	12.2%	10.4%	4.3%	2.2%	1.1%
Dividend payout ratio	74.1%	113.0%	79.0%	81.0%	78.0%

* Includes discontinued operations

5-YEAR GROUP FINANCIAL SUMMARY <

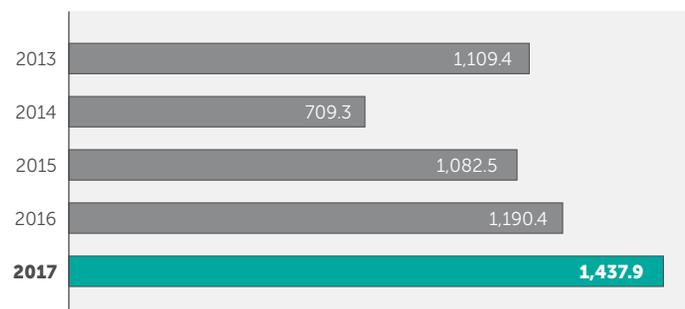
REVENUE

(RM Million)



PROFIT BEFORE TAXATION

(RM Million)



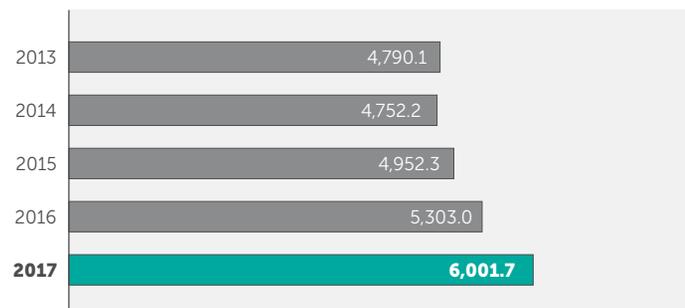
PROFIT AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(RM Million)



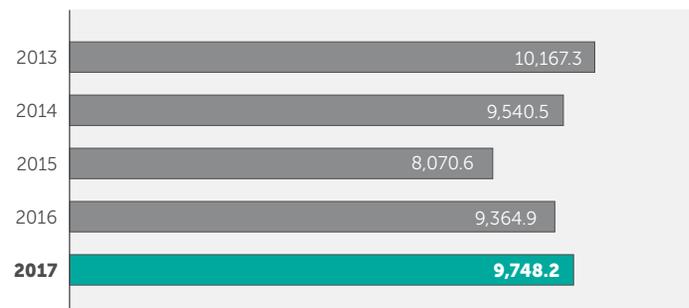
EQUITY ATTRIBUTABLE TO SHAREHOLDERS

(RM Million)



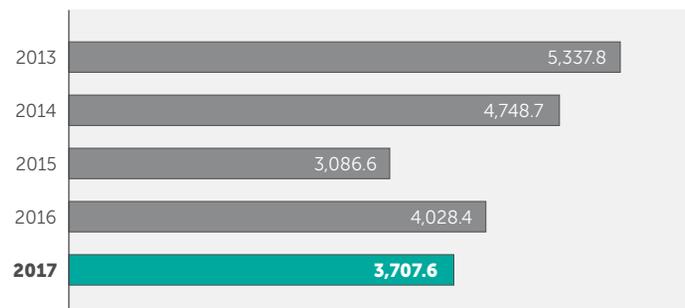
TOTAL ASSETS

(RM Million)



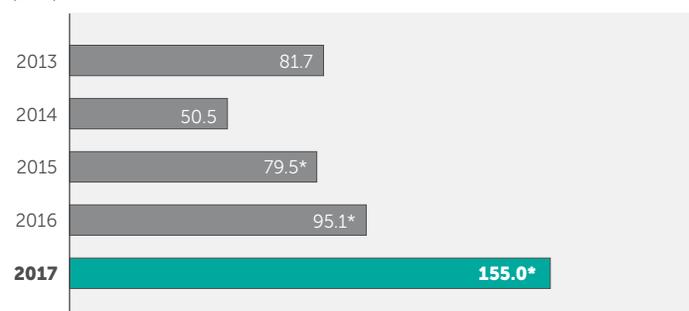
TOTAL LIABILITIES

(RM Million)



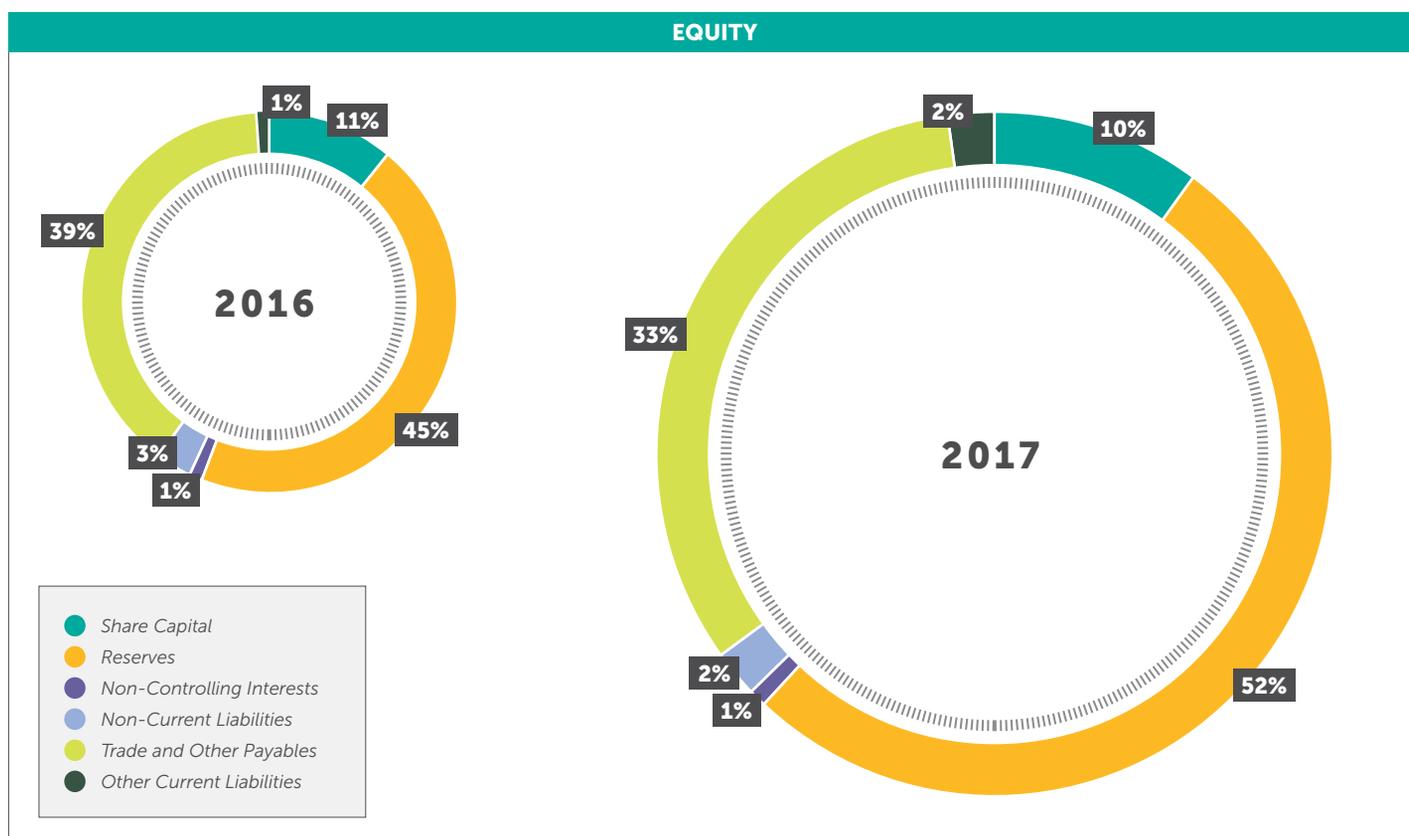
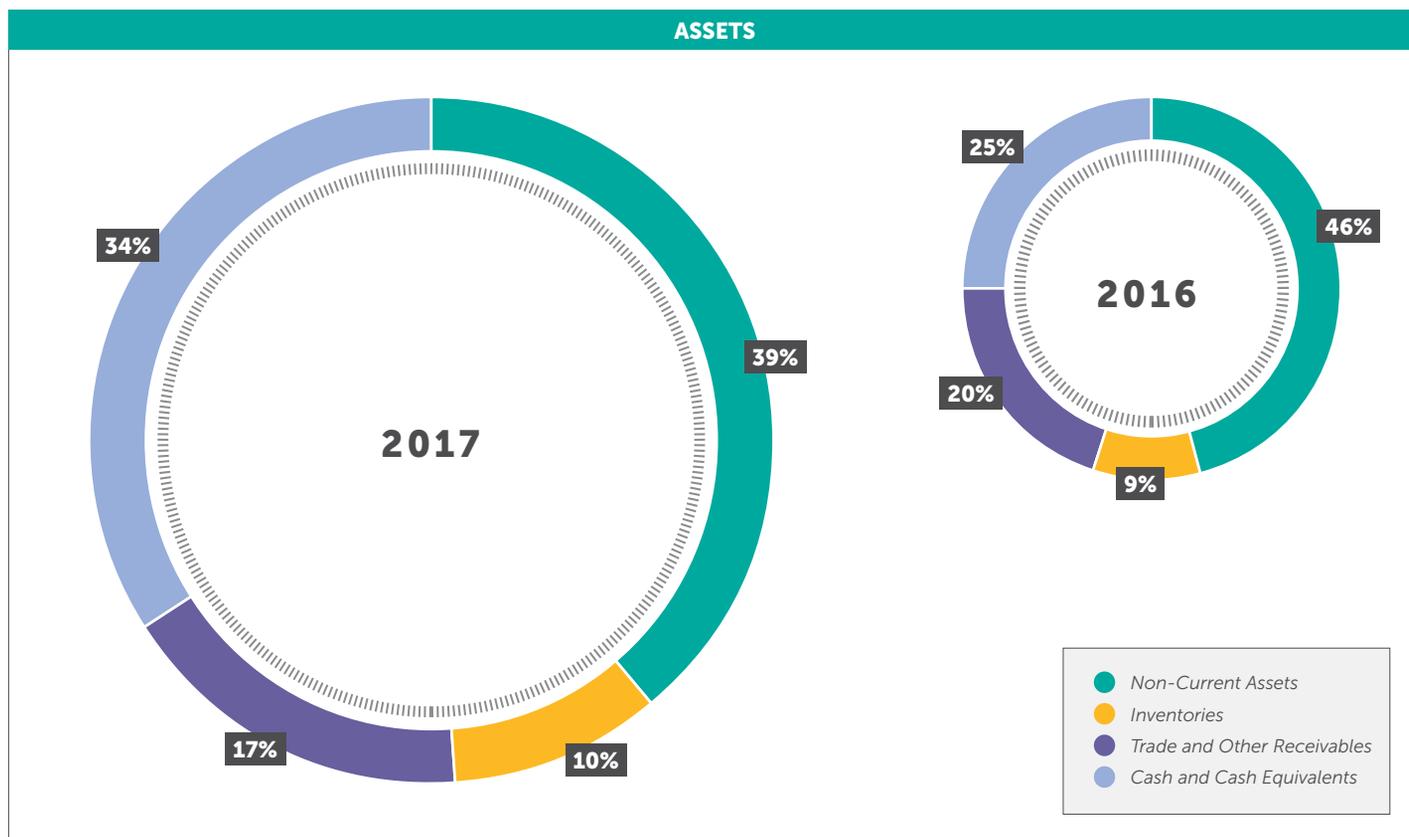
EARNINGS PER SHARE

(sen)

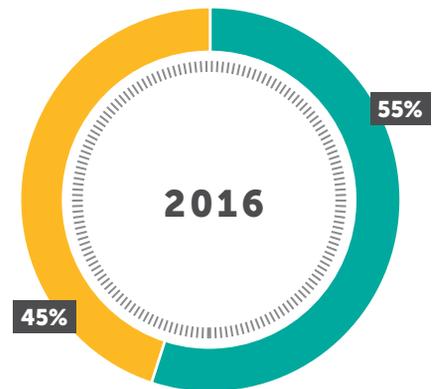
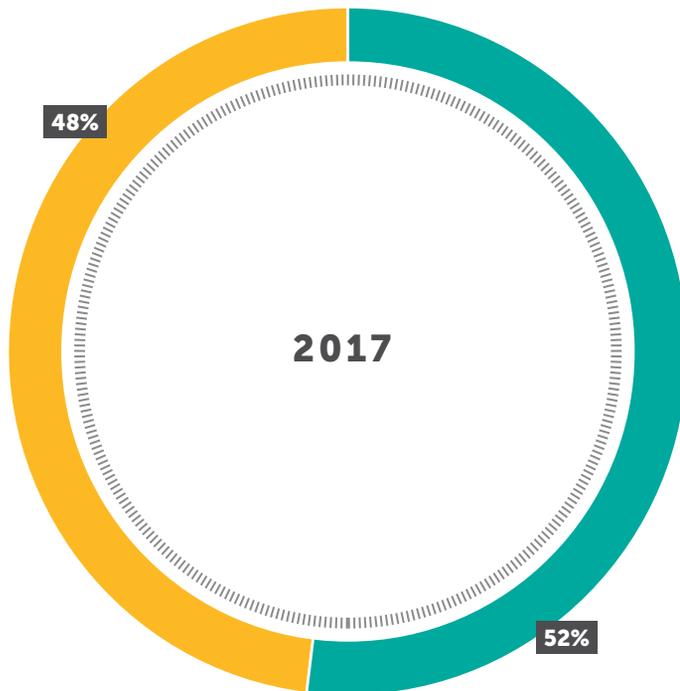


* Includes discontinued operations

> SIMPLIFIED GROUP STATEMENT OF FINANCIAL POSITION



SEGMENTAL ANALYSIS <



TOTAL REVENUE

RM26.7 billion

FY2017

RM21.5 billion

FY2016

> GROUP QUARTERLY FINANCIAL PERFORMANCE

2017

In RM mil	Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY2017
Revenue	6,608	6,441	6,694	6,995	26,738
Operating profit	322	307	439	373	1,441
Profit before taxation	321	308	438	371	1,438
Profit after taxation*	254	248	763	280	1,545
Earnings per share (sen)*	25.5	24.8	76.7	28.0	155.0
Dividend per share (sen)	14.0	14.0	20.0	49.0	97.0

2016

In RM mil	Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY2016
Revenue	4,849	5,269	5,480	5,937	21,535
Operating profit	293	241	323	334	1,191
Profit before taxation	291	242	326	331	1,190
Profit after taxation*	221	215	250	260	946
Earnings per share (sen)*	22.2	21.6	25.0	26.3	95.1
Dividend per share (sen)	12.0	14.0	14.0	30.0	70.0

* Includes discontinued operations

KEY INTEREST BEARING ASSETS AND LIABILITIES <

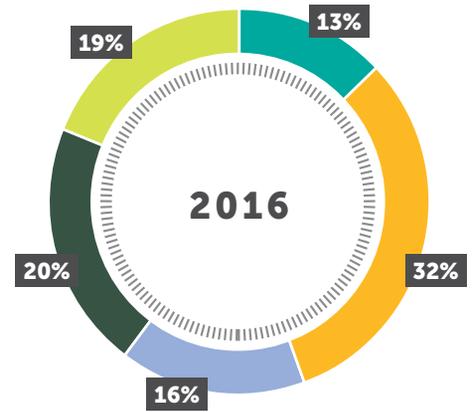
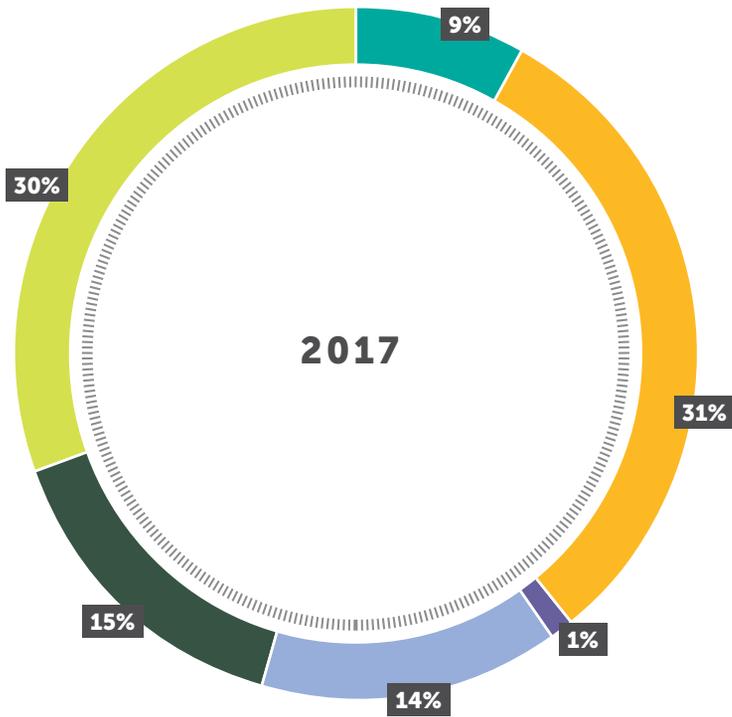
	2017			2016		
	As at 31 December (RM mil)	Effective Interest Rate (%)	Interest Income/ (Expenses) (RM mil)	As at 31 December (RM mil)	Effective Interest Rate (%)	Interest Income/ (Expenses) (RM mil)
Interest-earning assets						
Cash and cash equivalents	3,339.0	2.8	94.7	2,423.4	3.6	86.3
Interest-bearing liabilities						
Islamic financing facilities	67.3	4.3-4.4	(3.4)	85.0	3.9-4.2	(3.6)

> 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	
	2017 RM'000	2016 RM'000
Revenue	26,737,860	21,534,558
Less: Purchase of goods and services	(24,636,341)	(20,041,485)
Value added	2,101,519	1,493,073
Other income	402,628	390,496
Financing costs	(6,689)	(5,535)
Share of net profit of associates and joint ventures	4,002	5,340
VALUE CREATED	2,501,460	1,883,374

DISTRIBUTION OF VALUE ADDED <



- Employees
 - Providers of equity (net dividends)
 - Providers of debt
 - Government (taxation)
- Retained for reinvestment and future growth:**
- Depreciation and amortisation
 - Retained profits

> 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 176 to 241, 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 2017 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 2016 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 2016 to be retained by the Group and the Company have been properly kept in accordance with the provisions of the said Companies Act 2016.

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 <

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 2017.

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 32, Note 33 and Note 34 to the financial statements respectively. There has been no significant change in the nature of these activities during the financial year.

ULTIMATE HOLDING COMPANY

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

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 32 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year	1,544,969	1,231,097
Attributable to:		
Shareholders of the Company	1,539,496	1,231,097
Non-controlling interests	5,473	-
	1,544,969	1,231,097

DIVIDENDS

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

In respect of the financial year ended 31 December 2016 as reported in the Directors' Report of that year:

- i. An interim dividend of 30.0 sen per ordinary share amounting to RM298,036,200 declared on 21 February 2017 and paid on 16 March 2017.

DIRECTORS' REPORT

DIVIDENDS (continued)

In respect of the financial year ended 31 December 2017:

- i. An interim dividend of 14.0 sen per ordinary share amounting to RM139,083,560 declared on 18 May 2017 and paid on 16 June 2017;
- ii. An interim dividend of 14.0 sen per ordinary share amounting to RM139,083,560 declared on 21 August 2017 and paid on 19 September 2017; and
- iii. An interim dividend of 20.0 sen per ordinary share amounting to RM198,690,800 declared on 10 November 2017 and paid on 8 December 2017.

The Directors had on 26 February 2018 declared an interim dividend of 27.0 sen per ordinary share amounting to RM268,232,580 in respect of financial year ended 31 December 2017.

In addition, the Directors propose a special dividend of 22.0 sen per ordinary share amounting to RM218,559,880 in respect of financial year ended 31 December 2017.

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 2018.

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 during the financial year until the date of this report are:

Datuk Md Arif bin Mahmood
 Dato' Mohd Ibrahimuddin bin Mohd Yunus
 Lim Beng Choon
 Vimala a/p V.R. Menon
 Datuk Anuar bin Ahmad
 Nuraini binti Ismail
 Dato' Sri Syed Zainal Abidin bin Syed Mohamed Tahir (appointed on 31 July 2017)
 Shafie bin Shamsuddin (appointed on 6 February 2018)
 Alvin Michael Hew Thai Kheam (appointed on 6 February 2018)
 Erwin Miranda Elechicon (resigned on 31 July 2017)
 Mohamed Firouz bin Asnan (resigned on 31 July 2017)

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 in the Company			
	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
Dato' Mohd Ibrahimuddin bin Mohd Yunus	3,000	-	-	3,000

DIRECTORS' INTERESTS (continued)

Name	Shares in PETRONAS Chemicals Group Berhad			
	Number of ordinary shares			
	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
Datuk Md Arif bin Mahmood	20,000	-	-	20,000
Dato' 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

Name	Shares in PETRONAS Gas Berhad			
	Number of ordinary shares			
	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
Nuraini binti Ismail	5,000	-	-	5,000

None of the other Directors holding office at 31 December 2017 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 remuneration 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, other than certain Directors who have significant financial interests.

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

DIRECTORS' REPORT

INDEMNITY AND INSURANCE COSTS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors' and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016. The total insured limit for the Directors and Officers Liability Insurance effected for each of the Directors and Officers of the Group was RM300 million per occurrence and in the aggregate. The insurance premium for the Company is RM33,698.

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 of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for the gain on disposal of subsidiaries as disclosed in Note 21 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 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.

SIGNIFICANT EVENTS

i. Disposal of Thang Long LPG Company Limited ("TLLCL")

On 12 June 2017, TLLCL ceased to be an indirect wholly-owned subsidiary of PDB following the divestment by its wholly-owned subsidiary, PDB (Netherlands) B.V. of its entire 100% equity interests in TLLCL to Noi Thuong Bac Joint Stock Company.

The financial impact on the disposal is disclosed in Note 21.

ii. Disposal of PETRONAS Energy Philippines, Inc. ("PEPI") and Duta Inc. ("Duta")

The Group has completed its divestment of 100% equity interest in a subsidiary, PEPI and 40% equity interest in an associated company, Duta on 14 August 2017 to P-H-O-E-N-I-X Petroleum Philippines, Inc.

The financial impact on the disposal is disclosed in Note 21.

AUDITORS

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

The auditors' remuneration is disclosed in Note 22 to the financial statements.

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

**DATUK MD ARIF BIN MAHMOOD**

Director

**DATO' MOHD IBRAHIMUDDIN BIN MOHD YUNUS**

Director

Kuala Lumpur,

Date: 26 February 2018

> STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 176 to 241 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2017 and of their financial performance and cash flows for the financial year then ended.

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



DATUK MD ARIF BIN MAHMOOD

Director



DATO' MOHD IBRAHIMUDDIN BIN MOHD YUNUS

Director

Kuala Lumpur,

Date: 26 February 2018

STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

I, **NORLIWATI BINTI ABDUL WAHAB**, 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 176 to 241 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 **NORLIWATI BINTI ABDUL WAHAB**, I/C No 751108-14-5496, at KUALA LUMPUR in WILAYAH PERSEKUTUAN on 26 February 2018.

NORLIWATI BINTI ABDUL WAHAB

Before me:



Lot 5.28, Tingkat 5
Wisma Central
Jalan Ampang
50450 Kuala Lumpur

COMMISSIONER FOR OATHS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Property, plant and equipment	3	3,372,292	3,794,252
Prepaid lease payments	4	456,821	476,856
Investments in associates	6	1,556	3,431
Investments in joint ventures	7	14,630	14,234
Long term receivables	8	-	3,509
Deferred tax assets	9	-	5,424
TOTAL NON-CURRENT ASSETS		3,845,299	4,297,706
Inventories	10	869,241	803,374
Trade and other receivables	11	1,675,951	1,832,196
Cash and cash equivalents	12	3,357,742	2,431,637
TOTAL CURRENT ASSETS		5,902,934	5,067,207
TOTAL ASSETS		9,748,233	9,364,913
EQUITY			
Share capital	13	993,454	993,454
Reserves	14	5,008,202	4,309,520
Total equity attributable to shareholders of the Company		6,001,656	5,302,974
Non-controlling interests	15	39,025	33,552
TOTAL EQUITY		6,040,681	5,336,526
LIABILITIES			
Borrowings	16	48,909	84,461
Deferred tax liabilities	9	140,099	142,128
Other long term liabilities and provisions	17	30,996	30,169
TOTAL NON-CURRENT LIABILITIES		220,004	256,758
Borrowings	16	18,366	34,310
Trade and other payables	18	3,359,112	3,659,660
Taxation		110,070	77,659
TOTAL CURRENT LIABILITIES		3,487,548	3,771,629
TOTAL LIABILITIES		3,707,552	4,028,387
TOTAL EQUITY AND LIABILITIES		9,748,233	9,364,913

The notes set out on pages 187 to 241 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Continuing operations			
Revenue			
- sales of petroleum products		26,718,328	21,512,255
- rendering of services		19,532	22,303
		26,737,860	21,534,558
Cost of revenue			
- cost of petroleum products		(24,382,254)	(19,436,953)
- cost of services		(25,430)	(26,044)
		(24,407,684)	(19,462,997)
Gross profit		2,330,176	2,071,561
Selling and distribution expenses		(275,531)	(251,261)
Administration expenses		(1,016,729)	(1,020,218)
Other income		402,628	390,496
Operating profit		1,440,544	1,190,578
Financing costs	19	(6,689)	(5,535)
Share of profit after tax of equity accounted associates and joint ventures		4,002	5,340
Profit before taxation		1,437,857	1,190,383
Tax expense	20	(349,917)	(294,679)
Profit from continuing operations		1,087,940	895,704
Profit from discontinued operations, net of tax	21	457,029	50,763
Profit for the year	22	1,544,969	946,467
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		(23,952)	7,693
Reclassification of foreign currency translation differences to profit or loss on disposal of subsidiaries		(27,420)	3,729
Total other comprehensive (expense)/ income for the year		(51,372)	11,422
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,493,597	957,889

The notes set out on pages 187 to 241 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR
LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

(Continued)

	Note	2017 RM'000	2016 RM'000
Profit attributable to:			
Shareholders of the Company		1,539,496	944,608
Non-controlling interests		5,473	1,859
PROFIT FOR THE YEAR		1,544,969	946,467
Total comprehensive income attributable to:			
Shareholders of the Company		1,488,124	956,030
Non-controlling interests		5,473	1,859
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,493,597	957,889
Basic earnings per ordinary share	23		
from continuing operations		109.0 sen	90.0 sen
from discontinued operations		46.0 sen	5.1 sen
		155.0 sen	95.1 sen

The notes set out on pages 187 to 241 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	← Attributable to shareholders of the Company →				Total RM'000	Non- controlling interests RM'000	Total equity RM'000
		← Non-distributable →			Distributable			
		Share capital RM'000	Foreign currency translation reserve RM'000	Capital reserves RM'000	Retained profits RM'000			
At 1 January 2016		993,454	40,213	(47,122)	3,965,774	4,952,319	31,693	4,984,012
Exchange difference arising from translation of financial statements of foreign operations		-	7,693	-	-	7,693	-	7,693
Disposal of subsidiaries acquired under common control business combination in prior years		-	3,729	28,316	(28,316)	3,729	-	3,729
Total other comprehensive income/(expense) for the year		-	11,422	28,316	(28,316)	11,422	-	11,422
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
<i>Distribution to shareholders of the Company</i>								
Reversal of capital contribution on disposal of subsidiaries		-	-	(9,303)	-	(9,303)	-	(9,303)
Dividends paid	24	-	-	-	(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 13	Note 14	Note 14			Note 15	

The notes set out on pages 187 to 241 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(Continued)

	Note	← Attributable to shareholders of the Company →				Total RM'000	Non- controlling interests RM'000	Total equity RM'000
		← Non-distributable →			Distributable			
		Share capital RM'000	Foreign currency translation reserve RM'000	Capital reserves RM'000	Retained profits RM'000			
At 1 January 2017		993,454	51,635	(28,109)	4,285,994	5,302,974	33,552	5,336,526
Exchange difference arising from translation of financial statements of foreign operations		-	(23,952)	-	-	(23,952)	-	(23,952)
Disposal of subsidiaries acquired under common control business combination in prior years		-	(27,420)	23,925	(23,925)	(27,420)	-	(27,420)
Total other comprehensive (expense)/income for the year		-	(51,372)	23,925	(23,925)	(51,372)	-	(51,372)
Profit for the year		-	-	-	1,539,496	1,539,496	5,473	1,544,969
Total comprehensive (expense)/ income for the year		-	(51,372)	23,925	1,515,571	1,488,124	5,473	1,493,597
<i>Distribution to shareholders of the Company</i>								
Reversal of capital contribution on disposal of subsidiaries		-	-	(14,548)	-	(14,548)	-	(14,548)
Dividends paid	24	-	-	-	(774,894)	(774,894)	-	(774,894)
Total transactions with shareholders of the Company		-	-	(14,548)	(774,894)	(789,442)	-	(789,442)
At 31 December 2017		993,454	263	(18,732)	5,026,671	6,001,656	39,025	6,040,681
		Note 13	Note 14	Note 14			Note 15	

The notes set out on pages 187 to 241 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation from:			
- continuing operations		1,437,857	1,190,383
- discontinued operations		458,469	53,419
Adjustments for:			
Depreciation and amortisation		363,172	390,302
Impairment loss on receivables		5,048	104,238
Write back of impairment loss on trade receivables		(9,268)	(824)
Share of profit after tax of equity accounted associates and joint ventures		(4,222)	(5,619)
Gain on disposal of subsidiaries	21	(430,834)	(35,610)
Net gain on disposal of property, plant and equipment		(22,688)	(34,566)
Interest income from fund and other investment		(94,716)	(86,288)
Financing costs		7,052	7,661
Property, plant and equipment written off		3,178	6,569
Net unrealised foreign exchange loss		4,643	578
Operating profit before changes in working capital		1,717,691	1,590,243
Inventories		(71,215)	(176,506)
Trade and other receivables		118,665	(251,654)
Trade and other payables		(326,940)	1,060,546
Cash generated from operations		1,438,201	2,222,629
Taxation paid		(319,485)	(296,027)
Net cash generated from operating activities		1,118,716	1,926,602
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income from fund and other investments		94,716	86,288
Purchase of property, plant and equipment		(58,781)	(200,030)
Proceeds from disposal of prepaid lease assets		4,195	514
Proceeds from disposal of property, plant and equipment		39,306	47,722
Cash flow on disposal of subsidiaries, net of cash disposed of	21	552,408	(3,813)
Dividend received from jointly-controlled entity		3,362	1,250
Net cash generated from/(used in) investing activities		635,206	(68,069)

The notes set out on pages 187 to 241 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

(Continued)

	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	24	(774,894)	(596,072)
Repayment of term loan		(25,619)	(10,570)
Repayment of revolving credit facilities		(5,928)	(65,319)
Repayment of Islamic financing facilities		(17,726)	(17,175)
Interest paid on revolving credit and term loan		(386)	(2,126)
Profit margin paid for Islamic financing facilities		(3,405)	(3,584)
Net cash used in financing activities		(827,958)	(694,846)
NET INCREASE IN CASH AND CASH EQUIVALENTS		925,964	1,163,687
NET FOREIGN EXCHANGE DIFFERENCES		141	3,557
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,431,637	1,264,393
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		3,357,742	2,431,637

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	2017 RM'000	2016 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	3,008,769	2,249,440
Cash and bank balances	265,557	127,390
Deposits placed with licensed banks	83,416	54,807
	3,357,742	2,431,637

The Group has changed the presentation format of the Statement of Cash Flows from direct to indirect method so as to provide better information to the users of its financial statements.

The notes set out on pages 187 to 241 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Note	2017 RM'000	2016 RM'000
ASSETS			
Property, plant and equipment	3	3,138,370	3,437,628
Prepaid lease payments	4	456,821	476,856
Investments in subsidiaries	5	29,010	281,975
Investments in associates	6	530	530
Investments in joint ventures	7	25	25
TOTAL NON-CURRENT ASSETS		3,624,756	4,197,014
Inventories	10	844,394	753,526
Trade and other receivables	11	1,543,449	1,651,114
Cash and cash equivalents	12	3,086,937	2,349,713
TOTAL CURRENT ASSETS		5,474,780	4,754,353
TOTAL ASSETS		9,099,536	8,951,367
EQUITY			
Share capital	13	993,454	993,454
Reserves	14	4,620,813	4,179,158
TOTAL EQUITY		5,614,267	5,172,612
LIABILITIES			
Deferred tax liabilities	9	110,539	119,754
Other long term liabilities and provisions	17	30,782	26,954
TOTAL NON-CURRENT LIABILITIES		141,321	146,708
Trade and other payables	18	3,234,865	3,555,154
Taxation		109,083	76,893
TOTAL CURRENT LIABILITIES		3,343,948	3,632,047
TOTAL LIABILITIES		3,485,269	3,778,755
TOTAL EQUITY AND LIABILITIES		9,099,536	8,951,367

The notes set out on pages 187 to 241 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Revenue		26,173,359	20,987,628
Cost of revenue		(24,000,580)	(19,076,305)
Gross profit		2,172,779	1,911,323
Selling and distribution expenses		(245,601)	(218,966)
Administration expenses		(877,451)	(956,748)
Other income		517,024	405,068
Operating profit		1,566,751	1,140,677
Financing costs	19	(3,262)	(1,947)
Profit before taxation		1,563,489	1,138,730
Tax expense	20	(332,392)	(279,277)
PROFIT/ TOTAL COMPREHENSIVE INCOME FOR THE YEAR	22	1,231,097	859,453

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	Attributable to shareholders of the Company			Total equity RM'000
		← Non-distributable →		Distributable	
		Share capital RM'000	Capital reserves RM'000	Retained profits RM'000	
At 1 January 2016		993,454	23,851	3,901,229	4,918,534
Profit/Total comprehensive income for the year		-	-	859,453	859,453
Waiver of loan for a subsidiary acquired under common control business combination in prior year		-	(9,303)	-	(9,303)
Dividends paid	24	-	-	(596,072)	(596,072)
At 31 December 2016/ 1 January 2017		993,454	14,548	4,164,610	5,172,612
Profit/Total comprehensive income for the year		-	-	1,231,097	1,231,097
Reversal of capital contribution on disposal of subsidiaries		-	(14,548)	-	(14,548)
Dividends paid	24	-	-	(774,894)	(774,894)
At 31 December 2017		993,454	-	4,620,813	5,614,267

Note 13

Note 14

The notes set out on pages 187 to 241 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,563,489	1,138,730
Adjustments for:			
Depreciation and amortisation		332,546	351,781
Impairment loss on receivables		1,055	98,191
Write back of impairment loss on trade receivables		(1,465)	(709)
Net gain on disposal of property, plant and equipment		(22,190)	(31,284)
Interest income from fund and other investment		(90,821)	(80,971)
Dividend income		(119,980)	(1,250)
Property, plant and equipment written off		1,151	5,640
Net unrealised foreign exchange loss		4,655	487
Financing costs		3,262	1,947
Operating profit before changes in working capital		1,671,702	1,482,562
Inventories		(90,868)	(196,967)
Trade and other receivables		88,708	(282,271)
Trade and other payables		(319,559)	1,058,679
Cash generated from operations		1,349,983	2,062,003
Taxation paid		(309,417)	(286,399)
Net cash generated from operating activities		1,040,566	1,775,604
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		119,980	1,250
Interest income from fund and other investments		90,821	80,971
Purchase of property, plant and equipment		(36,172)	(178,701)
Proceeds from disposal of prepaid lease assets		4,195	514
Proceeds from disposal of property, plant and equipment		39,763	43,862
Proceeds from redemption of redeemable preference shares		252,965	2,879
Net cash generated from/ (used in) investing activities		471,552	(49,225)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid	24	(774,894)	(596,072)
Net cash used in financing activity		(774,894)	(596,072)

The notes set out on pages 187 to 241 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

(Continued)

	Note	2017 RM'000	2016 RM'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		737,224	1,130,307
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,349,713	1,219,406
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		3,086,937	2,349,713

CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	2017 RM'000	2016 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	2,989,035	2,236,442
Cash and bank balances	97,902	113,271
	3,086,937	2,349,713

The Company has changed the presentation format of the Statement of Cash Flows from direct to indirect method so as to provide better information to the users of its financial statements.

The notes set out on pages 187 to 241 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS <

31 December 2017

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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

As of 1 January 2017, 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 35.

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 36. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 38.

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2018.

1.2 Basis of measurement

The financial statements of the Group and of the Company have been prepared on the 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 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.

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 9 : Deferred Tax; and
- (ii) Note 28 : Financial Instruments.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of consolidation (continued)

Non-controlling interests (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4 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 year, 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 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 Property, plant and equipment and depreciation (continued)**

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial 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.

2.5 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.

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.

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

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.

Prepaid lease payments

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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 2.7(i)).

2.7 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.

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 2.21.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial instruments (continued)

(i) *Financial assets (continued)*

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 2.7(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 2.7(v)).

The Group and the Company did not have any held-to-maturity investments during the year ended 31 December 2017.

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 2017.

(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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial instruments (continued)

(ii) Financial liabilities (continued)

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 2.7(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial instruments (continued)

(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.

2.8 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment (continued)

(i) Financial assets (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have 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.

2.10 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.

2.11 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.

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 17.

2.12 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Taxation

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

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.

2.14 Foreign currency transactions

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Foreign currency transactions (continued)

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia are translated into Ringgit Malaysia at the exchange rates 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.

2.15 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.

2.16 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.

2.17 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 2.15. The financing costs on borrowings are recognised using the effective profit/interest method.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

Fair value of the deferred revenue is determined by reference to the monetary value attributable to the awarded points and the redemption expiry date. This accounting treatment is in line with IC Interpretation 13, Customer Loyalty Programmes.

2.19 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.

2.20 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.

2.21 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Fair value measurements (continued)

(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 and the Company recognise 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 1.1.2017 RM'000	Additions RM'000	Disposal of subsidiaries RM'000	Disposals/ write-offs RM'000	Transfers RM'000	Translation exchange difference RM'000	At 31.12.2017 RM'000
At cost:							
Freehold land	1,020,977	-	-	(2,833)	(5,778)	-	1,012,366
Leasehold land	637,029	-	(9,648)	(10,340)	20,306	-	637,347
Buildings	2,115,622	566	(612)	(14,629)	15,612	-	2,116,559
Plant, machinery, tankage and pipeline	2,531,753	10,220	(193,023)	(33,929)	104,983	(14,973)	2,405,031
Office equipment, furniture and fittings	484,004	2,415	(347)	(3,122)	19,810	(6)	502,754
Motor vehicles	87,155	1,161	(1,328)	(601)	367	(32)	86,722
Computer hardware and software	637,754	9,340	(1,680)	(3,934)	17,484	(23)	658,941
Projects-in-progress	264,169	35,079	(442)	(2,921)	(182,843)	-	113,042
	7,778,463	58,781	(207,080)	(72,309)	(10,059)*	(15,034)	7,532,762

* Amount relates to transfer to Prepaid Lease Payments (Note 4).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	At 1.1.2017 RM'000	Charge for the year RM'000	Disposal of subsidiaries RM'000	Disposals/ write-offs RM'000	Transfers RM'000	Translation exchange difference RM'000	At 31.12.2017 RM'000
Accumulated depreciation and impairment losses:							
Freehold land	809	-	-	-	-	-	809
Leasehold land	108,764	8,952	(7,640)	(3,890)	-	-	106,186
Buildings	1,322,362	92,336	(257)	(13,448)	-	-	1,400,993
Plant, machinery, tankage and pipeline	1,597,052	150,754	(97,593)	(28,477)	-	(3)	1,621,733
Office equipment, furniture and fittings	347,260	33,395	(303)	(2,576)	-	(1)	377,775
Motor vehicles	68,865	7,783	(1,294)	(547)	-	(12)	74,795
Computer hardware and software	539,099	44,053	(1,391)	(3,575)	-	(7)	578,179
	3,984,211	337,273	(108,478)	(52,513)	-	(23)	4,160,470

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	619,096	37	(2,351)	20,335	-	(88)	637,029
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

* Amount relates to transfer to Prepaid Lease Payments (Note 4).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. PROPERTY, PLANT AND EQUIPMENT (continued)

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	94,983	11,972	1,844	-	-	(35)	108,764
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

Group	Carrying amount	
	2017 RM'000	2016 RM'000
Freehold land	1,011,557	1,020,168
Leasehold land	531,161	528,265
Buildings	715,566	793,260
Plant, machinery, tankage and pipeline	783,298	934,701
Office equipment, furniture and fittings	124,979	136,744
Motor vehicles	11,927	18,290
Computer hardware and software	80,762	98,655
Projects-in-progress	113,042	264,169
	3,372,292	3,794,252

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	At 1.1.2017 RM'000	Additions RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	At 31.12.2017 RM'000
At cost:					
Freehold land	1,020,977	-	(2,833)	(5,778)	1,012,366
Leasehold land	626,034	-	(10,340)	19,978	635,672
Buildings	2,087,935	566	(14,629)	15,612	2,089,484
Plant, machinery, tankage and pipeline	1,928,082	9,784	(30,675)	101,083	2,008,274
Office equipment, furniture and fittings	480,054	2,207	(3,122)	19,810	498,949
Motor vehicles	79,341	-	(377)	367	79,331
Computer hardware and software	622,567	8,205	(3,928)	17,484	644,328
Projects-in-progress	246,998	15,410	(2,921)	(178,615)	80,872
	7,091,988	36,172	(68,825)	(10,059)*	7,049,276

* Amount relates to transfer to Prepaid Lease Payments (Note 4).

Company	At 1.1.2017 RM'000	Charge for the year RM'000	Disposals/ Write-offs RM'000	Transfers RM'000	At 31.12.2017 RM'000
Accumulated depreciation and impairment losses:					
Freehold land	809	-	-	-	809
Leasehold land	101,275	8,521	(3,886)	-	105,910
Buildings	1,297,514	90,917	(13,448)	-	1,374,983
Plant, machinery, tankage and pipeline	1,318,363	124,778	(26,245)	-	1,416,896
Office equipment, furniture and fittings	345,769	32,868	(2,576)	-	376,061
Motor vehicles	63,373	6,626	(377)	-	69,622
Computer hardware and software	527,257	42,937	(3,569)	-	566,625
	3,654,360	306,647	(50,101)	-	3,910,906

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

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	608,048	-	(2,322)	20,308	626,034
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 (Note 4).

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	88,146	11,256	1,873	-	101,275
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

31 December 2017

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Carrying amount	
	2017 RM'000	2016 RM'000
Freehold land	1,011,557	1,020,168
Leasehold land	529,762	524,759
Buildings	714,501	790,421
Plant, machinery, tankage and pipeline	591,378	609,719
Office equipment, furniture and fittings	122,888	134,285
Motor vehicles	9,709	15,968
Computer hardware and software	77,703	95,310
Projects-in-progress	80,872	246,998
	3,138,370	3,437,628

Restrictions of land title

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 1.1.2017 RM'000	Additions RM'000	Transfer from Property, Plant and Equipment RM'000	Disposals RM'000	Charge for the year RM'000	At 31.12.2017 RM'000
Leasehold land	21,747	-	-	(271)	(1,295)	20,181
Prepaid rental	455,109	-	10,059	(3,924)	(24,604)	436,640
	476,856	-	10,059	(4,195)	(25,899)	456,821

Group and Company	At 1.1.2016 RM'000	Additions RM'000	Transfer from Property, Plant and Equipment RM'000	Disposals RM'000	Charge for the year RM'000	At 31.12.2016 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

Restrictions of land title

The titles to certain leasehold land are in the process of being registered in the Company's name.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2017 RM'000	2016 RM'000
Unquoted shares at cost	29,010	281,975

During the year, the Company redeemed preference shares of subsidiaries amounting to RM252,965,000 (2016: RM2,879,000).

Details of the subsidiaries are stated in Note 32 to the financial statements.

6. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares at cost	530	1,959	530	530
Share of post-acquisition profits and reserves	1,026	1,472	-	-
	1,556	3,431	530	530

Summary of financial information on associates:

	Group	
	2017 RM'000	2016 RM'000
Total assets (100%)	9,172	43,314
Total liabilities (100%)	(1,011)	(32,057)
Net assets (100%)	8,161	11,257
Revenue (100%)	18,022	16,251
Total comprehensive income (100%)	1,218	1,138

During the year, the Group disposed of its 40% interest in DUTA with a carrying cost of investment of RM1,429,000 as part of the total disposal of PEPI (Note 21).

Details of the associates are stated in Note 33 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

7. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unquoted shares at cost	1,053	1,053	25	25
Share of post-acquisition profits and reserves	13,577	13,181	-	-
	14,630	14,234	25	25

Summary of financial information on joint ventures:

	Group	
	2017 RM'000	2016 RM'000
Total assets (100%)	91,654	101,990
Total liabilities (100%)	(53,636)	(56,589)
Net assets (100%)	38,018	45,401
Revenue (100%)	327,491	324,988
Total comprehensive income (100%)	9,424	18,800

Details of the joint ventures are stated in Note 34 to the financial statements.

8. LONG TERM RECEIVABLES

	Group	
	2017 RM'000	2016 RM'000
Long term receivables	-	8,896
Less: Impairment losses	-	(5,387)
	-	3,509

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

9. DEFERRED TAX

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

Group	At 1.1.2017 RM'000	Re- classification RM'000	Credited/ (charged) to profit or loss RM'000	Disposal of subsidiaries RM'000	At 31.12.2017 RM'000
Deferred tax liabilities					
Property, plant and equipment	(151,811)	-	835	152	(150,824)
Deferred revenue - Loyalty Programme	9,683	-	1,042	-	10,725
	(142,128)	-	1,877	152	(140,099)
Deferred tax asset					
Unused tax losses	5,424	-	-	(5,424)	-
	5,424	-	-	(5,424)	-

Group	At 1.1.2016 RM'000	Re- classification RM'000	Credited/ (charged) to profit or loss RM'000	Disposal of subsidiaries RM'000	At 31.12.2016 RM'000
Deferred tax liabilities					
Property, plant and equipment	(153,066)	(2,543)	3,950	(152)	(151,811)
Deferred revenue - Loyalty Programme	-	2,543	7,140	-	9,683
	(153,066)	-	11,090	(152)	(142,128)
Deferred tax assets					
Other provisions	1,517	-	-	(1,517)	-
Unused tax losses	7,895	-	(511)	(1,960)	5,424
	9,412	-	(511)	(3,477)	5,424

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

9. DEFERRED TAX (continued)

Company	At 1.1.2017 RM'000	Re- classification RM'000	Credited to profit or loss RM'000	At 31.12.2017 RM'000
Deferred tax liabilities				
Property, plant and equipment	(129,437)	-	8,173	(121,264)
Deferred revenue - Loyalty Programme	9,683	-	1,042	10,725
	(119,754)	-	9,215	(110,539)

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)

10. INVENTORIES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Petroleum products	867,774	800,122	844,394	753,526
Others	1,467	3,252	-	-
	869,241	803,374	844,394	753,526

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Recognised in profit or loss:				
Inventories recognised as cost of sales	24,382,254	19,436,953	24,000,580	19,076,305
Write-down to net realisable value	853	-	-	-
Reversal of write-down	-	(675)	-	-
Inventory written off	-	2,465	-	-
	24,383,107	19,438,743	24,000,580	19,076,305

Inventories are carried at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade				
Amounts due from:				
- Related companies	95,550	71,506	92,436	70,514
Trade receivables	940,714	960,046	811,094	795,431
Less: Impairment losses	(8,236)	(14,777)	(1,539)	(1,949)
	1,028,028	1,016,775	901,991	863,996
Non-trade				
Other receivables, deposits and prepayments	230,248	219,399	225,889	199,160
Advances and loans to:				
- Associates and joint ventures	3,583	30,217	516	20,206
Amounts due from:				
- Holding Company	18,980	-	18,980	-
- Subsidiaries	-	-	961	1,947
- Related companies	5,937	10,517	5,937	10,517
Subsidy receivables	521,105	687,218	521,105	687,218
Less: Impairment losses	(131,930)	(131,930)	(131,930)	(131,930)
	647,923	815,421	641,458	787,118
Trade and other receivables	1,675,951	1,832,196	1,543,449	1,651,114

The non-trade amounts due from holding company, subsidiaries, associates, joint ventures and related companies are unsecured, interest free and repayable on demand.

12. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	3,008,769	2,249,440	2,989,035	2,236,442
Cash and bank balances	265,557	127,390	97,902	113,271
Deposits placed with licensed banks	83,416	54,807	-	-
	3,357,742	2,431,637	3,086,937	2,349,713

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 and Company are interest-bearing balances amounting to RM3,338,957,000 (2016: RM2,423,377,000) and RM3,078,541,000 (2016: RM2,342,212,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

13. SHARE CAPITAL

Group and Company	Number of shares		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Issued ordinary shares	993,454	993,454	993,454	993,454

14. 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.

15. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of a partly-owned subsidiary.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

16. BORROWINGS

	Group	
	2017 RM'000	2016 RM'000
Non-current		
Secured		
Term loan	-	17,452
Unsecured		
Islamic financing facilities	48,909	67,009
Total non-current borrowings	48,909	84,461
Current		
Secured		
Term loan	-	9,973
Unsecured		
Revolving credits	-	6,345
Islamic financing facilities	18,366	17,992
Total current borrowings	18,366	34,310
Total borrowings	67,275	118,771

Terms and debt repayment schedule

Group	Total RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000
2017				
Unsecured				
Islamic financing facilities	67,275	18,366	19,059	29,850
2016				
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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

16. BORROWINGS (continued)

Secured term loan

The secured term loan in prior year bore interest at 3.16% per annum with principal repayment of 60 equal monthly instalments commencing October 2014.

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 4.27% to 4.41% (2016: 3.90% to 4.24%) 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 in prior year bore interest rate of between 2.50% to 2.75% per annum.

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Term loan RM'000	Islamic financing facilities RM'000	Revolving credits RM'000	Total RM'000
Balance at 1 January 2017	27,425	85,001	6,345	118,771
Repayment of:				
- Term loan	(25,619)	-	-	(25,619)
- Islamic financing facilities	-	(17,726)	-	(17,726)
- Revolving credits	-	-	(5,928)	(5,928)
Total changes from financing cash flows	1,806	67,275	417	69,498
The effect of changes in foreign exchange rates	(1,806)	-	(417)	(2,223)
Balance at 31 December 2017	-	67,275	-	67,275

17. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Dismantling, removal and restoration costs	30,782	26,954	30,782	26,954
Other long term liabilities	214	3,215	-	-
	30,996	30,169	30,782	26,954

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	
	2017 RM'000	2016 RM'000
Balance at 1 January	26,954	25,160
Net changes in provisions	566	154
Reversal of provisions	-	(307)
Unwinding of discount	3,262	1,947
Balance at 31 December	30,782	26,954

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade				
Amounts due to:				
- Holding company	133,737	108,160	133,737	108,160
- Subsidiaries	-	-	288	103
- Related companies	2,360,216	2,463,206	2,303,468	2,440,243
Trade payables	145,792	132,727	110,303	118,175
Deferred revenue	44,687	40,435	44,687	40,346
	2,684,432	2,744,528	2,592,483	2,707,027
Non-trade				
Other payables	664,450	791,269	625,731	723,340
Amounts due to:				
- Holding company	1,035	102,009	-	102,026
- Subsidiaries	-	-	7,456	907
- Associates and joint ventures	726	3,024	726	3,024
- Related companies	8,469	18,830	8,469	18,830
	674,680	915,132	642,382	848,127
Trade and other payables	3,359,112	3,659,660	3,234,865	3,555,154

Deferred revenue is attributable to the monetary value of the awarded Mesra points under PETRONAS Mesra Loyalty Programme.

The non-trade amounts due to holding company, subsidiaries, associates, joint ventures and related companies are unsecured, interest free and repayable on demand.

19. FINANCING COSTS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Unwinding of discount				
- Provision for dismantling, removal and restoration costs	3,262	1,947	3,262	1,947
Interest on term loan	22	4	-	-
Profit margin on Islamic financing facilities	3,405	3,584	-	-
	6,689	5,535	3,262	1,947

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. TAX EXPENSE

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current tax expense				
Current year	362,040	293,943	351,666	281,759
Prior year	(10,246)	11,315	(10,059)	11,455
	351,794	305,258	341,607	293,214
Deferred tax expense				
Reversal and origination of temporary differences	(5,283)	5,726	(10,075)	3,114
Under / (Over) provision in prior year	3,406	(16,305)	860	(17,051)
Total deferred tax expense	(1,877)	(10,579)	(9,215)	(13,937)
Total tax expense	349,917	294,679	332,392	279,277

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:

	%	2017 RM'000	%	2016 RM'000
Group				
Profit before taxation		1,437,857		1,190,383
Taxation at Malaysian statutory tax rate	24	345,086	24	285,692
Effect of different tax rates in foreign jurisdictions	-	(116)	-	17
Non-deductible expenses, net of non-taxable income	1	11,787	1	13,960
	25	356,757	25	299,669
Under/ (Over) provision in prior year				
- current tax expense	(1)	(10,246)	1	11,315
- deferred tax expense	-	3,406	(1)	(16,305)
Tax expense	24	349,917	25	294,679
Company				
Profit before taxation		1,563,489		1,138,730
Taxation at Malaysian statutory tax rate	24	375,237	24	273,296
Non-deductible expenses, net of non-taxable income	(2)	(33,646)	1	11,577
	22	341,591	25	284,873
Under/ (Over) provision in prior year				
- current tax expense	(1)	(10,059)	1	11,455
- deferred tax expense	-	860	(1)	(17,051)
Tax expense	21	332,392	25	279,277

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

21. DISPOSAL OF SUBSIDIARIES

In 2016 the Group had disposed 100% of its equity interest in PETRONAS (Vietnam) Co., Ltd. ("PVL") for a fair value consideration of RM1,728,000.

During the year, the Group has disposed 100% of its equity interest in Thang Long LPG Company Limited ("TLLCL") and PETRONAS Energy Philippines, Inc. ("PEPI") for a fair value consideration of RM18,474,000 and RM560,529,000, respectively.

The net effect of the above disposals 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 operations

	Group	
	2017 RM'000	2016 RM'000
Revenue	162,332	282,041
Expenses	(134,697)	(264,232)
Profit from operating activities	27,635	17,809
Tax expense	(1,440)	(2,656)
Gain on disposal of discontinued operations	430,834	35,610
Profit for the year	457,029	50,763

Included in results from operating activities are:

Depreciation of property, plant and equipment	5,026	14,566
Impairment loss on trade receivables	2,921	5,780
Share of profit after tax of equity accounted associates and joint ventures	220	279
Financing costs	363	2,126
Property, plant and equipment written off	2,026	-
Interest income from fund and other investment	283	519
Net gain on disposal of property, plant and equipment	-	662
Net unrealised foreign exchange loss	-	89

The profit from discontinued operations of RM457,029,000 (2016: RM50,763,000) is attributable entirely to the owners of the Company.

21. DISPOSAL OF SUBSIDIARIES (continued)

Cash flows from disposal of subsidiaries

	Group	
	2017 RM'000	2016 RM'000
Net cash generated from/(used in) investing activities	552,408	(3,813)

Effect of disposal on the financial position of the Group

	2017 RM'000	2016 RM'000
Property, plant and equipment	98,602	19,916
Current assets	66,475	23,199
Current liabilities	(2,523)	(33,002)
Borrowing	-	(30,558)
Other liabilities	(1,008)	(17,166)
Other assets	14,043	-
Net assets/ (liabilities) disposed of	175,589	(37,611)
Foreign exchange translation reserve	(27,420)	3,729
Gain on disposal	430,834	35,610
Consideration received, satisfied in cash	579,003	1,728
Less: Cash and cash equivalents of subsidiaries disposed	(26,595)	(5,541)
Cash flow on disposal of subsidiaries, net of cash disposed of	552,408	(3,813)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

22. PROFIT FOR THE YEAR

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Included in profit for the year are the following charges:					
Audit fees:					
- KPMG Malaysia		619	619	500	500
- overseas affiliates of KPMG Malaysia		24	67	-	-
- other auditors		106	80	-	-
Non-audit fees (KPMG Malaysia)		195	240	195	240
Amortisation of prepaid lease payments	4	25,899	29,418	25,899	29,418
Staff costs:					
- wages, salaries and others		205,378	214,245	171,631	180,388
- contributions to EPF		31,335	32,146	28,932	29,634
Depreciation	3	337,273	360,884	306,647	322,363
Impairment losses on:					
- trade receivables	29	2,727	999	1,055	339
- other receivables		-	97,852	-	97,852
- long term receivables	8	2,321	5,387	-	-
Net unrealised loss on foreign exchange		4,643	578	4,655	487
Net realised loss on foreign exchange		5,022	-	-	-
Inventories written down to net realisable value		3,776	870	-	-
Inventories written off	10	-	2,465	-	-
Property, plant and equipment written off		3,178	6,569	1,151	5,640
Rental of:					
- plant and equipment		4,966	5,779	4,876	5,660
- land and buildings		38,065	42,123	29,904	33,256
and credits:					
Net gain on disposal of property, plant and equipment		22,688	34,566	22,190	31,284
Gain on disposal of subsidiaries	21	430,834	35,610	-	-
Dividend income:					
- subsidiary		-	-	117,480	-
- joint venture		3,362	1,250	2,500	1,250
Interest income from fund and other investment		94,716	86,288	90,821	80,971
Income from rental of premises		1,958	1,904	56	27
Net realised gain on foreign exchange		-	11,359	79,904	11,684
Reversal of write-down of inventory to net realisable value	10	-	675	-	-
Write back of impairment loss on trade receivables	28	9,268	824	1,465	709

NOTES TO THE FINANCIAL STATEMENTS
31 December 2017

23. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2017 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2017	2016
Profit for the year attributable to shareholders (RM'000)		
- continuing operations	1,082,467	893,845
- discontinued operations	457,029	50,763
Number of ordinary shares ('000)	993,454	993,454
Basic earnings per ordinary share (sen)		
- continuing operations	109.0	90.0
- discontinued operations	46.0	5.1

Diluted earnings per ordinary share

No diluted earnings per share is disclosed in these financial statements as there is no potential dilutive ordinary share.

24. DIVIDENDS

	Company	
	2017 RM'000	2016 RM'000
In respect of financial year ended 31 December 2016:		
Interim dividend of 30.0 sen per ordinary share (2015: 20.0 sen)	298,036	198,690
In respect of financial year ended 31 December 2017:		
Interim dividend of 14.0 sen per ordinary share (2016: 12.0 sen)	139,084	119,214
Interim dividend of 14.0 sen per ordinary share (2016: 14.0 sen)	139,084	139,084
Interim dividend of 20.0 sen per ordinary share (2016: 14.0 sen)	198,690	139,084
	774,894	596,072

The Directors had declared an interim dividend of 27.0 sen per ordinary share amounting to RM268,232,580 and propose a special dividend of 22.0 sen per ordinary share amounting to RM218,559,880 in respect of the financial year ended 31 December 2017 which have not been accounted for in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

25. 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	
	2017 RM'000	2016 RM'000
Directors		
- Fees	358	393
- Other short term benefits (including estimated monetary value of benefits-in-kind)	18	15
	376	408

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

25. RELATED PARTIES DISCLOSURES (continued)

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		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Holding company				
Purchase of petroleum products	1,022,838	707,368	1,022,838	707,368
Rental of office space	18,515	18,706	18,515	18,706
Interest income from PETRONAS IFSSC	90,185	80,397	89,705	79,678
Fees for representation in the Board of Directors*	1,216	1,055	1,216	1,055
Related companies				
Sales of petroleum products	1,188,794	923,332	1,162,391	909,119
Purchase of petroleum products	23,517,369	21,263,866	23,199,566	20,972,511
Information, communication and technology charges	37,725	41,376	37,635	39,911
Federal and State Government of Malaysia				
Sales of petroleum products	295,801	267,730	295,801	267,730
Government of Malaysia's related entities				
Sales of petroleum products	4,557,405	3,242,148	4,557,405	3,242,148

* 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 2017 is disclosed in Note 11 and Note 18. 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.

26. 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment				
Approved and contracted for	45,818	4,963	45,695	4,785
Approved but not contracted for	241,771	132,469	236,275	110,310
	287,589	137,432	281,970	115,095

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

27. OPERATING SEGMENTS

The Group's reportable segments comprise of Retail, Commercial and Others. Each reportable segment offers different products and services and 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	2017				2016			
	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 - continuing operations	13,855,189	12,863,139	19,532	26,737,860	11,869,189	9,643,067	22,302	21,534,558
Depreciation and amortisation*	292,967	44,900	20,279	358,146	306,613	48,870	20,253	375,736
Other income/(expense)	332,517	70,308	(197)	402,628	322,605	81,437	(13,546)	390,496
Operating profit/(loss)	838,330	572,058	30,156	1,440,544	660,797	531,926	(2,145)	1,190,578
Financing costs*	(2,665)	(619)	(3,405)	(6,689)	(1,636)	(315)	(3,584)	(5,535)
Share of profit after tax of associates and joint ventures				4,002				5,340
Profit before taxation from continuing operations				1,437,857				1,190,383

* Excludes disposed subsidiaries (PEPI and TLLCL)

Geographical information

There is no disclosure on geographical segment information as the Group's operations outside of Malaysia are not material during the year under review.

Major customers

As at 31 December 2017, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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
2017			
Financial assets			
Trade and other receivables	11	1,630,721	1,630,721
Cash and cash equivalents	12	3,357,742	3,357,742
		4,988,463	4,988,463
Financial liabilities			
Borrowings	16	(67,275)	(67,275)
Trade and other payables	18	(3,312,006)	(3,312,006)
		(3,379,281)	(3,379,281)
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	16	(118,771)	(118,771)
Trade and other payables	18	(3,597,908)	(3,597,908)
		(3,716,679)	(3,716,679)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Company	Note	L&R/ (L&B) RM'000	Total carrying amount RM'000
2017			
Financial assets			
Trade and other receivables	11	1,501,344	1,501,344
Cash and cash equivalents	12	3,086,937	3,086,937
		4,588,281	4,588,281
Financial liability			
Trade and other payables	18	(3,190,179)	(3,190,179)
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	18	(3,494,830)	(3,494,830)

Financial risk management

The Group and the Company are exposed to various risks that are particular to its core business which consists of domestic marketing of petroleum products. These risks, which arise in the normal course of the Group's and the Company's business, comprise credit risk, liquidity risk and market risk relating to interest rates and foreign currency exchange rates.

The Group has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the Group.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board 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 margin or interest rate risk and foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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 financial institutions. 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, 95% (2016: 96%) 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 14% (2016: 19%) 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 69% (2016: 76%) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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 trade 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At net				
Current	980,055	977,892	872,103	846,595
Past due 1 to 30 days	32,882	20,383	20,542	8,721
Past due 31 to 60 days	5,747	5,769	1,971	1,311
Past due 61 to 90 days	2,339	2,324	901	1,396
Past due more than 90 days	7,005	10,407	6,474	5,973
	1,028,028	1,016,775	901,991	863,996
Representing:				
Trade receivables (Note 11)	1,036,264	1,031,552	903,530	865,945
Less: Impairment losses (Note 11)	(8,236)	(14,777)	(1,539)	(1,949)
	1,028,028	1,016,775	901,991	863,996

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Opening balance	14,777	14,602	1,949	2,319
Impairment losses recognised	2,727	999	1,055	339
Reversal of impairment	(9,268)	(824)	(1,465)	(709)
Closing balance	8,236	14,777	1,539	1,949

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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 treasury function is governed by counterparty credit risk management framework.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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:

	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
Group						
2017						
Financial liabilities						
Unsecured Islamic financing facilities floating rate	67,275	4.27-4.41	72,910	21,016	20,888	31,006
Trade and other payables	3,312,006	-	3,312,006	3,312,006	-	-
	3,379,281		3,384,916	3,333,022	20,888	31,006
2016						
Financial liabilities						
Unsecured Islamic financing facilities floating rate	85,001	3.90-4.24	93,245	21,140	21,013	51,092
Unsecured revolving credit floating rate	6,345	2.50-2.75	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		3,726,627	3,635,698	31,626	59,303
Company						
2017						
Financial liabilities						
Trade and other payables	3,190,179	-	3,190,179	3,190,179	-	-
2016						
Financial liabilities						
Trade and other payables	3,494,830	-	3,494,830	3,494,830	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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 2017, 100% (2016: 100%) of the interest-bearing financial liabilities of the Group are floating rate instruments.

Profit margin risk sensitivity analysis

As at 31 December 2017, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. 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	
	2017 RM'000	2016 RM'000
Group		
Financial assets		
Cash and cash equivalents	-	223
Trade and other receivables	121,581	122,910
	121,581	123,133
Financial liability		
Trade and other payables	(32,809)	(56,289)
Net exposure	88,772	66,844
Company		
Financial assets		
Cash and cash equivalents	-	162
Trade and other receivables	121,289	122,910
	121,289	123,072
Financial liability		
Trade and other payables	(32,809)	(55,606)
Net exposure	88,480	67,466

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2017 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2017 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 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.

28. 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:

	2017		2016	
	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	8,877	10	6,684
Company				
USD	10	8,848	10	6,747

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

28. FINANCIAL INSTRUMENTS (continued)

	Fair value of financial instruments not carried at fair value		Carrying amount RM'000
	Level 3 RM'000	Total RM'000	
Group			
2017			
Financial Liability			
Islamic financing facilities	60,956	60,956	67,275
2016			
Financial Asset			
Long term receivables	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

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.

Gains and losses arising from financial instruments

	Interest income RM'000	Interest expense RM'000	Net impairment write-back/(loss) RM'000	Others RM'000	Total RM'000
Group					
2017					
Loans and receivables					
- recognised in profit or loss	94,716	-	4,220	(7,211)	91,725
Loans and borrowings	-	(3,790)	-	(2,454)	(6,244)
Total	94,716	(3,790)	4,220	(9,665)	85,481
2016					
Loans and receivables					
- recognised in profit or loss	86,288	-	(103,414)	3,469	(13,657)
Loans and borrowings	-	(5,714)	-	7,312	1,598
Total	86,288	(5,714)	(103,414)	10,781	(12,059)

28. FINANCIAL INSTRUMENTS (continued)

Gains and losses arising from financial instruments (continued)

	Interest income RM'000	Interest expense RM'000	Net impairment write-back/(loss) RM'000	Others RM'000	Total RM'000
Company					
2017					
Loans and receivables					
- recognised in profit or loss	90,821	-	410	77,732	168,963
Loans and borrowings	-	-	-	(2,483)	(2,483)
Total	90,821	-	410	75,249	166,480
2016					
Loans and receivables					
- recognised in profit or loss	80,971	-	(97,482)	3,557	(12,954)
Loans and borrowings	-	-	-	7,640	7,640
Total	80,971	-	(97,482)	11,197	(5,314)

29. 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 2017 is 1.1:100 (2016: 2.2:100).

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

30. HOLDING COMPANY

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

31. 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 disposals of TLLCL, PEPI and Duta during the year.

32. SUBSIDIARIES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2017	2016	
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 Philippines			
**PETRONAS Energy Philippines, Inc. ¹	-	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. ¹	100%	100%	To market and distribute lubricants.
Company incorporated in Vietnam			
**Thang Long LPG Company Limited ¹	-	100%	To store and bottle LPG and lease jetty.

* Not audited by member firms of KPMG International

** Audited by member firms of KPMG International

¹ Directly owned by PDB (Netherlands) B.V.

33. ASSOCIATES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2017	2016	
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 Philippines			
**Duta, Inc. ²	-	40%	To lease properties to PETRONAS Energy Philippines, Inc.
**Kaparangan, Inc. ³	-	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

² Directly owned by PEPI

³ Wholly owned by Duta, Inc.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

34. JOINT VENTURES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2017	2016	
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) ⁴	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

⁴ Interest owned by PETRONAS Aviation Sdn. Bhd.

35. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2017, 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 2017

Amendments to MFRS 12, *Disclosure of Interests in Other entities (Annual Improvements to MFRS Standards 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*

The initial application of the abovementioned pronouncements do not have any material impact to the financial statements of the Group and the Company.

36. PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2018

MFRS 9, *Financial Instruments (2014)*

MFRS 15, *Revenue from Contracts with Customers*

Amendments to MFRS 15 *Revenue from Contracts with Customers: Clarifications to MFRS 15*

IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

Amendments to MFRS 128 *Investment in Associates and Joint Ventures (Annual Improvements 2014 - 2016 Cycle)*

36. PRONOUNCEMENTS YET IN EFFECT (continued)

Effective for annual periods beginning on or after 1 January 2019

MFRS 16, *Leases*

Amendments to MFRS 3 *Business Combinations* (Annual Improvements 2015-2017 Cycle)

Amendments to MFRS 11 *Joint Arrangements* (Annual Improvements 2015-2017 Cycle)

Amendments to MFRS 112 *Income Taxes* (Annual Improvements 2015-2017 Cycle)

Amendments to MFRS 123 *Borrowing Costs* (Annual Improvements 2015-2017 Cycle)

Amendments to MFRS 128 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

Amendments to MFRS 9 *Financial Instrument: Prepayment Features with Negative Compensation*

Effective for a date yet to be confirmed

Amendments to MFRS 10, *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to MFRS 128, *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the 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*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations. The standards specifies that the revenue is to be recognised when control over the goods or services is transferred to the customer, moving from the transfer of risk and rewards.

With the adoption of MFRS 15, revenue is recognised by reference to each distinct performance obligation in the contract with customer. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct goods or services promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

Currently, the Group recognises revenue from contracts with retail dealers, net of commission. In applying MFRS 15, the Group will recognise the revenue from contracts with retail dealers on the basis that the ability of Group to direct the use and the benefit received from the operation of the petrol stations. Consequential to this, the Group has assessed the services provided by the dealers as a distinct service. As such, the revenue from contracts with retail dealers will be recognised at gross, while the dealers commission will be recognised as selling and distribution expenses.

The Group and the Company have assessed the estimated impact that the initial application of MFRS 15 will have on its financial statements as at 1 January 2018 as disclosed in Note 37.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

36. PRONOUNCEMENTS YET IN EFFECT (continued)

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 and financial liabilities, impairment of financial assets, and on hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principle classifications categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), and eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

The Group has established a structured implementation program which includes undertaking impact assessment, guideline, changes to system and process, training program as well as engaging with relevant experts within the Group to ensure readiness and smooth implementation of MFRS 9. MFRS 9 replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model.

The Group and Company have estimated the financial impact upon initial application of the new impairment model. As allowed by the transitional provision of MFRS 9, the Group elects not to restate comparatives which allows the transitional adjustment to be recognised in opening retained earnings as at 1 January 2018 (date of initial application) as disclosed in Note 37.

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.

37. IMPACT OF THE ADOPTION OF PRONOUNCEMENTS

The impacts of the adoption of pronouncements on the Group's and Company's comparative financial position and profit or loss are summarised below:

Impact of MFRS 15 adoption	As stated	As previously stated
<i>In RM'000</i>		
Group		
Consolidated Statement of Profit or Loss		
Revenue	27,373,441	26,737,860
Selling and distribution expenses	(911,112)	(275,531)
	26,462,329	26,462,329
Company		
Statement of Profit or Loss		
Revenue	26,808,940	26,173,359
Selling and distribution expenses	(881,182)	(245,601)
	25,927,758	25,927,758

Impact of MFRS 9 adoption	As stated	As previously stated
<i>In RM'000</i>		
Group		
Consolidated Statement of Financial Position		
Retained profits	5,023,981	5,026,671
Company		
Statement of Financial Position		
Retained profits	4,618,559	4,620,813

38. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued pronouncements which are not yet effective, but 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*

Effective for annual periods beginning on or after 1 January 2021

MFRS 17 *Insurance Contracts*

> 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 2017 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 176 to 241.

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 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (*on Professional Ethics, Conduct and Practice*) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

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 199 (Note 2.16 Significant Accounting Policies) and page 224 (Note 27) to the financial statements.

The key audit matter

The main revenue streams of the Group are split 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 process; 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.

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 (continued)

Key Audit Matters (continued)

How the matter was addressed in our audit

We performed the following audit procedures, among others, around revenue recognition:

- We tested the design and implementation as well as 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 selected sales transactions recorded to the acknowledged customer delivery orders to ascertain validity of sales;
- We verified selected sales transactions recorded by way of confirmations with third parties; 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. 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 in the Director's 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 auditor's 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 annual report 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 annual report and, in doing so, consider whether the annual report 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, we conclude that there is a material misstatement of the annual report, 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 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as going concerns, disclosing, as applicable, matters related to going concerns and using the going concerns 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.

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 (continued)

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 going concerns. 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 going concerns.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PETRONAS DAGANGAN BERHAD
(Company No. 88222-D) (Incorporated in Malaysia)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not noted acted as auditors are disclosed in Notes 32 to the financial statements.

OTHER MATTER

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants



Chong Dee Shiang
Approval Number: 02782/09/2018 J
Chartered Accountant

Petaling Jaya
26 February 2018

> SHARE CAPITAL

As at 14 February 2018

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 14 February 2018

Size of Holdings	No. of Holders	% of Total Shareholders	No. of Shares	% of Total Shares
Less than 100	242	3.47	1,767	0.00
100 - 1,000	1,703	24.38	1,155,618	0.12
1,001 - 10,000	4,267	61.09	11,531,317	1.16
10,001 - 100,000	545	7.80	18,745,180	1.88
100,001 to less than 5% of issued shares	227	3.25	268,016,118	26.98
5% and above of issued shares	1	0.01	694,004,000	69.86
	6,985	100.00	993,454,000	100.00

CLASSIFICATION OF SHAREHOLDERS

As at 14 February 2018

Category	No. of Holders		No. of Shares		% of Total Shareholdings	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
• Individual	5,533	64	15,700,562	316,330	1.58	0.03
• Body Corporate						
<i>a. Banks/Finance Companies</i>	41	0	100,928,400	0	10.16	0.00
<i>b. Investment Trusts/ Foundation/Charities</i>	1	0	1,400	0	0.00	0.00
<i>c. Other types of companies</i>	180	4	4,425,702	434,000	0.44	0.05
• Government Agencies/ Institutions	7	0	7,423,300	0	0.75	0.00
• Nominees	516	639	767,240,396	96,983,910	77.23	9.76
• Others	0	0	0	0	0.00	0.00
	6,278	707	895,719,760	97,734,240	90.16	9.84

ANALYSIS OF SHAREHOLDINGS

As at 14 February 2018

LIST OF SUBSTANTIAL SHAREHOLDERS

As at 14 February 2018

	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

LIST OF DIRECTORS' SHAREHOLDINGS

As at 14 February 2018

No.	Name	No. of Shares	% of Total Shareholding
1.	Datuk Md Arif Mahmood	Nil	Nil
2.	Dato' 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.	Nuraini Ismail	Nil	Nil
7.	Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir (appointed on 31 July 2017)	Nil	Nil
8.	Shafie Shamsuddin (appointed on 6 February 2018)	Nil	Nil
9.	Alvin Michael Hew Thai Kheam (appointed on 6 February 2018)	Nil	Nil
10.	Erwin Miranda Elechicon (resigned on 31 July 2017)	Nil	Nil
11.	Ir Mohamed Firouz Asnan (resigned on 31 July 2017)	Nil	Nil

LIST OF LEADERSHIP TEAM'S SHAREHOLDINGS

As at 14 February 2018

No.	Name	No. of Shares		% of Total Shareholding
		Opening Balance	Closing Balance	
1.	Dato' Mohd Ibrahimnuddin Mohd Yunus	3,000	3,000	0.00
2.	Norliwati Abdul Wahab	Nil	Nil	Nil
3.	Aadrin Azly	Nil	Nil	Nil
4.	Ramzulkhakim Ramli	Nil	Nil	Nil
5.	Mahmad Zahri Mahzan	Nil	Nil	Nil
6.	Anton Salleh Hashim	Nil	Nil	Nil
7.	Mohd Shobri A.Bakar	Nil	Nil	Nil
8.	Ruziah Azdi Abdul Rahman	Nil	Nil	Nil
9.	Naina Mohd Shukri Omar	Nil	Nil	Nil
10.	Tariq Ashra Sulaiman	Nil	Nil	Nil
11.	Hasnizaini Mohd Zain	Nil	Nil	Nil

> LIST OF THIRTY LARGEST SHAREHOLDERS

As at 14 February 2018

	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.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	41,710,800	4.20
3.	AMANAHRAYA TRUSTEES BERHAD AMANAHA SAHAM BUMIPUTERA	41,343,100	4.16
4.	CARTABAN NOMINESS (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	10,855,600	1.09
5.	AMANAHRAYA TRUSTEES BERHAD AMANAHA SAHAM WAWASAN 2020	10,060,000	1.01
6.	AMANAHRAYA TRUSTEES BERHAD AS 1MALAYSIA	9,348,000	0.94
7.	AMANAHRAYA TRUSTEES BERHAD AMANAHA SAHAM MALAYSIA	7,739,300	0.78
8.	PERMODALAN NASIONAL BERHAD	6,599,300	0.66
9.	AMANAHRAYA TRUSTEES BERHAD AMANAHA SAHAM BUMIPUTERA 2	6,378,700	0.64
10.	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	5,459,600	0.55
11.	DB (MALAYSIA) NOMINEE (ASING) SDN BHD BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM)	5,203,400	0.52
12.	HSBC NOMINEES (ASING) SDN BHD BBH AND CO BOSTON FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	5,182,139	0.52
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 JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	3,945,400	0.40
15.	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	3,250,000	0.33

LIST OF THIRTY LARGEST SHAREHOLDERS

As at 14 February 2018

	Name	No. of Shares	% of Total Shares
16.	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	3,098,300	0.31
17.	CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	2,539,100	0.26
18.	CARTABAN NOMINEES (ASING) SDN BHD RBC INVESTOR SERVICES BANK S.A. FOR ROBECO CAPITAL GROWTH FUNDS	2,533,500	0.26
19.	MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)	2,432,000	0.24
20.	CITIGROUP NOMINEES (ASING) SDN BHD UBS AG	2,051,501	0.21
21.	MAYBANK NOMINEES (TEMPATAN) SDN BHD SETIAUSAHA KERAJAAN PULAU PINANG	2,000,000	0.20
22.	STATE FINANCIAL SECRETARY SARAWAK	2,000,000	0.20
23.	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	1,905,100	0.19
24.	FOH CHONG & SONS SDN BHD	1,884,000	0.19
25.	PERTUBUHAN KESELAMATAN SOSIAL	1,845,200	0.19
26.	KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	1,817,300	0.18
27.	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SECTOR SELECT FUND	1,800,000	0.18
28.	STATE SECRETARY KEDAH INCORPORATED	1,800,000	0.18
29.	AMANAHRAYA TRUSTEES BERHAD AMANA SAHAM DIDIK	1,712,500	0.17
30.	AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC SELECT ENTERPRISES FUND	1,608,500	0.16

> NET BOOK VALUE OF LAND AND BUILDINGS OF THE COMPANY

	Freehold			Leasehold			Total Land			Building
	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	402,054	113	4,321,192	286,813	87	19,569,181	688,867	200	23,890,373	248,250
NORTHERN REGION	195,443	86	3,727,873	49,702	42	5,704,782	245,145	128	9,432,655	127,443
SOUTHERN REGION	348,106	138	5,468,481	86,111	47	1,735,821	434,217	185	7,204,302	150,123
EAST COAST REGION	64,916	36	1,494,095	38,852	52	1,881,083	103,768	88	3,375,178	92,324
SARAWAK	-	-	-	33,875	40	1,768,026	33,875	40	1,768,026	54,391
SABAH	1,038	3	93,663	34,409	35	2,474,086	35,447	38	2,567,749	41,970
Grand Total	1,011,557	376	15,105,304	529,762	303	33,132,979	1,541,319	679	48,238,283	714,501

USAGE OF LAND* <

	Bulk Depot	Klang Valley Distribution Terminal	LPG Storage & Bottling Plant	Multi Product Pipeline	Service Station**	Training Centre & Service Station	Vacant Land	Grand Total
CENTRAL REGION	-	2	-	1	186	1	10	200
NORTHERN REGION	3	-	-	-	118	-	7	128
SOUTHERN REGION	-	-	-	-	175	-	10	185
EAST COAST REGION	-	-	1	-	80	-	7	88
SARAWAK	3	-	-	-	36	-	1	40
SABAH	3	-	-	-	34	-	1	38
Grand Total	9	2	1	1	629	1	36	679

* 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 2017

Name of facilities and location	Net Book Value (RM)
LUMUT FUEL TERMINAL Lumut Port Industrial Park, Kg Acheh, 32000 Sitiawan, Perak	13,886,182
PASIR GUDANG LPG BOTTLING PLANT Lot 108, Lorong Sawit 2, Kawasan Pelabuhan Johor, 81700 Pasir Gudang, Johor	10,308,039
PSS JLN KOLAM AYER AMPANG Lot 36904, Jalan Kolam Ayer Lama, 68000 Ampang, Kuala Lumpur	9,730,441
PRAI LPG BOTTLING PLANT Lot 93, Prai Industrial Area, 13600 Prai, Penang	6,655,002
PSS KM 58 KL-KARAK HIGHWAY Lot 8207 Mukim Bentong, Daerah Bentong, 28400 Bentong, Pahang	6,460,683
PSS PLUS/BESRAYA HIGHWAY KM 305, PLUS Arah Selatan, Lot 896, GRN 46223, Mukim Kajang, 43650 Hulu Langat, Selangor	6,450,576
PSS TELAGA HARBOUR PARK Harbour Park Langkawi, Pantai Kok, 07000 Padang Matsirat, Kedah	5,758,322
PSS JURU LAYBY NORTH BOUND Lot 4290, MK.6, Lebuhraya Utara Selatan, Perhentian Juru, 14000 Bukit Mertajam, Penang	5,463,926
PSS KM0.7 BESRAYA KM 0.7, Lebuhraya Sg. Besi, 43300 Seri Kembangan, Selangor	5,232,237
MELAKA LPG BOTTLING PLANT Lot 1396-1399, Mukim Sg Udang, 76300 Tangga Batu, Melaka	4,603,342

NOTICE OF ANNUAL GENERAL MEETING <

NOTICE IS HEREBY GIVEN THAT the 36th Annual General Meeting of PETRONAS Dagangan Berhad (“the Company”) will be held at the Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia on Wednesday, 25 April 2018 at 10.00 a.m. for the following businesses:

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 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 by rotation pursuant to Article 93 of the Company’s Constitution and being eligible, offer themselves for re-election:

- (a) Datuk Md Arif bin Mahmood
- (b) Nuraini binti Ismail

(Resolution 1)

(Resolution 2)

Please refer to Explanatory Note B.

3. To re-elect the following Directors who retire by rotation pursuant to Article 96 of the Company’s Constitution and being eligible, offer themselves for re-election:

- (a) Dato’ Sri Syed Zainal Abidin bin Syed Mohamed Tahir
- (b) Shafie bin Shamsuddin
- (c) Alvin Michael Hew Thai Kheam

(Resolution 3)

(Resolution 4)

(Resolution 5)

Please refer to Explanatory Note B.

4. To approve the payment of the Directors’ Fees of RM288,000 per annum for the Non-Executive Chairman and RM144,000 per annum for the Non-Executive Directors in respect of the financial year ending 31 December 2018.

(Resolution 6)

Please refer to Explanatory Note C

5. To approve the Directors’ Fees and Allowances payable to the Non-Executive Directors of up to RM2,430,000 with effect from 1 January 2018 until the next Annual General Meeting of the Company.

(Resolution 7)

Please refer to Explanatory Note C.

NOTICE OF ANNUAL GENERAL MEETING

6. To approve the re-appointment of KPMG PLT, as Auditors of the Company for the financial year ending 31 December 2018 and to authorise the Directors to fix their remuneration. (Resolution 8)

Please refer to Explanatory Note D.

7. To transact any other business for which due notice has been given.

By Order of the Board

HASNIZAINI BINTI MOHD ZAIN (LS 0009780)

YEAP KOK LEONG (MAICSA 0862549)

Company Secretaries

Kuala Lumpur

27 March 2018

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 36th Annual General Meeting (AGM), the Company shall be requesting the Record of Depositors as at 17 April 2018. Only a depositor whose name appears on the Record of Depositors as at 17 April 2018 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 2 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.

NOTICE OF ANNUAL GENERAL MEETING

8. Explanatory Notes

Note A

Audited Financial Statements for the Financial Year Ended 31 December 2017

The audited financial statements are laid before the shareholders pursuant to the provisions 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 and Article 96 of the Company's Constitution

Article 93 of the Company's Constitution 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. A Director retiring at a meeting shall retain office until the close of the meeting whether adjourned or not.

Article 96 of the Company's Constitution provides, amongst others, that the Board shall have the power to appoint any person to be a Director to fill a casual vacancy or as an addition to the existing Board, and that any Director so appointed shall hold office until the next following AGM and shall then be eligible for re-election.

The profiles of the retiring Directors are set out in the Profile of the Board of Directors on pages 18 to 21 (inclusive) of the 2017 Annual Report.

The Board endorsed that the Directors who retire in accordance with Article 93 and Article 96 of the Company's Constitution are eligible to stand for re-election.

Note C

Non-Executive Directors' Fees and Allowances

Section 230(1) of the Companies Act 2016 provides amongst others, that the fees of the directors and benefits payable to the Directors shall be approved at a general meeting. In this respect, the Board agreed that the shareholders' approval be sought at the 36th AGM in two separate resolutions as below:-

- Resolution 6 – on the payment of the Directors' fees for the Non-Executive Chairman and the Non-Executive Directors in respect of the Financial Year Ending 31 December 2018. The Board is proposing for the following:

Description	Amount (RM) Per Annum
a) Director's Fee for Non-Executive Chairman	288,000
b) Directors' Fee for Non-Executive Director	144,000

The proposed Ordinary Resolution 6 is in accordance with Article 83(d) of the Company's Constitution (i.e. approval for increase in Directors' fees) and if passed, shall be effective from 1 January 2018. The proposed increase in the Directors' fees is to reflect the significant increase in responsibilities of the Non-Executive Chairman and Non-Executive Directors of the Company.

The comparison between the existing and new remuneration package for the Non-Executive Directors is illustrated below:

	CURRENT FEE/ALLOWANCE				PROPOSED FEE/ALLOWANCE			
	Director's Fee (per annum)	Attendance Fee (per meeting)		Fuel (per annum)	Director's Fee (per annum)	Attendance Fee (per meeting)		Fuel (per annum)
		BOD	Committee			BOD	Committee	
Chairman	108,000	4,000	3,000	n/a	288,000	3,500	3,500	n/a
Non-Independent Non-Executive Director	72,000	3,000	2,000	n/a	144,000	3,500	3,500	n/a
Independent Director	72,000	3,000	2,000	6,000	144,000	3,500	3,500	6,000
Independent Director (Special Skill)	n/a	n/a	n/a	n/a	144,000	3,500 + [Special Fee = Between 1 to 5 times multiple of meeting attendance fee]	3,500	6,000

NOTICE OF ANNUAL GENERAL MEETING

A Special Fee shall be paid to the Non-Executive Directors with special experience and skills which are critical to the Company's business as an addition to the Retainer Fee. It shall be paid per every meeting attended using the following formula and shall be determined by the Nomination and Remuneration Committee on a case to case basis:

[Special Fee = Between 1 to 5 times multiple of meeting attendance fee]

The Special Fee shall only be paid per the attendance of Board meetings and it does not apply to Board Committee meetings or general meetings. It shall also be paid as an addition to the standard attendance allowance received by all Non-Executive Directors.

- Resolution 7 – on the Directors' fees and allowances payable to the Non-Executive Directors of up to RM2,430,000 with effect from 1 January 2018 until the next AGM of the Company. The fees structure of the Non-Executive Directors of the Company is as follows:
 - o Monthly fixed fees for duties as Director/Chairman;
 - o Meeting and attendance allowance for each Board/Board Committee attended; and
 - o Fuel Allowance.

The Directors' fees and meeting allowances for Non-Independent Non-Executive Directors who are also employees of Petroliam Nasional Berhad (PETRONAS) are paid directly to PETRONAS.

The shareholders at the last AGM held on 19 April 2017 approved the Directors' fees of up to RM1,100,000 for the period from 1 January 2017 until the next AGM of the Company. The actual Directors' fees and other benefits paid to the Non-Executive Directors for the financial year ended 31 December 2017 is RM685,000.

The Directors' fees for the Non-Executive Directors for the period from 1 January 2018 until the conclusion of the next Annual General Meeting are estimated not to exceed RM2,430,000. The calculation is based on the estimated number of scheduled Board and Board Committees' meetings and on assumption that all the Non-Executive Directors will remain in office until the next AGM. This resolution is to facilitate payment of the Directors' Fees for financial year 2018/2019.

The Board will seek shareholders' approval at the next AGM in the event the Directors' fees proposed is insufficient.

- Details of the fees paid to the Non-Executive Directors for the financial year ended 31 December 2017 are published on PDB's corporate website at www.mymesra.com.my.

Note D

Re-appointment of Auditors

The Board at its meeting held on 26 February 2018 recommended the re-appointment of KPMG PLT as external Auditors of the Company for the financial year ending 31 December 2018 for approval of the shareholders.

KPMG PLT has met the criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

9. Other Information

The Company has engaged independent scrutineers to count, audit and validate the votes for each proposal presented to shareholders.

ADMINISTRATIVE DETAILS <

PETRONAS DAGANGAN BERHAD 36TH ANNUAL GENERAL MEETING

REGISTRATION

- 1) Registration will start at 8.00 a.m. on 25 April 2018 in front of the Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia.
- 2) Please produce your original Identification Card to the registration staff for verification. Please make sure to 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 only 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 either Levels P2 and P4 of Mandarin Oriental Kuala Lumpur or Kuala Lumpur Convention Centre or Suria KLCC. Please bring your original parking ticket for validation at the counter near the Sapphire Ballroom.
- 2) By validating the parking ticket, you will not be charged for parking when you leave. Please be advised, that the parking ticket expires at 3.00 p.m. on 25 April 2018. Any additional costs 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 2017 is available on:

<http://www.bursamalaysia.com>

<http://www.mymesra.com.my>

> CORPORATE INFORMATION

DIRECTORS

1

DATUK MD ARIF MAHMOOD

*Chairman
Non-Independent
Non-Executive Director*

2

**DATO' MOHD
IBRAHIMNUDDIN
MOHD YUNUS**

*Managing Director/
Chief Executive Officer*

3

LIM BENG CHOON

Senior Independent Director

4

VIMALA V.R. MENON

*Independent
Non-Executive Director*

5

DATUK ANUAR AHMAD

*Independent
Non-Executive Director*

6

NURAINI ISMAIL

*Non-Independent
Non-Executive Director*

7

**DATO' SRI SYED
ZAINAL ABIDIN SYED
MOHAMED TAHIR**

*Non-Independent
Non-Executive Director*

8

SHAFIE SHAMSUDDIN

*Independent
Non-Executive Director*

9

**ALVIN MICHAEL HEW THAI
KHEAM**

*Independent
Non-Executive Director*

BOARD AUDIT COMMITTEE

VIMALA V. R. MENON (*Chairman*)
LIM BENG CHOON
DATUK ANUAR AHMAD
NURAINI ISMAIL

NOMINATION AND REMUNERATION COMMITTEE

LIM BENG CHOON (*Chairman*)
VIMALA V. R. MENON
SHAFIE SHAMSUDDIN

SENIOR INDEPENDENT DIRECTOR

LIM BENG CHOON
Email : bengchoon.lim@gmail.com

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 REGISTRARS

**Symphony Share Registrars
Sdn Bhd** (378993-D)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia
Tel : (+603) 7849 0777
(Helpdesk)
Fax : (+603) 7841 8151/
7841 8152
Email : ssr.helpdesk@symphony.
com.my

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

PLACE OF INCORPORATION AND DOMICILE

Malaysia

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

STOCK EXCHANGE LISTING

Listed on the Main Market of
Bursa Malaysia Securities Berhad
Listing date : 8 March 1994
Stock Name : PETDAG
Stock Code : 5681
Stock Sector : Trading/Services

CREDIT RATING

Local Rating Agency
Malaysian Rating Corporation Berhad
MARC-1_{YS} / AAA_{YS}

WEBSITE

www.mymesra.com.my

CUSTOMER SERVICE CENTRE (MESRALINK)

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

CORPORATE DIRECTORY <



HEAD OFFICE

1 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

2 **Northern Region**
Lot No. 93
Prai Industrial Estate
13600, Prai, Pulau Pinang
Tel : (+604)-390 7291/7201
Fax : (+604)-399 0211

5 **Sarawak Region**
3rd and 4th Floor
Wisma Naim
Lot 2679, Jalan Rock
93200, Kuching, Sarawak
Tel : (+6082)-255 200
Fax : (+6082)-412 712

3 **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

6 **Sabah Region**
Lot 7AF01-7AF13,
Block A, Level 7
Karamunsing Complex
88300, Kota Kinabalu, Sabah
Tel : (+6088)-525 777
Fax : (+6088)-269 817

4 **Eastern Region**
A-39 and A-43,
Jalan Haji Abdul Aziz
25000, Kuantan, Pahang
Tel : (+609)-513 7022/7099
Fax : (+609)-514 4040

> GLOSSARY

ABC	Anti-Bribery and Corruption
AGM	Annual General Meeting
AIDS	Acquired Immune Deficiency Syndrome
AMG	Aufrecht, Melcher and Großaspach
AOGC	Asia Oil and Gas Conference
ASB	Asian Supply Base Sdn Bhd
ATM(s)	Automated Teller Machine(s)
BAC	Board Audit Committee
bbl	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
Bursa Malaysia	Bursa Malaysia Securities Berhad
CFO	Chief Financial Officer
CG	Corporate Governance
CMT	Crisis Management Team
CO₂	Carbon Dioxide
CO₂e	Carbon Dioxide Equivalent
CoBE	Code of Conduct and Business Ethics
COI	Conflict of Interest
CSI	Corporate Social Investment
DCIC	Downstream Continuous Improvement Convention
DN	Delivery Note
DOE	Department of Environment
DOSH	Department of Occupational Safety and Health
EAP	Employee Assistance Programme
EEV	Energy Efficient Vehicles
EMT	Emergency Management Team
EON	Edaran Otomobil Nasional Berhad
EPF	Employees Provident Fund
EPM	Employee Performance Management
ERT	Emergency Response Team
ESG	Environment, Social and Governance
EV	Electric Vehicles
F&B	Food and Beverage
FBM KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product

GHG	Greenhouse Gas
GJ	GigaJoule
GLC	Government Link Companies
GPS	Global Positioning System
Greentech Malaysia	Malaysian Green Technology Corporation
Group	PETRONAS Dagangan Berhad and its subsidiaries
Group HSE	PETRONAS Group Health, Safety and Environment
HIV	Human Immunodeficiency Virus
HRM	Human Resource Management
HSE	Health, Safety and Environment
IAD	Internal Audit Department
ICC	Innovative Creative Circle
ICQCC	International Convention Quality Control Circle
IPIECA	International Petroleum Industry Environmental Conservation Association
IR	Investor Relations
ISO	International Standards Organisation
IT	Information Technology
JV	Joint Venture
KAPENAS	Kesatuan Kakitangan Petroleum Nasional Berhad
KLCC	Kuala Lumpur City Centre
KPI	Key Performance Indicator
KRI	Key Risk Indicator
KSRP	Kelab Sukan dan Rekreasi PETRONAS
KTMB	Keretapi Tanah Melayu Berhad
KVDT	Klang Valley Distribution Terminal
LEAP	Leadership Excellence at PETRONAS
LED	Light Emitting Diode
LNG	Liquefied Natural Gas
LOPC	Loss of Primary Containment
LPG	Liquefied Petroleum Gas
LT	Leadership Team
LTI/F	Lost Time Injury/Frequency
LWP	Leave Without Pay
MCCG	Malaysia Code on Corporate Governance
MD/CEO	Managing Director/Chief Executive Officer
MDTCC	Ministry of Domestic Trade, Cooperatives and Consumerism
MFRS	Malaysian Financial Reporting Standard
Mil	Million
MMLR	Main Market Listing Requirements

MPP	Multi-Product Pipeline
MRT	Mass Rapid Transit
MS	Management System
MSOSH	Malaysian Society for Occupational Safety and Health
MSWG	Minority Shareholders Watchdog Group
MT	Metric Tonnes
MWh	Megawatt-hour
NDR(s)	Non-Deal Roadshows
NEDs	Non-Executive Directors
NGV	Natural Gas Vehicle
No_x	Nitrogen Oxide
NPS	Net Promoter Score
NRC	Nomination and Remuneration Committee
OEM(s)	Original Equipment Manufacturer(s)
OPEC	Organisation of the Petroleum Exporting Countries
OSH	Occupational Safety and Health
PAT	Profit After Tax
PAVSB	PETRONAS Aviation Sdn Bhd
PBT	Profit Before Tax
PCB	PETRONAS Cultural Beliefs
PDB	PETRONAS Dagangan Berhad
PECAS	PETRONAS Competency-based Assessment System
PEPI	PETRONAS Energy Philippines, Inc.
PERODUA	Perusahaan Otomobil Kedua Sdn Bhd

PETRONAS	Petroleum Nasional Berhad
PIMTCL	PETRONAS International Marketing (Thailand) Co. Ltd.
PLMMSB	PETRONAS Lubricant Marketing (Malaysia) Sdn Bhd
QSR(s)	Quick Service Restaurants
R&D	Research and Development
RCSA	Risk Control Self-Assessment
RM	Ringgit Malaysia
RON	Research Octane Number
ROACE	Return on Average Capital Employed
RPT	Related Party Transaction
RRPTs	Recurrent Related Party Transaction
SAP	Systems, Applications and Products
SDD	Supply and Distribution Division
SME	Small Medium Enterprise
SMS	Short Message Services
SORMIC	Statement On Risk Management and Internal Control
So_x	Sulphur Oxide
SRA	Social Risk Assessment
TNBES	Tenaga Nasional Berhad Energy Services
TOR	Terms of Reference
TRC/F	Total Recordable Cases/Frequency
U.S.	United States of America
UN	United Nations
USD	United States Dollar

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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 36th Annual General Meeting of the Company to be held at the **Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia** on **Wednesday, 25 April 2018** at **10.00 a.m.** and at any adjournment thereof.

Resolution	*Ordinary Business	For	Against
1.	Re-election of Datuk Md Arif bin Mahmood as a Director		
2.	Re-election of Nuraini binti Ismail as a Director		
3.	Re-election of Dato' Sri Syed Zainal Abidin bin Syed Mohamed Tahir as a Director		
4.	Re-election of Shafie bin Shamsuddin as a Director		
5.	Re-election of Alvin Michael Hew Thai Kheam as a Director		
6.	Proposed Payment of Directors' fees for Non-Executive Chairman and Non-Executive Directors		
7.	Directors' fees and allowances of up to RM2,430,000 with effect from 1 January 2018 until the next Annual General Meeting of the Company payable to Non-Executive Directors		
8.	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 36th Annual General Meeting, the Company shall be requesting the Record of Depositors as at 17 April 2018. Only a depositor whose name appears on the Record of Depositors as at 17 April 2018 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
HERE

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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PETRONAS Dagangan Berhad
(88222-D)

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

**TEL (03) 2051 5000
FAX (03) 2331 1583**

www.mymesra.com.my