



**PETRONAS**

INTEGRATED REPORT 2018  
PETRONAS DAGANGAN BERHAD



FUELLING  
**GR** WTH



# FUELLED GROWTH

FUELLED GROWTH REFLECTS BOTH OUR ACHIEVEMENTS DURING THE YEAR AS WELL AS OUR EFFORTS PUT IN PLACE TO GROW THE COMPANY FOR THE FUTURE. AS MALAYSIA'S LEADING RETAILER AND MARKETER OF DOWNSTREAM PETROLEUM PRODUCTS, WE ARE FUELLED WITH DYNAMISM AND POSITIVITY AS WE CONTINUE TO OFFER WINNING FUELS AND DIFFERENTIATED OFFERINGS FOR OUR CUSTOMERS.

AS AN INDUSTRY TRENDSETTER, WE CONSTANTLY PUSH BOUNDARIES AND CHALLENGE THE STATUS QUO WITH INNOVATIVE PRODUCT SOLUTIONS. THIS YEAR, WE LAUNCHED OUR TRANSFORMATION PROGRAMME TO PUSH FORWARD IN STRENGTHENING OUR BRAND, ELEVATE OUR OPERATIONAL EFFICIENCIES TO PROPEL OUR GROWTH.

THIS WILL LAY THE FOUNDATION FOR THE LONG-TERM SUSTAINABILITY OF OUR COMPANY AS WELL AS DELIVERING VALUE TO OUR SHAREHOLDERS, CONSUMERS, PEOPLE AND THE NATION.



This <IR> covers the period from 1 January 2018 to 31 December 2018, unless otherwise stated



PDB <IR> 2017 was published on 27 March 2018 and earlier Annual Reports are available on our corporate website at [www.mymesra.com.my](http://www.mymesra.com.my) and [Bursa Malaysia's website](#)

## ABOUT OUR REPORT

This is the 26<sup>th</sup> report that we have produced since 1994 and the 3<sup>rd</sup> year in our <IR> journey. Our <IR> aims to provide our shareholders with a comprehensive update of our objectives, strategies and performance for the year in a clear, concise and holistic manner.

Included in this <IR> is our Value Creating Business Model which outlines how we leverage our six capitals to create value for each of our stakeholders.

By reading this report:

- **Investors** will learn how our strategies to attain our vision and mission will enable sound return on our capital;
- **Our customers** will appreciate our world-class quality products and our emphasis on customer-centricity;
- **Our dealers, contractors and business partners** will recognise how we seek to foster win-win solutions with them;
- **Our employees** will see how we nurture a stimulating and rewarding work environment;
- **Authorities** are regulatory bodies who enforce policies and regulations, of which PDB will consistently strives to comply to; and
- **Communities** will grow together with the Company by leveraging our education, community and environment programmes.

This year, we built upon our effort to improve PDB's <IR> with the introduction a new section – 'Why Invest in PDB' which explains PDB's business and competitive advantage.

## SCOPE AND BOUNDARY OF REPORTING

The <IR> covers the primary activities of the Group, our business segments and subsidiaries as well as joint venture operations and addresses the information requirements for investors. We also present relevant information on how we create value for other stakeholders.

## FORWARD LOOKING STATEMENTS

This <IR> contains certain forward looking statements, typically with words such as 'aim', 'may', 'plan', 'will' and 'expected' or other similar expressions. These statements discuss future expectations concerning the dispositions of assets or financial conditions or provide other forward looking information into 2019. 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 <IR>. 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 <IR> Framework are addressed in an integrated manner throughout this report.

 <b>Financial capital</b>	 <b>Manufactured capital</b>
 <b>Human capital</b>	 <b>Natural capital</b>
 <b>Intellectual capital</b>	 <b>Social and Relationship capital</b>

These navigational icons can be found in the following sections:

- What Differentiates Us
- Key Risks and Mitigation
- Value Creating Business Model
- Balanced and Sustainable Growth

## WE ARE GUIDED BY

In preparing PDB's <IR> 2018, we have added further linkages and connectivity throughout this report for the purpose of integrating our narratives. Guidance to link and connect the information in this <IR> 2018 were made reference to the following statutory bodies:

- Companies Act 2016
- MMLR of Bursa Malaysia
- MCGG 2017
- Corporate Governance Guide – 3<sup>rd</sup> Edition issued by Bursa Malaysia Berhad
- MFRS
- International Integrated Reporting Framework by IIRC

### Sustainability Statement

- Complies with MMLR of Bursa Malaysia relating to Sustainability Statement in Annual Report
- Bursa Malaysia Sustainability Reporting Guide, 2<sup>nd</sup> Edition 2018 and referencing the GRI Standards

# INSIDE THIS REPORT

<IR> 2018 • PETRONAS DAGANGAN BERHAD

## ABOUT OUR REPORT

## INSPIRING GROWTH

- 4 MD/CEO's Statement
- 9 Chief Financial Officer's Review

## GROWING OUR BUSINESS

- 12 Overview of PETRONAS Dagangan Berhad
  - Who We Are and What We Do
  - Vision
  - Mission
  - Shared Values
  - PETRONAS Cultural Beliefs
- 14 What We Offer – Our Core Business Segments: Products and Services
- 16 Where We Operate – Our Presence
- 18 Integrated Value Chain
- 20 Why Invest in PDB
  - What Differentiates Us
  - Our Competitive Strengths by Business Segments
  - Our Strategic Alliances
- 23 2018 Highlights
  - Business Highlights
  - Financial Highlights
  - Awards and Accolades
- 26 Corporate Milestones
- 28 Group Corporate Structure
- 29 Our Business Model

## MANAGEMENT DISCUSSION AND ANALYSIS

### Strategic Growth

- 31 Operating Environment and Market Outlook
- 36 Material Matters
- 38 Stakeholder Engagement
- 40 Strategic Focus Areas
- 41 Key Performance Indicators
- 42 Key Risks and Mitigation
- 44 Value Creating Business Model

### Growing Our Numbers

- 46 5-Year Group Financial Highlights
- 47 5-Year Group Financial Summary
- 48 Simplified Group Statement of Financial Position
- 49 Segmental Analysis
- 50 Group Quarterly Financial Performance
- 51 Key Interest Bearing Assets and Liabilities
- 52 Statement of Value Added
- 53 Distribution of Value Added
- 54 Financial Calendar
- 55 Investors Information
  - Investor Relations
  - Share Price and Market Capitalisation

### Our Growth Pillars

- 61 Our Key Operations
- 64 Retail
- 68 Commercial
- 70 LPG
- 72 Lubricant

## EMPOWERING GROWTH

- 74 Organisation Structure
- 76 Board of Directors
- 78 Our Board at a Glance
- 79 Profile of Directors

# 37<sup>TH</sup> ANNUAL GENERAL MEETING



GRAND BALLROOM, LEVEL 2  
INTERCONTINENTAL KUALA LUMPUR  
165 JALAN AMPANG  
50450 KUALA LUMPUR, MALAYSIA



THURSDAY,  
25 APRIL 2019



AT  
10.00 A.M.



The full <IR> is available at PDB's corporate website at  
[www.mymesra.com.my](http://www.mymesra.com.my)

- 84 Leadership Team
- 86 Profile of Leadership Team

## GROWING RESPONSIBLY

- 90 Corporate Governance Overview
- 91 Corporate Governance Overview Statement
  - Governance Structure
  - How the Board Operates
- 105 Board Audit Committee Report
- 112 Nomination and Remuneration Committee Report
- 119 Statement on Risk Management and Internal Control
  - Business Continuity Management
- 130 Corporate Integrity and Ethics

## BALANCED AND SUSTAINABLE GROWTH

- 132 Driving Sustainability
- 134 Materiality Assessment
- 136 Economic
- 140 Environment
- 146 Social
- 165 Sustainability Performance at a Glance

## FINANCIAL STATEMENTS

- 168 Approaching the Financial Statements
- 170 Financial Statements
  - Statement of Directors' Responsibility in Relation to the Financial Statements
  - Directors' Report
  - Statement by Directors
  - Statutory Declaration

- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss and Other Comprehensive Income
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Statement of Financial Position
- Statement of Profit or Loss and Other Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements
- Independent Auditors' Report



## SHAREHOLDERS' INFORMATION

- 264 Analysis of Shareholdings
  - Share Capital
  - Distribution of Shareholdings
  - Classification of Shareholders
  - List of Substantial Shareholders
  - List of Directors' Shareholdings
  - List of Leadership Team's Shareholdings
  - List of Thirty Largest Shareholders
- 268 Net Book Value of Land and Buildings of The Company
- 269 Usage of Land
- 270 List of Top 10 Landed Properties
- 271 Corporate Information
- 272 Corporate Directory
- 273 GRI Content Index
- 276 Glossary
- 278 Notice of Annual General Meeting
- 282 Administrative Details

Proxy Form



# MD/CEO'S

STATEMENT

**DATO' SRI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR**  
*Managing Director/Chief Executive Officer*



## MD/CEO'S STATEMENT

**Dear Shareholders,**

**ON BEHALF OF THE BOARD OF DIRECTORS, IT GIVES ME GREAT PLEASURE TO PRESENT TO YOU PETRONAS DAGANGAN BERHAD'S INTEGRATED REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018.**

**IT IS A GREAT HONOUR FOR ME TO TAKE UP PDB'S MD/CEO ROLE FROM 1 JUNE 2018. SINCE THEN, I AM VERY ENCOURAGED BY THE POSITIVE CHANGES IN THE ORGANISATION AS WE STEP UP OUR PACE AND RENEW OUR COMMITMENT TOWARDS CUSTOMER CENTRICITY. WHILE WE CONTINUE TO CAPITALISE ON THE LEADING MARKET POSITIONS THAT WE HOLD IN OUR BUSINESS SEGMENTS, WE ALSO LAUNCHED OUR TRANSFORMATION PROGRAMME TO ENSURE WE TAKE A COMMANDING POSITION ACROSS ALL OUR BUSINESSES.**

### **MODERATE ECONOMIC GROWTH AMID STRENGTHENING CONSUMER SENTIMENT**

Following the General Election in May 2018, the new government administration in Malaysia introduced new tax reforms such as the abolishment of GST and the re-introduction of Sales and Service Tax. While Malaysia's GDP decelerated to 4.7% in 2018 from 5.9% in 2017, inflation rate improved from 3.7% in 2017 to 1.0% in 2018. Consumer Sentiment Index averaged at 107.1 in 2018, higher than the threshold of 100, reflecting consumer optimism boosted by the change in administration and the abolishment of GST. Volume of car sales recorded an increase of 3.8% from 2017 which spiked during the tax holiday period in Quarter 3, 2018.

Oil and petroleum product prices climbed steadily during the year but fell sharply in Quarter 4, 2018 amid concerns over supply. Fuel prices at retail stations were fixed by the Government at RM2.20/liter and RM2.18/liter for RON95 and Diesel respectively.

The advancement of Malaysia's transportation infrastructure and facilities, the higher penetration of ride hailing users and the increased number of EEVs and hybrid vehicles sold in Malaysia have impacted the fuel demand in the Country. The rapid development in digital applications is changing the buying patterns of Malaysian consumers who are increasingly performing transactions online, using e-wallet as a means of payment.

These market forces and disruptors have affected the fuel industry not just in Malaysia but also worldwide. For PDB, the key to remaining relevant and staying ahead is to ensure that we are agile and nimble to adjust our strategies in responding to these challenges.

 *For more information on Operating Environment and Market Outlook, please refer to pages 31 to 35 of this <IR>*

### **FUELLING GROWTH**

As our vision is to be the 'Brand of 1<sup>st</sup> Choice', our success depends heavily on gaining and maintaining the trust of our customers. We are also fully cognisant of the importance of the long-term sustainability of our business and the value we seek to create for our various stakeholders. Thus, 'Fuelling Growth' is about balancing the immediate targets to maximise value whilst cultivating seeds to grow for the future.

Our ultimate aim remains intact – to create sustainable value for all our stakeholders. We launched our transformation programme anchored on our four strategic focus areas of transforming customers experience, pursuing market leadership, drive operational excellence and a high performing workforce. We embedded a customer-centricity mindset in everything that we do to develop solutions that delight and exceed our customers' expectations. This mindset will propel us in our pursuit towards undisputed market leadership across all our business segments. This will be supported by our key enablers to provide safe, reliable and efficient operations whilst ensuring our organisation is agile and moving faster than our competitors to fuel our growth.

## MD/CEO'S STATEMENT

### RESILIENT FINANCIAL PERFORMANCE

Amid stiff competition and a declining market, the Company pulled together a resilient set of operational and financial results. PDB recorded a sustained sales volume of 14.9 billion litres and registered a total revenue of RM30,068.8 million. Profit After Tax of RM861.5 million was recorded, lower from 2017 by 26.2% due to the sharp price drop in Quarter 4, 2018. This solid performance was achieved via our deliberate execution of business strategies, continued integrated inventory management, efficiency in supply and distribution, and operating expenditure optimisation.

In reaffirming our commitment to continuously deliver value to our shareholders, I am pleased to announce that the Company declared a total dividend for the year of 70.0 sen per ordinary share, which represents a payout ratio of 86.0%, exceeding our dividend policy of 50.0% of the Company's Profit After Tax.



For more information on CFO's Review, please refer to pages 9 to 11 of this <IR>

### TRANSFORMING CUSTOMERS EXPERIENCE TOWARDS MARKET LEADERSHIP

Retail Business aims to be the 'Most Favoured Retailer'. To elevate customers experience, an aggressive asset refresh and upgrading exercise was conducted at approximately 300 PETRONAS stations. PDB also refurbished more than 100 new *Kedai Mesra* with a new look and feel as part of the overall station transformation to create an ambience that is 'Clean, Bright and Safe'.

We expanded our premium product, PETRONAS Dynamic Diesel Euro 5 with Pro-Drive to 40 stations in Sabah and Sarawak and introduced PETRONAS Dynamic Diesel (B10) at two PETRONAS stations in Klang Valley ahead of its mandatory implementation date. We are also supporting the Country's green agenda, and expanded the availability of ChargeEV facilities to more than 60 PETRONAS stations. More recently, in January 2019 we have launched new PETRONAS Primax 95 with Pro-Drive.

We pursued volume growth through focused and targeted year-round 'Mesra Bonanza' marketing campaigns and strengthened our alliance with KFC, McDonald's, Starbucks and other Quick Service Restaurants, as well as established new strategic alliances with Common Ground, Malaysia's largest leading co-working space company.

Our PETRONAS *Kad Mesra* Loyalty Programme is the best in the industry. We have been rewarding our loyal customers with 3X Mesra points for every litre of any fuel purchased. Our attractive loyalty programme and the effective marketing campaigns have led to an increase in *Kad Mesra* active user transactions and sign-up by new members by 15.0% and 17.0%, respectively. We also established a strategic alliance with AXCESS which provides *Kad Mesra* members with free Personal Accident insurance.

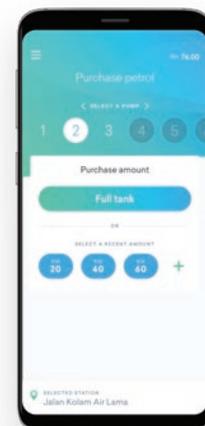
To stay ahead of the game in this increasingly digital era, we launched Setel, 1<sup>st</sup> petrol e-payment solution in Southeast Asia. Setel application is a testament of our commitment in providing seamless and frictionless experience to our customers. Setel was introduced at more than 100 PETRONAS stations in the Klang Valley by the end of 2018.

In 2018, Commercial Business continued their journey into the digital space with the introduction of Commercial Marine E-bidding for fuel oil to elevate customers experience and promote transparency in the bidding process.

In response to a tougher cost environment, our Commercial Business focused on a customer-centric marketing strategy which enables us to secure new contracts from airlines. Supported by our extensive supply and logistics system throughout the Country, Commercial Business continued to concentrate on improving margins and sustaining our market leadership.

LPG Business continued to fortify their market leadership and expanded their sales channels by taking advantage of PDB's extensive network to introduce LPG cylinder sales at selected PETRONAS stations. To strengthen their position in the industry, LPG Business commenced the sale of 14 kg cylinders for the commercial market segment.

 **Setel**



## MD/CEO'S STATEMENT

Lubricant Business, through PLMMSB increased their brand presence to grow their volume by 4.0%. They also strengthened their position and recorded significant volume increment in the highstreet and OEM segments. They successfully secured a new long-term contract with the main rail operator in Peninsular Malaysia to supply locomotive engine oil.

 For more information on Our Growth Pillars, please refer to pages 61 to 73 of this <IR>

### SAFE, RELIABLE AND EFFICIENT OPERATIONS

Safety is always our priority. We target zero incident, not just for our employees but also for our customers, *Rakan Niaga*, contractors and business partners. While striving to avoid incidents, the high level of risk inherent in our operations led to one fatality to a contractor's staff due to a road tanker accident in January 2018.

We reinforced the 'Safe Delivery' campaign and ensured our fuel and LPG tanker drivers undergo appropriate training. We also installed the In-Vehicle Monitoring System to strictly monitor drivers' performance.

Meanwhile, we focused on strengthening our behavioural safety culture and continued to promote safety compliance through "Jom Patuh & Tegur" (Let's Comply & Intervene) programme. In 2018, the Company spent 7,542 man-hours on safety training and completed all critical HSE-related trainings.

We improved operational efficiency through various process simplification initiatives and leveraged digital solutions to add value and maintain our cost competitiveness.

 For more information on Our Key Operations and Driving Sustainability, please refer on pages 61 to 63 and pages 132 to 164 of this <IR>

### HIGH PERFORMANCE WORKFORCE

Our highly competent workforce is our competitive advantage and is a crucial element in our transformation journey. We continue to attract and recruit the best talent with the right skills set to drive performance and deliver our desired results.

To underpin our 'Fuelling Growth' journey, PDB adopted a strong set of Cultural Beliefs and Shared Values derived from PETRONAS, which define the core principles and ideals applied in our day-to-day working lives.

During the year, an organisation realignment was undertaken that provides greater focus and clearer accountability to drive a more agile organisation to push the Company's performance forward. The realignment includes centralisation of functions such as project delivery which then allows us to leverage the expertise and centre of excellence from within the PETRONAS Group.

Our high performance culture is also extended to our *Rakan Niaga*, business partners and contractors. We invest in improving their capabilities to ensure they can consistently provide a high standard of service across our businesses.

 For more information, please refer to Driving Sustainability on pages 132 to 164 of this <IR>

### SUSTAINABILITY

We recognise that financial profitability and sustainable development must go hand-in-hand, thus we are committed to balancing economic growth, environmental protection and social responsibility. During the year, we continued to be listed in the FTSE4Good Bursa Malaysia Index which further strengthened our ratings and indicated that we are on the right track in meeting our responsibilities. We raised awareness on Sustainability and what it means to PDB through a series of sharing sessions, and by disseminating messages on Sustainability digitally. Our Sustainability initiatives and programmes are put in place to address our material sustainability issues, and we will continue to be transparent in monitoring, reporting and verifying the progress and performance.

 For more information on Driving Sustainability, please refer to pages 132 to 164 of this <IR>

### GROWING ACCOLADES

During the year, we were proud recipients of several prestigious awards including:

- The Edge Billion Ringgit Club award – in recognition of our outstanding financial performance; and
- PUTRA Brand of the Year award – a testament of our brand strength and recognition by our customers on the branding efforts undertaken.

## MD/CEO'S STATEMENT

**MOVING FORWARD, PDB WILL MOVE LIKE NEVER BEFORE WHERE THE TEAM WILL GO BEYOND THE NORM TO DELIVER A SEAMLESS AND FRICTIONLESS CUSTOMER EXPERIENCE**

### OUTLOOK

Going into 2019, Malaysia's growth outlook is expected to be resilient at 4.9% driven by domestic demand and robust exports from steady global growth trade activities. Car sales in Malaysia is anticipated to grow by 1.4% boosted by consumer confidence, which will have positive impact to both our Retail and Lubricant businesses.

Oil prices are expected to remain volatile with tighter supply-demand balances and unexpected geopolitical events impacting the price. In Malaysia, the weekly retail pump price mechanism was re-introduced in January 2019.

PDB will accelerate with our Transformation Plan, moving our high performance workforce like never before. This include strengthening our core, being 'brilliant at basics', while leveraging digital innovation to drive seamless and frictionless experience for all our customers as well as continuing to pursue operational excellence.

### APPRECIATION

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

For and on behalf of PDB's Leadership Team, I would like to express our deepest appreciation to our Chairman, YBhg. Datuk Md Arif Mahmood, and all Board members for their stewardship in guiding us to deliver long-term shareholder value.

My gratitude goes to YBhg. Dato' Mohd Ibrahimuddin Mohd Yunus for his leadership during his tenure as the MD/CEO of PDB. He has rallied the organisation to continue delivering winning results and laid a very strong foundation to ensure PDB continues on its growth trajectory.

The strong performance of the Company during the year could not have been achieved without the dedication of my Leadership Team. I would like to thank and recognise their key roles in achieving the Company's goals and in driving the organisation to greater success. A special note of thanks goes to Encik Mahmad Zahri Mahzan, Encik Anton Salleh Hashim, Encik Tariq Ashra Sulaiman and Cik Hasnizaini Mohd Zain for their contributions during their tenures on the Leadership Team.

I am also grateful to all our valued employees, and would like to extend my appreciation for their utmost commitment in carrying out the Company's strategies throughout the year.

Last but not least, thank you to our *Rakan Niaga*, dealers and business partners for their continued collaboration. Working in partnership with all our stakeholders, I am confident that PDB will continue to deliver sustainable growth, solid returns and value to all our stakeholders.

# CHIEF FINANCIAL OFFICER'S REVIEW



**NORLIWATI ABDUL WAHAB**  
Chief Financial Officer

## FY2018 PERFORMANCE REVIEW

"2018 WAS A YEAR OF RESILIENCE FOR THE GROUP. AMID THE CHALLENGING MARKET LANDSCAPE, PDB RECORDED A COMMENDABLE BUSINESS PERFORMANCE TO SUSTAIN OUR SALES VOLUME AND INCREASED OUR REVENUE BY 9.7% TO RM30,068.8 MILLION.

OUR PBT CONTINUED TO EXCEED RM 1 BILLION DESPITE THE SHARP DROP IN PRICES TOWARDS THE END OF THE YEAR WHICH AFFECTED THE INDUSTRY.

WE CONTINUE TO CREATE VALUE FOR OUR SHAREHOLDERS AND DECLARED A DIVIDEND OF 70.0 SEN PER SHARE, EQUIVALENT TO A DIVIDEND PAYOUT RATIO OF 86.0%."

### REVENUE

**RM30.1 BILLION**

Increased by 9.7% on the back of sustained sales volume and higher average selling prices.

### PBT

**RM1.2 BILLION**

Continued to exceed RM1 billion.

### DIVIDEND

DECLARED

**70.0 SEN**

PAYOUT RATIO

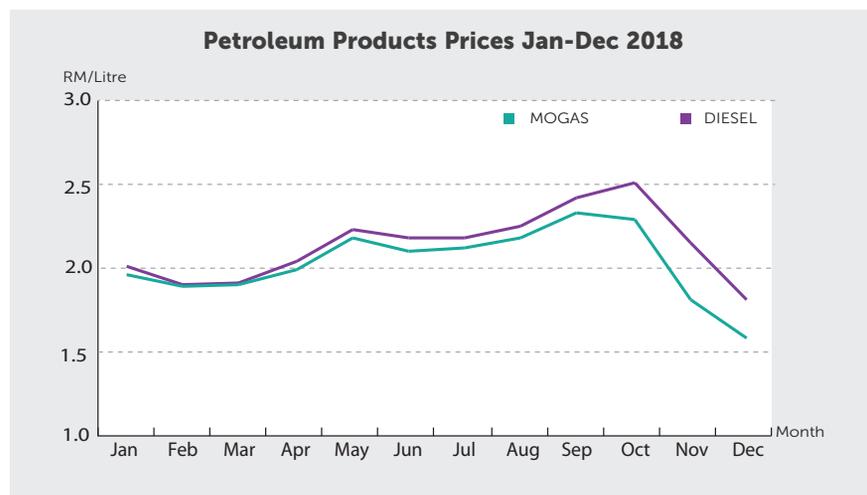
**86.0%**

Highest dividend payout ratio since 2014.

### TOTAL ASSETS

**RM9.2 BILLION**

Maintained strong balance sheet position.



Petroleum products prices were on an increasing trend during most of the year but fell sharply towards the end of the year amid concerns of oversupply. In Malaysia, while the consumer sentiment index and inflation improved, the market continued to be challenging with intense competition. Against this backdrop, the Group recorded a robust performance to sustain its sales volume of 14.9 billion litres.

Our revenue increased 9.7% from RM27,420.7 million in 2017 to RM30,068.8 million in 2018 following sustained volume and higher average selling prices. Profit before tax was RM1,177.0 million, a decrease of RM683.5 million from 2017. This was mainly due to gains from disposal of subsidiaries in the previous year. Excluding this once-off gain, profit was lower by RM226.4 million due to the sharp decline in products prices throughout Quarter 4, 2018.

## CHIEF FINANCIAL OFFICER'S REVIEW

### SEGMENTAL PERFORMANCE REVIEW

RM million	Total		Retail		Commercial	
	2018	2017	2018	2017	2018	2017
Revenue	<b>30,068.8</b>	27,420.7	<b>15,033.5</b>	14,544.0	<b>15,014.8</b>	12,857.1
Profit Before tax	<b>1,177.0</b>	1,433.9	<b>594.3</b>	835.7	<b>534.2</b>	571.4

#### RETAIL SEGMENT

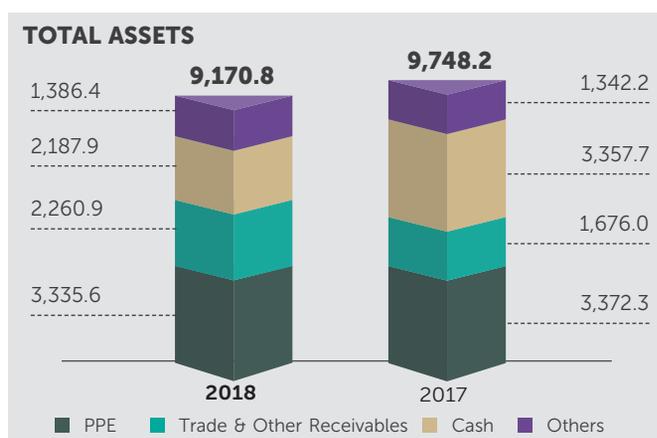
During the year, Retail Segment's revenue grew by 3.4% on the back of higher sales volume of 0.5% mainly from Diesel and household LPG. The higher volume was achieved as a result of effective marketing and promotional activities during the year. This was also coupled with higher average selling prices.

PBT decreased by RM241.4 million mainly due to lower gross profit and higher operating expenses incurred for advertising and promotions as well as repair and maintenance costs for station refurbishment activities. The lower gross margin was due to the sharp decline of MOPS products prices in Quarter 4, 2018 which had affected all industry players.

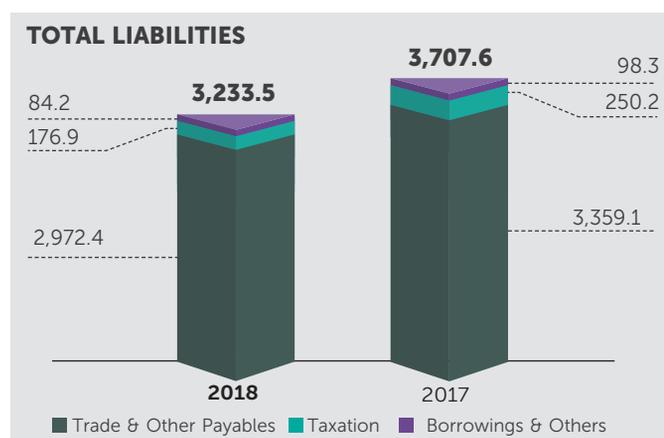
#### COMMERCIAL SEGMENT

Commercial Segment's revenue increased 16.8% from RM12,857.1 million to RM15,014.8 million on the back of higher average selling prices. This was offset by decrease in sales volume of 1.0% mainly due to the challenging market condition and declining demand for Jet A-1 and Diesel. Jet A-1 sales was lower due to efficiency measures undertaken by the airlines while Commercial Diesel was affected by the shift of Diesel customers to Retail Segment following lower pump prices. On the back of lower sales volume, profit before tax was RM534.1 million, a decrease of 7.0% compared to 2017.

### FINANCIAL POSITION



The Group continues to maintain a strong balance sheet position. The Group's total assets stood at RM9,170.8 million, a reduction of 5.9% compared to 2017 mainly due to a decrease in cash and cash equivalents, following a special dividend payment in Quarter 1, 2018. This is a testament of our continued commitment to return value to our shareholders. This increase was partially offset by higher trade and other receivables due to an increase in subsidy receivables.



Total liabilities decreased by 12.8% from RM3,707.6 million in 2017 to RM3,233.5 million in 2018 due to lower trade and other payables as well as a decrease in taxation payable. Trade and other payables reduced due to lower petroleum products prices purchased at the of the year while the lower taxation was in line with lower profits for the year. At the same time, the Group's borrowings reduced by RM12.8 million following repayments made during the year.

## CHIEF FINANCIAL OFFICER'S REVIEW

### CASH FLOW

Cash and cash equivalents stood at RM2,187.9 million as at 31 December 2018 compared to RM3,357.7 million in 2017. The reduction was mainly due to lower cash from operations of RM81.8 million due to higher subsidy receivables. Meanwhile, cash used for investments recorded an outflow of RM291.5 million, following higher capital expenditure as a result of the aggressive asset refresh exercise at our stations as well as our investments in digitalisation initiatives. The cash investment is a testament of our transformation commitment to fuel growth for the Group. In comparison, net cash inflow from investment activities in 2017 was contributed by proceeds from disposal of subsidiaries.

There was a cash outflow from financing activities of RM959.8 million which was largely due to dividend payment to shareholders of RM933.8 million.

The Group rigorously prepares and scrutinises weekly, monthly and longer term cash flow forecasts to ensure efficient working capital management.

### RETURNS TO SHAREHOLDERS

#### DIVIDEND

The Board's priorities for free cash flow are to fund the Group's investment for future growth, maintain a strong balance sheet and deliver sustainable dividends at a level which is both affordable and appropriate. While PDB has a dividend policy of 50.0% of the Company's PAT, a balanced consideration was taken into account in determining the dividend payout such as the business's future cash and investment requirements, results of operations and current and expected obligations.

For FY2018, the Company has declared a total dividend of 70.0 sen per share, which represents a payout ratio of 86.0%.

### EFFECTIVE FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks arising from the normal course of its business. The most pertinent to our operations are discussed below. These risks are proactively and continuously identified, managed and monitored with appropriate policies and guidelines in place throughout the Group.

#### CREDIT RISK

We manage credit risk by assessing the credit-worthiness of all potential customers prior to entering into new contracts. We also conduct regular credit reviews of existing customers. The assessments are conducted in accordance with PETRONAS' Credit Risk Framework and Guidelines. We mitigate our credit risks by imposing securities such as cash deposit or bank guarantees.



For more information on PETRONAS' Credit Risk Framework and Guidelines, please refer to SORMIC on page 127 of this <IR>

#### LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. We manage this risk by maintaining 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.

### LOOKING FORWARD

A new accounting standard, MFRS 16 Leases came into effect from 1 January 2019. Under MFRS 16, we expect our assets to be higher due to the increase in rights-of-use assets and our liabilities to increase due to finance lease liability mainly consisting of leasing of charter hire vessels.

Looking forward, our key priorities are to maintain a solid balance sheet and manage our cash prudently as we continue to invest in fuelling our growth and developing a digital ecosystem.

# OVERVIEW OF PETRONAS DAGANGAN BERHAD

## WHO WE ARE AND WHAT WE DO

**PDB is Malaysia's leading retailer and marketer of downstream petroleum products. We are committed to delivering innovative and differentiated offerings to fuel the Nation's growth.**

Over the years, we have leveraged PETRONAS' extensive investments in R&D to deliver world-class petroleum products in four core businesses:



**Retail**



**Commercial**



**LPG**



**Lubricant**

The scale of operations, facilities and manpower involved in the day-to-day logistics and distribution network of the Company necessitates a culture that prioritises Health, Safety and Environment.

Over the last 36 years, the hard work, determination and dedication of our passionate workforce have seen PDB grow from strength to strength. We aim to continue fuelling our business and the Nation's growth to be the **'Brand of 1<sup>st</sup> Choice'**.

### Retail

Retail Business operates over 1,000 PETRONAS stations nationwide marketing superior petroleum products. This is complemented by non-fuel segment, comprising on-the-go consumer products and services at over 700 *Kedai Mesra*. We reward loyal customers through the PETRONAS Mesra Loyalty Programme.



### Commercial

Commercial Business markets Diesel, Jet A-1, Fuel Oil, Bitumen, Gasoline, Kerosene, Petroleum Coke and Sulphur to various industries and market segments including manufacturing, aviation, power, oil and gas exploration, agriculture, fishery, construction, timber, marine fuel and transportation.



### LPG

LPG Business offers Malaysia's No. 1 Cooking Gas to the Household, Commercial and Industry segments through an extensive network of LPG Channel Members consisting of premier dealers, dealers and bulk dealers.



### Lubricant

Lubricant Business offers premium lubricant products based on Fuel Technology Solutions including Passenger Car Motor Oils, Motorcycle Oils, Commercial Vehicle Lubricants as well as Industrial and Marine Lubricants that cater for consumers and commercial customers, via three flagship brands, PETRONAS Syntium, PETRONAS Sprinta and PETRONAS Urania.

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



### Digitalisation

Our innovative digital platforms to elevate customers experience: Setel, an e-payment solution for a seamless and frictionless fuel purchase experience and Gas2u, a mobile application for home gas delivery.



## OVERVIEW OF PETRONAS DAGANGAN BERHAD

### VISION



'Brand of 1<sup>st</sup> 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.

### MISSION

#### Value-Driven Fuel Marketing with Market Leadership in Malaysia

To be the 'Brand of 1<sup>st</sup> Choice', we are committed to delivering 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 management and corporate governance best practices.

### SHARED VALUES



#### LOYALTY

Loyal to Corporation



#### INTEGRITY

Honest and Upright



#### PROFESSIONALISM

Strive for Excellence



#### COHESIVENESS

United, Trust and Respect for Each Other

### PETRONAS CULTURAL BELIEFS



#### RESULTS MATTER

I stretch my limits to deliver superior results



#### FOCUSED EXECUTION

I plan, commit and deliver with discipline



#### TELL ME

I seek, give and act positively on feedback



#### OWN IT!

I own the results and do not blame others



#### NURTURE TRUST

I always keep my promise and build mutual trust



#### SHARED SUCCESS

I collaborate for the greater good of PETRONAS

# WHAT WE OFFER

## OUR CORE BUSINESS SEGMENTS: PRODUCTS AND SERVICES

### RETAIL



**OFFERS FUEL AND NON-FUEL PRODUCTS AND SERVICES TO CONSUMERS** AT ITS NETWORK OF MORE THAN 1,000 PETRONAS STATIONS AND 700 *KEDAI MESRA* ACROSS THE COUNTRY

#### KEY HIGHLIGHTS

**RM13,911.2** million  
Revenue

**>800**  
*Rakan Niaga*

**>4** million  
Registered *Kad Mesra* Members

**Fuel**

- PETRONAS Primax 97 with Advanced Energy Formula
- PETRONAS Primax 95 with Pro-Drive
- PETRONAS Dynamic Diesel (B10)
- PETRONAS Dynamic Diesel Euro 5 with Pro-Drive

**Non-Fuel**

- *Kedai Mesra*
- Quick Service Restaurants
- Food Solutions
- Banking Facilities
- Hypermarkets
- Terminal Services
- Courier Services
- Car Wash
- White Label Products
- Co-Working Space
- Other Convenience Offerings

**E-payment solution**

- Setel

**Cards**

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

### COMMERCIAL



**FULLY INTEGRATED BUSINESS FOCUSING ON SALES AND MARKETING** OF BULK PETROLEUM PRODUCTS WITH MARKET LEADERSHIP IN DOMESTIC COMMERCIAL MARKET

#### KEY HIGHLIGHTS

**RM14,272.9** million  
Revenue

**>900**  
Commercial Customers

 <b>Diesel</b>	 <b>Jet A-1</b>	 <b>Fuel Oil</b>	 <b>Bitumen</b>
 <b>Petroleum Coke</b>	 <b>Sulphur</b>	 <b>Gasoline</b>	 <b>Kerosene</b>

## WHAT WE OFFER

**LPG**



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

**KEY HIGHLIGHTS**  
**RM1,292.1** million Revenue **>300** Dealers

Household		Commercial	
 12kg cylinders	 14kg cylinders	 14kg cylinders	 50kg cylinders
		Industrial	
			Bulk LPG

**LUBRICANT**

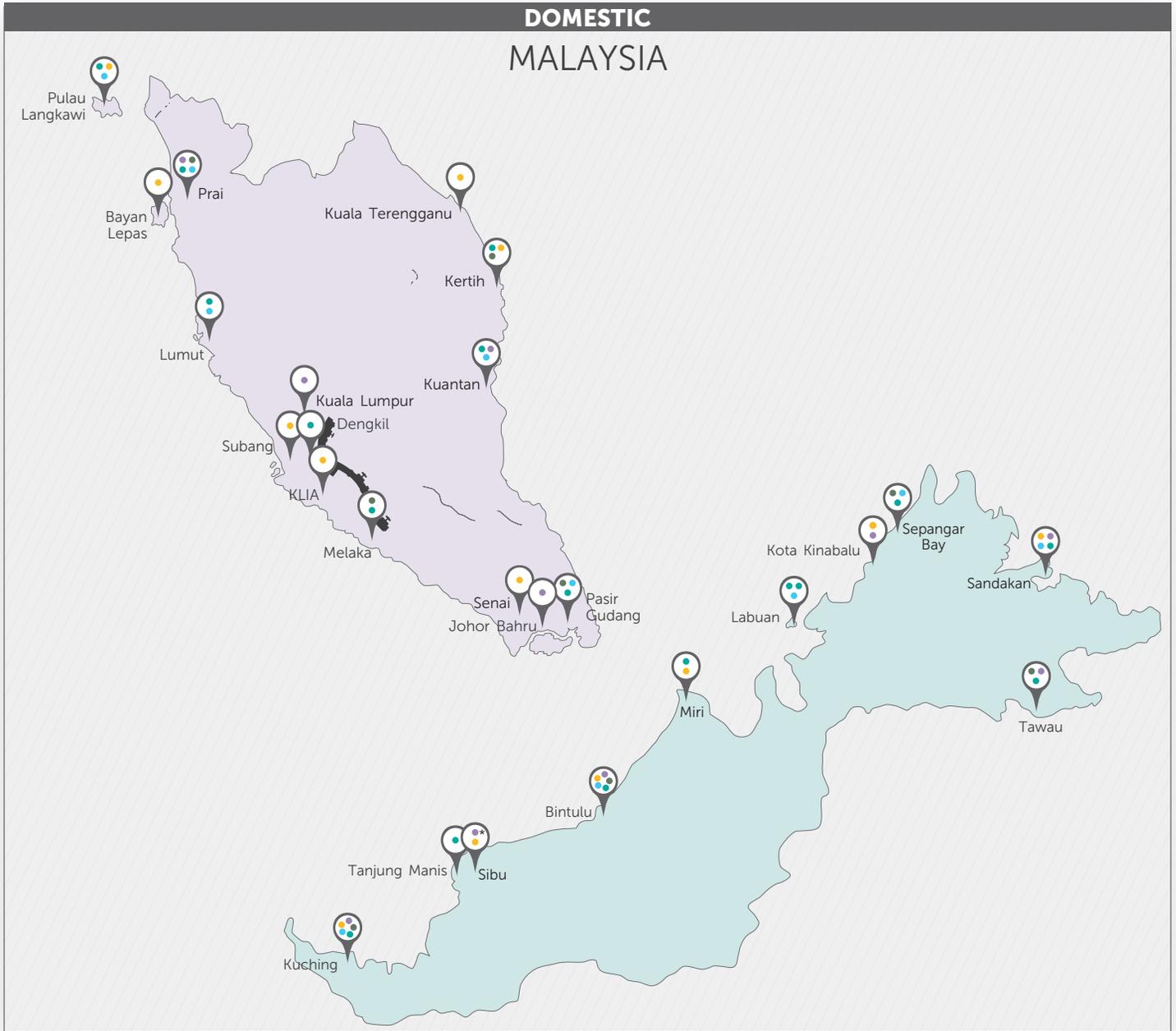


**PETRONAS LUBRICANTS MARKETING (MALAYSIA) SDN BHD** UNDERTAKES ALL SALES AND MARKETING FUNCTIONS OF PETRONAS LUBRICANT PRODUCTS IN MALAYSIA

**KEY HIGHLIGHTS**  
**RM572.0** million Revenue **>2,000** Customers

<p><b>Key Strategic Brands</b></p> <ul style="list-style-type: none"> <li>PETRONAS Syntium with °CoolTech™</li> <li>PETRONAS Sprinta with UltraFlex™</li> <li>PETRONAS Urania with ViscGuard™</li> </ul>	<p><b>Motorcycle Oils (4T, 2T and Scooter)</b></p> <ul style="list-style-type: none"> <li>Fully Synthetic</li> <li>Semi Synthetic</li> <li>OEM Genuine</li> </ul>	<p><b>Automotive Functional Fluids and Oils</b></p> <ul style="list-style-type: none"> <li>Auto Transmission and Gear</li> <li>Greases</li> <li>Radiator Coolant</li> <li>Brake</li> </ul>	<p><b>Industrial and Marine Lubricants Fluids and Oils</b></p> <ul style="list-style-type: none"> <li>Hydraulic</li> <li>Compressor</li> <li>Turbine</li> <li>Agriculture</li> <li>Marine</li> <li>Metal Working</li> <li>Fishing Boat</li> <li>Industrial Gear</li> </ul>
<p><b>Passenger Car Motor Oils</b></p> <ul style="list-style-type: none"> <li>Fully Synthetic</li> <li>Semi Synthetic</li> <li>Mineral</li> </ul>	<p><b>Commercial Vehicle Lubricants</b></p> <ul style="list-style-type: none"> <li>Heavy duty diesel engine oil</li> </ul>		

# WHERE WE OPERATE – OUR PRESENCE



**38**  
TERMINALS

» **17**  
FUEL  
TERMINALS

..... **8**  
LPG TERMINALS  
AND BOTTLING  
FACILITIES

..... **13**  
AVIATION  
TERMINALS

**10**  
BUNKERING  
FACILITIES

**11**  
OFFICES\*

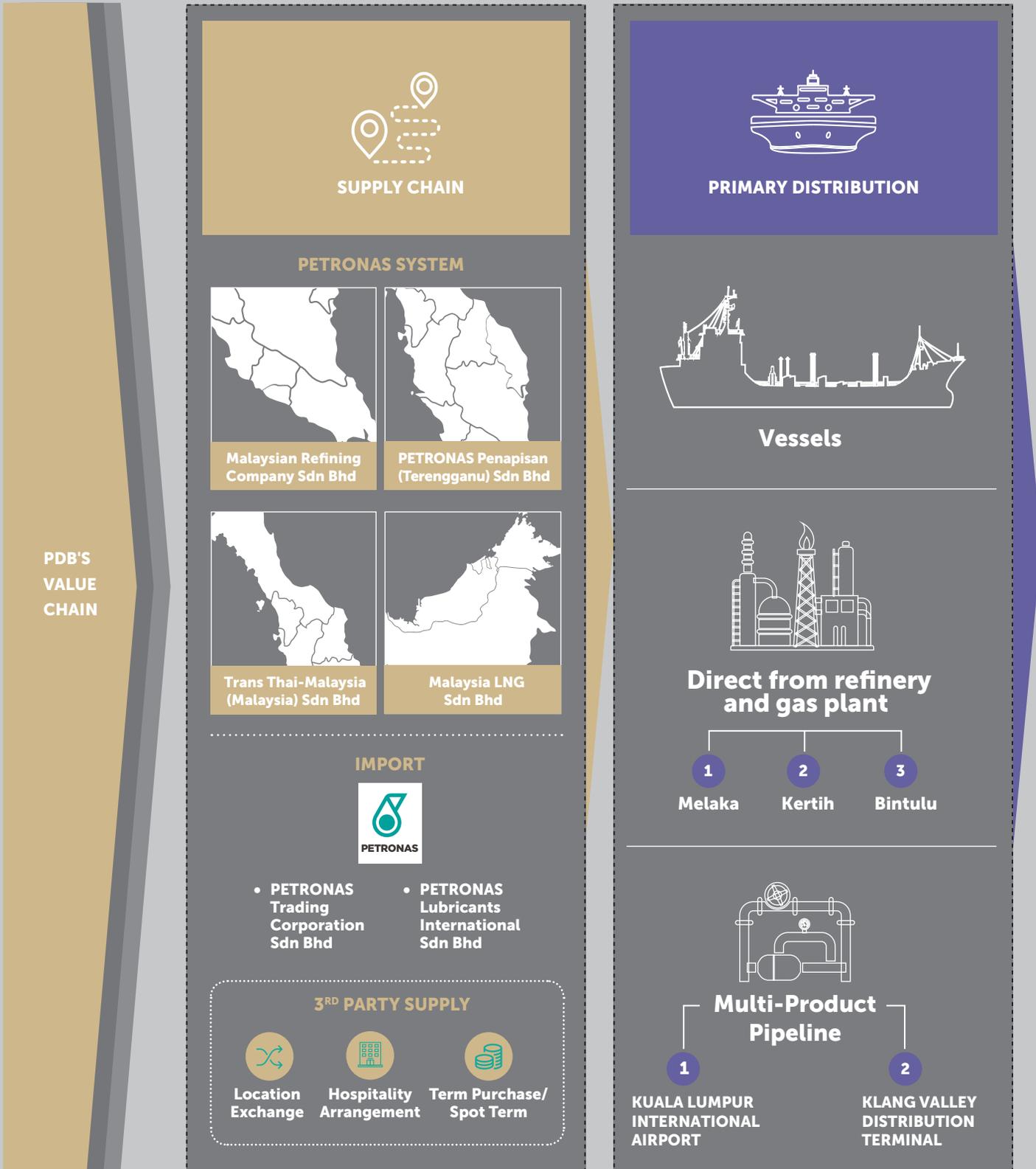
## WHERE WE OPERATE – OUR PRESENCE

<p><b>FUEL TERMINALS:</b></p> <ol style="list-style-type: none"> <li>1. ASB Labuan (JV)</li> <li>2. Bintulu (JV)</li> <li>3. Dengkil (JV)</li> <li>4. Kertih (Refinery)</li> <li>5. Kuantan</li> <li>6. Kuching (JV)</li> <li>7. Labuan</li> <li>8. Lumut</li> <li>9. Melaka (Refinery)</li> <li>10. Miri</li> <li>11. Pasir Gudang</li> <li>12. Prai</li> <li>13. Pulau Langkawi</li> <li>14. Sandakan</li> <li>15. Sepangar Bay</li> <li>16. Tanjung Manis (JV)</li> <li>17. Tawau (JV)</li> </ol> <hr/> <p><b>LPG TERMINALS AND BOTTLING FACILITIES:</b></p> <ol style="list-style-type: none"> <li>1. Bintulu</li> <li>2. Kertih</li> <li>3. Kuching (JV)</li> <li>4. Melaka</li> <li>5. Pasir Gudang</li> <li>6. Prai</li> <li>7. Sepangar Bay</li> <li>8. Tawau (JV)</li> </ol> <hr/> <p><b>LEGEND:</b></p> <ul style="list-style-type: none"> <li><span style="color: green;">●</span> LPG Terminals and Bottling Facilities</li> <li><span style="color: orange;">●</span> Aviation Terminals</li> <li><span style="color: teal;">●</span> Fuel Terminals</li> <li><span style="color: purple;">●</span> Offices</li> <li><span style="color: blue;">●</span> Bunkering Facilities</li> <li> Multi-Product Pipeline</li> <li><span style="color: brown;">●</span> Lubricant Warehouse</li> </ul>	<p><b>AVIATION TERMINALS:</b></p> <ol style="list-style-type: none"> <li>1. Bayan Lepas</li> <li>2. Bintulu</li> <li>3. Kertih</li> <li>4. KLIA</li> <li>5. Kota Kinabalu</li> <li>6. Kuala Terengganu</li> <li>7. Kuching</li> <li>8. Miri</li> <li>9. Pulau Langkawi</li> <li>10. Sandakan</li> <li>11. Senai</li> <li>12. Sibu</li> <li>13. Subang</li> </ol> <hr/> <p><b>JV DEPOTS AND FACILITIES</b></p> <ol style="list-style-type: none"> <li>1. ASB (Wilayah Persekutuan Labuan)</li> <li>2. IOT Management Sdn Bhd (Kuching)</li> <li>3. Kuala Lumpur Aviation Fuelling System Sdn Bhd (Sepang)</li> <li>4. PS Pipeline Sendirian Berhad/ KVDT Fuel Terminal (Dengkil)</li> <li>5. PS Terminal Sendirian Berhad (Tawau and Bintulu)</li> <li>6. Tanjung Manis Oil Terminal Management Sdn Bhd (Tanjung Manis)</li> </ol> <hr/> <p><b>BUNKERING FACILITIES:</b></p> <ol style="list-style-type: none"> <li>1. Bintulu</li> <li>2. Kuantan</li> <li>3. Kuching</li> <li>4. Labuan</li> <li>5. Lumut</li> <li>6. Pasir Gudang</li> <li>7. Prai</li> <li>8. Pulau Langkawi</li> <li>9. Sandakan</li> <li>10. Sepangar Bay</li> </ol> <hr/> <p><b>OFFICES:</b></p> <ol style="list-style-type: none"> <li>1. Bangkok</li> <li>2. Bintulu</li> <li>3. Johor Bahru</li> <li>4. Kota Kinabalu</li> <li>5. Kuala Lumpur</li> <li>6. Kuantan</li> <li>7. Kuching</li> <li>8. Prai</li> <li>9. Sandakan</li> <li>10. Sibu*</li> <li>11. Tawau</li> </ol>
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\* Sibu sales office was closed on 15 August 2018

# INTEGRATED VALUE CHAIN



PDB'S  
VALUE  
CHAIN



## SUPPLY CHAIN

### PETRONAS 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

### 3<sup>RD</sup> PARTY SUPPLY



Location  
Exchange



Hospitality  
Arrangement



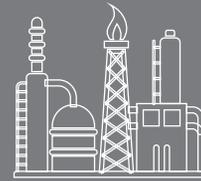
Term Purchase/  
Spot Term



## PRIMARY DISTRIBUTION



### Vessels



### Direct from refinery and gas plant

1

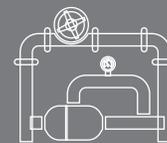
Melaka

2

Kertih

3

Bintulu



### Multi-Product Pipeline

1

KUALA LUMPUR  
INTERNATIONAL  
AIRPORT

2

KLANG VALLEY  
DISTRIBUTION  
TERMINAL

# INTEGRATED VALUE CHAIN





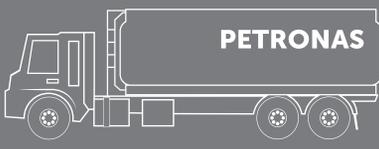
**TERMINAL**

LANGKAWI	<span style="color: #00A09A;">●</span> <span style="color: #FFC000;">●</span>
PRAI	<span style="color: #FFC000;">●</span>
BAYAN LEPAS	<span style="color: #FFC000;">●</span>
LUMUT	<span style="color: #00A09A;">●</span>
SUBANG	<span style="color: #FFC000;">●</span>
KLIA	<span style="color: #FFC000;">●</span>
MELAKA	<span style="color: #FFC000;">●</span>
PASIR GUDANG	<span style="color: #FFC000;">●</span>
SENAI	<span style="color: #FFC000;">●</span>
KUALA TERENGGANU	<span style="color: #FFC000;">●</span>
KERTIH	<span style="color: #FFC000;">●</span> <span style="color: #FFC000;">●</span>
KUANTAN	<span style="color: #00A09A;">●</span>
KUCHING	<span style="color: #FFC000;">●</span> <span style="color: #FFC000;">●</span>
TANJUNG MANIS	<span style="color: #00A09A;">●</span>
BINTULU	<span style="color: #FFC000;">●</span> <span style="color: #FFC000;">●</span>
MIRI	<span style="color: #00A09A;">●</span> <span style="color: #FFC000;">●</span>
LABUAN	<span style="color: #00A09A;">●</span>
ASB LABUAN	<span style="color: #00A09A;">●</span>
KOTA KINABALU	<span style="color: #FFC000;">●</span>
TAWAU	<span style="color: #FFC000;">●</span>
SANDAKAN	<span style="color: #00A09A;">●</span> <span style="color: #FFC000;">●</span>
SEPANGAR BAY	<span style="color: #FFC000;">●</span>
KVDT (DENGKIL)	<span style="color: #00A09A;">●</span>

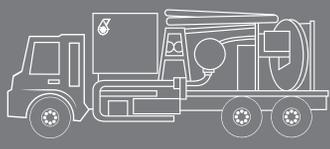
- Aviation Terminal
- Fuel and LPG Terminal
- Fuel Terminal

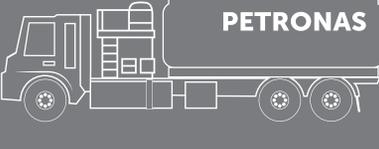


**SECONDARY DISTRIBUTION**

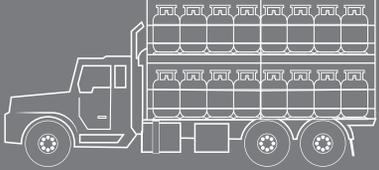


**PETRONAS**





**PETRONAS**





**CUSTOMER**

**1**

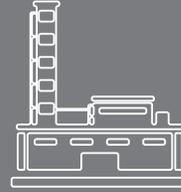
**RETAIL**

**PETRONAS**



**2**

**COMMERCIAL**



**3**

**LPG**



**4**

**LUBRICANT**



# WHY INVEST IN PDB

## WHAT DIFFERENTIATES US



Solid financial performance

### CREATING CONSISTENT VALUE

for shareholders



Largest

### PETROL NETWORK WITH FULLY INTEGRATED

end-to-end supply chain and services via multiple delivery channels to serve various customers in the Country



### WORLD-CLASS QUALITY PRODUCTS AND SERVICES INNOVATION

inspired by looking through the customers' lens and developed in collaboration with strategic partnerships



Added value to shareholders by delivering a

### SUPERIOR CUSTOMERS EXPERIENCE

leveraging on the knowledge and resources of our strategic partnerships and alliances



First in the Country to collaborate with GreenTech Malaysia to install

### 60 CHARGEV FACILITIES

at PETRONAS stations



### EXPERIENCED LEADERSHIP TEAM

and highly competent workforce with diversified skills, relevant experiences and knowledge within industry

## WHY INVEST IN PDB

### OUR COMPETITIVE STRENGTHS BY BUSINESS SEGMENTS



#### RETAIL

##### STRONG PRESENCE

Malaysia's largest petroleum retail network with over 1,000 stations and 700 *Kedai Mesra* nationwide

##### WORLD-CLASS QUALITY PRODUCTS

The world-class quality products engineered through partnership with Mercedes-AMG PETRONAS Formula One™ Team

##### CUSTOMER-FIRST MINDSET

Responsive organisation focused and obsessed on delivering excellent customers experience

##### ATTRACTIVE LOYALTY PROGRAMME

Offer the highest loyalty points in the retail fuel industry

##### STRATEGIC PARTNERSHIPS

Value-adding strategic alliances with like-minded business partners

##### DIGITALISATION

Capitalise on technological solutions in staying ahead of the game to support the Company's growth



#### COMMERCIAL

##### FULLY INTEGRATED BUSINESS

Leveraging integrated product supply, storage, distribution, inland and seaborne logistics

##### DIVERSIFIED PORTFOLIO

Diversified portfolio to cater to the various industries and market segments

##### END-TO-END SERVICE

From pre-sales to after-sales service

##### EXTENSIVE NETWORK

Wide network of customer base ranging from various industries and market segments

##### QUALITY ASSURANCE

Certified ISO 9001:2008 on par with internationally recognised quality standards



#### LPG

##### INTEGRATED VALUE CHAIN

Fully integrated operations nationwide

##### STRONG PRESENCE

Extensive network of more than 300 dedicated dealers spread across the Country

##### QUALITY ASSURANCE

Certified by the latest ISO 9001:2015 international quality standards

##### TECHNOLOGY

Industry leader in the provision of digital solutions for customers and end-users

##### REPUTATION

Recognised for reliable products and services



#### LUBRICANT

##### WORLD-CLASS PREMIUM PRODUCTS

Provision of quality Tier-1 lubricants developed with Mercedes-AMG PETRONAS Formula One™ Team

##### STRATEGIC PARTNERSHIPS

Value-adding strategic alliances and business partnerships

##### LEVERAGING INNOVATION CAPABILITIES

Access to leading R&D to continue the development of superior products

##### CAPACITY TO EXPAND

The largest distribution network for the retail segment in the Country

##### INTEGRATED VALUE CHAIN

Reliability and efficiency from product supply to distribution to customers

# OUR STRATEGIC ALLIANCES

## BUSINESS PARTNERS



## CUSTOMERS



## BANKING FACILITIES



## AUTHORITIES



# 2018 HIGHLIGHTS

## BUSINESS HIGHLIGHTS

### RETAIL



Introduced **PETRONAS PRIMAX 95 WITH PRO-DRIVE**

Launched **SETEL, 1<sup>ST</sup> PETROL E-PAYMENT SOLUTION IN SOUTHEAST ASIA**

Strengthen existing partner collaboration and **ESTABLISH NEW STRATEGIC PARTNERSHIPS**

Best-in-industry **3X PETRONAS MESRA LOYALTY PROGRAMME**

### COMMERCIAL



Defended **MARKET POSITION**

Preferred partner in the **AVIATION INDUSTRY**

Strengthened position in Bitumen market via **COLLABORATIVE PARTNERSHIPS**

### LPG



**MALAYSIA'S NO. 1 COOKING GAS**

Sustained **MARKET LEADERSHIP**

Launched sale of **LPG CYLINDERS** at selected **PETRONAS STATIONS**

Introduced **14KG CYLINDERS** for **COMMERCIAL** customers

### LUBRICANT



**TOP TIER** premium lubricant product

Continued long-term **STRATEGIC PARTNERSHIPS** with **PROTON, PERODUA** and **HONDA**

Significant growth in **HIGHSTREET** and **OEM** segments

## 2018 HIGHLIGHTS

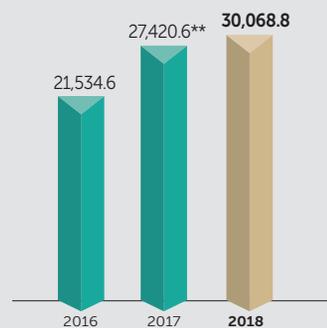
## FINANCIAL HIGHLIGHTS

## PROFIT BEFORE TAX



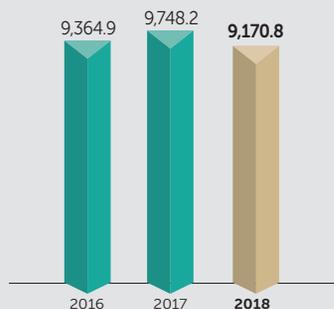
**RM1,177.0** million

## REVENUE



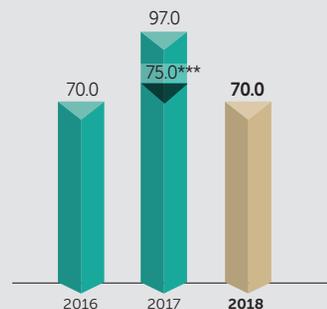
**RM30,068.8** million

## TOTAL ASSETS



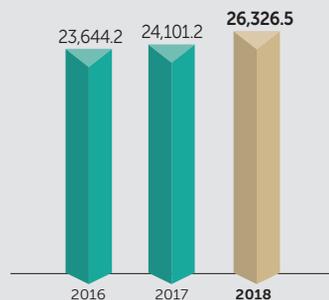
**RM9,170.8** million

## DIVIDEND PAYOUT



**70.0** sen

## MARKET CAPITALISATION



**RM26,326.5** million as at 31 December 2018

\* Excluding discontinued operations and gain on disposal of subsidiaries

\*\* Restated following adoption of MFRS 15 Revenue from Contracts with Customers

\*\*\* Excluding special dividend of 22.0 sen per share

## 2018 HIGHLIGHTS

### AWARDS AND ACCOLADES



1

#### ASSOCIATION OF ACCREDITED ADVERTISING AGENTS MALAYSIA – PUTRA BRAND AWARDS 2018

- Brand of the Year
- Gold Award for Automotive-Fuel, Lubricants and Accessories



2

#### THE EDGE BILLION RINGGIT CLUB AND CORPORATE AWARDS 2018

- Company of the Year



3

#### MSWG – ASEAN CORPORATE GOVERNANCE RECOGNITION 2018

- Corporate Governance Award



4

#### NATIONAL ANNUAL CORPORATE REPORT AWARDS 2018

- Certificate of Merit



5

#### MSOSH OSH AWARDS 2018

##### Gold Merit:

- Kuantan Fuel Terminal
- Sepanggar Bay Fuel and LPG Terminals

##### Gold Class I:

- Pasir Gudang Fuel and LPG
- Subang Aviation
- Bintulu LPG
- Kertih Fuel and LPG
- Labuan Fuel
- Senai Aviation
- KLIA Aviation
- Bayan Lepas Aviation
- Kota Kinabalu Aviation
- Kuching Aviation
- Lumut Fuel
- Melaka Fuel and LPG
- Sandakan Fuel

# CORPORATE MILESTONES



1980  
1989

## 1981

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

## 1982

- Incorporated on 5 August as PETRONAS Dagangan Sdn. Bhd.

## 1985

- Introduced the first PETRONAS lubricant, PETRONAS LUBRAM, in the market

## 1987

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



1990  
1999

## 1993

- Converted to a public company on 21 August

## 1994

- Listed on the Kuala Lumpur Stock Exchange
- Launched PRIMAS PX2

## 1996

- Establishment of *Kedai Mesra* and new station image



2000  
2009

## 2000

- Launched a new unleaded petrol, PETRONAS Primax
- Introduced PDB's website [www.mesra.com.my](http://www.mesra.com.my) to establish online presence

## 2001

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

## 2002

- Official launch of Mesralink

## 2004

- Introduced PETRONAS Primax Baru

## 2006

- Launched a new fuel, PETRONAS Primax 3

## 2009

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



2010  
2018

## 2010

- Introduced PETRONAS Primax 97

## 2011

- Launched PETRONAS Primax 95 Xtra

## 2012

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

## CORPORATE MILESTONES

### 2013

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

### 2014

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

### 2015

- Launched PETRONAS Syntium °CoolTech™
- First to launch the new Euro 4M compliant PETRONAS Primax 97 with Advanced Energy Formula
- Launched the first-of-its-kind LPLFRD in Southeast Asia at LIMA'15
- Completed the LPG Flexspeed facility in Prai

### 2016

- Relaunched PETRONAS Urania with ViscGuard™
- Launched PETRONAS Syntium SE, a high quality engine oil blended exclusively for PROTON
- PDB became the first non-Japanese lubricant company certified by HONDA as their supplier
- Launched the first Unmanned Terminal at Lumut, Prai, Melaka and Kertih Fuel Terminals



### 2017

- Introduced Breakfast Solutions, Mornings@Mesra
- PDB went online joining e-commerce platforms including Shopee, Lazada and 11street
- Launched Gas2u, the first cooking gas ordering mobile application in Malaysia
- Launched the new PETRONAS Dynamic Diesel Euro 5 With Pro-Drive
- Introduced ChargEV facilities at selected PETRONAS stations

### 2018

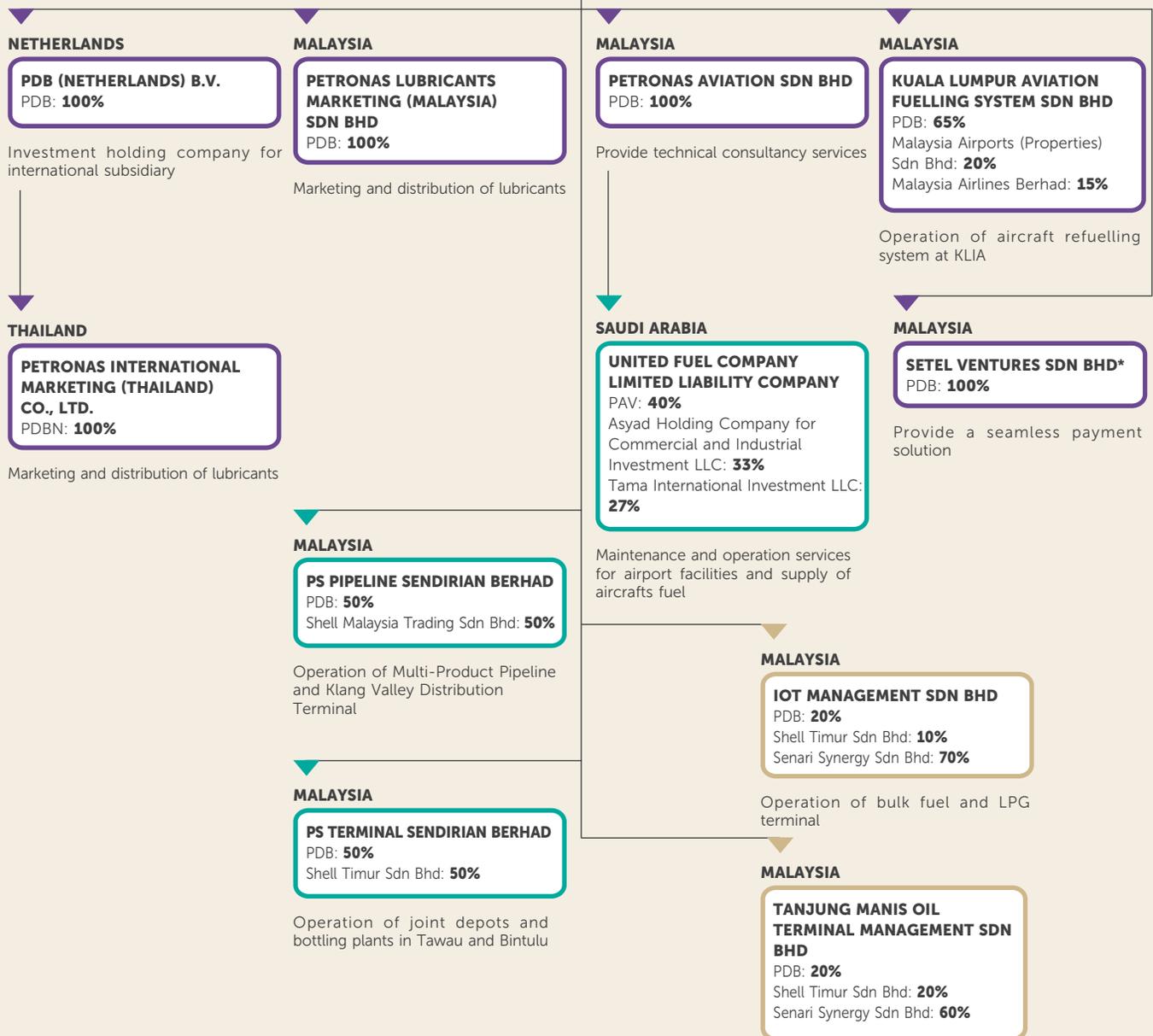
- PETRONAS was named Brand of the Year by Putra Brand Awards
- Launched Setel, 1<sup>st</sup> petrol e-payment solution in Southeast Asia
- PDB was awarded Company of the Year at the Edge Billion Ringgit Club and Corporate Awards
- Introduced PETRONAS' white label brand, Mesra Bites



# GROUP CORPORATE STRUCTURE



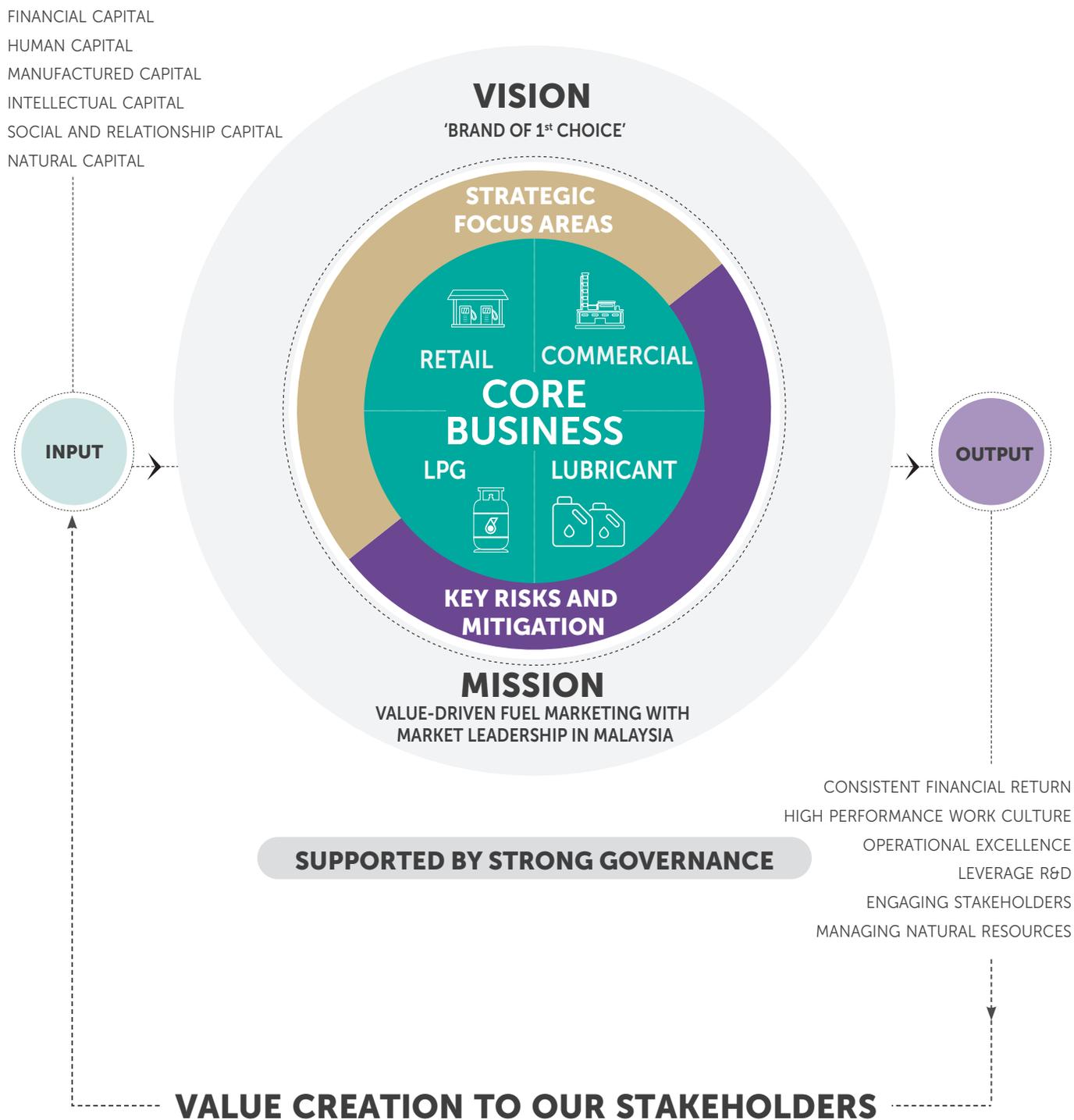
## PETRONAS Dagangan Berhad



■ Subsidiary    ■ Joint Ventures    ■ Associate

\* Incorporated on 9 January 2019

# OUR BUSINESS MODEL



**Value Creating Business Model** : For more information, please refer to Our Growth Pillars on pages 44 to 45 of this <IR>

# Management Discussion and Analysis

## STRATEGIC GROWTH

- 31** Operating Environment and Market Outlook
- 36** Material Matters
- 38** Stakeholder Engagement
- 40** Strategic Focus Areas
- 41** Key Performance Indicators
- 42** Key Risks and Mitigation
- 44** Value Creating Business Model

## GROWING OUR NUMBERS

- 46** 5-Year Group Financial Highlights
- 47** 5-Year Group Financial Summary
- 48** Simplified Group Statement of Financial Position
- 49** Segmental Analysis
- 50** Group Quarterly Financial Performance
- 51** Key Interest Bearing Assets and Liabilities
- 52** Statement of Value Added
- 53** Distribution of Value Added
- 54** Financial Calendar
- 55** Investors Information
  - Investor Relations
  - Share Price and Market Capitalisation

## OUR GROWTH PILLARS

- 61** Our Key Operations
- 64** Retail
- 68** Commercial
- 70** LPG
- 72** Lubricant

# OPERATING ENVIRONMENT AND MARKET OUTLOOK

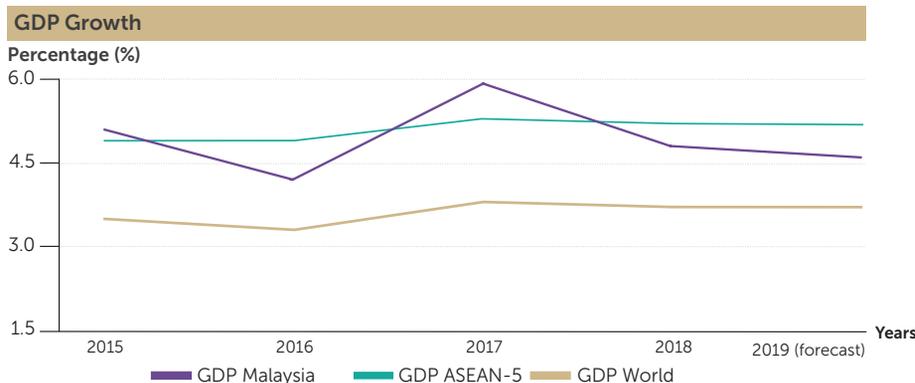
## MODERATE ECONOMIC GROWTH AND STRENGTHENING CONSUMER SENTIMENT

### WHAT HAPPENED

The momentum of the global economy is expected to exhibit sustained growth of 3.7% in 2018. Correspondingly, the rate of growth for ASEAN-5 is expected to moderate at 5.2% this year, as compared to 5.3% in 2017. In Malaysia, the economy decelerated to 4.7% in 2018 from 5.9% in 2017.

The Malaysian General Election 2018 yielded a change in the party winning political office. The new administration has made sweeping reforms to its tax system, abolishing the GST and reintroducing the Sales and Services Tax.

Despite weakened economic growth, the Consumer Sentiment Index averaged at 107.1 in 2018 compared to 79.3 in 2017. A survey by MIER reported that Peninsular Malaysia was the biggest contributor to consumer optimism, boosted by the recent change in the political landscape as well as the abolition of GST.



Sources: International Monetary Fund, Bank Negara Malaysia, Malaysian Institute of Economic Research, Malaysia Budget 2019

### THE OUTLOOK

Facing headwinds from trade tensions, tighter financial conditions and volatility in oil prices, global GDP growth is projected to ease to around 3.5% in 2019.

Spillover effects from these constraints could potentially curb Malaysia’s growth prospects. Malaysia’s GDP is forecasted to be marginally higher at 4.9% in 2019.

Domestically, consumers are still positive and optimistic. Malaysia’s sales of vehicle is expected to grow 1.4% to reach 609,700 units in 2019 driven by consumer confidence throughout the year. Increase in car sales could lead to potential higher demand for fuel.

### HOW WE RESPONDED

- Committed to deliver superior customers experience.
- Continuous cost optimisation effort.

 For more information on Superior Customers Experience and Cost Optimisation, please refer to Our Growth Pillars on pages 61 to 73 of this <IR>

Source: Frost & Sullivan

## OPERATING ENVIRONMENT AND MARKET OUTLOOK

### CONTINUED VOLATILITY IN OIL PRICES

#### WHAT HAPPENED

After climbing higher during most of the year amid concerns over supply, oil prices fell sharply towards the end of 2018. Nevertheless, the price of Dated Brent averaged USD70.9/bbl, a 31.0% increase over 2017's average of USD54.3/bbl.

Prices for RON97, RON95 and Diesel averaged higher than in 2017 at USD81.3/bbl, USD80.0/bbl and USD84.1/bbl, respectively.

In Malaysia, the Government reintroduced the weekly retail price mechanism for petrol and diesel in December, which also raised the operating margin for station operators.

#### Dated Brent and Petroleum Products Prices Trend



Source: MOPS, IHS and various websites

#### THE OUTLOOK

The global oil market is expected to remain volatile in 2019. Tighter supply-demand balances and unexpected geopolitical events could push Dated Brent from USD60.0/bbl to USD70.0/bbl in 2019. Petroleum products prices are expected to move in tandem with crude prices.

Domestically, various factors are creating steady demand for petroleum products namely petrol and diesel, although an increase in the prevalence of energy-efficient vehicles and the wider usage of public transport could limit the growth potential.

#### HOW WE RESPONDED

- Continuous Integrated Inventory Management effort to minimise exposure to price volatility.



For more information on Integrated Inventory Management, please refer to Our Growth Pillars on page 62 of this <IR>

## OPERATING ENVIRONMENT AND MARKET OUTLOOK

### EFFICIENT VEHICLE TECHNOLOGY AND TRANSPORTATION SYSTEM

#### WHAT HAPPENED

Malaysia's transportation infrastructure and facilities have continued to develop rapidly over the last few years. The completion of new rail transportation lines such as the MRT Phase 1, which will be followed by the upcoming MRT Phase 2, and other Light Rail Transit lines, are benefitting the public. Based on the National Transformation Programme 2017 Report, the MRT 1 daily ridership is currently 110,000.

The Government's legalisation of ride hailing services is leading to a new era of more efficient transportation. Ride hailing user penetration in Malaysia is estimated to be about 11.0% as at 2018.

In 2018, the share of EEVs reached 60.0% of new vehicles sold. EVs account for less than 1.0% of the total vehicle population in Malaysia but the trend in their favour is gaining traction globally.

#### THE OUTLOOK

MRT Line 2 is expected to be completed in 2021. Once completed, Line 2, which will boast 24 elevated and 11 underground stations, is expected to have a ridership of 529,000 passengers per day.

The population of EEVs and EVs are anticipated to increase. Based on Malaysia Automotive Institute, EEV penetration in Malaysia is anticipated to reach 85.0% by 2020.

These major disruptive trends will have enormous implications for the oil and gas industry players, in particular fuel retailers, and present increased sustainability risks to the sector.

#### HOW WE RESPONDED

- Provided new eco-friendly products and ChargEV facilities.
- Collaborate the ride hailing services in the market.



For more information on ChargEV facilities and Leveraging on ride hailing services, please refer to Our Growth Pillars on pages 66 to 67 of this <IR>

## OPERATING ENVIRONMENT AND MARKET OUTLOOK

### RAPID DEVELOPMENT IN DIGITAL ECOSYSTEM

#### WHAT HAPPENED

The rapid development in digital applications is changing the buying patterns of Malaysian consumers. They are adapting quickly to online shopping and the e-wallet. Malaysia is an internet-savvy country with a broad middle-income strata and a national mobile phone ownership rate of 98.0%. In 2017, there were 15 million active participants in e-commerce in Malaysia that represent 48.0% of the Country's population. The entry of international e-wallet providers are also expected to transform the payment system landscape in Malaysia.

The encouraging growth in the digital ecosystem in Malaysia places e-commerce on a growth trajectory that has already started delivering benefits to the Country. The e-commerce contribution to GDP has continuously grown over the last seven years, more than doubling to RM85.8 billion in 2017 from RM37.7 billion in 2010, at an average annual growth rate of 12.5%.

#### THE OUTLOOK

The digital economy will be an important growth sector in Malaysia and a catalyst for accelerating the Country's economic development. Emergence of e-commerce and the changing habits of Malaysian consumers as they adapt to online shopping, providing digital solutions to customer demands will be key to remain competitive in the future. PDB is riding the trend providing digital solutions to capitalise on the new opportunities presented by e-commerce.

#### HOW WE RESPONDED

- Developed integrated digital ecosystem.
- Partnered with major e-commerce platforms.



*For more information on Setel and e-commerce partners, please refer to Our Growth Pillars on pages 66 to 67 of this <IR>*

## OPERATING ENVIRONMENT AND MARKET OUTLOOK

### INCREASING PROMINENCE IN ENVIRONMENTAL AND CLIMATE REGULATIONS

#### WHAT HAPPENED

The 2016 United Nations Paris Agreement set a path towards a lower-carbon global economy and was a defining milestone on the route to meeting the challenges of climate change. Malaysia, playing its part, is striving towards becoming an environmentally responsible developing economy.

Based on the Nationally Determined Contributions report in 2011 issued under the United Nations Framework Convention on Climate Change, Malaysia has successfully reduced emission intensity by up to 23.0%. Malaysia is ranked second in the region in terms of emissions per capita based on World Resources Institute, 2013.

Implementation of the RON95 Euro 4M standard would come into effect in October 2018, however the Ministry of Domestic Trade and Consumer Affairs, which regulates fuel standards, postponed the rollout of RON95 Euro 4M to 1 January 2020.

#### THE OUTLOOK

Malaysia is committed in reducing its carbon emission intensity by 40.0% by 2020 and a further reduction of 45.0% by 2030. Government policies such as the National Policy on Climate Change, National Green Technology Policy and National Biofuel Policy are already in place signaling the Malaysia's intent to reduce Green House Gas emissions across all industries.

The Government plans to implement the B10 biodiesel programme for the transportation sector and B7 for industrial sector in 2019. The Government has also gazetted the implementation of the Euro 5 fuel standard for both RON95 and RON97 to come into effect in 2025, as part of the Country's effort to promote cleaner energy. PDB is committed to taking a prominent role towards realising the Government's greenification agenda in support of Malaysia's plan to reduce its carbon footprint.

In 2020, the International Maritime Organisation will implement a new regulation for a 0.50% global sulphur cap for marine fuels. This regulatory framework will significantly shift energy demand towards lower carbon emission.

#### HOW WE RESPONDED

- Installed solar panels at selected PETRONAS stations.
- Provided ChargeEV facilities at selected PETRONAS stations.
- Expanded the availability of PETRONAS Dynamic Diesel Euro 5 with Pro-Drive.



For more information on ChargeEV facilities and Dynamic Diesel Euro 5 with Pro-Drive, please refer to Our Growth Pillars on pages 66 to 67 of this <IR>



For more information on Installed Solar Panels, please refer to Driving Sustainability on pages 132 to 133 of this <IR>

# MATERIAL MATTERS

## MANAGING MATERIAL MATTERS

IN OUTLINING OUR STRATEGIES, WE TAKE INTO CONSIDERATION THE MULTITUDE OF FACTORS THAT HAVE AN IMPACT TO OUR INDUSTRY AND THE BUSINESS. THESE MATERIAL MATTERS REPRESENT CRUCIAL ELEMENTS THAT DRIVES OUR BUSINESS AND OPERATIONS. WE RECOGNISE ITS CRITICALITY AND HAVE ADOPTED A THREE STAGE PROCESS IN IDENTIFYING THEM.

MATERIAL MATTERS	WHAT ARE THE RISKS	WHAT ARE THE OPPORTUNITIES	OUR RESPONSE
 <p><b>Customers Experience</b></p> <p>It is important that our customers' requirements and preferences be addressed as they are the key to our business success. This includes all aspects such as product quality, delivery, differentiated offerings and convenience.</p>	<p>Addressing customers' needs and expectations are critical in maintaining our competitive position and to promote growth.</p>	<p>By offering products of unparalleled quality, high levels of service delivery, as well as listening to our customers' concerns, we establish strong differentiating factors to appeal to our customers, ensuring excellent customers experience.</p>	<p>Delivering superior customers experience is a strategic priority for PDB.</p> <p> For more information on Customers Experience, please refer to Strategic Focus Areas on page 40 of this &lt;IR&gt;</p>
 <p><b>Health, Safety and Environment</b></p> <p>Ensuring our facilities, operations, products and services are in accordance with all legal requirements and industry best practices are key to safeguard the health, safety and well-being of our customers, dealers, employees, contractors, communities and the local environment which are critical to our image and reputation.</p>	<p>Failure to adequately manage HSE risks may result in injury to our customers, dealers, employees, contractors/suppliers, business partners, communities and impact the surrounding environment. It may also cause disruption to our operations, increase costs, cause reputational damage and may lead to litigation.</p>	<p>By having a strong HSE performance and prioritisation of areas for continuous improvement, we maintain safe and reliable operations which provides us with a competitive edge in the market.</p> <p>Attention to our customers' safety, health, security and well-being will be an opportunity for us to enhance and improve further our image and reputation.</p>	<p>PDB prioritises HSE and aims for Zero HSE incidents.</p> <p> For more information on Health, Safety and Environment, please refer to Driving Sustainability on pages 132 to 133 of this &lt;IR&gt;</p>
 <p><b>Operational Efficiencies</b></p> <p>Operational efficiencies are critical foundations in delivering business objectives and performance towards achieving sustainable levels of growth and profitability.</p>	<p>Operational and reliability interruptions including non-availability of supply and services could lead to business disruption and financial loss.</p>	<p>Striving for operational efficiencies ensures a competitive advantage for our brands in the market</p>	<p>Concerted efforts has been made to improve operational excellence and reliability, and this continues to be a strategic priority for PDB</p> <p> For more information on Operation Efficiencies, please refer to Our Growth Pillars on pages 61 to 63 of this &lt;IR&gt;</p>

# MATERIAL MATTERS

## MATERIAL MATTERS IDENTIFICATION PROCESS



MATERIAL MATTERS	WHAT ARE THE RISKS	WHAT ARE THE OPPORTUNITIES	OUR RESPONSE
 <p><b>Economic Outlook</b></p> <p>PDB's profitability and ability to sustain its performance correlates strongly to changes in the economic environment.</p>	<p>We must ensure timely response to changes in economic and market environment to remain competitive as well as to deliver our strategy and performance.</p>	<p>The ability respond quickly to market changes and having flexibility in our strategy allows us to capitalise on lagging competitors' response.</p>	<p>Our strategy is designed to fuel growth and set the trajectory moving forward</p> <p> For more information on Economic Outlook, please refer to Operating Environment and Market Outlook on pages 31 to 35 of this &lt;IR&gt;</p>
 <p><b>Technology and Digital Transformation</b></p> <p>Technology has drastically changed consumer behaviours and has heightened their expectations. Addressing these expectations are a key strategic priority for PDB.</p>	<p>We must be quick to adapt to digital advancements in order to meet the needs and provide convenience to our customers.</p> <p>Exposures arising from cyber threats may also lead to a breach of information security and adversely impact our business operations.</p>	<p>Leveraging on technology advancements provides an avenue for differentiated solutions and increase efficiency for our customers. This will help us protect our position in core markets as well as extend our reach into emerging markets.</p>	<p>Transforming customers experience through digitalisation initiatives and collaboration with partners.</p> <p> For more information on Technology and Digital Transformation, please refer to Our Growth Pillars on page 66 of this &lt;IR&gt;</p>
 <p><b>Talent Management and Retention</b></p> <p>Our talents are key assets in delivering our strategies.</p>	<p>We must attract and retain the best talents to ensure sustainable business performance and deliver growth.</p>	<p>Having the best talents will enable us to be nimble and agile in responding to changes in our operating environment.</p>	<p>We continuously invest on the development and capability of our people as one of our prime assets to grow together with the Company.</p> <p> For more information on Talent Management and Retention, please refer to Driving Sustainability on pages 152 to 158 of this &lt;IR&gt;</p>

# STAKEHOLDER ENGAGEMENT

We are Malaysia’s leading retailer and marketer of downstream petroleum products and have varied group of stakeholders. We seek to understand their varied interests and impact in our business and operations, strengthen our relationships in order to gain their trust and meet their expectations.

 For more information on Materiality Assessment, please refer to Driving Sustainability on page 135 of this <IR>

Why We Engage Them	How We Engage
<p><b>INVESTORS</b></p> <p>We provide fair, balanced and understandable information to instil trust and confidence as well as to allow informed investment decisions to be made</p>	<ul style="list-style-type: none"> <li>• NDRs and corporate conference</li> <li>• Group and one-on-one meetings</li> <li>• Site visit</li> <li>• Quarterly analyst briefings</li> <li>• Corporate website – <a href="http://www.mymesra.com.my">www.mymesra.com.my</a></li> <li>• Reports - Annual and Sustainability Reports</li> </ul>
<p><b>CUSTOMERS</b></p> <p>As a customer centric organisation, we must understand the needs and behaviours of our customers to ensure we win them and deliver solutions to delight them</p>	<ul style="list-style-type: none"> <li>• Hotline – PETRONAS Mesralink at 1-300-88-8181</li> <li>• Social media</li> <li>• Corporate website – <a href="http://www.mymesra.com.my">www.mymesra.com.my</a></li> <li>• Customer feedback system via QR Code at PETRONAS stations and mobile applications</li> <li>• Market/satisfaction survey</li> <li>• Events, dialogues, roadshows and engagement sessions</li> </ul>
<p><b>DEALERS</b></p> <p>Dealers are our critical business partners and an extension of our network. We must ensure our strategies and plans are aligned</p>	<ul style="list-style-type: none"> <li>• Dealer conferences, events, dialogues, roadshows, engagement sessions, stations site visit</li> <li>• Training sessions</li> <li>• Hotline – PETRONAS Mesralink at 1-300-88-8181</li> <li>• Corporate website – <a href="http://www.mymesra.com.my">www.mymesra.com.my</a></li> <li>• Retail dealers – <a href="http://www.mystation.com.my">www.mystation.com.my</a></li> </ul>
<p><b>EMPLOYEES</b></p> <p>We cascade business direction and performance whilst enabling communications to ensure employees are engaged and motivated</p>	<ul style="list-style-type: none"> <li>• Town halls and engagement sessions</li> <li>• Employee surveys</li> <li>• Leadership messages through video, newsletters, intranet and e-mail</li> <li>• Union Management</li> </ul>
<p><b>AUTHORITIES</b></p> <p>We operate in accordance with all regulatory requirements to ensure our operations are safe and not disrupted</p>	<ul style="list-style-type: none"> <li>• Formal meetings</li> <li>• Dialogues and feedback sessions</li> <li>• Operational site visits</li> <li>• Knowledge sharing session</li> <li>• Periodic reports</li> </ul>
<p><b>CONTRACTORS/SUPPLIERS/ BUSINESS PARTNERS</b></p> <p>Engaging with our partners and supply chain providers mean that we can ensure effective business collaboration, including upholding out safety standards and compliance</p>	<ul style="list-style-type: none"> <li>• One-on-one meetings</li> <li>• Contractor’s Day and regional engagement sessions</li> <li>• Sharing/training sessions</li> <li>• Engagement session</li> <li>• Progress reports</li> <li>• PETRONAS Mesra Suppliers Forum</li> <li>• Corporate presentations</li> <li>• Reports – Annual and Sustainability as well as programme report</li> </ul>
<p><b>COMMUNITIES</b></p> <p>Ensures continued viability of the business into the long-term. We aim to contribute positively to the communities and environment in which we operate</p>	<ul style="list-style-type: none"> <li>• Community engagement and outreach programmes</li> <li>• Corporate website – <a href="http://www.mymesra.com.my">www.mymesra.com.my</a></li> <li>• Customer Service Hotline – PETRONAS Mesralink at 1-300-88-8181</li> </ul>

-  Ad hoc
-  Daily
-  Weekly
-  Monthly
-  Quaterly
-  Yearly

# STAKEHOLDER ENGAGEMENT

Frequency	Areas of Interest	How We Respond
<p><b>AH MO QT YR</b></p> <p><i>Note:</i> No engagement is conducted during the close/blackout period.</p>	<ul style="list-style-type: none"> <li>• Business outlook and risks</li> <li>• Cash utilisation and dividend</li> <li>• Governance and business ethics</li> <li>• Safety and health</li> <li>• Sustainability matters</li> </ul>	<p> <b>Business Outlook and Performance:</b> For more information, please refer to pages 61 to 73 of this &lt;IR&gt;</p> <p> <b>Driving Sustainability:</b> For more information, please refer to pages 132 to 164 of this &lt;IR&gt;</p> <p> <b>Growing Responsibly:</b> For more information, please refer to pages 90 to 131 of this &lt;IR&gt;</p> <p> <b>Risks and Mitigation:</b> For more information, please refer to pages 42 to 43 of this &lt;IR&gt;</p>
<p><b>DY</b></p>	<ul style="list-style-type: none"> <li>• Customer service and support</li> <li>• Products quality and availability</li> <li>• Safety and health</li> <li>• Environment and climate change</li> <li>• Cyber security</li> </ul>	
<p><b>AH WK MO QT YR</b></p>	<ul style="list-style-type: none"> <li>• Strategic directions, business growth and opportunities</li> <li>• Governance and business ethics</li> <li>• Workforce development</li> <li>• Safety and health</li> <li>• Human rights</li> <li>• Customers experience</li> </ul>	
<p><b>AH MO QT YR</b></p>	<ul style="list-style-type: none"> <li>• Business direction and performance</li> <li>• Employment acquisition and retention</li> <li>• Work life balance</li> <li>• Welfare and benefits</li> <li>• Capability and career development</li> <li>• Improved diversity, flexibility and inclusivity</li> <li>• Corporate integrity and bussiness ethics</li> </ul>	
<p><b>AH MO QT YR</b></p>	<ul style="list-style-type: none"> <li>• Regulations and policies</li> <li>• Product specifications</li> <li>• Safety and health</li> <li>• Environment and climate change</li> <li>• CSR</li> </ul>	
<p><b>AH MO QT YR</b></p>	<ul style="list-style-type: none"> <li>• Governance and integrity</li> <li>• Health, safety and environment</li> <li>• Contractor's performance</li> <li>• Local content</li> <li>• Regulations and policies</li> <li>• Products availability and services quality</li> <li>• Business opportunity</li> </ul>	
<p><b>QT</b></p>	<ul style="list-style-type: none"> <li>• Regulatory compliance</li> <li>• CSR</li> <li>• Safety and health</li> <li>• Environment and climate change</li> <li>• Local content and employment opportunities</li> </ul>	

# STRATEGIC FOCUS AREAS

## OUR STRATEGY IS DESIGNED TO FUEL GROWTH AND SET THE TRAJECTORY MOVING FORWARD.

The strategies during the year were designed in anticipation of market volatility as well as emerging trends. We are also in the process of redefining our role beyond our traditional core - into new areas, addressing new needs, creating solutions and to continue delighting our customers along the way. In 2018, we have begun the blueprint for a transformation plan which is designed to fuel the growth of the Group and set the trajectory moving forward into 2020 and beyond. With a strategic

refocus that is anchored around strengthening the core, we seek to reaffirm our fundamentals by looking through the customers' lens, striving for operational excellence, striking down cost whilst continuously attracting the best talent and investing in their capability development.

Anchored by these fundamentals, we have outlined four strategic focus areas that defines what is important to fuel growth that links to our strategic objectives and initiatives.

### STRATEGIC FOCUS AREAS

-  Transforming Customers Experience
-  Market Leadership
-  Safe, Reliable and Efficient Operations
-  High Performance Work Culture

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	STRATEGIC BUSINESS INITIATIVES	2019 PRIORITIES
 <p><b>Transforming Customers Experience</b></p>	<ul style="list-style-type: none"> <li>Increase NPS</li> <li>Recognised in top quartile of consumer awards in Malaysia</li> </ul>	<ul style="list-style-type: none"> <li>Enhance products and services</li> <li>Transformation of our PETRONAS stations – new image and enhance products offerings</li> </ul>	<ul style="list-style-type: none"> <li>Seamless and frictionless customers experience</li> </ul>
 <p><b>Market Leadership</b></p>	<ul style="list-style-type: none"> <li>Grow PBT</li> <li>Defend and grow market position</li> <li>Increase customer base</li> </ul>	<ul style="list-style-type: none"> <li>Expand retail network</li> <li>Focused and targeted marketing campaigns</li> <li>Grow strategic alliances</li> <li>Secure new customers</li> </ul>	<ul style="list-style-type: none"> <li>Increase station productivity</li> <li>Grow commercial market leadership</li> <li>Fortify LPG market leadership for household</li> <li>Grow lubricant B2B and B2C segments</li> </ul>
 <p><b>Safe, Reliable and Efficient Operations</b></p>	<ul style="list-style-type: none"> <li>Sustainable operation</li> <li>Zero HSE incidents</li> <li>Reliable products supply</li> <li>Operational enhancements</li> <li>Cost optimisation</li> </ul>	<ul style="list-style-type: none"> <li>Full compliance to HSE requirements</li> <li>Improve supply efficiency and reliability</li> <li>Process simplification and enhancements</li> <li>Cost optimisation</li> </ul>	<ul style="list-style-type: none"> <li>Generative HSE culture</li> <li>Asset Integrity and reliability</li> <li>Best-in-class cost to serve and efficiency</li> </ul>
 <p><b>High Performance Work Culture</b></p>	<ul style="list-style-type: none"> <li>Right people at right place</li> <li>Highly engaged workforce</li> </ul>	<ul style="list-style-type: none"> <li>PETRONAS Cultural Beliefs</li> <li>Organisational restructuring for greater clarity of roles and accountability</li> <li>Capability development</li> </ul>	<ul style="list-style-type: none"> <li>Empowered, enabled and agile workforce</li> <li>Work-class work culture</li> </ul>



# KEY PERFORMANCE INDICATORS

## HSE INDICATOR

### HSE Parameters

**Aim:**

- Zero HSE incident

 For more information on HSE Performance, please refer to Sustainability Performance at Glance on page 165 of this <IR>

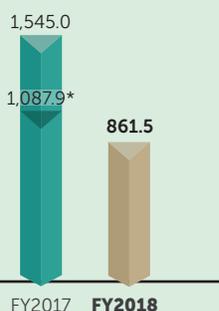
## FINANCIAL INDICATOR

### Profit After Tax

**Aims:**

- To maximise value creation
- To consistently deliver high returns to shareholders

PAT (RM Mil) **861.5**



### Return on Average Capital Employed

**Aim:**

To increase the Company's efficiency in generating profits from available capital base

ROACE (%) **14.4**



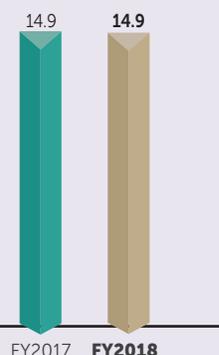
## OPERATIONAL EXCELLENCE

### Total Volume

**Aim:**

To grow sales volume while maximising value

Total volume (Bil Litre) **14.9**

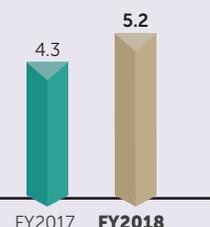


### Average Inventory Days

**Aim:**

To minimise exposure to product price volatility

Average inventory days (Day) **5.2**



## TALENT MANAGEMENT

### Ratio of Ready Top Talents to Critical Positions

**Aim:**

Increase talent pool for Top Talent and Potential Leaders, to ensure continuous pipeline of leaders

Ratio of Ready Top Talents to Critical Positions **2.5:1**



### Critical Position Succession Planning

**Aim:**

To complete succession planning for all critical positions

Critical Position Succession Planning (%) **100%**



\* excluding discontinued operations and gain on disposal of subsidiaries

# KEY RISKS AND MITIGATION

Risk is an inherent element in our business and PDB is committed to ensure effective risk management in pursuit of our strategic and business objectives. Risk management is an integral part of our business and our day-to-day operations.

PDB adopts PETRONAS ERM Framework which guides our business to effectively manage their risks in a comprehensive and systemic manner in assessing, analysing and monitoring the Company's risks.

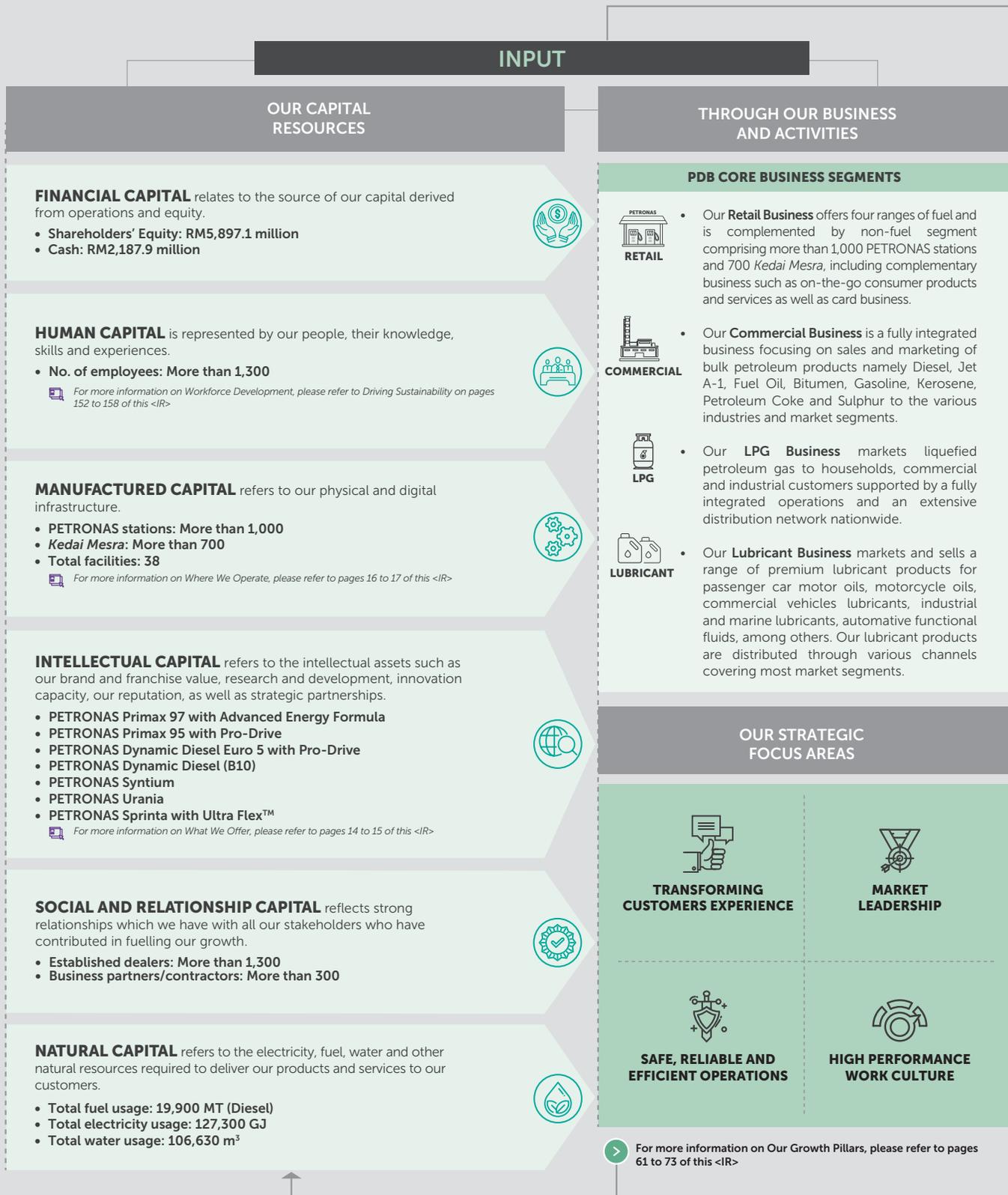
Key Risks	What It Means to Us
HSE Risk	<p>The nature of the Company's operating activities exposes us to a wide range of health, safety and environmental risks such as incidents associated with operating facilities, flammable products and transportation hazards.</p> <p>Inability to provide safe environments for our workforce and the public while at our facilities, premises or during transportation, could lead to injuries, loss of life or environmental damage. The Company remains committed for safe, reliable and efficient operations.</p>
Financial Risk	<p>The Company is exposed to various financial risks in the normal conduct of business. Ability to sustainably grow and deliver shareholder value depends on the main macroeconomic factors that drive the business strategy. Changes in year-on-year profitability and earnings growth impacts our cash flow, solvency and liquidity.</p> <p>The Company's diverse business makes us vulnerable to credit worthiness of our customers. Credit risk exposes the Company to potential losses in the event of non-payments by customers.</p>
Operational Risk	<p>Operational excellence is paramount to the Company for uninterrupted end-to-end supply chain stretching from sourcing to reliable delivery of products to customers. This includes ensuring availability of high quality products at all PETRONAS stations for a superior customer experience.</p> <p>The Company's value chain may be impacted by operational interruptions and reliability, including unavailability of products and system disruptions.</p>
Regulatory Risk	<p>Changing regulations could impact the Company's competitive position and capacity to conduct business. The Company is bound to comply and timely respond to the regulatory changes to remain relevant and maintain competitive advantage.</p>
Technology Risk	<p>The Company is exposed to infrastructure and system disruptions or information security breaches arising from cyber threats which may adversely impact our business operations and customer experience.</p>
Market Risk	<p>Adverse changes in market environment and commodity price volatility will impact the Company's business performance and market competitiveness. Exposure of price volatility, pose a threat to short and medium-term profitability.</p> <p>The Company operates in a highly competitive and matured market. In delivering our strategy and performance, it is vital to remain efficient, maintain high quality and reliable products as well as services.</p> <p>Rapid technology advancement has heightened the importance of the Company's IT systems to keep up with the pace of digital adoption. Delays in responding to the technology advancement may impact our competitive position.</p>
Talent Risk	<p>The Company acknowledges the importance to attract, develop and retain talents in delivering business operations and strategies. In addition, we need talents with new and specific skill sets to achieve our growth aspiration.</p>



# KEY RISKS AND MITIGATION

How We Mitigate	Implications	Affected Stakeholders
<ul style="list-style-type: none"> <li>Address risks on potential hazards through identified control and preventive measures especially on transport safety, process safety as well as contractor and supplier management.  For more information on HSE Risk Management, please refer to Driving Sustainability on pages 146 to 150 of this &lt;IR&gt;</li> <li>Heighten safety and compliance culture among employees and extend to dealers/business partners/contractors.</li> <li>Conduct asset refresh and asset integrity activities.  For more information on Behavioural Safety Culture and Asset Refresh, please refer to Our Growth Pillars on pages 62 and 66 of this &lt;IR&gt;</li> </ul>	<p>Loss of Human Capital, Diminishing Financial Capital, Decreasing Natural Capital as well as Compromised Manufactured and Intellectual Capitals due to:</p> <ul style="list-style-type: none"> <li>Loss of productivity and performance due to accidents, injuries and casualties</li> <li>Cost of litigations and compensation</li> <li>Business disruption</li> <li>Asset recovery</li> <li>Tarnished reputation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Customers</li> <li>✓ Dealers</li> <li>✓ Employees</li> <li>✓ Contractors/Suppliers</li> <li>✓ Business Partners</li> <li>✓ Communities</li> </ul>
<ul style="list-style-type: none"> <li>Diversify business portfolio and strategy focusing on value creation for growth.</li> <li>Assess the credit-worthiness of all potential customers and dealers as well as credit reviews on existing customers in accordance to Credit Risk Framework and Guidelines.  For more information on Credit Risk Framework and Guidelines, please refer to SORMIC on page 127 of this &lt;IR&gt;</li> </ul>	<p>Diminishing Financial Capital due to:</p> <ul style="list-style-type: none"> <li>Insufficient cash flow</li> <li>Decrease in profit margin</li> <li>Bad debt write-off</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Employees</li> </ul>
<ul style="list-style-type: none"> <li>Intensify process simplification and operational enhancements to increase productivity and efficiency.  For more information on Efficient Operations, please refer to Our Growth Pillars on page 63 of this &lt;IR&gt;</li> </ul>	<p>Diminishing Financial Capital as well as Compromised Manufactured and Intellectual Capitals due to:</p> <ul style="list-style-type: none"> <li>Business disruption</li> <li>Higher cost</li> <li>Poor product quality</li> <li>Litigation/penalty</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Customers</li> <li>✓ Dealers</li> <li>✓ Employees</li> <li>✓ Business Partners</li> </ul>
<ul style="list-style-type: none"> <li>Maintain close rapport with relevant authorities through proactive engagements and frequent communications.  For more information on Stakeholder Engagement, please refer to Strategic Growth on pages 38 to 39 of this &lt;IR&gt;</li> <li>Collaborate with industry players to provide input on the regulatory changes.</li> <li>Ensure readiness of infrastructure, facilities, people and processes to support the Company in meeting regulatory commitments.</li> </ul>	<p>Diminishing Financial Capital and Reducing Social and Relationship Capital due to:</p> <ul style="list-style-type: none"> <li>Non-compliance cost</li> <li>Loss of market competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Dealers</li> <li>✓ Employees</li> <li>✓ Authorities</li> </ul>
<ul style="list-style-type: none"> <li>Strengthen cyber security through assessment of cyber security risk on critical systems to ensure requirement of security standards.  For more information on Cyber security, please refer to Driving Sustainability on page 164 of this &lt;IR&gt;</li> <li>Upgrade telecommunication network infrastructure and system components.</li> <li>Ensure effective Disaster Recovery Plan is in place.</li> </ul>	<p>Diminishing in Financial Capital and Compromised Intellectual Capital due to:</p> <ul style="list-style-type: none"> <li>Business disruption</li> <li>Loss of valuable business data</li> <li>Reputational damage</li> <li>Penalties by authorities</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Customers</li> <li>✓ Dealers</li> <li>✓ Employees</li> <li>✓ Contractors/Suppliers</li> <li>✓ Business Partners</li> </ul>
<ul style="list-style-type: none"> <li>Minimise price exposure and improve margins through Integrated inventory management.  For more information on Integrated Inventory Management, please refer to Our Growth Pillars on page 62 of this &lt;IR&gt;</li> <li>Enhance business strategies to address new needs, creating solutions and continue delighting our customers.  For more information on Strategic Focus Areas, please refer to Strategic Growth on page 40 of this &lt;IR&gt;</li> <li>Enhance products and services by expanding availability of fuel range as well as non-fuel new product offerings.</li> <li>Offer differentiated services through digitalisation to enhance customers experience and convenience.  For more information on Transforming Customers Experience, please refer to Our Growth Pillars on pages 66, 69, 71 and 73 of this &lt;IR&gt;</li> </ul>	<p>Diminishing Financial Capital due to:</p> <ul style="list-style-type: none"> <li>Decrease in profit margin</li> <li>Loss of market competitiveness</li> <li>Insufficient cash flow</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Customers</li> <li>✓ Dealers</li> <li>✓ Employees</li> <li>✓ Business Partners</li> </ul>
<ul style="list-style-type: none"> <li>Robust talent management strategies and plans.</li> <li>Enhance talent and capability development.</li> <li>Review succession plan to ensure availability and readiness of suitable successors.  For more information on Talent Management, Capability Development and Succession Management, please refer to Driving Sustainability on pages 152 to 157 of this &lt;IR&gt;</li> </ul>	<p>Declining Human Capital due to:</p> <ul style="list-style-type: none"> <li>Loss of key talents</li> <li>Loss of competitive advantage</li> </ul>	<ul style="list-style-type: none"> <li>✓ Investors</li> <li>✓ Customers</li> <li>✓ Dealers</li> <li>✓ Employees</li> <li>✓ Contractors/Suppliers</li> <li>✓ Business Partners</li> </ul>

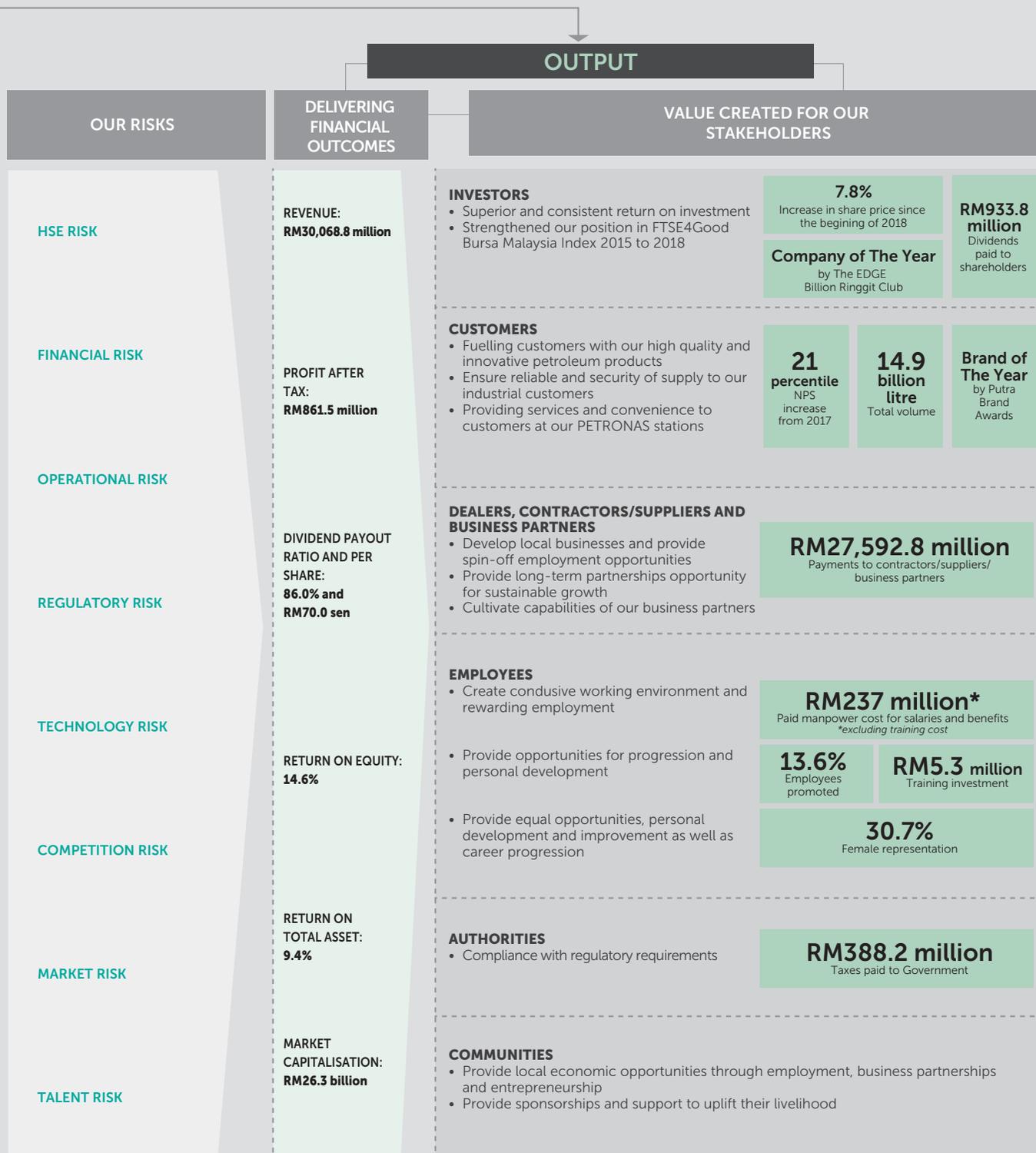
# VALUE CREATING BUSINESS MODEL



Supported by Strong Governance, Effective Board leadership and a Robust Corporate Governance Framework.

For more information on Corporate Governance Overview Statement, please refer to pages 91 to 104 of this <IR>

# VALUE CREATING BUSINESS MODEL



> For more information on Key Risks and Mitigation, please refer to pages 42 to 43 of this <IR>

> For more information on Growing Our Numbers, please refer to pages 46 to 53 of this <IR>

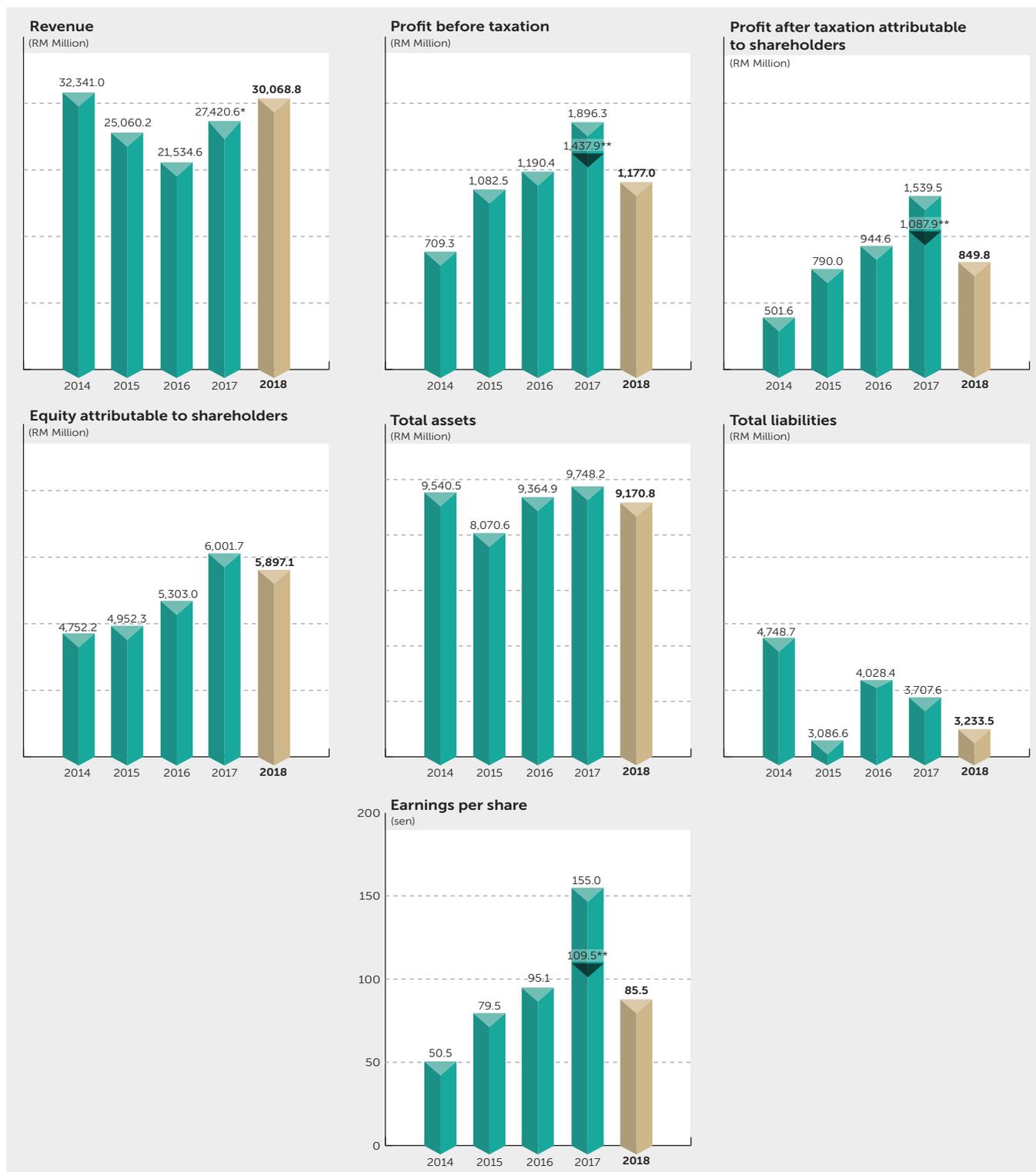
> For more information on Stakeholder Engagement, please refer to pages 38 to 39 of this <IR>

## 5-YEAR GROUP FINANCIAL HIGHLIGHTS

	FY2014	FY2015	FY2016	FY2017	FY2018
<b>OPERATING RESULTS (RM MILLION)</b>					
Revenue	32,341	25,060	21,535	27,421*	<b>30,069</b>
Operating profit	728	1,092	1,191	1,441	<b>1,178</b>
Profit before taxation	709	1,082	1,190	1,438	<b>1,177</b>
Profit attributable to shareholders of the Company	502	790	945	1,539	<b>850</b>
<b>KEY STATEMENT OF FINANCIAL POSITION (RM MILLION)</b>					
Property, plant and equipment	4,031	3,990	3,794	3,372	<b>3,336</b>
Total assets	9,541	8,071	9,365	9,748	<b>9,171</b>
Total borrowings	494	212	119	67	<b>55</b>
Total liabilities	4,749	3,087	4,028	3,708	<b>3,234</b>
Share capital	993	993	993	993	<b>993</b>
Shareholders' equity	4,752	4,952	5,303	6,002	<b>5,897</b>
<b>SHARE INFORMATION</b>					
<b>Per share (sen)</b>					
Basic earnings	50.5sen	79.5sen	95.1sen	155.0sen	<b>85.5</b>
Dividend declared	60sen	60sen	70sen	97sen	<b>70sen</b>
Share price as at financial year end (RM)	17.12	24.86	23.80	24.26	<b>26.50</b>
<b>FINANCIAL RATIOS</b>					
Return on average capital employed	10.4%	16.0%	18.1%	27.0%	<b>14.4%</b>
Return on total assets	5.3%	9.8%	9.6%	11.2%	<b>9.4%</b>
Debt to equity ratio	10.4%	4.3%	2.2%	1.1%	<b>0.9%</b>
Dividend payout	113.0%	79.0%	81.0%	78.0%	<b>86.0%</b>

\* Restated following adoption of MFRS 15 Revenue from Contracts with Customers

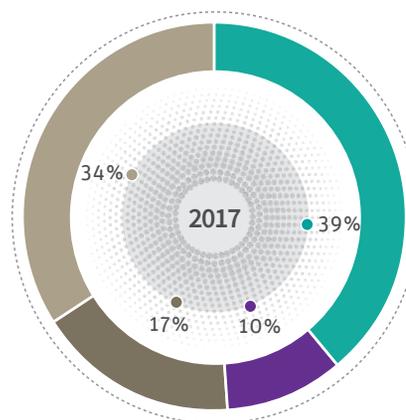
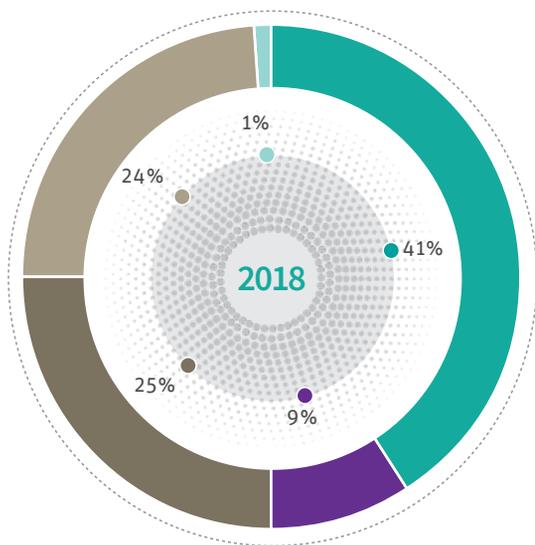
# 5-YEAR GROUP FINANCIAL SUMMARY



\* Restated following adoption of MFRS 15 Revenue from Contracts with Customers

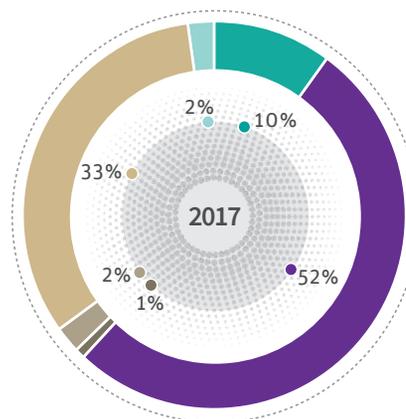
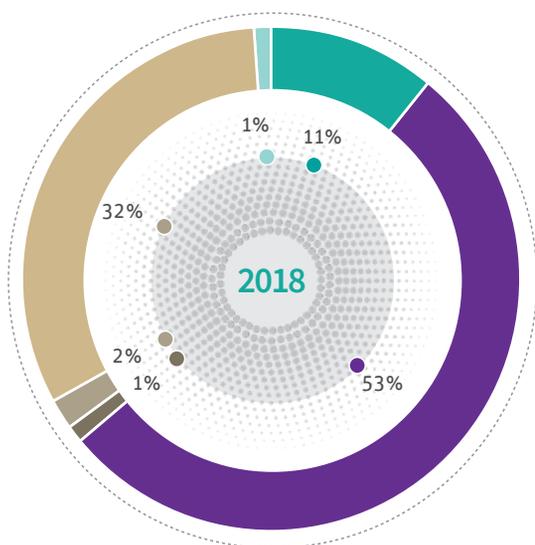
\*\* Excluding discontinued operations and gain on disposal of subsidiaries

# SIMPLIFIED GROUP STATEMENT OF FINANCIAL POSITION



**ASSETS**

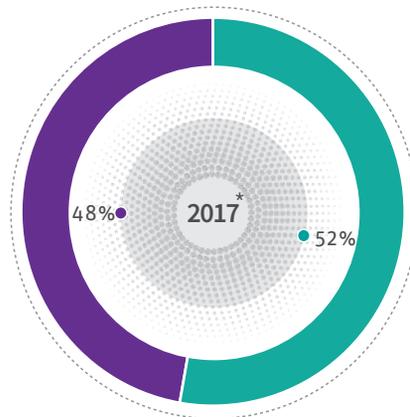
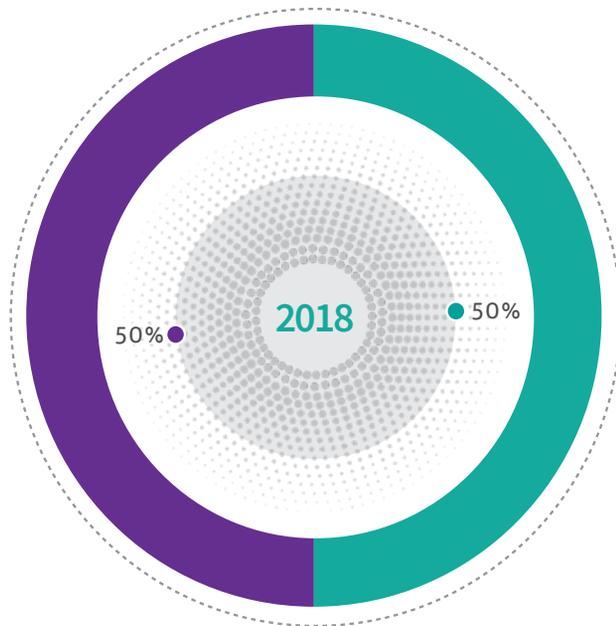
- Non-Current Assets
- Trade and Other Receivables
- Fund Investment
- Inventories
- Cash and Cash Equivalents



**EQUITY**

- Share Capital
- Non-Controlling Interests
- Trade and Other Payables
- Reserves
- Non-Current Liabilities
- Other Current Liabilities

# SEGMENTAL ANALYSIS



■ Retail

■ Commercial

TOTAL REVENUE	
<p><b>RM30.1 BILLION</b></p> <p>FY2018</p>	<p><b>RM27.4 BILLION*</b></p> <p>FY2017</p>

\* Restated following adoption of MFRS 15 Revenue from Contracts with Customers

## GROUP QUARTERLY FINANCIAL PERFORMANCE

### 2018

In RM mil	Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY2018
Revenue	7,070	7,278	7,819	7,902	30,069
Operating profit	291	422	395	70	1,178
Profit before taxation	291	424	392	70	1,177
Profit after taxation	220	322	271	48	861
Earnings per share (sen)	22.0	31.6	27.2	4.7	85.5
Dividend per share (sen)	13.0	16.0	16.0	25.0	70.0

### 2017

In RM mil	Quarter 1	Quarter 2	Quarter 3	Quarter 4	FY2017
Revenue*	6,777	6,616	6,866	7,162	27,421
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

\* Restated following adoption of MFRS 15 Revenue from Contracts with Customers

## KEY INTEREST BEARING ASSETS AND LIABILITIES

In RM mil	2018			2017		
	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)
<b>Interest earning assets</b>						
Cash and cash equivalents	<b>2,178.1</b>	<b>4.4%</b>	<b>96.0</b>	3,339.0	2.8%	94.7
<b>Interest bearing liabilities</b>						
Islamic financing facilities	<b>49.0</b>	<b>4.3-4.7%</b>	<b>(2.7)</b>	67.3	4.3-4.4%	(3.4)
Revolving credit	<b>6.0</b>	<b>2.6%</b>	<b>—</b>	—	—	—

## STATEMENT OF VALUE ADDED

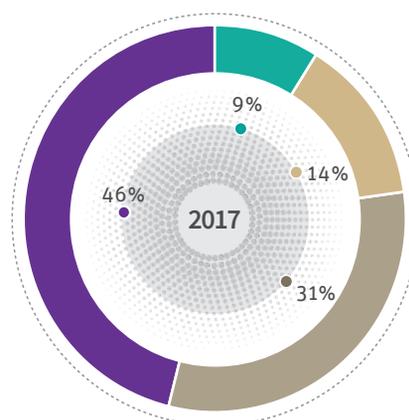
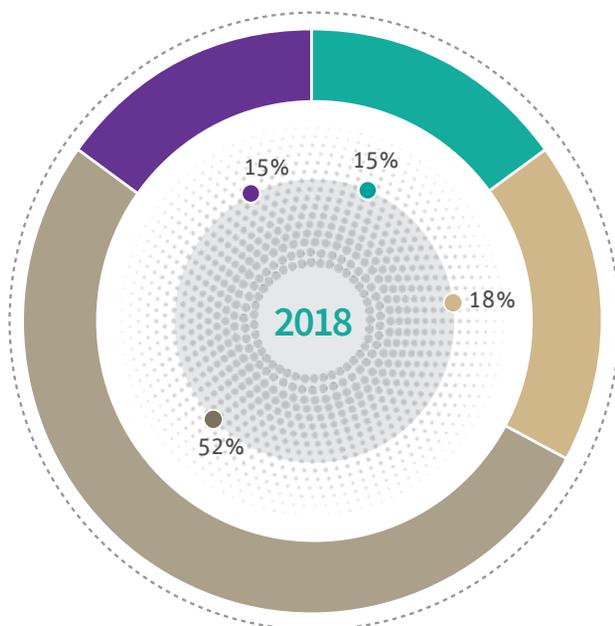
Value added is defined as the value created by the activities of a business and its employees and in the case of PDB is determined as revenue less the purchase of goods and services. The value added statement reports on the calculation of value added and its application among the stakeholders in the 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.

<b>GROUP</b>	<b>2018 RM'000</b>	<b>2017 RM'000</b>
Revenue	<b>30,068,753</b>	27,420,647*
Less: Purchase of goods and services	<b>(28,693,239)</b>	(25,319,128)
Value added	<b>1,375,514</b>	2,101,519
Other income	<b>424,901</b>	402,628
Financing costs	<b>(4,547)</b>	(6,689)
Share of net profit of associates and joint ventures	<b>3,504</b>	4,002
<b>VALUE CREATED</b>	<b>1,799,372</b>	2,501,460

\* Restated following adoption of MFRS 15 Revenue from Contracts with Customers

# DISTRIBUTION OF VALUE ADDED

	<b>2018</b> RM'000	<b>2017</b> RM'000
To employees - employment costs	<b>276,584</b>	236,713
To government - taxation	<b>315,567</b>	349,917
To shareholders - dividends	<b>944,347</b>	774,894
Retained for reinvestment and future growth		
Depreciation & amortisation	<b>341,215</b>	363,172
Retained profit	<b>(78,341)</b>	776,764
	<b>1,799,372</b>	2,501,460



- To employees - employment costs  
■ To government - taxation
- To shareholders - dividends  
■ Retained for reinvestment and future growth

# FINANCIAL CALENDAR

## 2018

### 26 February 2018

Announcement of the unaudited consolidated results for the 4<sup>th</sup> quarter ended 31 December 2017

### 27 February 2018

Announcement of the audited financial statements for the financial year ended 31 December 2017

### 27 March 2018

Date of Notice of the 36<sup>th</sup> Annual General Meeting and date of issuance of the FY2017 Annual Report

### 27 March 2018

Date of payment of the interim dividend for the 4<sup>th</sup> quarter ended 31 December 2017

### 27 March 2018

Date of payment of the special dividend for the 4<sup>th</sup> quarter ended 31 December 2017

### 25 April 2018

36<sup>th</sup> Annual General Meeting

### 18 May 2018

Announcement of the unaudited consolidated results for the 1<sup>st</sup> quarter ended 31 March 2018

### 14 June 2018

Date of payment of the interim dividend for the 1<sup>st</sup> quarter ended 31 March 2018

### 20 August 2018

Announcement of the unaudited consolidated results for the 2<sup>nd</sup> quarter ended 30 June 2018

### 19 September 2018

Date of payment of the interim dividend for the 2<sup>nd</sup> quarter ended 30 June 2018

### 27 November 2018

Announcement of the unaudited consolidated results for the 3<sup>rd</sup> quarter ended 30 September 2018

### 26 December 2018

Date of payment of the interim dividend for the 3<sup>rd</sup> quarter ended 30 September 2018

## 2019

### 26 February 2019

Announcement of the unaudited consolidated results for the 4<sup>th</sup> quarter ended 31 December 2018

### 27 February 2019

Announcement of the audited financial statements for the financial year ended 31 December 2018

### 27 March 2019

Date of Notice of the 37<sup>th</sup> Annual General Meeting and date of issuance of the FY2018 Annual Report

### 28 March 2019

Date of payment of the interim dividend for the 4<sup>th</sup> quarter ended 31 December 2018

### 25 April 2019

37<sup>th</sup> Annual General Meeting

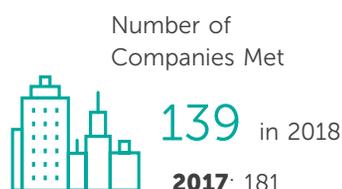


# INVESTORS INFORMATION

## INVESTOR RELATIONS

### KEY HIGHLIGHTS

#### INVESTMENT COMMUNITY ENGAGEMENT



#### HIGHEST FOREIGN SHAREHOLDINGS SINCE INCORPORATION



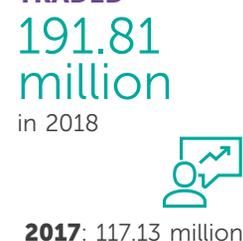
#### RESEARCH HOUSES



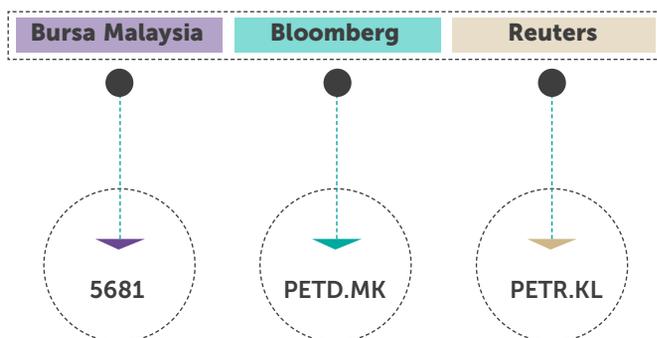
#### HIGHEST SHARE PRICE



#### PDB VOLUME TRADED



### TICKER CODES



### OVERVIEW

PDB's Investor Relations outreach and structured engagement programmes are focused around building and maintaining confidence within the Investment Communities, locally and internationally.

We are committed to communicating PDB's vision, strategy, business and financial performances as well as material matters to shareholders, analysts and fund managers, allowing them to make informed investment decisions.

### PDB INVESTOR RELATIONS POLICY AND GUIDELINES

All of our Investor Relations programmes are guided by PDB's Investor Relations Policy and Guidelines, developed in 2011. The Investor Relations Policy and Guidelines has been amended and approved by PDB's Board of Directors on 20 August 2018. Our Investor Relations Policy and Guidelines have incorporated best practices with reference to the following:

- The MCCG 2017, issued by the Securities Commission;
- The MMLR, issued by Bursa Malaysia;
- Corporate Governance Guide – 3<sup>rd</sup> Edition issued by Bursa Malaysia Berhad;
- Investor Relations Put Into Practice, issued by Bursa Malaysia;
- Powering Business Sustainability – A Guide for Directors, issued by Bursa Malaysia;
- PETRONAS Corporate Governance Statement, published in PETRONAS Annual Report; and
- PDB Corporate Disclosure and Guideline.

For more information on PDB's Investor Relations Policy and Guidelines, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

## INVESTORS INFORMATION

### INVESTOR INFORMATION

#### DIVIDEND POLICY

PDB has a long running dividend policy where we reward our shareholders with a minimum dividend payout of 50.0% of PAT at the Company level. The information on PDB's dividend policy is available on PDB's corporate website. The Company's commitment to maximise PDB's shareholders value was demonstrated by the dividend declaration of 70.0 sen per share, a dividend payout ratio of 86.0% for 2018. In past years, PDB had consistently declared dividend payouts that exceeded the Company's minimum dividend policy of 50.0% of PAT.

 For more information on Dividend Payout Ratio, please refer to 5-Year Group Financial Highlights on page 46 of this <IR>

#### SHAREHOLDERS

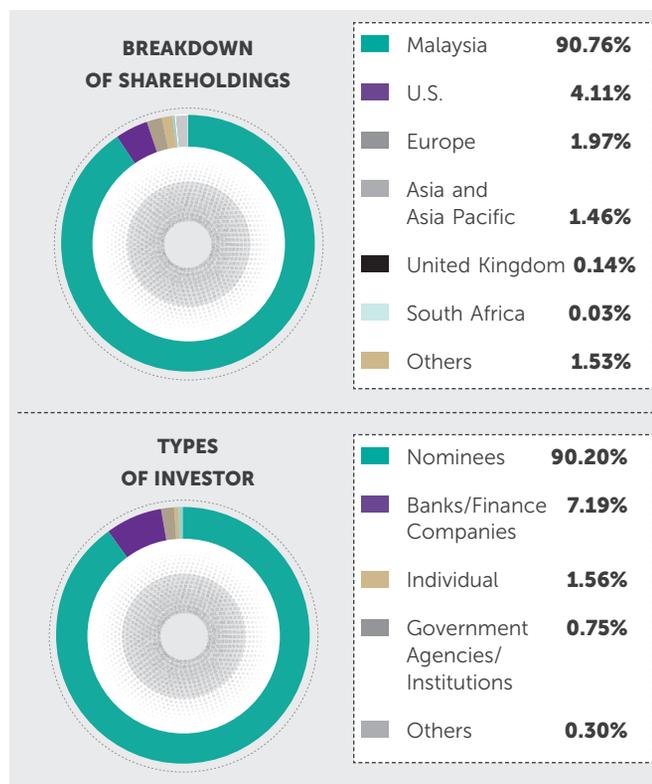
As at 31 December 2018, around 91.0% of our shareholders are Malaysians, comprised of nominees, government agencies/institutions, banks/finance companies, corporations and other types of shareholders. PETRONAS is our largest shareholder, holding close to 70.0% equity in the Company. Other substantial shareholders include the Employees Provident Fund, Permodalan Nasional Berhad, Amanah Raya Trustees and Kumpulan Wang Persaraan.

Our foreign shareholdings have increased gradually over the years and in 2018, PDB's foreign shareholdings reached 9.86%, highest since being listed on Bursa Malaysia in 1994. This has been achieved through numerous engagements with our Investment Communities locally and internationally. Majority of our foreign shareholders are from the U.S.

 For more information on PDB's Historical Foreign Shareholdings, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

MONTHLY FOREIGN SHAREHOLDINGS		
Month	FY2017 (%)	FY2018 (%)
Jan	6.65	<b>9.57</b>
Feb	6.59	<b>9.86</b>
Mar	6.79	<b>9.44</b>
Apr	7.08	<b>9.66</b>
May	7.52	<b>9.26</b>
Jun	7.54	<b>8.64</b>
Jul	7.64	<b>8.86</b>
Aug	7.66	<b>9.05</b>
Sep	7.65	<b>9.19</b>
Oct	7.69	<b>9.18</b>
Nov	7.88	<b>9.43</b>
Dec	8.85	<b>9.23</b>

**Note:**  
Shareholdings as at month end



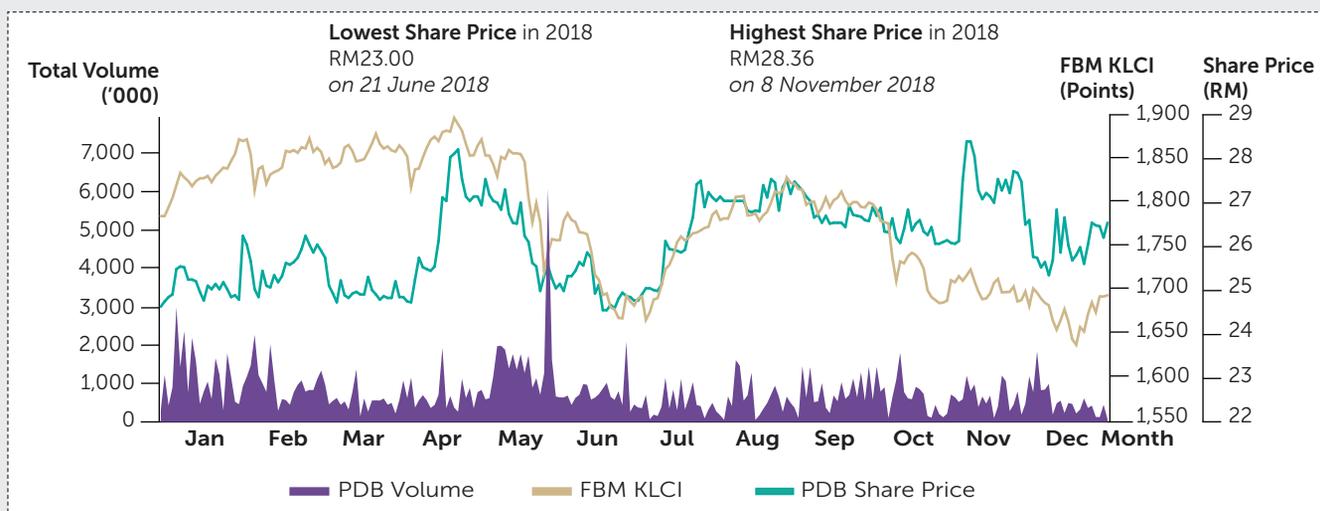
As at 31 December 2018  
Source: Symphony and Bloomberg

## INVESTORS INFORMATION

### SHARE PRICE AND MARKET CAPITALISATION

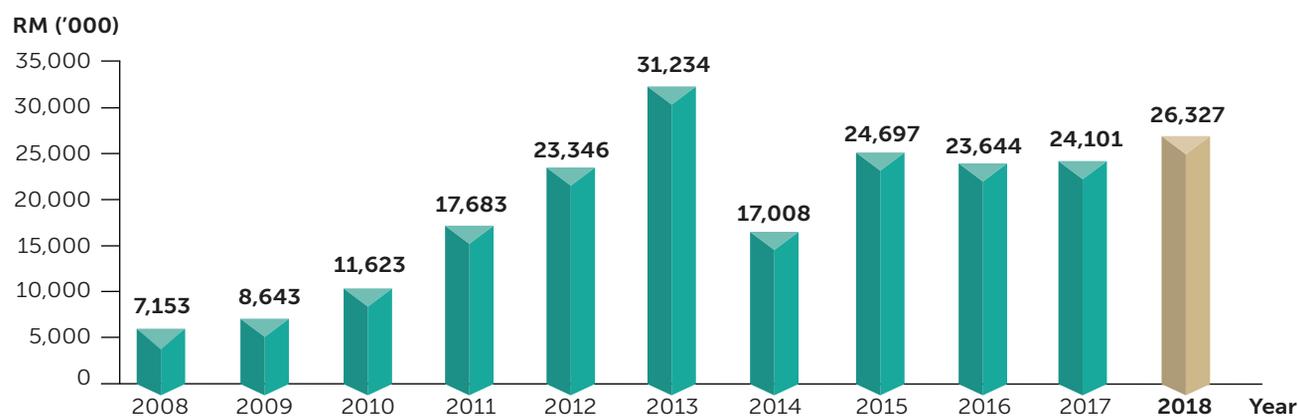
PDB's share price increased by 7.8% from RM24.58 on 2 January 2018 to RM26.50 on 31 December 2018, reaching a peak of RM28.36 on 8 November 2018 and dipping at the lowest point to RM23.00 on 21 June 2018.

**PDB SHARE PRICE VS FBM KLCI IN 2018**



PDB Share Price (2018)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Highest (RM)	25.50	26.20	26.00	28.18	27.50	25.82	27.46	27.50	27.34	26.86	28.36	26.80
Lowest (RM)	24.20	24.18	24.10	24.56	24.30	23.00	24.44	26.12	25.66	24.86	25.74	25.00
Volume (million)	24.34	18.43	13.91	14.59	28.60	16.45	10.56	12.42	12.98	15.87	13.18	10.49
Average (RM)	24.78	25.24	24.89	26.08	26.00	24.84	25.76	26.81	26.54	26.14	26.84	25.69

**MARKET CAPITALISATION**



**Note:**  
As at last trading day of the calendar year

## INVESTORS INFORMATION

### INVESTOR RELATIONS COMMUNICATION AND ENGAGEMENT CHANNELS

#### QUARTERLY FINANCIAL RESULT ANNOUNCEMENTS AND ANALYST BRIEFINGS

Following the disclosure of our quarterly earnings to Bursa Malaysia, PDB organised Analyst Briefings on the quarterly result announcements for Investment Communities. The sessions were chaired by our MD/CEO together with our CFO. Upon the Analyst Briefings, presentation packs on PDB's business and financial performances, the quarterly announcements to Bursa Malaysia as well as press releases were published on PDB's corporate website.

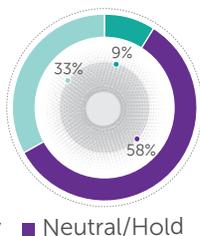
##### Purpose:

To keep the Investment Communities updated on PDB's quarterly performance and outlook for a balanced understanding of the Company's business and to provide a basis for fair valuation.

##### Result/Analyst Briefing Dates

<b>Quarter 1</b>
21 May 2018
<b>Quarter 2</b>
21 August 2018
<b>Quarter 3</b>
28 November 2018
<b>Quarter 4</b>
27 February 2019

Overall recommendation on PDB's share price by the research houses were Neutral/Hold rating.



■ Buy ■ Neutral/Hold ■ Sell



##### Note:

Some of the analyst reports extracted above may be obtained from Research Repository, Bursa Malaysia's website at [www.bursamalaysia.com](http://www.bursamalaysia.com)

#### 2019 ANALYST BRIEFING DATES (TENTATIVE)

For 2019, tentative dates for the Analyst Briefings are listed below:

Results	Analyst Briefing Dates
<b>Quarter 1 FY2019</b>	29 May 2019
<b>Quarter 2 FY2019</b>	26 August 2019
<b>Quarter 3 FY2019</b>	25 November 2019

##### Note:

- Quarterly Analyst Briefings will be held tentatively at PETRONAS Twin Towers, Kuala Lumpur City Centre from MYT 10:00 a.m. to 12:00 p.m.; and
- The updated Analyst Briefing dates are available on PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my) one week prior to the Analyst Briefings.

#### CORPORATE CONFERENCE AND NON-DEAL ROADSHOWS

During the year, PDB participated in one Corporate Conference and two NDRs. Our participation in local Corporate Conference was based on invitation by the financial institutions, whereas the NDR participations were based on research houses' recommendations and registered interests from Investment Communities.

##### Purpose:

To provide an update on PDB's financial performance and business outlook to current and potential investors, analysts and fund managers locally and internationally.

During the year, PDB participated in one Corporate Conference and two NDRs as follows:

Corporate Conference and NDRs		
Events	Countries	Dates (2018)
CIMB 10 <sup>th</sup> Annual Malaysia Corporate Day	Malaysia	5 January
CIMB Bank NDR	Singapore	12 – 13 April
Affin-Hwang NDR	Japan	18 – 19 October

## INVESTORS INFORMATION

### ANNUAL GENERAL MEETING

PDB's 36<sup>th</sup> AGM was held on 25 April 2018 at Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur. All resolutions tabled at the AGM were duly passed and voting were performed via electronic polling. Independent scrutineers were engaged to validate the voting on each proposal presented to shareholders. The PDB Board and LT were present at the AGM to provide answers and clarifications to queries from shareholders. The minutes of PDB's AGM is available on PDB's corporate website within 30 days upon AGM.



 For more information on AGM, please refer to Corporate Governance Overview Statement on page 103 of this <IR>

#### Purpose:

To present the Company's business and financial performances; the strategic focus areas moving forward and to seek shareholders' approval on the proposed resolutions.

### SITE VISIT

On 10 July 2018, a site visit to Sepang Bay Fuel and LPG Terminals as well as Kota Kinabalu Aviation Fuel Terminal was conducted for the Investment Communities.



#### Purpose:

To foster awareness, knowledge and in-depth understanding about PDB's extensive distribution facilities and further strengthen confidence in PDB's overall business.

 For more information on Investor Relations Engagement, please refer to Stakeholder Engagement on pages 38 to 39 of this <IR>

### IR CONTACT, WEBSITE AND FEEDBACK

#### WEBSITE



All Investor Relations engagements and activities are published on PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my). This website provides information, among others on PDB's IR Policy and Guidelines, announcements, financial results, quarterly briefing materials, minutes of AGM, press releases and disclosures to Bursa Malaysia.

#### IR CONTACT AND FEEDBACK



The Investment Communities may forward any enquiries and feedback related to Investor Relations matters to the following representatives:

1. Nur Asyirin Ibrahim  
Head, Investor Relations  
Email: [nurasyirin@petronas.com.my](mailto:nurasyirin@petronas.com.my)
2. Natalia Inani Norsalehe  
Executive, Investor Relations  
Email: [inani.norsalehe@petronas.com.my](mailto:inani.norsalehe@petronas.com.my)

## INVESTORS INFORMATION

### OTHER INFORMATION

#### ANALYST COVERAGE

12 research houses covered PDB's stock in 2018, as follows:

1 Affin Hwang Capital	2 AllianceDBS Research Sdn Bhd	3 BIMB Securities Sdn Bhd	4 CIMB Investment Bank Berhad	5 Hong Leong Investment Bank Berhad	6 KAF-Seagroatt & Campbell Securities Sdn Bhd
7 Kenanga Investment Bank Berhad	8 Macquarie Capital Securities (Malaysia) Sdn Bhd	9 MIDF Amanah Investment Bank	10 RHB Research Institute Sdn Bhd	11 TA Securities Holdings Berhad	12 UOB Kay Hian Securities (M) Sdn Bhd

 For more information on PDB's Analysts Coverage, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

#### 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 contribution to society and effort undertaken to protect the environment. PDB therefore reports in detail upon the Company's EES performance in addition to financial results. PDB has been listed on the FTSE4Good Bursa Malaysia Index since 2015. Valued by our shareholders and other stakeholders for benchmarking our corporate responsibility practices, we intend to maintain and further improve our position on this index in the future.

 For more information on FTSE4Good, please refer to *Driving Sustainability* on page 132 of this <IR>

# OUR KEY OPERATIONS



“Our people are fully committed and consistent in delivering our promises to outperform the competitors. We focus on the implementation of continuous improvement methodologies to enhance processes in our daily operations. PDB’s investment in digital solutions provides our clients with efficient status of inventory, transport and deliveries along the supply chain.”

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

## WHO WE ARE AND WHAT WE DO

Our Supply and Distribution provides effective and efficient operation services to enable our business lines to maintain competitive advantage. Process simplification, operational enhancements and cost efficiencies are vital to drive the growth for our business.

With an extensive supply chain of primary and secondary distribution networks supporting our businesses, our operations have delivered to competitive and reliable product supplies to customers.

Above all, safety has always been our primary concern, starting from the operating plants onto the open roads. Hence, we continue to strengthen our behavioural safety culture and HSE procedures as well as instill behaviour compliance among employees, contractors and across all our delivery networks.

## VALUE CREATED BY OUR KEY OPERATIONS

Reliability	Create	Quality	Network	Cultivate	Innovate
SAFE, TIMELY AND RELIABLE PRODUCT DELIVERY	COST OPTIMISATION FOR VARIOUS STAKEHOLDERS ALONG OUR VALUE CHAIN	CONSISTENT DELIVERY OF QUALITY ASSURED WORLD-CLASS PRODUCT	LONG-TERM PARTNERSHIPS WITH VARIOUS STAKEHOLDERS	CULTIVATE CAPABILITIES AND GOOD CULTURE BEHAVIOUR OF EMPLOYEES AND CONTRACTORS	CAPITALISE ON TECHNOLOGY AND INNOVATION TO IMPROVE ON CUSTOMERS EXPERIENCE

## KEY ACHIEVEMENTS



Maintain inventory days at optimum level of **5 holding days**



**Full implementation of Digital DN** at all Fuel and LPG terminals



**80.0%** of our *Rakan Khidmat Penghantar* achieved **category A rating**

## OUR KEY OPERATIONS

### CHALLENGES

#### CHALLENGES

Exposure to product prices volatility



#### OUR RESPONSE

- Optimised inventory level through Integrated Inventory Management
- Improved forecasting through end-to-end visibility and data automation

Transportation hazard



- Reinforced 'Safe Delivery' campaign with the mission of 'Safe Delivery: On time, In Full and No Incident'. PDB's fuel and LPG tanker drivers undergo rigorous and regular training to ensure safe environment for the workforce and public during delivery of products to customers.
- Installed In-Vehicle Monitoring System device in road tankers to monitor and record driver performance and road tanker activities including driving behaviours such as excessive speed, harsh braking, rapid acceleration or unauthorised stopping.



For more information on Transport Safety, please refer to page 149 of this <IR>

Increasing operational cost impacting margin and competitiveness



- Pursue process simplification to increase efficiency and add value
- Leverage digital solution

### BUSINESS HIGHLIGHTS

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	KEY INITIATIVES	RESULTS
 <b>SAFE</b>	1. Promote Behavioural Safety Culture and HSE procedure as well as Compliance	1. Implementation of 3ZeroDotCom encompassing: <ul style="list-style-type: none"> <li>• 3Zero: Zero Fatality, Zero LOPC, Zero Fire</li> <li>• DOT: Delivery on time</li> <li>• COM: Cost Management</li> </ul> a. "Jom Patuh & Tegur" challenge b. Permit to Work exercise c. Transportation safety: <ul style="list-style-type: none"> <li>• 'Safe Delivery' campaign to achieve Rakan Khidmat Penghantar category A</li> <li>• Enhanced of In-Vehicle Monitoring System to monitor performance</li> </ul> d. Contractors HSE Assurance exercise	a. Strong HSE compliance amongst employees and contractors b. Full compliance to procedure at the operation sites c. Transportation safety: <ul style="list-style-type: none"> <li>• 80.0% of Rakan Khidmat Penghantar achieved category A rating</li> <li>• Enhanced data transparency by having real-time monitoring system</li> </ul> d. Completion of Contractors HSE Assurance exercise for manpower agency
 <b>RELIABLE</b>	1. Margin Improvement  2. Ensure reliable and timely product delivery	1. Integrated Inventory Management to minimise exposure to price volatility  2. Rationalisation of fleet size to meet business requirements	1. Sustained inventory days on average of 5 holding days and zero stock out incident at terminals  2. Achieved 98.0% timely product delivery

## OUR KEY OPERATIONS

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	KEY INITIATIVES	RESULTS
 <p><b>EFFICIENT OPERATIONS</b></p>	<p>1. Process simplification and enhancement</p>	<p>a. Embarked on OEMS for seamless integration of documentation, process and assurance activities</p> <p>b. Enhanced auto billing and reporting for secondary distribution optimise unit costing and truck utilisation as well as reduce process time for manual claims and reporting</p> <p>c. Simplified data entry for monthly lifting summary to reduce data entry and overall preparation time</p> <p>d. Digitised Dossier to reduce administrative and operating expenditure for data keeping</p>	<p>a. Seamless integration in document, people and assurance processes</p> <p>b. Reduced process time for manual claims and reporting by 50.0%</p> <p>c. 50.0% reduction in data entry</p> <p>d. Achieved superior operational performance for various assets and services by 100.0% implementation of digitised dossier</p>
	<p>2. Leveraging digital solutions to add value</p>	<p>a. Enhanced Aviation Refuelling System to optimise and streamline operations across all locations including non-KLIA terminals</p> <p>b. Enhanced Automated Terminal Operations Management 2.0 by adding value to our services through automation</p> <p>c. Expanded Digital DN to all LPG terminals</p>	<p>a. Seamless Aviation Refuelling System in:</p> <ul style="list-style-type: none"> <li>Eliminated 100.0% of human error posting to SAP and zero % of invoice reversal</li> <li>Achieved 2.22 On Time Performance, the best performance measure since introduced in 2013</li> </ul> <p>b. Improvement in process efficiency and reduce operating cost</p> <p>c. Full implementation of Digital DN at all fuel and LPG terminals</p>
	<p>3. Cost optimisation</p>	<p>a. Cost optimisation initiatives including:</p> <ul style="list-style-type: none"> <li>Renegotiating of time charter rates rate</li> <li>Creating a bunker barge hub for all of PDB's time charter vessel to bunker at Sungai Udang Port Melaka</li> </ul> <p>b. Improved asset utilisation and reduced terminal operations unit cost through business collaboration with other oil companies</p>	<p>a. Contributed to a cost saving of RM5.1 million per annum and improvement in bunker quality control</p> <p>b. Improvement in throughput income of RM4.4 million</p>
 <p><b>HIGH PERFORMANCE WORK CULTURE</b></p>	 <p>For more information on High Performance Work Culture, please refer to Driving Sustainability on pages 152 to 158 of this &lt;IR&gt;</p>		
<p>For more information on <b>PDB's Strategic Focus Areas: 2019 Priorities</b> please refer to <b>Strategic Focus Areas</b> on page 40 of this &lt;IR&gt;</p>			

### OUTLOOK AND PROSPECTS



Moving forward, Supply and Distribution will continue to focus on cost optimisation, supply reliability, customer satisfaction, HSE assurance and operational excellence as factors ensuring sustainable competitive advantage towards supporting the Company's overall aspiration of becoming the 'Brand of 1<sup>st</sup> Choice'.

# RETAIL



“In 2018, we focused on reinventing the future of our Retail Business by strengthening our core while at the same time focusing on innovation and investment to ensure sustainable growth. This includes repurposing our assets, people, systems and capabilities that resonate with changing consumer trends”.

**KHALIL JAFFRI MUHAMMAD MURI**  
Head, Retail Business Division

## WHO WE ARE AND WHAT WE DO

Our Retail Business offers **FUEL AND NON-FUEL PRODUCTS AND SERVICES** to consumers through our network of more than 1,000 PETRONAS stations and 700 *Kedai Mesra* nationwide.

- **FUEL** segment comprises premium products, developed in partnership with the Mercedes-AMG PETRONAS Formula One™ team include PETRONAS Primax 97 with Advanced Energy Formula, PETRONAS Primax 95 with Pro-Drive, PETRONAS Dynamic Diesel (B10) and PETRONAS Dynamic Diesel Euro 5 with Pro-Drive.
- **NON-FUEL** segment comprises of on-the-go consumer products and services include Quick Service Restaurants, food solutions, banking facilities, hypermarts, terminal services, courier services, car wash and other convenience offerings through the **KEDAI MESRA**. Supporting Retail business, we reward our loyal customers through the PETRONAS Mesra Loyalty Programme.
- All PETRONAS stations are operated by **RAKAN NIAGA**, who are appointed through a stringent selection process and are provided continuous training. Retail Business manages PETRONAS stations via two categories of dealerships – **COMPANY-OWNED, DEALER-OPERATED** and **DEALER-OWNED, DEALER-OPERATED**.

## VALUE CREATED BY OUR RETAIL BUSINESS

 Quality	 Value Proposition	 Innovate	 Diversity	 Enhance	 Cultivate	 Network
WORLD-CLASS QUALITY FUEL AND CAREFULLY SELECTED NON-FUEL SOLUTIONS	SUPERIOR RETURN ON INVESTMENT THROUGH PORTFOLIO OPTIMISATION	PUSH INNOVATION BOUNDARIES TO DELIVER SUPERIOR PRODUCTS, SERVICES AND CUSTOMERS EXPERIENCE	WIDE RANGE OF OFFERINGS VIA MULTIPLE CHANNELS TO MEET CONSUMERS' NEEDS	PROVIDE LOCAL ECONOMIC OPPORTUNITIES THROUGH EMPLOYMENT, BUSINESS PARTNERSHIPS AND ENTRE- PRENEURSHIP	CULTIVATE CAPABILITIES OF OUR WORKFORCE, <b>RAKAN NIAGA</b> AND BUSINESS PARTNERS	MAINTAIN LONG-TERM PARTNERSHIPS WITH STAKEHOLDERS

# RETAIL

## KEY ACHIEVEMENTS



### Fuel

Introduced **PETRONAS Primax 95 with Pro-Drive**



### PETRONAS *Kad Mesra* Loyalty Programme

Best-in-industry customer loyalty programme resulting in **more than 17.0%** increase in new *Kad Mesra* sign-up



### PETRONAS Station Network

Station transformation to create 'Clean, Bright and Safe' ambience

- Completed asset refresh and asset integrity activities at **~300** PETRONAS stations
- Refurbished more than **100 new *Kedai Mesra*** with a more modern and sleeker design



Launched **Setel, 1<sup>st</sup> petrol e-payment solution in Southeast Asia** at more than **100** PETRONAS stations



Strengthen existing partner collaboration and **establish new strategic partnerships**

### Revenue



## CHALLENGES

### CHALLENGES

Intense competition in a mature market



### OUR RESPONSE

- Selective network expansion
- Delivering superior customers experience
- Focused marketing efforts via *Mesra Bonanza* campaign, targeted *Kad Mesra* promotions and strategic initiatives with business partners
- Launched Setel, 1<sup>st</sup> petrol e-payment solution in Southeast Asia at more than 100 PETRONAS stations
- Reach broader markets by selling and promoting through multiple channels
- Established strategic alliances partnerships

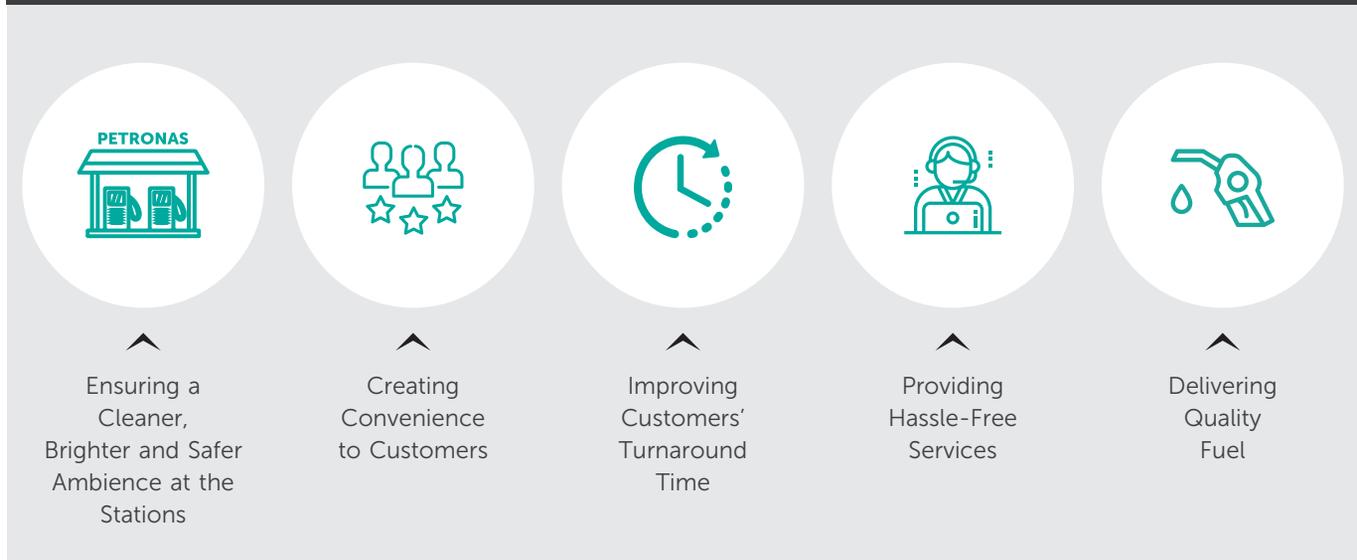
Customers experience may be affected if facilities or services are not consistently reliable



- Conducted aggressive asset refresh and asset integrity upgrading programs
- Scheduled and timely maintenance at the stations
- HSE trainings to *Rakan Niaga* and *Krew* PETRONAS

# RETAIL

## OUR TRANSFORMATION OF PETRONAS STATIONS FOCUSES ON FIVE KEY VALUE PROPOSITIONS



### BUSINESS ACHIEVEMENTS

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	STRATEGIC INITIATIVES	RESULTS
 <p><b>TRANSFORMING CUSTOMERS EXPERIENCE</b></p>	1. Elevate customers experience and being the most favoured retailer	a. Uplift asset and improve services through aggressive asset refresh such as <i>Kedai Mesra</i> refurbishment and Perfect Station Execution b. Expanded product availability at PETRONAS stations <ul style="list-style-type: none"> <li>PETRONAS Dynamic Diesel Euro 5 with Pro-Drive to more than 40 PETRONAS stations in Sabah and Sarawak</li> <li>ChargeEV facilities at 60 PETRONAS stations</li> <li>Introduced PETRONAS Dynamic Diesel (B10) at two PETRONAS stations</li> </ul> c. Introduction of new white label product offering namely Mesra Bites	<ul style="list-style-type: none"> <li>Increase in sales volume by 0.5%</li> <li>Increase in food sales by 40.0%</li> <li>NPS result: improvement by 21.0%</li> <li>PUTRA Awards Brand of the year - Accorded the preferred brand chosen by Malaysian consumers</li> </ul> c. Generated more than RM500,000 revenue in Mesra Bites
	2. Digitalisation to enhance customers experience	a. Launched Setel, 1 <sup>st</sup> petrol e-payment solution in Southeast Asia b. Reaching broader markets by selling through multiple online channels	a. Setel enabled at more than 100 stations with 300,000 litres sold b. RM10 million GiftCard sold online

# RETAIL

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	STRATEGIC INITIATIVES	RESULTS
 <p><b>MARKET LEADERSHIP</b></p>	<ol style="list-style-type: none"> <li>Defend and grow market position</li> <li>Increase customer base</li> </ol>	<ol style="list-style-type: none"> <li>Expanding PETRONAS stations network at strategic locations</li> <li> <ol style="list-style-type: none"> <li>Conduct targeted marketing campaign and collaborated with strategic business partners</li> <li>Established New Strategic Alliances with Common Ground, the "Co-working Space", Hameediyah restaurant and Axxess which offers free Personal Accident coverage to <i>Kad Mesra</i> Members. Enhanced collaboration with Grab via "Grab Fuel Savers" Programme and "Grab Pit Stop"</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>Operationalised more than 10 new stations</li> <li> <ol style="list-style-type: none"> <li>Increase in <i>Kad Mesra</i> new sign-ups and active <i>Kad Mesra</i> members by more than 17.0% and 15.0%, respectively</li> <li>Secured more than 20 million litres volume through "Grab Fuel Savers" Programme and over 43,000 customers have signed up for Axxess Personal Accident insurance coverage</li> </ol> </li> </ol>
 <p><b>SAFE, RELIABLE AND EFFICIENT OPERATIONS</b></p>	 <p>For more information on Safe, Reliable and Efficient Operations, please refer to Our Key Operations on pages 61 to 63 of this &lt;IR&gt;</p>		
 <p><b>HIGH PERFORMANCE WORK CULTURE</b></p>	 <p>For more information on High Performance Work Culture, please refer to Driving Sustainability on pages 152 to 158 of this &lt;IR&gt;</p>		
<p>For more information on <b>PDB's Strategic Focus Areas: 2019 Priorities</b> please refer to <b>Strategic Focus Areas</b> on page 40 of this &lt;IR&gt;</p>			

## OUTLOOK AND PROSPECTS



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

# COMMERCIAL



“2018 has been a year with high volatility in the commercial fuels market. The year has been a true test of resilience for the Commercial Business. We take pride in being able to maintain our position in the market. Moving forward, the Commercial Business will continue to focus on fulfilling the needs of our customers by leveraging on operational excellence and strong partnerships”.

**IKHWAN HAMZAH AZIZAN**  
Head, Commercial Business Division

## WHO WE ARE AND WHAT WE DO

Commercial Business handles a diversified portfolio of products from PETRONAS refineries that cater to various industries and market segments. We are responsible for the sale and marketing of bulk petroleum products and their uninterrupted supply to customers throughout the Country.

We offer a wide range of quality fuel solutions such as Diesel, Jet A-1, Fuel Oil, Bitumen, Gasoline, Kerosene, Petroleum Coke and Sulphur to various industries in manufacturing, aviation, power, oil and gas exploration, agriculture, fishery, construction, timber, marine fuels and transportation.

Commercial Business is the leading player in the domestic market with the key competitive advantage of an extensive distribution network including terminals, storage and transport to reach and serve the commercial sector nationwide.

## VALUE CREATED BY OUR COMMERCIAL BUSINESS

Create	Diversify	Cultivate	Network
LEADING MARKET POSITION	QUALITY PRODUCTS AND SERVICES TO SUPPORT CUSTOMERS' BUSINESS	CULTIVATE CAPABILITIES OF BUSINESS PARTNERS	MAINTAIN LONG-TERM PARTNERSHIPS WITH STAKEHOLDERS

## KEY ACHIEVEMENTS



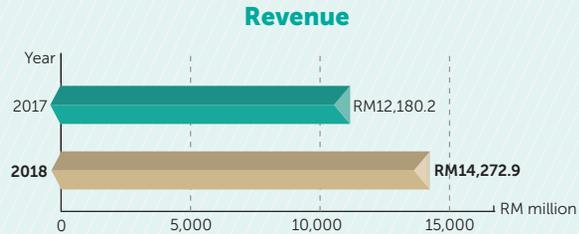
Defended market leadership



Established strategic alliance



Commenced **first importation** of sulphur to meet domestic demand



# COMMERCIAL

## CHALLENGES

### CHALLENGES

Intensifying competition and the decline in the demand for Diesel due to the deferment of Major Infrastructure Projects



### OUR RESPONSE

- Strategic Channel Management enabled us to navigate challenges and sustained Diesel performance as a significant contributor to the Commercial Business portfolio

Penetration of fuel-efficient technologies in the Aviation Industry impacting our aviation fuel sales



- Acquired new airlines supply contract and strengthened relationships with existing airlines through differentiated offerings
- Leveraging on extensive presence at airports nationwide and proven track record as a reliable and credible aviation fuel supplier

International Marine Organisation 2020 regulation which limits sulphur content and the enforcement of Clean Air Regulation Act resulting in users shifting to cleaner fuels



- Ensuring and strengthening supply continuity to the remaining market demand which are exempted from both regulations

## BUSINESS HIGHLIGHTS

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	KEY INITIATIVES	RESULTS
 <b>TRANSFORMING CUSTOMERS EXPERIENCE</b>	1. Improve customer convenience	a. Enhanced Digital DN System at Aviation Terminals b. Introduced Commercial Marine E-bidding System to the Marine Business	a. Improvement in product delivery process and services b. Elevate customers experience and promote transparency in the bidding process
 <b>MARKET LEADERSHIP</b>	1. Defend and grow market position	a. Pursue acquisition of new airlines supply contract b. Established strategic alliance to strengthen position in selected market c. Adding focus to management of sales channels by ensuring different needs of customers within the different channels are served	a. Secured 5 new contracts and defended market leadership in aviation b. Significant volume improvement resulting improve market position c. Diesel continued to play pivotal role in Commercial Business portfolio
 <b>SAFE, RELIABLE AND EFFICIENT OPERATIONS</b>	 For more information on Safe, Reliable and Efficient Operations, please refer to Our Key Operations on pages 61 to 63 of this <IR>		
 <b>HIGH PERFORMANCE WORK CULTURE</b>	 For more information on High Performance Work Culture, please refer to Driving Sustainability on pages 152 to 158 of this <IR>		
For more information on <b>PDB's Strategic Focus Areas: 2019 Priorities</b> please refer to <b>Strategic Focus Areas</b> on page 40 of this <IR>			

## OUTLOOK AND PROSPECTS



Looking ahead, we expect competition in our markets to continue to increase and new regulations to necessitate consumers to switch to using cleaner fuels. As we navigate these changes, we are elevating the customers experience to maximise our value proposition, defend our current leadership position, and steer the business towards sustainable growth.

# LPG



"In the face of challenging market competition, LPG Business continues to fortify our position as the market leader through higher sales performance. Our competitive edge is sharpened by our focus on elevating customers experience through the introduction of new products and sales channels".

**RAMZULHAKIM RAMLI**  
Head, LPG Business Division

## WHO WE ARE AND WHAT WE DO

LPG Business is the leading retailer and marketer of LPG for household, commercial and industrial customers. We sell and market 12kg and 14kg LPG cylinders for the Household segment, 14kg and 50kg LPG cylinders for the Commercial segment and in Bulk for the Industrial segment.

Our business is supported by the nation's largest LPG supply and distribution network comprising eight terminals and bottling facilities as well as LPG Channel Members consisting of premier dealers, dealers and bulk dealers. We strive to deliver value-added service through innovation and technology for the benefit of our customers.

## VALUE CREATED BY OUR LPG BUSINESS

Create	Network	Empower	Innovate	Reliability	Skilled
<b>STRONG MARKET POSITION</b>	<b>LONG-TERM PARTNERSHIPS WITH DEALERS</b>	<b>CONTRIBUTE TO THE SUCCESS OF DEALERS' BUSINESSES</b>	<b>CAPITALISE ON TECHNOLOGY AND INNOVATION TO IMPROVE ON CUSTOMERS EXPERIENCE</b>	<b>SAFE AND RELIABLE PRODUCTS</b>	<b>HIGH PERFORMING AND SKILLED WORKFORCE</b>

## KEY ACHIEVEMENTS



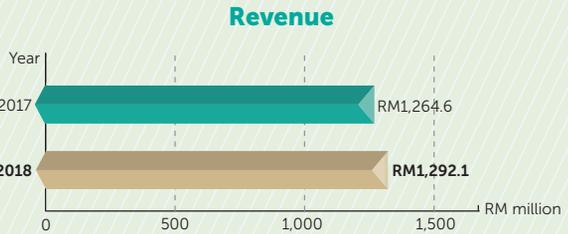
1.0% improvement in volume



Launched sale of **LPG cylinders at selected PETRONAS stations**



Introduced **14kg cylinders** for commercial segment



# LPG

## CHALLENGES

### CHALLENGES

Intense market competition



### OUR RESPONSE

- Strengthened and expanded dealership network
- Implemented competitive pricing strategy
- Optimised supply at terminals to support volume growth
- Initiated new sales channel and new product offerings

## BUSINESS HIGHLIGHTS

STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	KEY INITIATIVES	RESULTS
<p><b>TRANSFORMING CUSTOMERS EXPERIENCE</b></p>	1. Redefine customers experience	a. Initiated new sales channel and offer new products to end users	a. Successful pilot of LPG cylinder sales at selected PETRONAS stations and launched 14kg cylinders for commercial customers
<p><b>MARKET LEADERSHIP</b></p>	1. Fortify market leadership	a. Drive Household cylinder sales through expansion of dealership network b. Implemented competitive pricing strategy for Commercial sales	Sustained commanding market position and grew sales volume by 1.0%
<p><b>SAFE, RELIABLE AND EFFICIENT OPERATIONS</b></p>	For more information on Safe, Reliable and Efficient Operations, please refer to Our Key Operations on pages 61 to 63 of this <IR>		
<p><b>HIGH PERFORMANCE WORK CULTURE</b></p>	For more information on High Performance Work Culture, please refer to Driving Sustainability on pages 152 to 158 of this <IR>		
For more information on <b>PDB's Strategic Focus Areas: 2019 Priorities</b> please refer to <b>Strategic Focus Areas</b> on page 40 of this <IR>			

## OUTLOOK AND PROSPECTS



The demand for LPG is anticipated to grow at a stable rate, consistent with the growing population in the country. LPG Business is well placed to grow its market leadership in the household segment and drive sales in the commercial and bulk segments.

# LUBRICANT



“We aim to become the market leader by maintaining and expanding PETRONAS’ relationships with local and global OEMs, focusses towards broadening our market penetration and improving our brand presence into outlets and workshops; and increase PETRONAS’ penetration into the Motorcycle Oil segment. Under-pinning this strategy will be Technology; a Winning Differentiator in responding to the needs of our customers, OEM partners and the industry”.

**HARDEEP SINGH KIRPAL SINGH**  
 Chief Executive Officer  
 PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd

## WHO WE ARE AND WHAT WE DO

Our Lubricants Business undertakes all sales, marketing and technical services related to PETRONAS Lubricant and car care products in Malaysia. Our portfolio encompasses Passenger Car Motor Oils, Motorcycle Oils, Commercial Vehicle Lubricants as well as Industrial and Marine Lubricants that caters for consumers, commercial and industrial consumption. Technology underpins our propositions into these segments of the Malaysian market, delivering and creating value to our customers.

In addition, PDB also markets lubricant products in Thailand through its subsidiary, PIMTCL which is focused on growing sales to both B2B and B2C segments.

## VALUE CREATED BY OUR LUBRICANT BUSINESS

Quality	Create	Business Synergy	Capability	Network	Environment
WORLD-CLASS PRODUCTS WITH CUSTOMISE SOLUTIONS TO ENHANCE PRODUCTIVITY AND EFFICIENCY	SUSTAINABLE MARGINS FOR ALL BUSINESS PARTNERS ALONG OUR VALUE CHAIN	OFFERING WINNING PROPOSITIONS ENABLING OUR PARTNERS TO GROW WITH US	UPSILL OUR PEOPLE, DEALERS WORKSHOPS AND KEY CUSTOMERS ON PRODUCT AND TECHNICAL KNOWLEDGE	LONG – TERM PARTNERSHIPS WITH VARIOUS STAKEHOLDERS	ENHANCED ENGINE AND PLANT EFFICIENCY CONTRIBUTING TO CLEANER ENVIRONMENT

## KEY ACHIEVEMENTS



Significant volume growth of **4.0%**

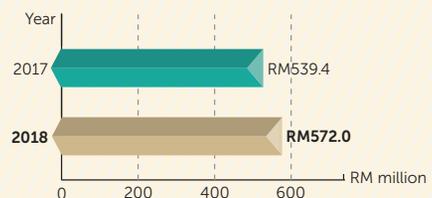


Contribution Performance Award from **HONDA MALAYSIA**



Significant improvement in **OEM** and **HIGHSTREET** volumes

### Revenue



# LUBRICANT

## CHALLENGES

### CHALLENGES

Competitive environment with many new brands emerging alongside the legacy operators



### OUR RESPONSE

- Offering and demonstrating value through our winning differentiated propositions
- Recruitment of new capable partners and upskilling our partners/dealers to compete in the challenging and demanding landscape

Macro-economic factors affecting demand in the B2B segment



- Sharpened our focus to grow in B2B segment

## BUSINESS HIGHLIGHTS

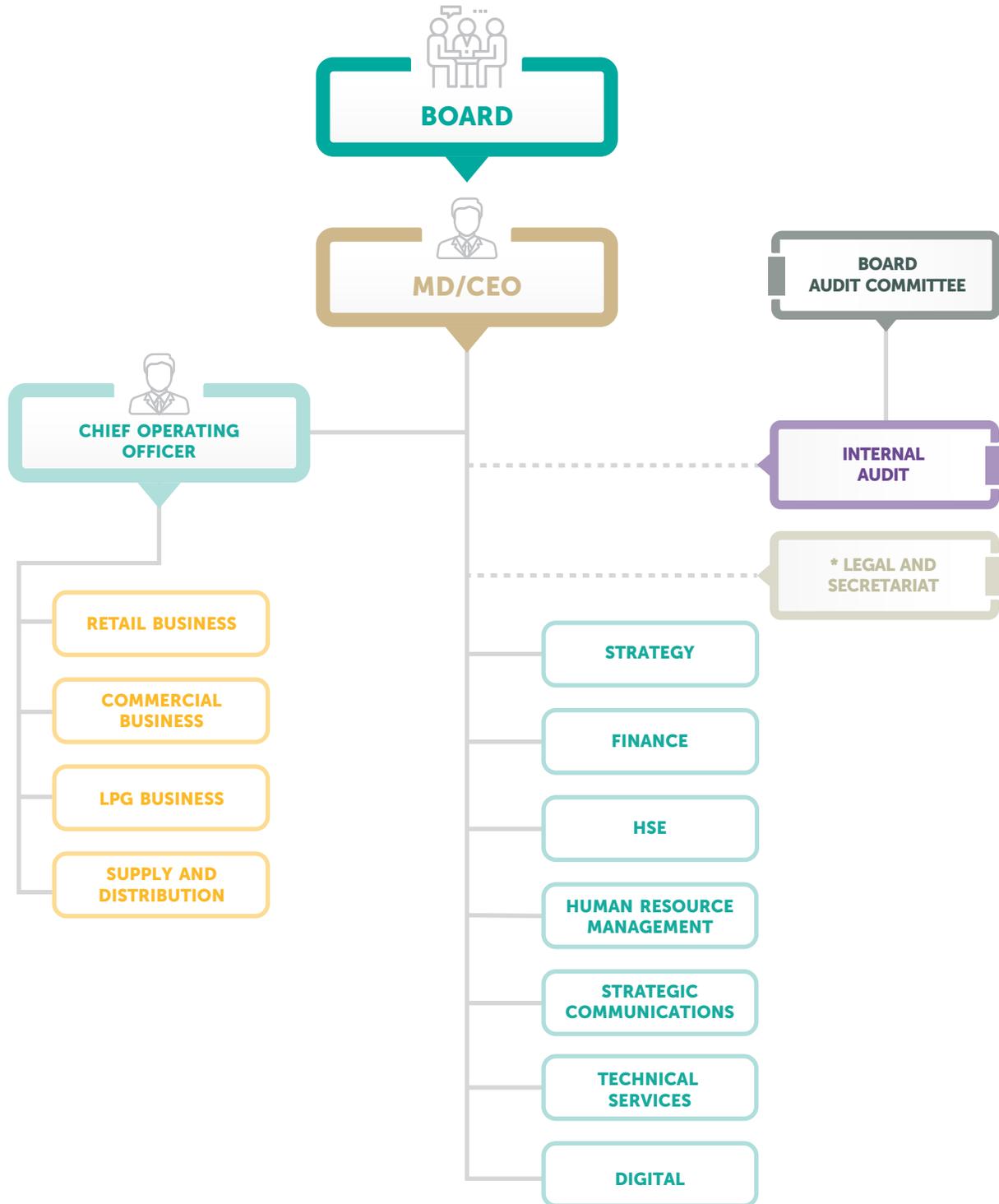
STRATEGIC FOCUS AREAS	STRATEGIC OBJECTIVES	KEY INITIATIVES	RESULTS
 <b>TRANSFORMING CUSTOMERS EXPERIENCE</b>	<ol style="list-style-type: none"> <li>1. Digitalisation for customers experience</li> </ol>	<ol style="list-style-type: none"> <li>1. Enhanced loyalty and trade market programme through online channels</li> <li>2. Secured customers through multiple channels and enhance after service sales</li> </ol>	Overall improvement in sales volume by 4.0%
 <b>MARKET LEADERSHIP</b>	<ol style="list-style-type: none"> <li>1. Defend and grow market position</li> <li>2. Increase customer base</li> <li>3. Increase brand presence</li> </ol>	<ol style="list-style-type: none"> <li>1. Appointment of new and capable MEP and Premium Dealers</li> <li>2. Continuous improvements in supply chain</li> <li>3. Heightened brand value proposition through social media platform</li> </ol>	<ol style="list-style-type: none"> <li>1. Significant volume improvement recorded in highstreet and OEM segments as well as for synthetic products</li> <li>2. Secured new contract and renewal of supply contract with key partners</li> <li>3. Received accolades from consumers in Malaysia:                             <ol style="list-style-type: none"> <li>a. Services Excellence - contribution Performance Award by Honda</li> <li>b. PETRONAS Syntium was awarded the Putra Brand Gold Award for lubricant and accessories category</li> </ol> </li> </ol>
 <b>SAFE, RELIABLE AND EFFICIENT OPERATIONS</b>	 For more information on Safe, Reliable and Efficient Operations, please refer to Our Key Operations on pages 61 to 63 of this <IR>		
 <b>HIGH PERFORMANCE WORK CULTURE</b>	 For more information on High Performance Work Culture, please refer to Driving Sustainability on pages 152 to 158 of this <IR>		
For more information on <b>PDB's Strategic Focus Areas: 2019 Priorities</b> please refer to <b>Strategic Focus Areas</b> on page 40 of this <IR>			

## OUTLOOK AND PROSPECTS



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. These initiatives along with our efforts to improve efficiency in the supply chain and to differentiate our products and services are expected to drive sales volumes.

# ORGANISATION STRUCTURE



**Note:**

\* Legal and Corporate Secretariat function is performed by PETRONAS Group Legal

1. Organisation Structure as at 14 February 2019
2. Lubricant Business is managed via PDB's subsidiary, PLMMSB

- Direct report to MD/CEO
- Direct report to Chief Operating Officer

 For more information on the Group Corporate Structure, please refer to page 28 of this <IR>

## ORGANISATION STRUCTURE

### OUR PEOPLE

#### EMPLOYEES



**> 1,300**

#### WORKFORCE



**93.8%**  
Permanent



**6.2%**  
Contract

#### MALE VS FEMALE



**69.3%**  
Male



**30.7%**  
Female

#### GENERATION



**0.1%**  
Gen Z (<22)



**67.0%**  
Gen Y (23-40)



**23.3%**  
Gen X (41-51)



**9.6%**  
Baby Boomers (>51)



**BOARD OF  
DIRECTORS**

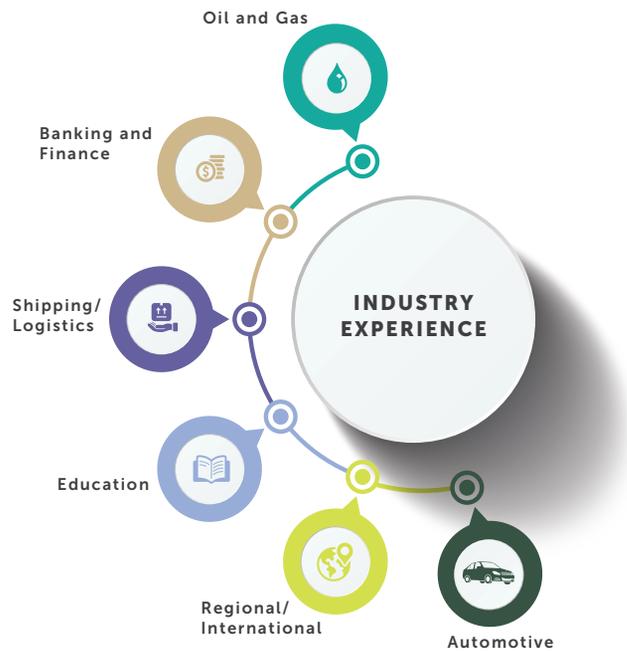
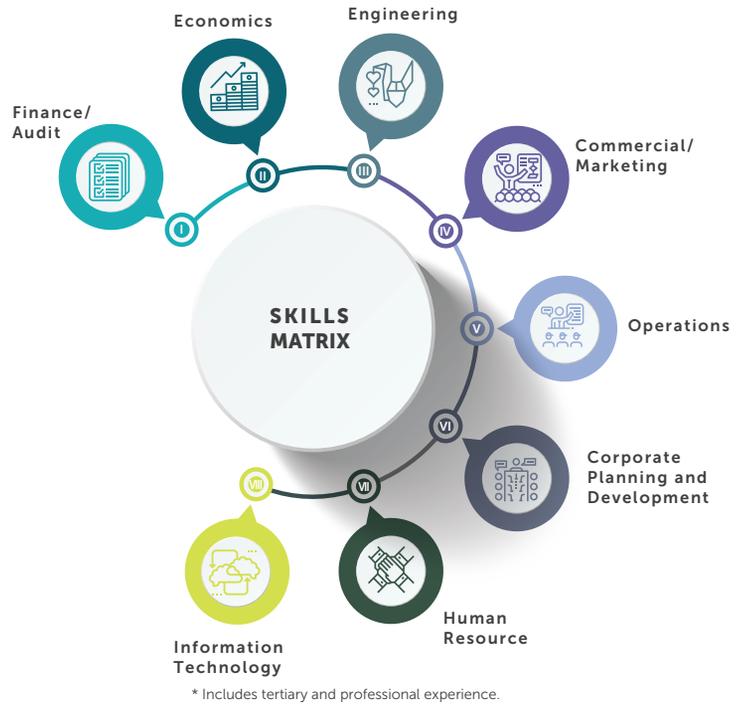
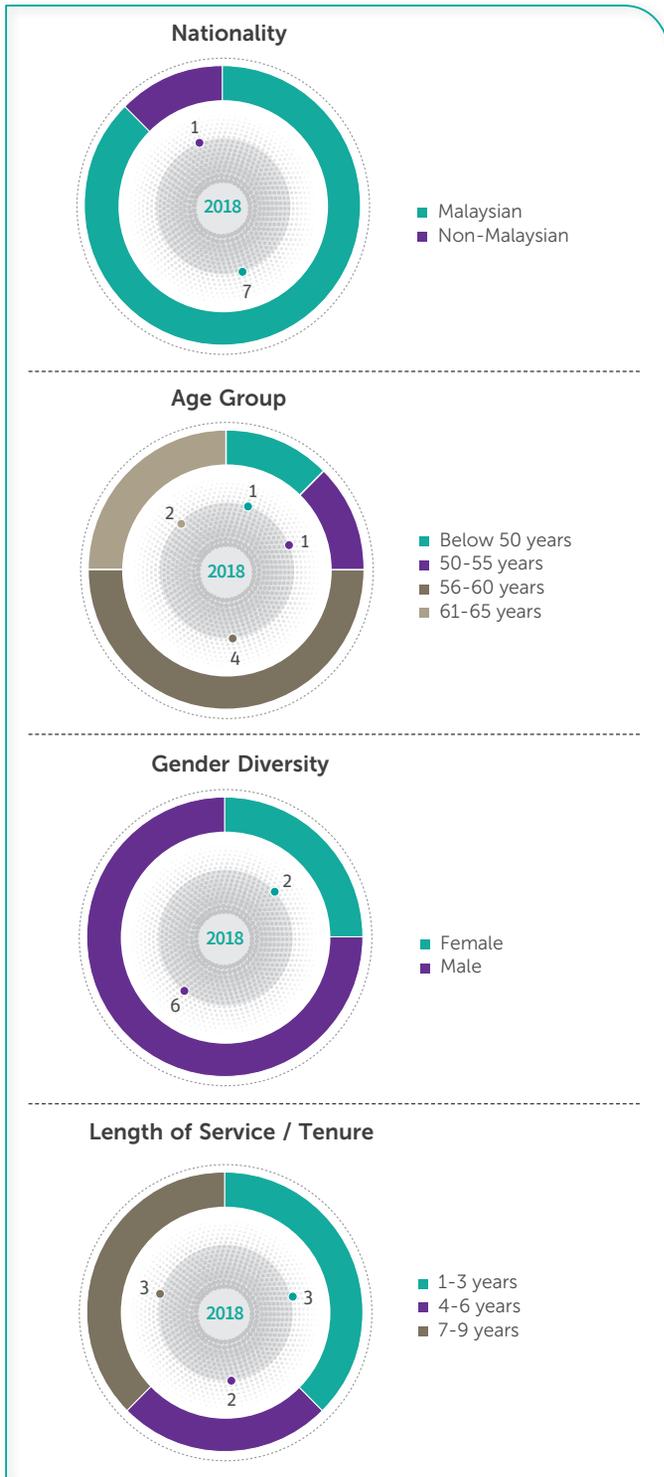




*From left to right*  
Yeap Kok Leong, Nuraini Ismail, Lim Beng Choon, Datuk Anuar Ahmad, Datuk Md Arif Mahmood,  
Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir, Alvin Michael Hew Thai Kheam, Shafie Shamsuddin,  
Vimala V.R. Menon, Nur Nadia Mohd Nordin



# OUR BOARD AT A GLANCE



# PROFILE OF DIRECTORS

## DATUK MD ARIF MAHMOOD

Chairman  
Non-Independent Non-Executive Director



AGE: 56

GENDER: Male

NATIONALITY: Malaysian

Date of Appointment: 16 April 2015

Length of Service: 3 years and 10 months

Number of Board Meetings Attended: 3/5

### Academic / Professional Qualifications

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

### Skills Matrix and Industry Experiences

#### Skills Matrix

III IV V VI

#### Industry experiences

### Present Directorships

#### Listed entities:

PETRONAS Dagangan Berhad  
PETRONAS Chemicals Group Berhad

#### Other public company

Nil

### Other Principal Appointments

- Chairman, PETRONAS Dagangan Berhad
- Chairman, PETRONAS Chemicals Group Berhad
- Executive Vice President and Chief Executive Officer, Downstream Business, PETRONAS
- Member, Executive Leadership Team, PETRONAS
- Member, People Development Committee, PETRONAS
- Member, Talent Council, PETRONAS
- Member, Industry Advisory Panel, Universiti Teknologi PETRONAS
- Director, Johor Petroleum Development Corporation
- Chairman and Director, various companies within PETRONAS Group

### Past Experiences

- 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 Committee

**BAC** Board Audit Committee  
**NRC** Nomination and Remuneration Committee

### Skills Matrix

**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  
 Automotive

## PROFILE OF DIRECTORS



**DATO' SRI SYED ZAINAL ABIDIN  
SYED MOHAMED TAHIR**

Managing Director/Chief Executive Officer

AGE: 56 GENDER: Male NATIONALITY: Malaysian

Date of Appointment: 31 July 2017

Length of Service: 1 year and 7 months

Number of Board Meetings Attended: 4/5

### Academic / Professional Qualification

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

### Skills Matrix and Industry Experiences

#### Skills Matrix



#### Industry experiences



### Present Directorship

#### Listed entity:

PETRONAS Dagangan Berhad

#### Other public company:

Nil

### Other Principal Appointments

- Vice President, Marketing, Downstream Business PETRONAS
- Chairman, Universiti Teknologi MARA
- Mentor, CEO@Faculty Programme, Ministry of Higher Education
- Member, Industry Advisory Panel, various local universities

### Past Experiences

- Member, NRC, PETRONAS Dagangan Berhad
- Independent Non-Executive Director, RHB Islamic Bank Berhad
- Independent Non-Executive Director, RHB Bank
- Board member, 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 within HICOM Holdings Berhad
- Various positions within PETRONAS Group



**LIM BENG CHOON**

Senior Independent Director

BAC

NRC

AGE: 59 GENDER: Male NATIONALITY: Malaysian

Date of Appointment: 13 August 2012

Length of Service: 6 years and 6 months

Number of Board Meetings Attended: 5/5

### Academic / Professional Qualification

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

### Skills Matrix and Industry Experiences

#### Skills Matrix



#### Industry experiences



### Present Directorships

#### Listed entities:

PETRONAS Dagangan Berhad  
MISC Berhad

#### Other public company:

Nil

### Other Principal Appointments

- Chairman, NRC, PETRONAS Dagangan Berhad
- Member, BAC, PETRONAS Dagangan Berhad
- Member, BAC, MISC Berhad
- Member, NRC, MISC Berhad
- Trustee in the ECM Libra Foundation
- Member, Board of Directors, Universiti Pendidikan Sultan Idris

### Past Experiences

- Independent Non-Executive Director, PETRONAS Gas Berhad
- Chairman, NRC, PETRONAS Gas Berhad
- Member, BAC, PETRONAS Gas Berhad
- Independent Non-Executive Director, Hong Leong Bank Berhad
- Member, BAC, 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

## PROFILE OF DIRECTORS



### VIMALA V.R. MENON

Independent Non-Executive Director

BAC

NRC

AGE: 64 GENDER: Female NATIONALITY: Malaysian

Date of Appointment: 18 November 2011  
 Length of Service: 7 years and 3 months  
 Number of Board Meetings Attended: 5/5



### DATUK ANUAR AHMAD

Independent Non-Executive Director

BAC

AGE: 65 GENDER: Male NATIONALITY: Malaysian

Date of Appointment: 1 August 2014  
 Length of Service: 4 years and 6 months  
 Number of Board Meetings Attended: 5/5

#### Academic / Professional Qualifications

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

#### Skills Matrix and Industry Experiences

**Skills Matrix**

**Industry experiences**

#### Present Directorships

**Listed entities:**  
 PETRONAS Dagangan Berhad  
 PETRONAS Chemicals Group Berhad  
 DiGi.Com Berhad

**Other public company:**  
 Nil

#### Other Principal Appointments

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

#### Past Experiences

- Director, Cycle & 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

#### Academic / Professional Qualifications

- 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

#### Skills Matrix and Industry Experiences

**Skills Matrix**

**Industry experiences**

#### Present Directorships

**Listed entities:**  
 PETRONAS Dagangan Berhad  
 ENRA Group Berhad  
 Nylex (Malaysia) Berhad

**Other public company:**  
 Nil

#### Other Principal Appointments

- Chairman, NRC, ENRA Group Berhad
- Member, BAC, PETRONAS Dagangan Berhad
- Member, Audit Committee, ENRA Group Berhad
- Member, Audit Committee, Nylex (Malaysia) Berhad

#### Past Experiences

- Chairman, Audit Committee, E.A. Technique (M) Berhad
- Member, Remuneration Committee, E.A. Technique (M) Berhad
- 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

## PROFILE OF DIRECTORS



### NURAINI ISMAIL

Non-Independent Non-Executive Director

BAC

AGE: 56 GENDER: Female NATIONALITY: Malaysian

Date of Appointment: 18 November 2011  
 Length of Service: 7 years and 3 months  
 Number of Board Meetings Attended: 5/5

#### Academic / Professional Qualification

- Fellow, Association of Chartered Certified Accountants, United Kingdom

#### Skills Matrix and Industry Experiences

##### Skills Matrix

I II IV V

##### Industry experiences



#### Present Directorship

##### Listed entity:

PETRONAS Dagangan Berhad

##### Other public company:

Nil

#### Other Principal Appointments

- Vice President, Treasury, PETRONAS
- Member, BAC, PETRONAS Dagangan Berhad
- Director, various companies within PETRONAS Group
- Member, various Committees within PETRONAS Group

#### Past Experiences

- 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 Maybank Finance Berhad



### SHAFIE SHAMSUDDIN

Independent Non-Executive Director

NRC

AGE: 48 GENDER: Male NATIONALITY: Singaporean

Date of Appointment: 6 February 2018  
 Length of Service: 1 year  
 Number of Board Meetings Attended: 5/5

#### Academic / Professional Qualification

- Bachelor of Business Administration, Nanyang Technological University, Singapore

#### Skills Matrix and Industry Experience

##### Skills Matrix

IV V VI VII

##### Industry experience



#### Present Directorship

##### Listed entity:

PETRONAS Dagangan Berhad

##### Other public company:

Nil

#### Other Principal Appointments

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

#### Past Experiences

- 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

## PROFILE OF DIRECTORS



**ALVIN MICHAEL HEW THAI KHEAM**

Independent Non-Executive Director

**AGE: 55      GENDER: Male      NATIONALITY: Malaysian**

Date of Appointment: **6 February 2018**

Length of Service: **1 year**

Number of Board Meetings Attended: **5/5**

**Academic / Professional Qualifications**

- 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

**Skills Matrix and Industry Experiences**

**Skills Matrix**



**Industry experiences**



**Present Directorships**

**Listed entities:**

PETRONAS Dagangan Berhad  
Maxis Berhad

**Other public company:**

Nil

**Other Principal Appointments**

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

**Past Experiences**

- 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 Division, L’Oreal Malaysia
- Project Manager, L’Oreal S.A, 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

## COMPANY SECRETARIES:



**NUR NADIA MOHD NORDIN**

Company Secretary

*For more information about Nur Nadia Mohd Nordin, please refer to page 89 of this <IR>*



**YEAP KOK LEONG**

Joint Secretary

**AGE: 58      GENDER: Male      NATIONALITY: Malaysian**

**Academic / Professional Qualification**

- Fellow of the Institute of Chartered Secretaries and Administrators (ICSA)

**Additional Information of the Board of Directors:**

- Family Relationship: Save as disclosed, none of the Directors has any family relationship with any Director and/or major shareholder of PDB
- Conflict of Interests: Save as disclosed, none of the Directors has any conflict of interests with PDB
- Conviction for Offences: None of the Directors has any conviction for offences, other than traffic offences, if any, for the past 5 years
- Public Sanction or Penalty: None of the Directors has any sanction or penalty imposed on them by any regulatory bodies during the financial year ended 31 December 2018

## LEADERSHIP TEAM



*from left, sitting*

1. Ruziah Azdi Abdul Rahman
2. Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir
3. Norliwati Abdul Wahab
4. Naina Mohd Shukri Omar
5. Aadrin Azly
6. Ramzulahakim Ramli

*from left, standing*

1. Ikhwan Hamzah Azizan
2. Min Edina Mustapha Kamal
3. Khalil Jaffri Muhammad Muri
4. Mohd Shobri A. Bakar
5. Mahadzer Arshad
6. Rosnan Hamzah
7. Mohd Imran M. Ashraf
8. Hardeep Singh Kirpal Singh
9. Nur Nadia Mohd Nordin

## LEADERSHIP TEAM



### Declaration

- No family relationship with any Director/Major Shareholder
- No conflict of interest with PETRONAS Dagangan Berhad
- Has never been charged for any offence within the past five years other than traffic offences, if any
- All Leadership Team members at present have no present directorship in public companies and listed issuers, save for Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir who, in his capacity as MD/CEO, is a Director on the Board of PETRONAS Dagangan Berhad

# PROFILE OF LEADERSHIP TEAM

## DATO' SRI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR

Managing Director/Chief Executive Officer

Malaysian

AGE: 56 GENDER: Male DATE OF APPOINTMENT: 1 June 2018

### Academic / Professional Qualification

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

### Skills Matrix and Experiences

#### Skills matrix

3 4 5 6

#### Industry experiences



### Key Responsibilities

Responsible for strategic decisions and guiding the overall operational, financial and sustainable performance of PDB and its subsidiaries.

### Past Experiences

- Member, Nomination and Remuneration Committee, PETRONAS Dagangan Berhad
- Member, Industry Advisory Panel, various local universities
- Independent Non-Executive Director, RHB Islamic Bank Berhad
- Independent Non-Executive Director, RHB Bank
- Board Member, various subsidiaries within 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
- Various positions within PETRONAS Group

## AADRIN AZLY

Chief Operating Officer

Malaysian

AGE: 41 GENDER: Male DATE OF APPOINTMENT: 1 January 2019

### Academic / Professional Qualification

- Bachelor of Commerce, University of Adelaide, Australia

### Skills Matrix and Experience

#### Skills matrix

4 5 6

#### Industry experience



### Key Responsibilities

Responsible for the execution and delivery of core businesses' strategic plans as well as integration of diverse business operations.

### Past Experiences

- Head, Retail Business Division, PETRONAS Dagangan Berhad
- 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

## NORLIWATI ABDUL WAHAB

Chief Financial Officer

Malaysian

AGE: 43 GENDER: Female DATE OF APPOINTMENT: 1 March 2017

### Academic / Professional Qualifications

- Masters in Mechanical Engineering, Imperial College, United Kingdom
- Member, Institute of Chartered Accountants in England and Wales

### Skills Matrix and Experiences

#### Skills matrix

1 5 6 9

#### Industry experiences



### Key Responsibilities

Responsible for the management of all financial related matters for PDB and its subsidiaries, risk management, supply chain and investor relations.

### Past Experiences

- 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

### Skills Matrix

- |                                      |  |
|--------------------------------------|--|
| ① Finance/Audit                      | ⑧ Information Technology                 |
| ② Economics                          | ⑨ Risk Management                        |
| ③ Engineering                        | ⑩ HSE                                    |
| ④ Commercial/Marketing               | ⑪ Business Transformation                |
| ⑤ Operations                         | ⑫ Corporate and Marketing Communications |
| ⑥ Corporate Planning and Development | ⑬ Brand and Reputation Management        |
| ⑦ Human Resource                     | ⑭ Law/Secretarial                        |

### Industry Experiences

- |                          |                                     |                               |
|--------------------------|-------------------------------------|-------------------------------|
| ① Oil and Gas            | ② Banking and Finance               | ③ Legal Practice (Litigation) |
| ④ Shipping/Logistics     | ⑤ Education                         | ⑥ Telecommunications          |
| ⑦ Regional/International | ⑧ Automotive                        | ⑨ Technical Services          |
| ⑩ Manufacturing          | ⑪ Information Technology/Automation | ⑫ Internet                    |

## PROFILE OF LEADERSHIP TEAM

### KHALIL JAFFRI MUHAMMAD MURI

Head, Retail Business Division  
Malaysian

AGE: 45 GENDER: Male DATE OF APPOINTMENT: 1 January 2019

#### Academic / Professional Qualification

- Bachelor of Science in Industrial Management and Economics, Carnegie Mellon University, United States of America

#### Skills Matrix and Experiences

Skills matrix  
2 4 5 6

Industry experiences

#### Key Responsibilities

Responsible for the profitability and sustainability of the Retail Business to its stakeholders. Key accountability includes network development, station operations, marketing, customer service and convenience retailing.

#### Past Experiences

- Head, ROVR Project, Retail Business Division, PETRONAS Dagangan Berhad
- Head, Light Distillates, PETRONAS Trading Corporation Sdn. Bhd.
- Senior Manager, Marketing and Trading, Crude Oil for Asia Pacific/Far East, PETRONAS Trading Corporation Sdn. Bhd.
- Senior Manager, LNG Marketing for Korea and Taiwan
- Business Manager, OPTIMAL Group of Companies
- Analyst, PETRONAS Chemicals Group Berhad

### RAMZULHAKIM RAMLI

Head, LPG Business Division  
Malaysian

AGE: 42 GENDER: Male DATE OF APPOINTMENT: 1 October 2016

#### Academic / Professional Qualifications

- Bachelor of Commerce (Accounting), University of New South Wales, Australia
- Fellow of CPA Australia (FCPA)

#### Skills Matrix and Experiences

Skills matrix  
1 4 5 6 9

Industry experiences

#### Key Responsibilities

Responsible for LPG's business growth and value creation for PDB, direction and strategic planning for the business, as well as LPG distribution network efficiency.

#### Past Experiences

- 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

### IKHWAN HAMZAH AZIZAN

Head, Commercial Business Division  
Malaysian

AGE: 41 GENDER: Male DATE OF APPOINTMENT: 1 July 2018

#### Academic / Professional Qualifications

- Masters of Business Administration, ESCP Europe
- Bachelors of Economics and Commerce, University of Melbourne, Australia

#### Skills Matrix and Experiences

Skills matrix  
2 4 5 6

Industry experiences

#### Key Responsibilities

Responsible for the sustainability of value and growth of the Commercial Business.

#### Past Experiences

- Head, Economics and Planning, PETRONAS Refinery and Petrochemical Sdn. Bhd.
- Managing Director, PETRONAS Lubricants Turkey
- Head, Mergers and Acquisitions, PETRONAS Lubricants International
- Various positions within PETRONAS Group

### HARDEEP SINGH KIRPAL SINGH

Chief Executive Officer,  
PETRONAS Lubricants Marketing (Malaysia) Sdn. Bhd.  
Malaysian

AGE: 49 GENDER: Male DATE OF APPOINTMENT: 1 February 2019

#### Academic / Professional Qualification

- Bachelor in Mechanical Engineering, Universiti Teknologi Malaysia, Malaysia

#### Skills Matrix and Experiences

Skills matrix  
2 3 4 5 6

Industry experiences

#### Key Responsibilities

Responsible for the management and growth of PLMM as well as talent development.

#### Past Experiences

- Head, International Markets, PETRONAS Lubricants International
- Interim CEO, PT PETRONAS Lubricants International
- Interim CEO, PETRONAS Lubricants Australia
- Various senior positions, Shell Global and Shell Malaysia

## PROFILE OF LEADERSHIP TEAM

### MOHD SHOBRI A. BAKAR

Head, Supply and Distribution Division  
Malaysian

AGE: 58 GENDER: Male DATE OF APPOINTMENT: 1 January 2014

#### Academic / Professional Qualification

- Bachelor of Mechanical Engineering (Hons), Universiti Teknologi Malaysia, Malaysia

#### Skills Matrix and Experiences

##### Skills matrix

3 4 5 6 10

##### Industry experiences



#### Key Responsibilities

Responsible for PDB's overall operational excellence and supply reliability across the integrated value chain.

#### Past Experiences

- Chief Executive Officer, Lub Dagangan Sdn. Bhd.
- Chief Executive Officer, Petronas International Marketing Thailand Co. Ltd.
- General Manager, Lubricants Business, PETRONAS Dagangan Berhad
- General Manager, Lubricants Unit, PETRONAS
- General Manager, Supply and Distribution Division, PETRONAS Dagangan Berhad
- Senior Manager, Peninsular Distribution, PETRONAS Dagangan Berhad
- Operations Manager, Central Region, PETRONAS Dagangan Berhad
- Various positions within PETRONAS Dagangan Berhad

### RUZIAH AZDI ABDUL RAHMAN

Head, Strategic Communications Division  
Malaysian

AGE: 55 GENDER: Female DATE OF APPOINTMENT: 1 December 2015

#### Academic / Professional Qualification

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

#### Skills Matrix and Experience

##### Skills matrix

5 12 13

##### Industry experience



#### Key Responsibilities

Responsible for the planning, development and implementation of PDB's corporate and product branding, stakeholder management, strategic communications and reputation management.

#### Past Experiences

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

### MIN EDINA MUSTAPHA KAMAL

Head, Strategy Division  
Malaysian

AGE: 40 GENDER: Female DATE OF APPOINTMENT: 16 April 2018

#### Academic / Professional Qualification

- Bachelor of Science in Commerce, University of Virginia, United States of America

#### Skills Matrix and Experience

##### Skills matrix

4 5 6 11

##### Industry experience



#### Key Responsibilities

Responsible for PDB's long-range strategic plans, new business development, business transformation and government relations.

#### Past Experiences

- Head, Business Improvement and Transformation, Upstream Business, PETRONAS
- Manager, Supply Chain Planning, PETRONAS Carigali, PETRONAS
- Manager, Corporate Planning and Performance, PETRONAS Carigali Sdn. Bhd.
- Manager, Business Planning, PETRONAS Carigali Sdn. Bhd.
- Various positions within PETRONAS Group

### NAINA MOHD SHUKRI OMAR

Head, Human Resource Management Division  
Malaysian

AGE: 44 GENDER: Male DATE OF APPOINTMENT: 1 June 2016

#### Academic / Professional Qualifications

- Bachelor of Accountancy (Hons), University Utara Malaysia, Malaysia
- Certified Coach from the Canadian Council of Professional Certification

#### Skills Matrix and Experience

##### Skills matrix

7

##### Industry experience



#### Key Responsibilities

Responsible for the formulation and implementation of people strategies, talent development and management.

#### Past Experiences

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

## PROFILE OF LEADERSHIP TEAM

### MAHADZER ARSHAD

Head, Digital Division

Malaysian

AGE: 54 GENDER: Male DATE OF APPOINTMENT: 16 August 2018

#### Academic / Professional Qualification

- B.Sc (Hons) in Mathematics/Economics, Trent University, Canada

#### Skills Matrix and Experiences

##### Skills matrix

2 4 8

##### Industry experiences



#### Key Responsibilities

Responsible for the management and operation of PDB's digital landscape and IT systems.

#### Past Experiences

- Head, TipTop Project, Apex88 Digital Venture, Retail Business Division, PETRONAS Dagangan Berhad
- Chief Executive Officer, Sedania Innovator Berhad
- Senior Vice President, Products, Altel Communications
- Project Director, Industronics Berhad
- Project Director, Oriented Media Group Berhad
- Chief Executive Officer/Co-Founder, IVANEX
- Senior Manager, Wholesale, Maxis
- Application Specialist, IBM

### MOHD IMRAN M. ASHRAF

Head, Technical Services Division

Malaysian

AGE: 38 GENDER: Male DATE OF APPOINTMENT: 1 July 2018

#### Academic / Professional Qualification

- Masters (MEng) in Mechanical Engineering, Bath University, United Kingdom

#### Skills Matrix and Experiences

##### Skills matrix

3 5 9 10

##### Industry experiences



#### Key Responsibilities

Responsible for PDB's asset management and technical integrity.

#### Past Experiences

- Manager, Asset Integrity Management, PETRONAS Penapisan (Terengganu) Sdn. Bhd.
- Manager, Refinery Maintenance, PETRONAS Penapisan (Terengganu) Sdn. Bhd.
- Manager, Offsite, Marine and Shipping Maintenance, PETRONAS Penapisan (Terengganu) Sdn. Bhd.
- Team Leader (Risk Based Inspection), ENGEN Refinery, Durban, South Africa

### ROSANAN HAMZAH

Head, Health, Safety and Environment Division

Malaysian

AGE: 46 GENDER: Male DATE OF APPOINTMENT: 1 November 2018

#### Academic / Professional Qualifications

- MBA in Strategic Management, International Islamic University Malaysia, Malaysia
- Master of Science in Occupational Health, National University of Malaysia, Malaysia
- Bachelor of Science in Mechanical Engineering, University of Michigan, United States of America

#### Skills Matrix and Experiences

##### Skills matrix

3 5 9 10

##### Industry experiences



#### Key Responsibilities

Responsible for the management of all matters on health, safety and environment for PDB and its subsidiaries.

#### Past Experiences

- Head, HSE Governance, Malaysia Petroleum Management, PETRONAS
- Senior HSE Specialist, JV Aral Sea Operating Company LLC, Uzbekistan
- Head, HSE Performance Management, PETRONAS Carigali Sdn. Bhd.
- Head, Health Management, PETRONAS Carigali Sdn. Bhd.
- Academician, Faculty of Medicine and Health Sciences, Universiti Putra Malaysia
- Product Engineer, Sapura Research Sdn. Bhd.
- Automation Engineer, Motorola Semiconductor Sdn. Bhd.

### NUR NADIA MOHD NORDIN

Head, Legal and Secretariat Division

Malaysian

AGE: 44 GENDER: Female DATE OF APPOINTMENT: 16 March 2018

#### Academic / Professional Qualifications

- Certificate of Legal Practice, Malaysia
- Bachelor of Laws, University of Kent at Canterbury, United Kingdom

#### Skills Matrix and Experiences

##### Skills matrix

4 5 14

##### Industry experiences



#### Key Responsibilities

Responsible for the legal advisory services to the PDB Group of Companies, and corporate secretarial services to PDB and its Group of Companies as well as advisory services to the Board.

#### Past Experiences

- Senior Legal Counsel, Marketing and Special Projects, Legal Downstream, Group Legal, PETRONAS
- Senior Legal Counsel, Corporate Services and Technology, Group Legal, PETRONAS
- Legal Manager, Malaysia LNG Sdn. Bhd.
- Legal Manager, Gas Business, PETRONAS
- Senior Legal Officer, PETRONAS NGV Sdn. Bhd.
- Advocate and Solicitor of the High Court of Malaya

## CORPORATE GOVERNANCE OVERVIEW

**DEAR VALUED SHAREHOLDERS,**



As a company, our goal is to build a sustainable business which provides strong returns for our shareholders. Being a company that strives on promoting innovative ideas and seamless customer experience, its business inevitably continues to evolve. New lifestyle changes necessitate new ways of doing business. Customers' pain points become our main focus and turned into opportunities for the Company to push beyond boundaries. This is important in ensuring our competitive edge remains unabated.

The Board remains focused on ensuring that the Company maintains its course in achieving its immediate and long-term value creation. In discharging its stewardship, the Board has been resolute in sustaining the highest standards of corporate governance which support our ability to create strategic objectives and value for our stakeholders.

As Chairman, it is my duty to ensure the actualisation of the corporate governance framework, in that it is sound, transparent, responsive and protective of the interests of all stakeholders. The Corporate Governance Overview Statement together with the Board Audit Committee and Nomination and Remuneration Committee Reports provide a description of how the Company has applied and complied with the relevant provisions of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia), the Companies Act 2016, the Malaysian Code on Corporate Governance 2017 (MCCG 2017), the Corporate Governance Guide – 3<sup>rd</sup> Edition issued by Bursa Malaysia Berhad, in addition to benchmarking our practices against the ASEAN Corporate Governance Scorecard.

It is also my responsibility as Chairman to have a skilled, balanced and effective Board to support the stewardship role. In this regard, I am pleased to inform that the present Board has these dimensions which are essential for the long-term success of the Company. 62.5% of the Board composition comprises Independent Non-Executive Directors (INEDs) who have wide industry experience, regionally and internationally. These INEDs have brought the much needed perspective that is objective and balanced, hence, safeguarding the interests of all shareholders.

The Board reviews and guides the strategy for the Company and ensure effective implementation thereof by continuously monitoring business performance. Our Board Committees continue to play a vital role in supporting the Board. Each Board Committee Chairman provides a report to the Board on the proceedings of their respective Committee meetings. I am pleased to share that the Board has decided to set up a Board Risk Management Committee in 2019. This will ensure the effective assessment and management of business risks. The Board is also fully committed towards continuously improving the Company's governance practices and processes to meet the increasingly challenging operating environment.

We are optimistic we can sustain our record of continued profitability and growth. What matters to us is your confidence in our business and its governance framework.

As of the date of this report, I am pleased to inform that the Company has complied with the key Practices enumerated in the MCCG 2017. The status of the Company's application is reported in our Corporate Governance Report, which is accessible to the public on the Company's corporate website [www.mymesra.com.my](http://www.mymesra.com.my).

**DATUK MD ARIF MAHMOOD**  
Chairman

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of PDB believes that good corporate governance is an indication of the commitment by the Board to achieve the highest standards of professionalism and it strives to ensure that it is practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.

This Corporate Governance Overview Statement seeks to provide investors with vital insights into the corporate governance practices of PDB. In this Statement, the Board reports on the manner the Group has adopted and applied the statutory requirements, principles and best practices as set out in MMLR of Bursa Malaysia, Companies Act 2016, MCCG 2017 and Corporate Governance Guide – 3<sup>rd</sup> Edition issued by Bursa Malaysia Berhad, in addition to being benchmarked against the ASEAN Corporate Governance Scorecard.

PDB has generally complied with the MCCG 2017 for the period under review. The status of PDB's application of the MCCG 2017 is disclosed in our Corporate Governance Report which is accessible to the public at PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my).

## BOARD OF DIRECTORS

### BOARD COMPOSITION

The Board comprises eight members, one of whom holds an Executive Office, as Managing Director and Chief Executive Officer. As at the date of this Statement and as per best practice, none of the Board members are former Managing Director/Chief Executive Officers of PDB in the past two years.

During the year under review, Dato' Mohd Ibrahimnuddin Mohd Yunus resigned as MD/CEO of PDB by reason of him taking up another job assignment within PETRONAS Group. He was succeeded by Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir effective 1 June 2018. The profile of Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir is available on page 80 of this <IR>. The Board wishes to extend its gratitude to Dato' Mohd Ibrahimnuddin Mohd Yunus for his significant contribution and services during his tenure as MD/CEO of PDB.

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



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 of the fact that 62.5% of its composition comprises Independent Directors. The roles of Independent Directors are crucial particularly in the area of related party transactions where their presence is imperative to protect the interests of the minority shareholders.

The eight members of the Board are persons of integrity and calibre who have sound knowledge and understanding of PDB's business and provide a diversity of breadth in experience and knowledge.

The Directors are selected based on their individual merits and experience. The current Board composition comprises individuals of diverse backgrounds with expertise and skills, among others, in the oil and gas industry, economics, engineering, commercial, marketing, corporate planning and education. Four of the Non-Executive Directors have experience in the oil and gas industry. The current overall Board composition is adequate in terms of size and diversity of age and gender. This is to ensure diversity and inclusiveness of views as well as to facilitate effective decision-making and constructive deliberation during its meetings.

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

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.

Independent Non-Executive Directors have reaffirmed their independence based on the criteria of Independent Directors stipulated in the MMLR of Bursa Malaysia.

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

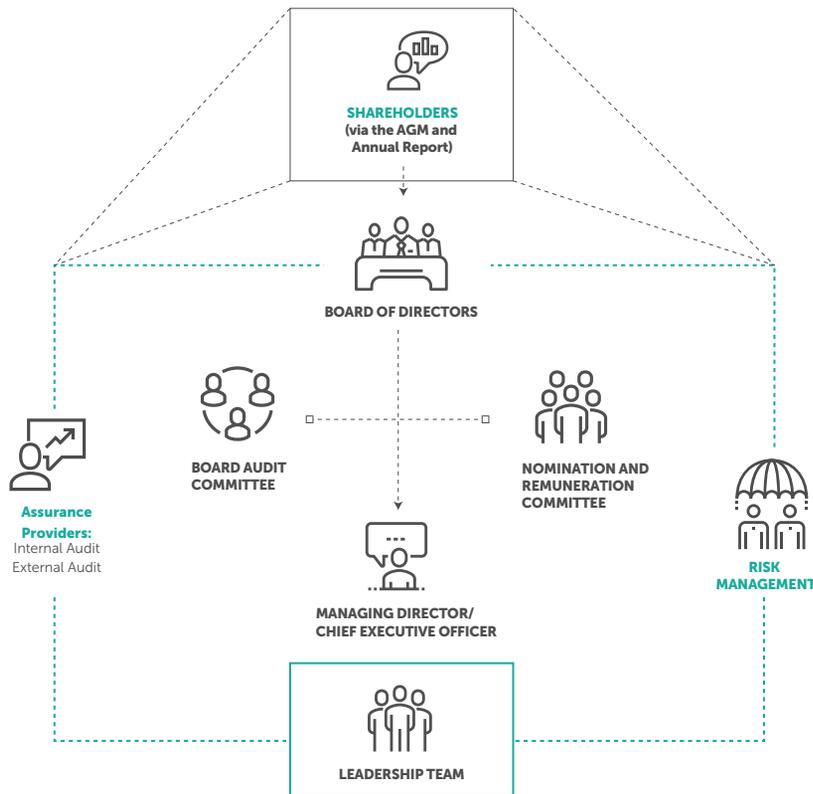
The Independent Non-Executive Directors do not participate in the day-to-day management of the Group nor engage in any business dealing or have any relationship with any companies within the Group. The Independent Non-Executive Directors play a significant role in providing unbiased and independent views, advice and judgement, taking into account the interests of relevant stakeholders including minority shareholders of PDB. As at the date of this report, the

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 PDB to ensure that such appointment would not unduly affect their time commitment and responsibilities to the Board.

 The profile of each Director is presented on pages 79 to 83 of this <IR>

## GOVERNANCE STRUCTURE

The Board is committed to ensuring that 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 PDB’s governance structure, an overview of the key Committees of the Board and other administrative committees.



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### HOW THE BOARD OPERATES

#### BOARD CHARTER

In discharging the Board's duties and responsibilities effectively, the Board is guided by its Board Charter, a document which sets out the principles and guidelines that are to be applied by the Board and Board Committees. The Board Charter shall be reviewed and updated from time to time to reflect relevant changes to the policies, procedures and processes as well as amendments to rules and regulations to ensure the document remains relevant and consistent with the applicable rules and regulations and recommended best practices.

 For more information on Board Charter, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

#### PRINCIPAL ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is entrusted with the overall governance of PDB, the responsibility to exercise reasonable and proper care of PDB's resources in 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 LT; and
- To be accountable to its shareholders, and to some extent, accountability 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 set out in the Board Charter.

#### INDIVIDUAL ROLES

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, in particular, the Chairman and the Senior Independent Director.

Additionally, the Board practices a clear demarcation of duties and responsibilities between Chairman and MD/CEO to ensure a balance of power and authority in the Board. The positions of Chairman and MD/CEO are held by two different individuals. A short summary of their roles and division of responsibilities is set out below:

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### 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.

### Roles and responsibilities:

- 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 Articles of Association;
- 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.



*For more information on Chairman's profile, please refer to page 79 of this <IR>*

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER

#### DATO' SRI SYED ZAINAL ABIDIN SYED MOHAMED TAHIR

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 LT in managing the business on a day-to-day basis, with whom he consults regularly.

#### Roles and responsibilities:

- Develops and recommends to the Board the long-term strategy and vision for PDB and/or Group that will lead to the creation of long-term prosperity and stakeholder value;
- Develops and recommends to the Board the business plan and budget that support PDB's and/or Group's long-term strategy;
- Fosters a corporate culture that promotes ethical practices, encourages individual integrity and the fulfilment of PDB's corporate social responsibilities;
- Maintains a positive and ethical working environment that is conducive to attracting, retaining and motivating a diverse workforce at all levels;
- Recommends suitable management structures and operating authority levels which include delegations of responsibilities to the Management;
- Ensures an effective LT below the level of the MD/CEO and developing an appropriate succession plan;
- Formulates and oversees implementation of major corporate policies;
- Accountable to the Board for the financial management and reporting, including forecasts and budgets of PDB;
- Reports periodically to the Board on the Group's financial and business performance;
- Ensures continuous improvement in quality and value of the PDB's products and services; and
- Serves as spokesperson for PDB.



For more information on the MD/CEO's profile, please refer to page 80 of this <IR>

### SENIOR INDEPENDENT DIRECTOR

#### LIM BENG CHOON

Lim Beng Choon fulfils the criteria of an Independent Director pursuant to the MMLR of Bursa Malaysia and was appointed as the Senior Independent Director of PDB on 12 February 2015.

#### Roles and responsibilities:

As a Senior Independent Director, Mr Lim Beng Choon acts as the main liaison between the Independent Directors and the Chairman on matters that may be deemed sensitive. He also provides an alternative communication channel for shareholders and stakeholders to convey their concerns and raise issues so that these can be channelled to the relevant parties.

All queries relating to the Group can be channelled to the Senior Independent Director's email address, [bengchoon.lim@petronas.com.my](mailto:bengchoon.lim@petronas.com.my) or directed to the following address:

Lim Beng Choon  
Senior Independent Director  
PETRONAS Dagangan Berhad  
Level 67, Tower 1, PETRONAS Twin Towers  
Kuala Lumpur City Centre  
50088 Kuala Lumpur, Malaysia



For more information on the Senior Independent Director's profile, please refer to page 80 of this <IR>

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### BOARD DIVERSITY

PDB's Diversity Policy ensures that the mix and profiles of our Board members, in terms of age 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 and gender all of which will ensure that PDB retains its competitive advantage.

In this regard, the Nomination and Remuneration Committee (NRC) is empowered to review and evaluate the composition and performance of the Board annually, as well as assessing qualified candidates to occupy Board positions. At any given time, the Board may seek to improve one or more aspects of its diversity and measure the progress accordingly.

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

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



For more information on the Board Diversity Policy, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

### BOARD MEETINGS AND ATTENDANCE

The Board meets at least quarterly with additional meetings convened as and when necessary. The Board, Board Committees and AGM meetings for the year under review were scheduled in November 2017 to facilitate the Directors in planning ahead and incorporating the said meetings into their respective schedules. Aside from Board meetings, urgent matters will also be decided via written circular resolutions.

At all meetings, the Board practises a strong culture of open debate and raises challenging questions. Matters deliberated at Board meetings include strategies, business plans and budget, financial and business performance reports, financial decisions, corporate risks reports, changes to the organisational structure within the Group, key policies, limits of authority and corporate governance. The respective Chairmen of the Board Audit Committee and Nomination and Remuneration Committee also update the Board on the proceedings of their respective Committee meetings. Relevant members of the LT attend Board meetings by invitation and report to the Board on matters pertinent to their respective areas of responsibility, to present new proposals or to brief on actions implemented pursuant to recommendations made by the Board. All proceedings of Board meetings are duly minuted and signed. Minutes of each Board meeting are properly kept by the Company Secretary.

The Directors' commitment in carrying out their duties and responsibilities is reflected by their attendance at the Board meetings held during the year under review. A total of five Board meetings were held during the year. 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.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

Meeting	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Nomination and Remuneration Committee Meeting	30 January 2018 and 22 February 2018			13 November 2018
Board Audit Committee Meeting	22 February 2018	16 May 2018	14 August 2018	15 November 2018
Annual General Meeting		25 April 2018		
Board Meeting	26 February 2018	18 May 2018	20 August 2018	30 October 2018 and 27 November 2018

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

No.	Name of Board Members	Designation/Independence	Attendance			
			Board	Committees		AGM
				BAC	NRC	
1	Datuk Md Arif Mahmood	Chairman, Non-Independent Non-Executive Director	3/5	–	–	✓
2	Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir	Executive Director	4/5	–	1/1	✓
3	Lim Beng Choon	Senior Independent Director	5/5	4/4	3/3	✓
4	Vimala V. R. Menon	Independent Non-Executive Director	5/5	4/4	3/3	✓
5	Datuk Anuar Ahmad	Independent Non-Executive Director	5/5	4/4	–	✓
6	Nuraini Ismail	Non-Independent Non-Executive Director	5/5	4/4	–	✓
7	Shafie Shamsuddin	Independent Non-Executive Director	5/5	–	2/2	✓
8	Alvin Michael Hew Thai Kheam	Independent Non-Executive Director	5/5	–	–	✓
9	Dato' Mohd Ibrahimuddin Mohd Yunus (resigned on 1 June 2018)	Executive Director	2/2	–	–	✓

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

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### BOARD STRATEGIC CONVERSATION

The Board Strategic Conversation with the LT of PDB was held on 19 to 21 August 2018 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 an informed decision-making by the Board.

The Board papers are circulated to all Directors at least five business days prior to each Board meeting. This enables the Directors to have sufficient time to peruse the Board papers and seek clarifications or further details from the Management or the Company Secretary before each meeting. Any Director may request matters to be included in the agenda. Urgent papers may be presented and tabled at meetings under the item "Any Other Business", subject to the approval of both the Chairman and MD/CEO.

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

Access to Board papers is carried out online through a collaborative software which allows the Directors to securely access, to read and review Board documents and collaborate with other Directors and the Company Secretary electronically, anytime and anywhere.

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

### BOARD EFFECTIVENESS EVALUATION 2018

During the year under review, the Board was satisfied that the Board members discharged their functions, duties and responsibilities in accordance with its Board Charter. The results of the Board Effectiveness Evaluation 2018 were presented to the Board in February 2019 where the Board noted the findings and areas that necessitated further improvements.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### HIGHLIGHTS OF BOARD ACTIVITIES DURING 2018

#### Strategy



- PDB Growth Strategy
- Business Plan and Budget for FY2019 to FY2023
- Update/Approval on PDB Project
- FY2019 PDB Organisation Structure

#### Performance



- Quarterly Group Performance
- Audited Financial Statements for FY2017
- Quarterly Results
- Quarterly Interim Dividend

#### Risk and Internal Controls



- Quarterly PDB Business Risk Report
- PDB Corporate Risk Profile
- Quarterly PDB's Litigation and Arbitration Cases
- Quarterly Audit Status Report
- Amendment to PDB's Investor Relations Policy
- Revision to PDB Limits of Authority and Summary of Authority

#### Governance



- 2017 Annual Report Statements
- Corporate Governance Report to Bursa Malaysia
- Appointment of Independent Non-Executive Directors
- Appointment and resignation of MD/CEO
- Appointment and Resignation of Company Secretary
- Board Succession Planning Framework
- Directors' Remuneration Framework and Proposed Revisions to the Remuneration Package for Non-Executive Directors of the Company
- Revision to the Tenure of an Independent Non-Executive Director and Proposed Amendment to the Board Selection Criteria
- Directors' Service Contract
- Indemnity and Directors and Officers Liability Insurance for PDB Group
- Performance Evaluation for Board of Directors and Board Committee Members
- Revision of Nomination and Remuneration Committee's Terms of Reference

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### BOARD COMMITTEES

To assist the Board in discharging its duties, the Board has established two Board Committees, namely, the Board Audit Committee and the Nomination and Remuneration Committee. These two Board Committees operate within their own defined terms of reference approved by the Board and report to the Board on matters considered and their recommendations thereon. The reports of these two Committees are set out on pages 105 to 118 of this <IR>.

### DIRECTORS' INDEMNITY

PDB maintained a Directors' and Officers' Liability Insurance throughout the financial year. Directors and Officers are indemnified against any liability incurred by them in the discharge of their duties while holding office as Directors and Officers of PDB.

### CONTINUING DEVELOPMENT PROGRAMME FOR DIRECTORS

As at the date of this report, all the Directors have attended the Mandatory Accreditation Programme as required under the MMLR of Bursa Malaysia.

The Directors are regularly updated on the Group's business activities and the competitive and regulatory environment in which the Group operates. As an integral part of the on-boarding programmes 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 of the development and changes in the industry the Group operates, as well as updated on new statutory and regulatory requirements.

During the year under review, the Directors participated in conferences, seminars and training programmes that covered areas of corporate governance, finance, global business developments and relevant industry updates in various capacities, as delegates and/or speakers, the details of which are set out below:

No	Director	Programmes Attended in 2018	Date
1.	Datuk Md Arif Mahmood	• World Economic Forum, Davos	20 to 27 February 2018
		• 3 <sup>rd</sup> Offshore Technology Conference (OTC) Asia 2018, Kuala Lumpur	20 to 23 March 2018
		• As Speaker at the Asia Petrochemical Industry Conference (APIC) 2018-Kuala Lumpur	20 to 21 August 2018
		• As Speaker at the Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) 2018, Abu Dhabi	12 to 14 November 2018
2.	Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir	• Asia Fuel Retail and Distribution Conference	26 June 2018
		• Young Professional Oil Connection Series #2	9 July 2018
		• University Technology PETRONAS International Conference on Humanity and Social Science	13 August 2018
		• Asia Petrochemical Industry Conference (APIC) 2018 – Kuala Lumpur	21 August 2018
		• Operational Excellence Forum and Award 2018	8 to 9 October 2018
		• PETRONAS Gas Berhad Commercial Excellence Forum	11 October 2018

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

No	Director	Programmes Attended in 2018	Date
3.	Lim Beng Choon	• Petroworld-Fuel Retail and Distribution Conference	26 to 27 June 2018
		• Malaysian Financial Reporting Standards 9, 15 and 16 Updates by KPMG	19 September 2018
		• Integrated Reporting	4 December 2018
		• Changes to the Malaysian Anti-Corruption Commission Act 2009	4 December 2018
		• Navigating 21 <sup>st</sup> Century Leadership Challenges for Board and Management	4 December 2018
		• Malaysian Financial Reporting Standards 16 – Leases	4 December 2018
4.	Vimala V.R. Menon	• Understanding Fintech and it's Implication for Banks	3 July 2018
		• Asia Petrochemical Industry Conference (APIC) 2018	20 to 21 August 2018
		• Introduction to Corporate Liability Provision	6 September 2018
		• Malaysian Financial Reporting Standards 9, 15 and 16 Updates by KPMG	19 September 2018
		• Plant Visit to Pengerang Integrated Complex, Johor	25 September 2018
5.	Datuk Anuar Ahmad	• Issues Relating to Directors and Officers under the Companies Act, 2016	17 January 2018
		• Managing Your Tax Affairs in the Current Economic Environment	17 January 2018
		• Bursa New Corporate Governance Guide – Coalition for Business Integrity Berhad	17 January 2018
		• Internal Audit for Board and Audit Committee	30 November 2018
6.	Nuraini Ismail	• World Capital Markets Symposium 2018	6 to 7 February 2018
		• Corporate Treasury and CFO Summit Malaysia	27 June 2018
		• PETRONAS Board Excellence Roundtable Programme	30 July 2018
		• Malaysian Financial Reporting Standards 9, 15 and 16 Updates by KPMG	19 September 2018
		• MFRS 16 Leases: Transforming Assets and Liabilities	28 September 2018
		• MIA International Accountants Conference 2018	9 to 10 October 2018
		• Strategic Insights Forum with WoodMackenzie	9 November 2018
		• EY – C Suite Forum	15 November 2018
7.	Shafie Shamsuddin	• PETRONAS Dagangan Berhad's Corporate Briefing Session	6 February 2018
		• Mandatory Accreditation Programme (MAP)	12 to 13 March 2018
8.	Alvin Michael Hew Thai Kheam	• PETRONAS Dagangan Berhad's Corporate Briefing Session	6 February 2018
		• Vodafone's Global Strategy	17 October 2018
9.	Dato' Mohd Ibrahimuddin Mohd Yunus (resigned on 1 June 2018)	• CIMB 10th Annual Malaysia Corporate Day	5 January 2018
		• PDB Operational Excellence R2 Forum	22 to 23 January 2018
		• Seminar Keselamatan Stesen Minyak – DOSH	7 March 2018

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### QUALIFIED AND COMPETENT COMPANY SECRETARIES

The 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.

During the year under review, Hasnizaini Mohd Zain vacated her position as Company Secretary effective 18 May 2018 and was replaced by Nur Nadia Mohd Nordin who also has a legal qualification.

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 themselves abreast of the evolving regulatory changes and developments in corporate governance through continuous training. During the year under review, the Company Secretaries attended the following training programmes:

No	Company Secretary	Programmes Attended in 2018	Date
1.	Nur Nadia Mohd Nordin (appointed on 18 May 2018)	• Related Party Transaction Training	25 June 2018
		• Advocacy Programme on Corporate Governance Assessment Using the Revised ASEAN Corporate Governance Scorecard Methodology	19 July 2018
		• ASIAN Legal Business Malaysia In-House Counsel Summit 2018	7 August 2018
		• Legally Speaking : Risk Management and Protection Against Officer and Director Liability	27 August 2018
		• The Inaugural Company Secretary Conference	2 to 3 October 2018
		• Making an Impactful Presentation – As Panelist	11 October 2018
		• Technical Briefing for Company Secretaries of Listed Issuers, Bursa Malaysia Berhad	26 October 2018
		• Introduction to Malaysian Business Reporting System (MBRS)	28 November 2018
2.	Yeap Kok Leong	• Provision of Financial Assistance and Related Party Transaction	8 August 2018
		• Share Buy-Back-Impact of Companies Act 2016 and Malaysian Code On Take Overs and Mergers 2016	17 August 2018
		• MIA International Accountants Conference – Riding the Digital Wave, Leading Transformation	9 to 10 October 2018
		• Decoding Transaction and Related Party Transaction Rules	2 November 2018
3.	Hasnizaini Mohd Zain (resigned on 18 May 2018)	• Drafting Course	28 February to 1 March 2018
		• Plant Onboarding Program for Lawyers	13 to 15 March 2018
		• Emergence of Comprehensive and Progressive Agreement for Trans-Pacific Partnership: Trans-Pacific Partnership Agreement without the USA	29 March 2018

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### RELATIONSHIP WITH SHAREHOLDERS

#### Communications between PDB and Investors

The dissemination of timely and accurate information is important for shareholders and investors to enable them to make informed investment decisions about PDB. 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 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 CFO and the Company's Investor Relations Unit conduct regular engagements 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](http://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 for 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 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 are also shared with shareholders during the AGM and the same is uploaded on PDB's corporate 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 tabled at an AGM is to be voted by poll. Since 2017, decisions at PDB's AGM have been 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, LT and external auditors are present at the AGM to provide answers and clarifications to shareholders.



*For more information on minutes of AGMs, please refer to PDB's corporate website at [www.mymesra.com.my](http://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 178 of this <IR>.

#### 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 Board Audit Committee Report and Statement on Risk Management and Internal Control on pages 105 to 111 and pages 119 to 129 of this <IR> respectively.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### 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 (WBP) and the Anti-Bribery and Corruption Policy (ABC). The adoption of these policies is to ensure that the conduct of business of PDB and its employees is consistently carried out ethically and with integrity.



For more information on CoBE, WBP and ABC, please refer to pages 130 to 131 of this <IR>

### Trading on Insider Information

On a quarterly basis, the Company Secretary issues a Notice of Closed Period to Directors and LT, highlighting the requirements with regard to dealing in the Company's shares during "Closed Period"/"Outside Closed Period" as they are in possession of price sensitive information relating to PDB.

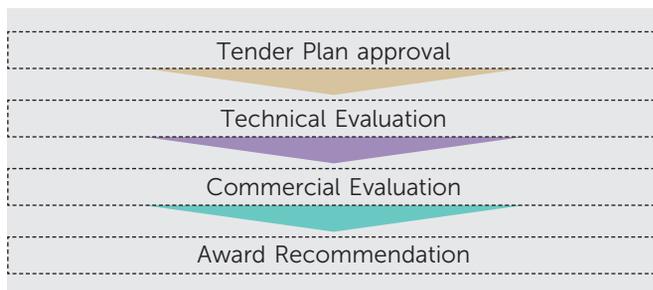
During the year under review, there were no cases reported on insider trading.

### Selection of Vendors

The Group adopts the PETRONAS tendering process and governing principles embedded in the PETRONAS Tenders and Contract Administrative Manual for vendors' selection.

Tender Committees have been established to carry out independent assessments on bidders' proposals and to ensure tendering activities are carried out in a transparent manner.

The 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 during the year under review to review the scope and adequacy of the Group's audit process, the annual financial statements and their audit findings. At the meeting, the External Auditors highlighted to the Board Audit Committee matters that warranted their attention.

#### Internal Audit

PDB's Internal Audit reports directly to the Board Audit Committee and has unrestricted access to the Board Audit Committee. The Internal Audit function is independent of the activities or operations of other operating units. The Internal Audit conducts regular audits on the effectiveness of internal controls and regulatory requirements. The audit reports which highlight any findings, along with the recommendations are tabled to the Board Audit Committee.



For more information on Internal Audit, please refer to pages 109 to 111 of this <IR>

### 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, Companies Act 2016, MCCG 2017 and Corporate Governance Guide – 3<sup>rd</sup> Edition issued by Bursa Malaysia Berhad and other applicable laws and regulations throughout the year ended 31 December 2018.

This Statement is made in accordance with a resolution of the Board of Directors dated 26 February 2019.

**Datuk Md Arif Mahmood**  
Chairman

# BOARD AUDIT COMMITTEE REPORT



**DEAR SHAREHOLDERS,**  
I AM PLEASED TO PRESENT THE BOARD AUDIT COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018. ■■

**VIMALA V.R. MENON**  
Chairman

## OVERVIEW

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 (NEDs).

## COMPOSITION

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 NEDs including three Independent Directors who fulfil the criteria of independence as defined in the MMLR of Bursa Malaysia. None of the Independent Directors has appointed alternate directors.

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
<b>Vimala V.R. Menon</b> Chairman, Independent Non-Executive Director	25 June 2012	6 years 8 months
<b>Lim Beng Choon</b> Member, Senior Independent Director	13 August 2012	6 years 6 months
<b>Nuraini Ismail</b> Member, Non-Independent Non-Executive Director	1 October 2013	5 years 4 months
<b>Datuk Anuar Ahmad</b> Member, Independent Non-Executive Director	15 April 2016	2 years 10 months

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.

## BOARD AUDIT COMMITTEE REPORT

### TERMS OF REFERENCE

The Terms of Reference (TOR) of the BAC which set out the authority, duties and responsibilities of the BAC are consistent with the requirements of the MMLR of Bursa Malaysia and the Malaysian Code on Corporate Governance 2017 (MCCG 2017). The TOR of the BAC are accessible to the public on PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my).

Pursuant to Practice 8.2 of the MCCG 2017, the Board, at its meeting held in February 2018, had agreed to include in the BAC Selection Criteria on 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 DURING THE FINANCIAL YEAR

The BAC meetings for the year under review were scheduled in November 2017 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 97 of this <IR>.

To facilitate deliberation of audit issues, the MD/CEO, CFO, Head of Internal Audit and External Auditors as well as Head of Risk Management Department attended the BAC meetings and provided the BAC their input, advice, appropriate relevant information and clarification on relevant items on the agenda.

The Head of Internal Audit Division (IAD) presented the internal audit reports to the BAC. As and when required, relevant members of the LT were invited to apprise the BAC on specific issues arising from the audit findings. The External Auditors also attended the BAC meetings to present the external audit plan for the year and the outcome of the statutory audits conducted on the Company and its subsidiaries.

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 meetings were distributed to the BAC members via a secured collaborative software, not less than five business days from the date of each meeting. Not only does this software ease the process of distribution of meeting papers and minimise leakage of sensitive information, it also enables 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 controls.

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

## BOARD AUDIT COMMITTEE REPORT

### WHAT THE COMMITTEE HAS DONE DURING 2018

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 with the MMLR of Bursa Malaysia, the applicable financial reporting standards as well as other relevant legal and regulatory requirements. The reviews and discussions 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 reviews and discussions 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 included assessments on the following areas:
  - i. Recognition of provisions for other receivables;
  - ii. Carrying value of inventories and any write-offs thereon;
  - iii. Recognition of revenue and expenses; and
  - iv. Implementation of MFRS 16: Leases.

#### External Audit

1. Reviewed and recommended the terms of engagement of the External Auditors for the Board's approval.
2. Reviewed the external audit reports 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 BAC meetings.
3. Reviewed and approved the External Auditor's annual audit plan for the Group, outlining their scope of work.
4. Reviewed the proposed fees for the statutory audit, together with fees for limited review of the quarterly consolidated financial statements. The BAC endorsed the proposed audit fees and the said fees were duly approved by the Board.
5. During the year under review, PDB engaged the External Auditors for non-audit services mostly for the quarterly financial review. The total fees paid to the External Auditors are as follows:

Particulars	2018		2017	
	Group RM'000	Company RM'000	Group RM'000	Company RM'000
Statutory Audit Fees	638	520	619	500
Non-Audit Fees	220	220	195	195
Percentage of Non-Audit Fees over Statutory Audit Fees	34%	42%	32%	39%

## BOARD AUDIT COMMITTEE REPORT

### Internal Audit

1. Reviewed and approved the risk-based FY2019 Annual Audit Plan and budget to ensure comprehensiveness of audit coverage, resource and competencies to execute the internal audit functions effectively.
2. Reviewed the internal audit, special reviews and investigation reports recommendations and the relevant action plans to strengthen PDB's overall system of governance, risk and internal controls. The BAC had also put forward various suggestions for improvement to reinforce the oversight role and to ensure that Management holds individuals accountable for their internal controls, risk and governance responsibilities.
3. Monitored the quarterly audit, special review and investigation findings status and deliberated the rectification actions and timelines taken by Management to ensure the control lapses were addressed and resolved promptly. The BAC also deliberated on the justifications given by Management for extension of rectification timeline and approved such request where the justifications were acceptable.
4. Assessed the performance of the Head of IAD and his staff with regard to their ability to provide independent and objective assurance in conformance with recognised international standards.

### Internal Control

1. Reviewed the effectiveness of the system of internal controls, taking into account the findings from internal and external audit reports.
2. Reviewed the Statement on Risk Management and Internal Controls (SORMIC), which was subject to an independent review by KPMG PLT.
3. Reviewed on a quarterly basis, all Related Party Transactions (RPTs) and Recurrent Related Party Transactions (RRPTs).
4. Reviewed the RPTs and RRPTs process audited by PricewaterhouseCoopers.

### Annual Reporting

The BAC reviewed the disclosures on the Corporate Governance Overview Statement, BAC Report and SORMIC for the financial year ended 31 December 2018 for inclusion in the 2018 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 90 to 111 and pages 119 to 129 of this <IR> respectively.

### Risk Monitoring

1. Reviewed and endorsed for Board's approval 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 (BRR).

### 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 at arm's length basis, and not detrimental to the interests of the minority shareholders.

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

## BOARD AUDIT COMMITTEE REPORT

### 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 that appropriate risk management processes are in place to protect shareholders' and stakeholders' value.

The Risk Management Department (RMD) of PDB has been tasked with conducting assessment of risks for the PDB Group of Companies and reports to the BAC on a quarterly basis. The RMD also reports on the status of identified control measures through the BRR, a reporting tool pursuant to Practice 9.1 of the MCCG 2017. For more information on risk management, please refer to SORMIC on pages 119 to 129 of this <IR>.

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

### INTERNAL AUDIT FUNCTION

#### Line of Reporting

The mission of IAD is to enhance and protect the organisation's value by providing risk-based and objective assurance, advice and insight.

IAD assists the organisation to accomplish its goals by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes within the Group.

The Head of IAD reports directly to the BAC and administratively to MD/CEO to ensure impartiality and independence in executing his role. It is currently headed by Baba-A Rahman Tiriman effective 1 April 2018, succeeding Abu Bakar Baba who has assumed a new portfolio within PETRONAS Group. The incumbent, Baba-A Rahman Tiriman holds a Bachelor Degree in Business Administration (1<sup>st</sup> Class Hons) from International Islamic University, Malaysia.

He has spent more than four years in Internal Audit function at PETRONAS Group specifically overseeing the downstream sector of the business. He has had nine years' experience specialising in retail and commercial business within the PETRONAS Group.

#### Practices and Framework

The Internal Audit function is guided by its Audit Charter as approved by the BAC which defines its responsibilities, authority and scope of work within the Group.

Internal Audit functions are guided by the Internal Audit Manual as well as the International Professional Practices Framework. Internal Audit functions adopt the five components set out in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) namely:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities.

COSO is an internationally recognised organisation providing guidance on internal controls, enterprise risk management and governance.

## BOARD AUDIT COMMITTEE REPORT

### Scope and Coverage

IAD continues to adopt a risk-based approach to ensure that audit plans are prioritised based on the Group’s key risks covering critical areas and functions to support business strategic objectives. In deriving the audit plan, the IAD gathers inputs from various sources including:



During the year under review, IAD performed reviews on various key business and risk areas of the Group as per the approved internal audit plan and presented the reports for the following audits to the BAC:

No.	Title
1	Audit on Product Sourcing Activities
2	Audit on Overall Governance of Joint Venture Management in PDB
3	Audit on PETRONAS Station Dealership Management Activities
4	Audit on Implementation of Talent Management Framework for PDB Staff
5	Audit on Operational Excellence and Health Safety Environment for PDB
6	Audit on Order Fulfilment Activities and Secondary Distribution
7	Audit on Procurement Activities for Third Party Transactions
8	Audit on Information Technology Vendors and Information Technology Asset Management

The audit reports were forwarded to the Management of the relevant divisions/departments for the necessary corrective actions. The LT would submit the implementation status of Agreed Corrective Actions (ACA) to the IAD on a monthly basis until fully resolved for quarterly reporting to the Risk Management and Governance Committee (RMGC) and the BAC.

The Managements of the relevant divisions/departments are 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 thereafter submitted and presented to the BAC.

The Quality Assurance and Improvement Program (QAIP) continues to be used to assess the quality of audit processes. It is an ongoing and periodic assessment that covers the entire spectrum of Internal Audit activities. The QAIP assesses the efficiency and effectiveness of the audit processes and appropriate recommendations as well as opportunities for improvement are identified through the internal and external assessments. The results of the QAIP are reported to RMGC and BAC.

## BOARD AUDIT COMMITTEE REPORT

### Resources

The Group incurred RM3.1 million for its internal audit activities in 2018. A total of eight audits were performed by ten internal auditors from diverse backgrounds and disciplines such as accounting, finance, business management, marketing, engineering, energy management, commerce and information technology.

Annually, internal auditors are assessed via individual Online Functional Assessment to determine the learning and development needs to further enhance their competencies. The functional competencies are continuously developed based on the established Internal Audit Competency Framework issued by The Institute of Internal Auditors.

In order to perform their functions effectively, the auditors undergo continuous trainings to equip themselves with the business acumen and standard practices and leveraging both from in-house and external accredited training providers.

Additionally, to enhance the auditors' competencies and their continued professional development, a customised certification programme has been designed for auditors to enable them to pursue their careers as certified internal auditors.

### BAC EFFECTIVENESS REVIEW AND PERFORMANCE

During the year under review, the Board assessed the performance of the BAC through an annual Board 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 is 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 is not required.



**Vimala V.R. Menon**  
Chairman  
Board Audit Committee

# NOMINATION AND REMUNERATION COMMITTEE REPORT



“**DEAR SHAREHOLDERS,**  
I AM PLEASSED TO PRESENT THE NOMINATION AND REMUNERATION COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018. ”

**LIM BENG CHOON**  
Chairman

## OVERVIEW

This report provides shareholders with valuable insight into the activities of the Nomination and Remuneration Committee (NRC) during the year under review and how the NRC plays a key oversight role for the Board. As at the date of this report, the NRC is made up of three Independent Non-Executive Directors (INEDs).

## COMPOSITION

The NRC comprises exclusively 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, majority of whom are independent directors. The NRC is chaired by a Senior Independent Director which is consistent with Practice 4.7 of Malaysian Code on Corporate Governance 2017 (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
<b>Lim Beng Choon</b> Chairman, Senior Independent Director	7 August 2014	4 years 6 months
<b>Vimala V.R. Menon</b> Member, Independent Non-Executive Director	21 February 2017	2 years
<b>Shafie Shamsuddin</b> Member, Independent Non-Executive Director	6 February 2018	1 year

## 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 have been complied with.

 For more information on TOR of the NRC, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

### MEETINGS AND ATTENDANCE

The NRC meetings for the year under review were scheduled in November 2017 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 97 of this <IR>.

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 LT.

During the year under review, the agenda and meeting papers relevant to the business of the meeting were distributed to the NRC members via a secured collaborative software, no 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. It also enables the NRC members to have access to the proposal papers electronically, anytime and anywhere.

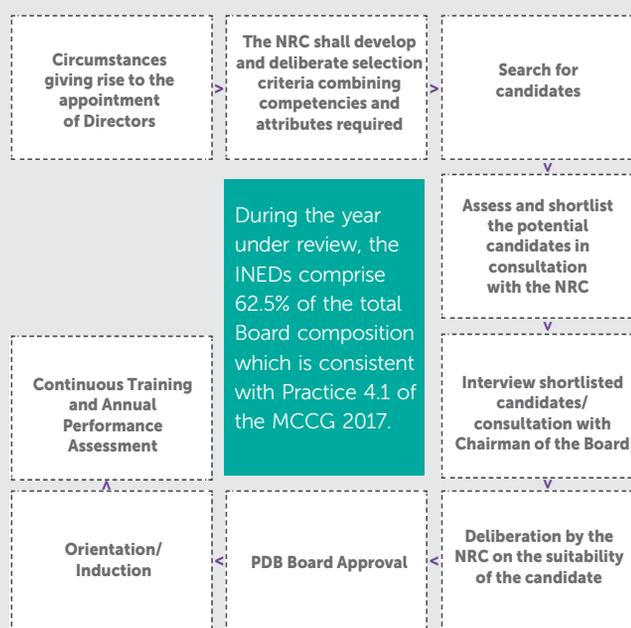
All proceedings of the NRC meetings were duly recorded in the minutes of each meeting and the signed minutes of each NRC meeting were properly kept by the Secretary. Minutes of the NRC meeting were tabled for confirmation at the following NRC meeting, after which they were presented to the Board for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

### BOARD APPOINTMENT PROCESS

PDB practices a formal and transparent process on 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 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 fulfil his or her role as a director. Diversity in terms of age and gender is also considered during the selection process.

The Board appointment process is summarised in the chart below:



## NOMINATION AND REMUNERATION COMMITTEE REPORT

### DIRECTORS' 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 Article 93 and 96 of PDB's Constitution.

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

The NRC at its meeting held on 13 November 2018 gave its endorsement for the following Directors to be considered for re-election pursuant to Article 93 of PDB's Constitution at the PDB's 37<sup>th</sup> AGM scheduled to be held on 25 April 2019:

- 1) Lim Beng Choon
- 2) Vimala V.R. Menon
- 3) Datuk Anuar Ahmad

Since 2014, the NRC has implemented a policy whereby INEDs are appointed for a tenure of three years. Further extension of the tenure is subject to the review and recommendation of the NRC which is subsequently submitted to the Board for consideration. In assessing the candidates' eligibility, the NRC considers their competencies, commitment, 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 whereby the INEDs' total tenure is capped at nine years. As at the date of this report, none of the INEDs has served the Board more than nine years.

There was no new appointment of Director after the 36<sup>th</sup> AGM. Hence, the retirement of a newly appointed Director and re-election thereon pursuant to Article 96 of the PDB's Constitution is not applicable.

### BOARD EFFECTIVENESS EVALUATION

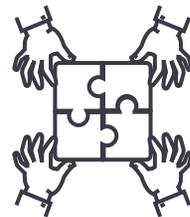
Every year, under the purview of the NRC, a BEE is undertaken to assess the effectiveness of the following:



The Board as a Whole and the various Board Committees



Contribution of each Individual Director



Independence of Independent Directors

During the year under review, the BEE was internally conducted and the process covered the Board, Board Committees, Peer and Self Evaluations. The 2018 BEE focused on maximising the effectiveness and performance of the Board and its Committees in the best interest of PDB. The BEE results were objectively analysed by an independent party.

## NOMINATION AND REMUNERATION COMMITTEE REPORT

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

AREAS OF BOARD EVALUATION ASSESSMENT		
<p><b>GROUP DYNAMICS AND EFFECTIVENESS</b></p> <ul style="list-style-type: none"> <li>• Overall Impression of the Board</li> <li>• Overall Board Effectiveness</li> <li>• Board Involvement and Engagement</li> </ul>	<p><b>STRUCTURE AND COMPOSITION</b></p> <ul style="list-style-type: none"> <li>• Organisation/Composition of the Board</li> <li>• Overall Committee Organisation</li> <li>• Board Audit Committee Deep Dive</li> <li>• Nomination and Remuneration Committee Deep Dive</li> <li>• Roles and Duties of Board Members</li> <li>• Looking forward, including Strategy, Succession Planning and Development</li> </ul>	<p><b>COMMUNICATIONS</b></p> <ul style="list-style-type: none"> <li>• Communication with Shareholders</li> </ul>
SELF-PEER ASSESSMENT		
<p><b>KNOWLEDGE AND UNDERSTANDING ON:</b></p> <ul style="list-style-type: none"> <li>• Role that a Board plays in governance and as Company Director</li> <li>• Mission and vision</li> <li>• Strategic needs and development</li> <li>• Market</li> <li>• Critical success factors</li> <li>• Performance measures</li> <li>• International businesses</li> <li>• Financial discussions</li> <li>• Legal and compliance duties</li> <li>• Risk management</li> <li>• Board effectiveness</li> <li>• Differentiate strategy/policy issues and operational matters</li> </ul>		
<p><b>SKILLS AND EXPERIENCE</b></p> <ul style="list-style-type: none"> <li>• Analytical skills</li> <li>• Relevant functional insights</li> <li>• Relevant industry insights</li> </ul>	<p><b>PREPARATION FOR BOARD MEETINGS</b></p> <ul style="list-style-type: none"> <li>• Time commitment</li> <li>• Contribution</li> <li>• Pre-reading of all board papers</li> </ul>	<p><b>INDEPENDENCE</b></p> <ul style="list-style-type: none"> <li>• Ability to speak openly and honestly</li> </ul>
<p><b>BUILDING RELATIONSHIP</b></p> <ul style="list-style-type: none"> <li>• Board colleagues</li> <li>• Board and Management</li> <li>• Display confidence in other Directors' abilities</li> <li>• Listen attentively to ideas</li> </ul>		<p><b>PROFESSIONAL DEVELOPMENT</b></p>

## NOMINATION AND REMUNERATION COMMITTEE REPORT

### BAC EFFECTIVENESS REVIEW

Pursuant to Paragraph 15.20 of the MMLR of Bursa Malaysia, the NRC has also reviewed the performance of the BAC and was satisfied that the BAC and its members discharged their functions, duties and responsibilities in accordance with its TOR. The results of the BEE 2018 were presented to the NRC in February 2019 where the NRC noted the findings and areas that necessitated further improvements.

### NRC EFFECTIVENESS REVIEW

Based on the 2018 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 had put in place succession planning principles and processes 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. As the NRC is clear that a thoughtful Succession Planning can improve the composition and effectiveness of a Board, the NRC also deliberated on succession planning for Directors who are about to reach their nine-year tenure.

In addition to the Succession Planning for Directors, the NRC also reviewed the Succession Plan for the LT 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 LT.

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

During the year under review, PDB undertook a review of the NEDs' remuneration and carried out a benchmarking exercise against selected companies in Malaysia. Based on the findings, the Board recommended an increase in the Directors remuneration effective 1 January 2018 and the approval from the shareholders was obtained at PDB's 36<sup>th</sup> AGM held on 25 April 2018 in view that the prevailing remuneration prior to the increase was found to be not competitive compared to the market. The remuneration increase also effected to be commensurate with the increase in responsibilities of the Chairman and the NEDs.

## NOMINATION AND REMUNERATION COMMITTEE REPORT

### DIRECTORS' FEES

The Directors' fees structure which embraces market practices and trends is designed to attract and retain high calibre Board members and to ensure they are appropriately paid for their time and effort.

The shareholders had approved the Directors' Remuneration Framework at its 36<sup>th</sup> AGM held on 25 April 2018. The fee structure of NEDs of PDB consists of the following:

Particulars	Monthly Fees	Meeting allowance per attendance		
		Board	Board Audit Committee	Nomination and Remuneration Committee
Chairman	RM24,000	RM3,500	RM3,500	RM3,500
Member	RM12,000	RM3,500	RM3,500	RM3,500

Note: Malaysian Resident INEDs 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 Directors' fees and meeting allowances for NINEDs who are also employees of PETRONAS are paid directly to PETRONAS. The presence and participation of the NINEDs gives 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 at PDB's corporate website [www.mymesra.com.my](http://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.

Both Dato' Mohd Ibrahimuddin Mohd Yunus and Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir, are employees of PETRONAS and are seconded to PDB. During the year under review, PDB paid RM1,187,778.95 being payroll cost and benefits ordinarily incurred in the course of their secondment to PETRONAS.

During the year, Dato' Mohd Ibrahimuddin Mohd Yunus served as MD/CEO from 1 February 2014 until 31 May 2018 whilst Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir was appointed as MD/CEO on 1 June 2018.

### LEADERSHIP TEAM

The LT 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 management positions of PDB.

## NOMINATION AND REMUNERATION COMMITTEE REPORT

### WHAT THE COMMITTEE HAS DONE DURING 2018

During the year under review, the NRC carried out the following activities in discharging its functions and duties:

#### Board Membership

- Reviewed and nominated two new INEDs for Board appointment;
- Reviewed the Directors' Remuneration Framework and revisions to the remuneration package for NEDs;
- Reviewed the Indemnity and Directors and Officers Liability Insurance for PDB Group;
- Reviewed the revision to the tenure of the INEDs and amendment to the Board Selection Criteria;
- Reviewed the Directors' Service Contract for services as Directors for PDB;
- Reviewed the Board Succession Planning Framework;
- Reviewed updates on Board Succession Planning;
- Recommended the Directors standing for re-election at the forthcoming AGM; and
- Identified programmes/events for the continuous education of the Board members to ensure that they are up-to-date on new regulations and are conversant with industry trends and developments.

#### Performance Management

- Reviewed and evaluated the Senior Management's performance for the financial year 2017;
- Reviewed the PDB LT Succession Planning;
- Reviewed the change of MD/CEO; and
- Reviewed the remuneration framework of the Senior Management and the result of the benchmarking against the market.

#### Board Effectiveness Evaluation

- Approved the BEE questionnaires;
- Assessed the findings of the BEE; and
- Reviewed the follow up actions on the 2017 BEE recommendations.

#### Governance

- Reviewed the disclosures in the NRC Report for the financial year ended 31 December 2018 for inclusion in the 2018 Annual Report to ensure they were prepared in compliance with the relevant regulatory requirements and guidelines;
- Reviewed the revision to the NRC's TOR; and
- Reviewed the group positioning on the application of the MCCG 2017.



**LIM BENG CHOON**

*Chairman*

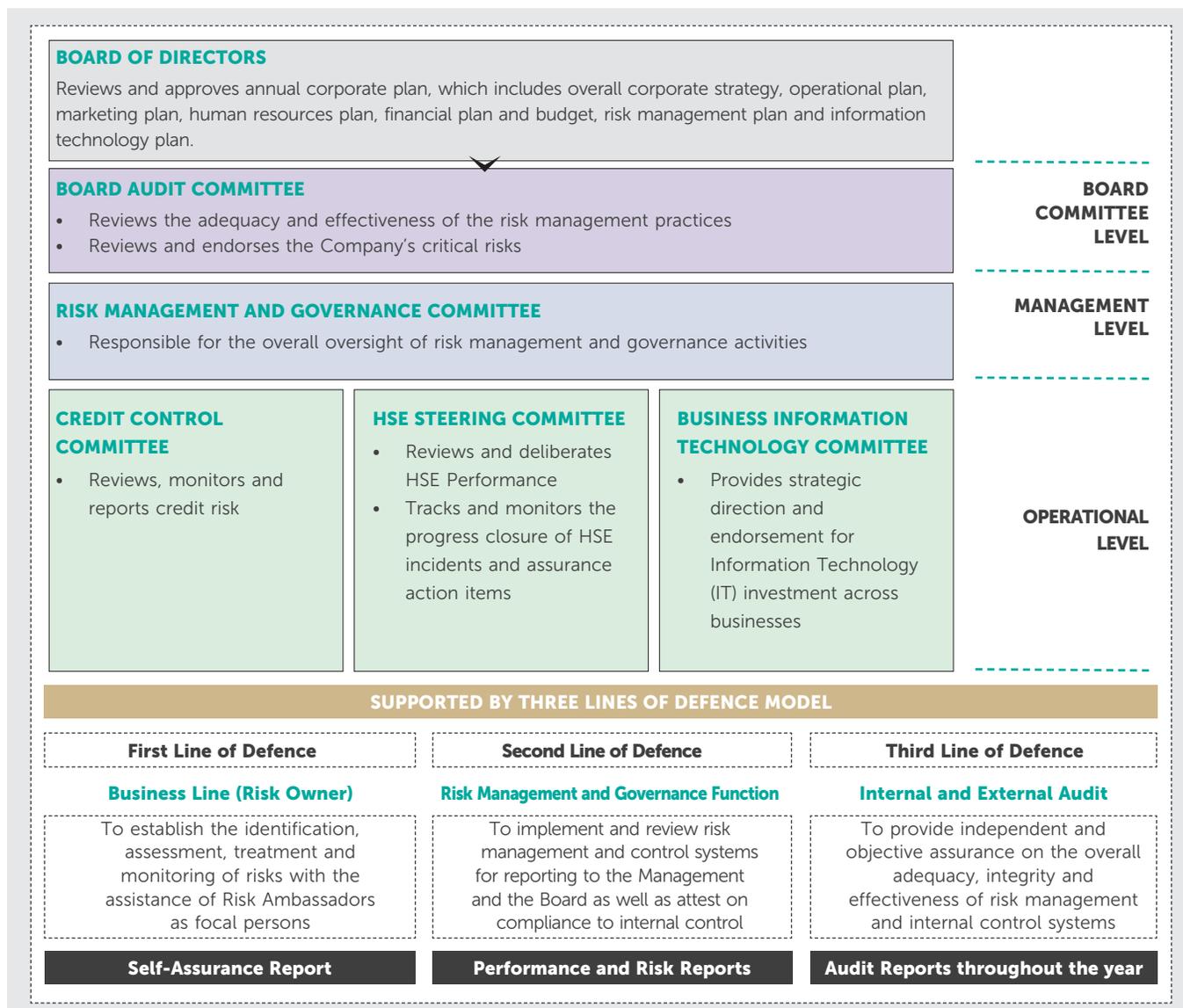
Nomination and Remuneration Committee

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## RISK MANAGEMENT AND INTERNAL CONTROL AT PDB

### MONITORING RISKS THROUGHOUT THE GROUP

The Board is committed to maintaining and continuously improving 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 of the fact that implementation of a sound risk management framework helps the Group to achieve its performance and profitability targets by incorporating risk information to facilitate better decision-making, whilst firm internal controls enable appropriate preventive measures to manage risks. The Group’s system of risk management and internal control aims 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.



# 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 the Risk Management and Governance Committee (RMGC) before it is deliberated at the BAC and the Board. The 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 the 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.

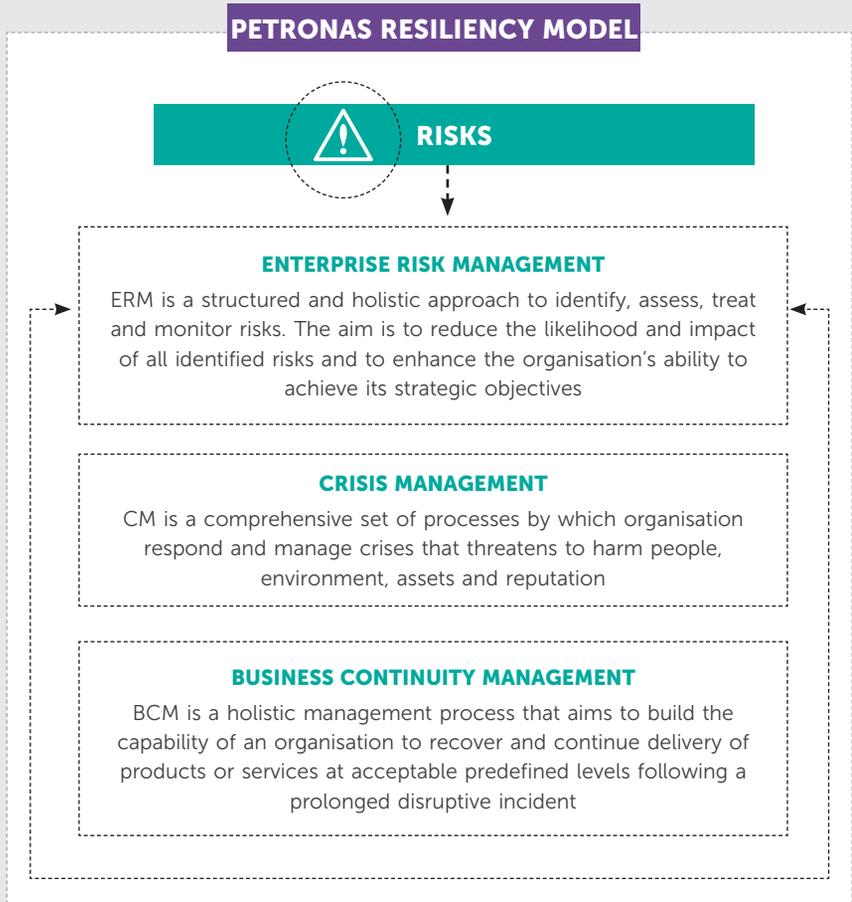
## PDB RISK POLICY

*“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.



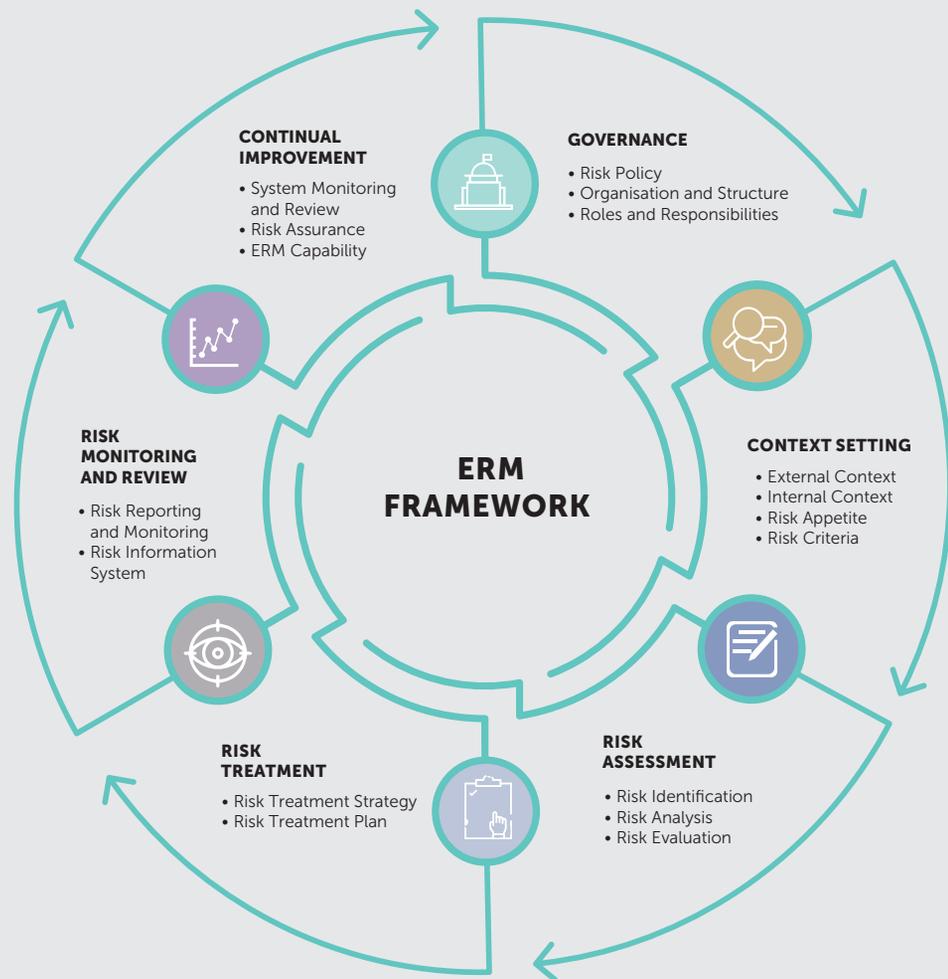
## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### 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

- 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.

PETRONAS Enterprise Risk Management Framework

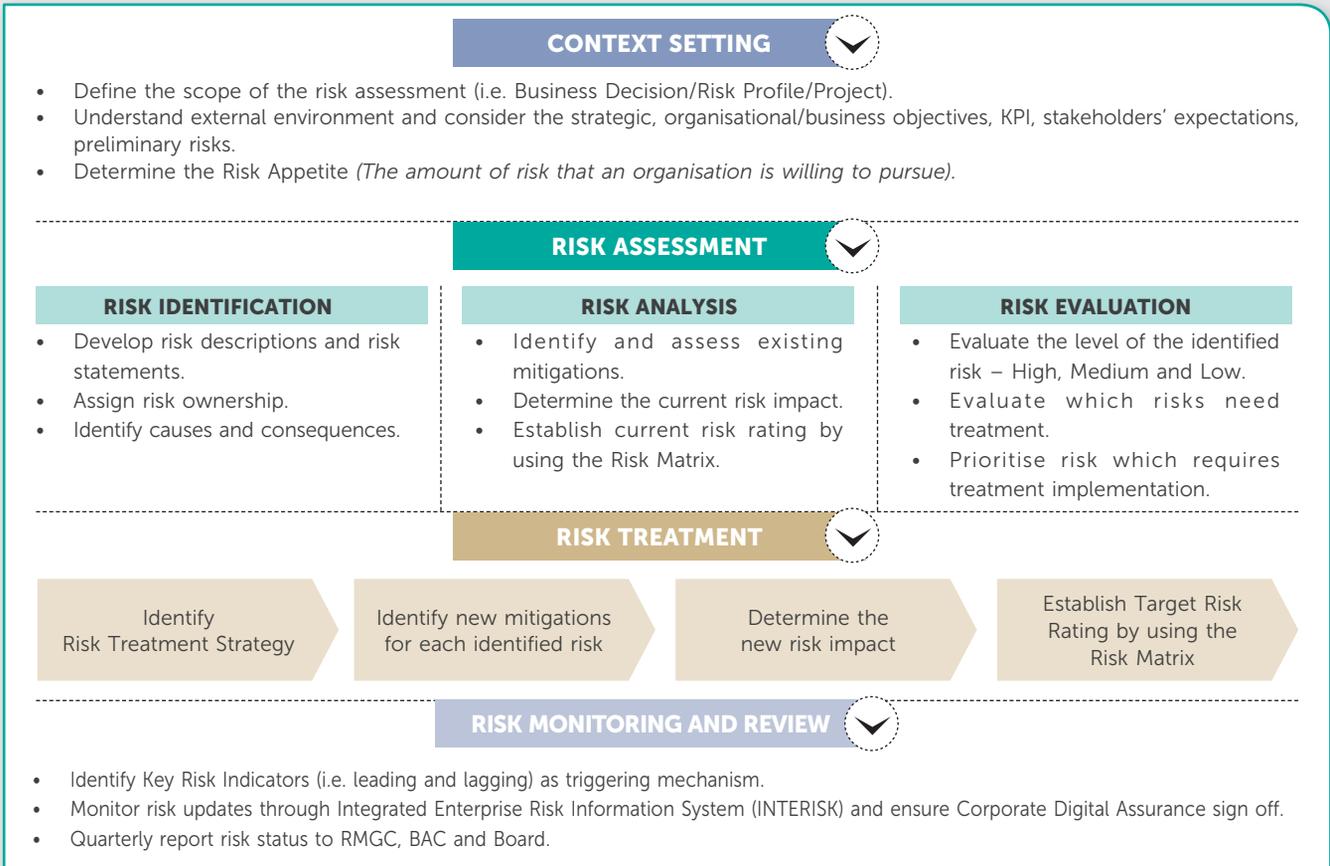


Risk profiles which consist of identified critical risks and their corresponding risk mitigations as well as key risk indicators are reviewed annually based on the ERM process. It allows actions to be taken to ensure that risks are being effectively managed by respective units, endorsed by the Heads of Division or Department and reported to RMGC, BAC and Board on a quarterly basis.

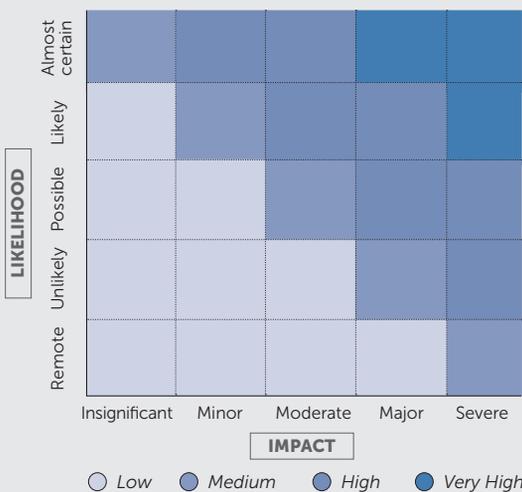
During the year under review, risk profiling exercises were conducted across the Group with involvement from Management and Subject Matter Experts. In performing the exercises, various inputs are analysed in setting the context, which include both internal and external factors as well as emerging risks that may impact the Group’s businesses and operations. The annual risk profiling and assessment process are guided by business strategies and plans. On an annual 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:



## 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 the 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 emergencies and crises in its business operations in order 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 types 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 an 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) Directives. 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.

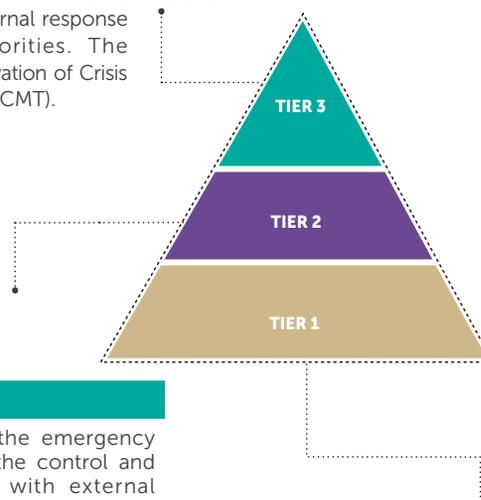
### PDB THREE-TIERED RESPONSE PROTOCOL

#### TIER 3

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 requires activation of Crisis Management Team (CMT).

#### 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

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).

#### TIER 1

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.

#### 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.

#### EMERGENCY RESPONSE TEAM (ERT)

ERT is the tactical response team to carry out tasks under the direction of On-Scene Commander (OSC). The OSC's responsibility is to ensure that the response is carried out in a safe and efficient manner.

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.



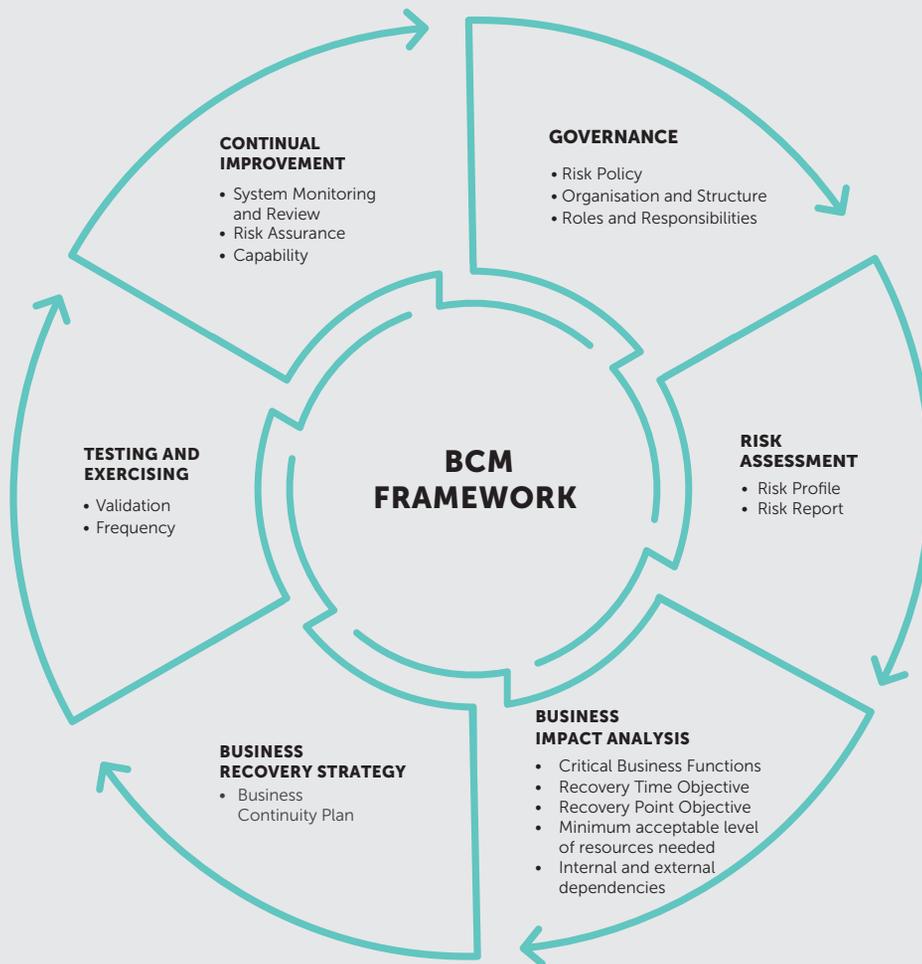
For more information on our Emergency Preparedness, please refer to Driving Sustainability on page 150 of this <IR>

## 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 crisis.

#### PETRONAS Business Continuity Management Framework



The BCMF consists of six key elements that make 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 continued to review the Business Recovery Strategy (BRS) of relevant departments or divisions to ensure validity of the current Business Continuity Plan (BCP).

The Company also conducted Emergency Notification System (ENS) Testing to ensure supplementary communication is provided successfully to critical staff in the event of BCP activation as well as BCP walkthrough testing on ICT related systems to ensure resumption of business operation in case of system disruption.

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 AUDIT

The Internal Audit (IA) function includes undertaking reviews of PDB's system of internal controls, operations and selected key activities based on risk assessment and in accordance with the annual internal audit plan which is presented and approved by the BAC.

The key responsibility of the IA function is to assist PDB Group in accomplishing its goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

The IA function conducts a risk-based audit of the Group's system of internal controls, its operations and key activities as per the annual audit plan approved by the BAC. IA as the third line of defence also ensures the effectiveness of the respective roles executed by the first and the second line of defence.

The IA maintains its impartiality, proficiency and due professional care by having its plans and reports directly under the purview of the BAC.

The IA processes and activities are guided by the approved Internal Audit Charter and adopts the standards outlined in the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA). In evaluating an entity's system of internal control, IA subscribes to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework.

 For more information on the Internal Audit functions, please refer to the BAC Report on pages 109 to 111 of this <IR>

### KEY ELEMENTS OF 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 every quarter in order to maintain its full and effective supervision on the overall governance of the Group. The MD/CEO leads the presentation of board papers and provides comprehensive explanation on pertinent issues. The Board considers and deliberates the proposals prior to making decisions.

The Board is updated on the key risks arising from changes in the business and external environments which may result in significant impact on 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 93 of this <IR>

#### 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 a summary of the principal activities of the BAC, please refer to the BAC Report on pages 105 to 111 of this <IR>

### 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.

LT serves in advisory capacity to the MD/CEO across the Group in accomplishing the vision, mission, strategies and objectives set for the Group.

### HSE MANAGEMENT SYSTEM

PDB HSE Management System (HSE MS) is a management framework that provides guidelines 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 as per planned frequencies (Monthly, Quarterly and Annually) 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, the 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.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### LIMITS OF AUTHORITY

The Group has established Limits of Authority (LOA) which define the appropriate approving authorities to govern and manage business decision process. The LOA set 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 specifies the right authority and accountability within the Group and facilitates decision making at the appropriate level in the Group hierarchy.

### CORPORATE FINANCIAL POLICY

The Group adopts 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 practises the PETRONAS CoBE which emphasises and advances the principle of discipline, good conduct, professionalism, loyalty, integrity and cohesiveness that are critical to the success and well-being of the Group. The CoBE contains policy statements on the standards of behaviour and ethical conduct expected of each individual of the Group. The Group also expects that contractors, sub-contractors, consultants, agents and representatives and others performing work or services for or on behalf of the Group to comply with the relevant parts of the CoBE when performing such work or services. The CoBE expressly prohibits improper solicitation, bribery and other corrupt activity not only by employees and directors but also by third parties performing work or services for or on behalf of companies in the PETRONAS Group.

Included as part of the CoBE is the 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 130 of this <IR>*

### WHISTLEBLOWING POLICY

The Group adopts the PETRONAS Whistleblowing Policy (WBP) which provides an avenue for the Group's employees and members of the public to disclose any improper conduct, in accordance with the procedures as provided under the WBP.

Under the WBP, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who is an internal whistleblower will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts and the rules and procedures involved. The process is undertaken through PETRONAS's Whistleblowing Committee.



*For more information on WBP, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)*

### RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Policies and Procedures on Related Party Transactions (RPTs) and Conflict of Interest (COI) Situations (collectively, P&P) have 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 P&P requires the use of various processes to ensure that RPTs/RRPTs are conducted on an arm's length basis, which is 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 and/or disclosed to the regulators and governing bodies.

It also prescribes the processes required to identify, evaluate, approve, monitor and report RPTs/RRPTs as well as 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 P&P sets forth the following:

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- 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 such 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 with 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 a written 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 immediately known to them;
- The Directors have completed their declaration of interest forms for the financial year under review in line with the Policy and Procedure; 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 FCF 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 with key controls for their respective business areas. The FCF thus provides assurance on the quality of the Group's financial reports.

### PETRONAS ECONOMIC SANCTIONS AND EXPORT CONTROL POLICY AND GUIDELINES

PDB has put in place an Economic Sanctions and Export Control Policy and Guidelines and is committed to complying with the relevant economic sanctions and export control regulations in jurisdictions where it operates.

### CORPORATE PRIVACY POLICY

PDB has put in place a Corporate Privacy Policy to adequately safeguard the privacy and personal data of its employees as well as third parties. This robust Corporate Privacy Policy and its related implementation framework enables PDB to meet and comply with applicable privacy and personal data protection laws in relevant countries in which PDB operates.

### CREDIT RISK FRAMEWORK AND GUIDELINES

PDB has adopted the PETRONAS Credit Risk Framework and Guidelines to facilitate 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 decisions. To reduce its credit risk exposures, PDB applies Credit Risk Management methodology as set in 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. Trade receivables ageing are also deliberated monthly at the PDB Credit Control Committee, where overdue balances, with certain criteria, are highlighted and actions to be taken agreed.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### RISK CONTROL SELF-ASSESSMENT

PDB has embarked on a Risk Control Self-Assessment initiative, a self-assessment of internal controls focusing on process controls conducted by process owners through testing and monitoring. On annual basis, each key process owner at various management levels is required to complete and submit a Letter of Assurance which provides confirmation of compliance with key controls for the areas of the business for which they are accountable. Subsequently, the MD/CEO and CFO provide overall assurance to the Board on the adequacy and effectiveness of key internal controls of the Group.

### GUIDELINES FOR COMPETITION LAW

PDB has put in place the Guidelines for Competition Law which are 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.

### CORPORATE DISCLOSURE GUIDELINE

The Corporate Disclosure Guide (Guide) is established in line with PDB's commitment in ensuring effective disclosure of corporate information via Bursa Malaysia Securities Berhad (Bursa Malaysia). It aims to serve as a guidance framework in delivering accurate, timely, consistent and fair disclosure of information.

The objective of this Guide is to create awareness on the related obligations under the Main Market Listing Requirements of Bursa Malaysia and to ensure compliance with legal regulatory requirements on information disclosure.

### DATA SECURITY

PDB has developed a Data Secrecy Manual to ensure that the confidentiality of customers' personal 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 training requirements for both employees and third party service providers.

### PROCUREMENT GUIDELINE

PETRONAS's procurement objectives are to ensure timeliness is met and procurement activities are cost-effective 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 the development of business strategies for the next five years and the establishment of key performance indicators against which the overall performance of the Group, including the respective performance of business segments and companies within the Group, can be measured and evaluated. Detailed operating and capital expenditure requirements are tabled to the Board for approval prior to the commencement of a new financial year. The Group's performances are reported internally on a monthly basis to the LT. The Group's quarterly performances are also presented to the Board with comparison to approved plans as well as against prior periods.

### EMPLOYEE PERFORMANCE MANAGEMENT

PDB has adopted PETRONAS's Employee Performance Management (EPM) that emphasises the importance of continuous engagement in managing performance in achieving a High Performing Organisation. Its framework focuses on Coaching, Review and Feedback that accelerate the journey towards becoming a High Performance Organisation; empowering employees to drive and manage their performance that are aligned with the PDB Group's business objective and targets.

### INFORMATION TECHNOLOGY

The Group adopts policies which aim to uphold and govern the integrity of the Group's cybersecurity, data governance and infrastructure which are in line with PETRONAS Group's policies.

The ever changing environments and evolution of information technology call for continuous reviews, updates, enhancements and implementation of security measures to protect the Group's stakeholders as well as the businesses from the emerging threats of cybersecurity breaches.

## STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

With such policies in place, all IT-related investments for the PDB Group will be presented to the LT as and when decisions are required on strategic directions, IT investment priorities, funding and risk management.

### STANDARD OPERATING PROCEDURES

The Group has Standard Operating Procedures (SOP) covering PDB's business and operations, including but not limited to financial 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 as and when required to make sure they remain relevant and effective.

### REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed this Statement on Risk Management and Internal Control in accordance with the 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 Audit and Assurance Practice Guide 3 (AAPG 3) released in February 2018, *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 2018. 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.

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

### CONCLUSION

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

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

The internal control systems discussed in this Statement do not apply to associate companies which fall under the control of their majority shareholders, and joint ventures which are jointly controlled by their respective shareholders. Nonetheless, the interest of the Group is safeguarded through the representatives on the Board of the joint ventures and associate companies.

This Statement is made in accordance with a resolution of the Board of Directors dated 26 February 2019.



**Vimala V.R. Menon**  
Chairman  
Board Audit Committee

# 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 POLICY. 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 CoBE contains detailed policy statements on the standards of behaviour and ethical conduct expected of all employees and directors within the PETRONAS Group worldwide. The CoBE not only promotes legal and procedural compliance, but it will also provide a moral compass to ensure that individual's behaviour is in line with the PETRONAS Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness.

Aligned with PETRONAS guideline, PDB also expects that contractors, subcontractors, consultants, agents, representatives and parties performing work or service for

or on behalf of PETRONAS and its subsidiaries to comply with the relevant parts of the CoBE when performing such works or services.

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. Acknowledging that organisational integrity is vital towards the establishing a culture that supports long-term success, PDB expects that all employees are to conduct themselves professionally with the CoBE in mind.

## PDB INTEGRITY PROGRAMMES

In perpetuation to initial PDB Integrity Programme introduced in 2017, relevant Integrity Programmes for various groups in PDB had been subsequently developed and implemented throughout 2018. Four types of Integrity Programmes have been organised in collaboration with PETRONAS Group Integrity;

Integrity Programmes	No. of Sessions
(i) Integrity Sharing with <i>Rakan Niaga</i>	6 sessions – 872 pax
(ii) Integrity Module for new <i>Rakan Niaga</i>	2 sessions – 40 pax
(iii) Integrity Training with Territorial Managers	3 sessions – 70 pax
(iv) Integrity Talk with PLMMSB staff	3 sessions – 90 pax

Following the introduction of new legislation and guidelines, namely the Companies Act 2016, the MCCG 2017 and the recent Malaysian Anti-Corruption (Amendment) Act 2018 on Corporate Liability, there is a growing demand for commercial companies like PDB to promote better corporate governance and legal compliance by requiring all its stakeholders to take proactive role in preventing corrupt practices. In this context, PDB is expected to safeguard their business and ensure commercial activities are carried out in environment which is free from corruption. Thus, the above Integrity Programmes were implemented to ensure collective action by PDB with its stakeholders and also foster ethical clean business transaction in its operations.



For more information on CoBE, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)

## CORPORATE INTEGRITY AND ETHICS

### ANTI-BRIBERY AND CORRUPTION POLICY

With the adoption of the ABC policy from PETRONAS, PDB also practices a zero tolerance policy against all forms of bribery and corruption. The ABC policy elaborate upon those principles and provides guidance to employees on how to deal with improper solicitation, bribery and other corrupt activities and issues that may arise in the course of conducting business. The ABC policy is also applicable to all employees, directors, contractors, subcontractors, consultants, agents, representatives and others performing work or services for or on behalf of PDB.



*For more information on ABC policy, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)*

### WHISTLEBLOWING POLICY

PDB has adopted the PETRONAS Whistleblowing Policy which provides an avenue for employees and members of the public to disclose any improper conduct in accordance with the procedures as provided under the policy and to provide protection for employees and members of the public who report such allegations without fear or reprisal.



*For more information on PETRONAS Whistleblowing Policy, please refer to PDB's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my)*

## DRIVING SUSTAINABILITY



**At PDB, our approach to sustainability entails balancing our business priorities with our economic, environmental and social impacts to create value for our stakeholders, without compromising the needs of future generations. While meeting the immediate and growing demand for energy, we also have a responsibility to protect our people and the environment as well as to fulfil the expectations of our stakeholders. As we progress along our sustainability journey, we invest in our six capitals to ensure business continuity and deliver consistent returns to our shareholders.**

We recognise that we have a role to play in positively contributing to climate change mitigation in the long term, and we have implemented various initiatives to reduce our carbon footprint. We are introducing more environment-friendly products and enhancing the energy efficiency of our operations. We also support the Nation's aspiration for renewable energy and continue to contribute to the electric mobility ecosystem.

Our people are at the heart of our sustainability initiative. We invest in human capital through various talent development programmes towards achieving a high performance workforce, by having highly competent and capable talents to drive value in our organisation. Meanwhile, we maintain the highest health, safety and environmental standards to protect our people and surrounding communities whose lives we touch. We take the responsibility to extend support to our dealers through seminars, training and capability building programmes so they can match the same high standards.

Our sustainability framework and initiatives are in line with the UN SDGs. The SDGs, launched in 2015, consist of 17 goals and 169 targets that aim to address the world's most urgent sustainability challenges which include no poverty, zero hunger, reduced inequalities and climate action, to create a better future for everyone on this planet.

We are pleased to note that since 2015, we have been consistently included in the FTSE4Good Bursa Malaysia Index as one of the top 200 constituents. The index has been designed to identify Malaysian companies with recognised corporate responsibility practices, screened in accordance with transparent and defined environmental, social and governance criteria. We have strengthened our position, indicating that we are on the right track towards meeting our responsibilities.

## DRIVING SUSTAINABILITY

### SCOPE

This Sustainability Statement addresses aspects that are material to our business and present significant impact to our stakeholders from an economic, environmental and social view. Relevant sustainability initiatives carried out by PDB throughout 2018 are also reported.

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

### APPROACH

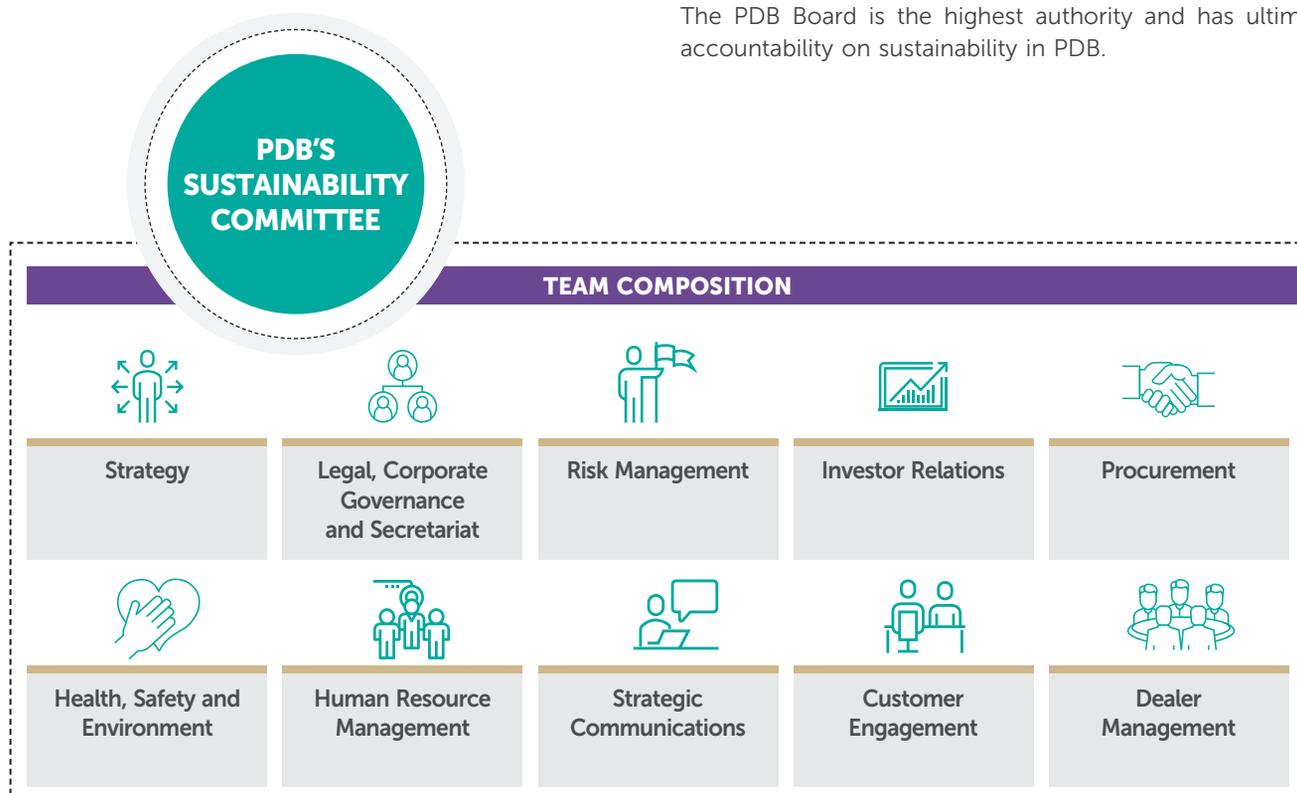
In presenting this Sustainability Statement, we have adhered to the MMLR of Bursa Malaysia under the Amended Listing Requirements for Sustainability Statement. It has also been prepared in reference to the GRI Standards.

### OUR SUSTAINABILITY GOVERNANCE

As a member of the PETRONAS Group, our sustainability aspirations are underpinned by PETRONAS' CoBE as well as Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness. CoBE Section 3.1 highlights that we are committed to sustainable development to help meet the world's growing energy needs through economically, environmentally and socially responsible efforts. We also hold our partners, contractors and suppliers to similar standards of conduct to ensure sustainability across our value chain. PETRONAS' Corporate Sustainability Council, led by the Senior Vice President of Corporate Strategy, oversees the integration of sustainability across the PETRONAS Group, including PDB.

The PDB MD/CEO and LT play a leading role in overseeing the management of sustainability within the organisation. They are supported by a Sustainability Committee, comprising members with diverse areas of expertise, in ensuring sustainability matters are addressed and integrated throughout our business processes and operations.

The PDB Board is the highest authority and has ultimate accountability on sustainability in PDB.



# MATERIALITY ASSESSMENT

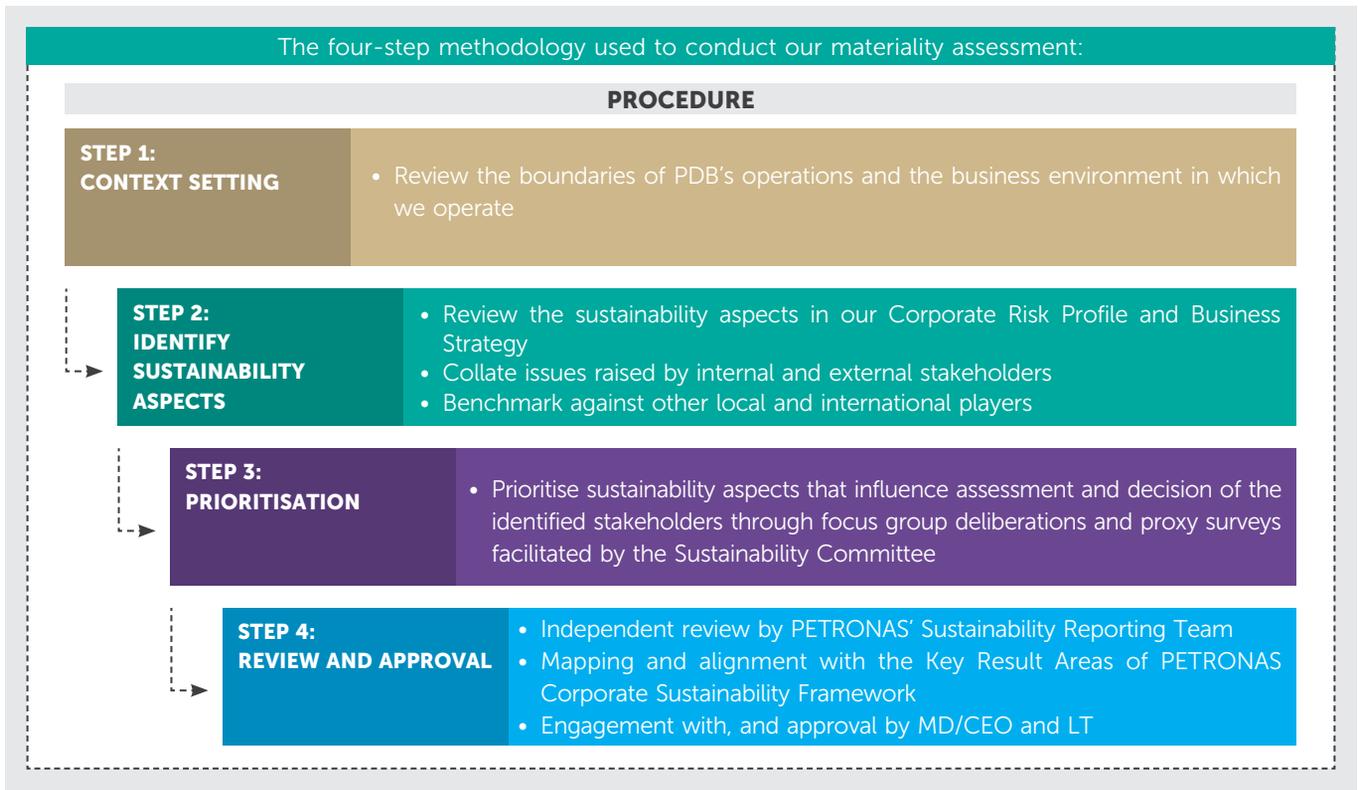
**Our materiality assessment covers the management of sustainability issues or aspects that have the potential to create Economic, Environmental and Social impacts on PDB and our stakeholders, affecting our ability to create value.**

During the year, the Sustainability Committee conducted workshops with key focal persons across various functions to re-evaluate our Material Sustainability Aspects identified in 2017 to assess their adequacy and applicability.

and aligning these with our 2018 risk profile and strategic objectives. We also analysed concerns raised by our stakeholders during the year under review.

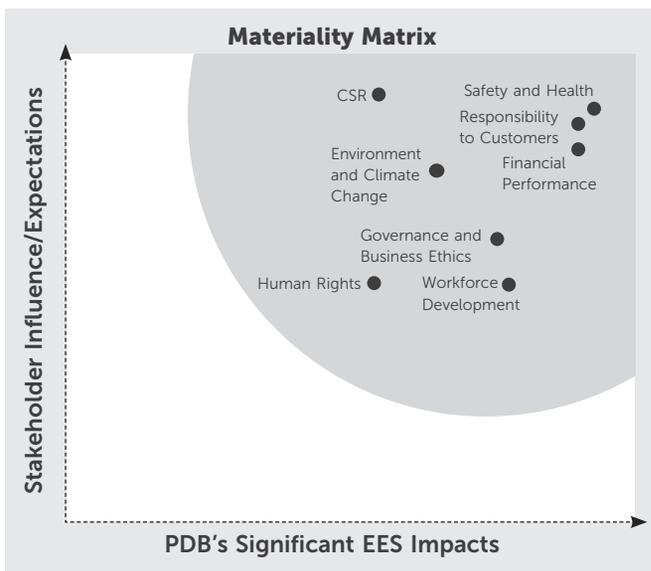
This was done by reviewing the boundaries of our operations and the context of our operating and business environment,

 For more information on Stakeholder Engagement, please refer to page 38 of this <IR>

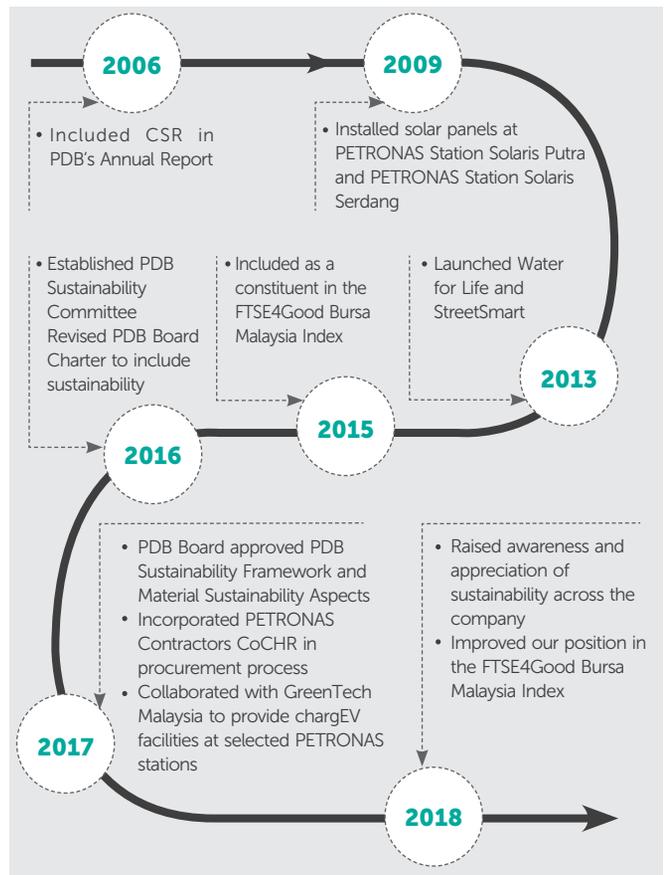


# MATERIALITY ASSESSMENT

We define material sustainability aspects as those that would have most impact to us and our key stakeholders through materiality assessment. The results are mapped onto the Materiality Matrix depicted below, with the x-axis representing the view of the Company, and the y-axis representing the views of our stakeholders.



## OUR SUSTAINABILITY JOURNEY



The transition to a culture of sustainability is by its nature an ongoing journey. During the year under review, we embarked on a Sustainability Campaign, aimed at increasing the understanding of sustainability and appreciation of what it entailed among the management and staff of PDB. Several sharing sessions were held to increase awareness for regional sales personnel and representatives from our subsidiaries. Banners and digital posters illustrating sustainability and explaining our material aspects were disseminated to PDB's personnel across the Country. In addition, a survey was circulated within PDB's workforce to gauge the opinions and knowledge about sustainability.

As we progress along our sustainability journey, we intend to expand the coverage of our reporting with more qualitative as well as quantitative data. As we learn more, we aim to improve our internal mechanisms which measure our sustainability performance, thus enhancing our ability to verify data and monitor our progress through yearly comparisons.

## ECONOMIC

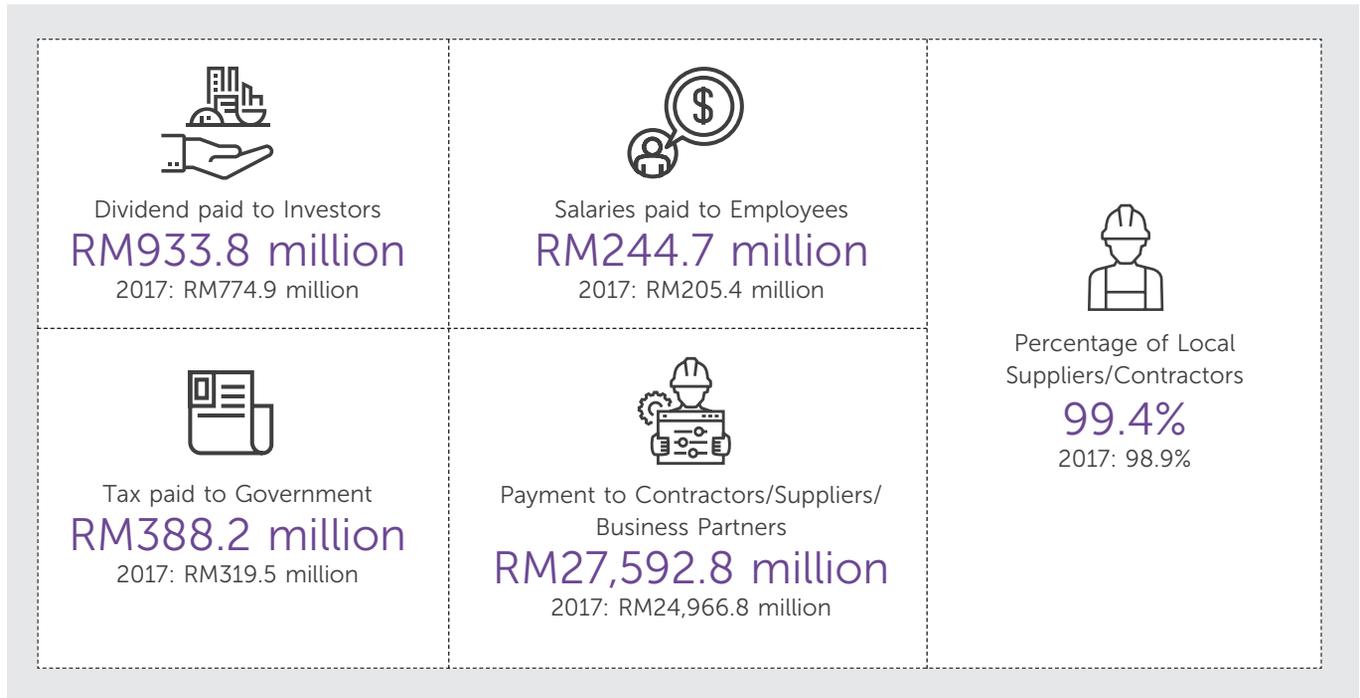


As Malaysia's leading retailer and marketer of downstream petroleum products, PDB strives to contribute towards the Nation's economy by ensuring sustainable financial performance, which translates to stable returns to shareholders as well as stimulating socio-economic opportunities for the local communities in areas where we operate.

### FINANCIAL PERFORMANCE

We aim to deliver the best economic returns in the form of dividends to our shareholders. In addition, we also aspire to stimulate the Nation's economic growth through taxes to the Government, ensuring local content in procurement and providing employment opportunities for the local population. It is our belief that positive economic impact is achieved through mutual growth by including communities and stakeholders alike.

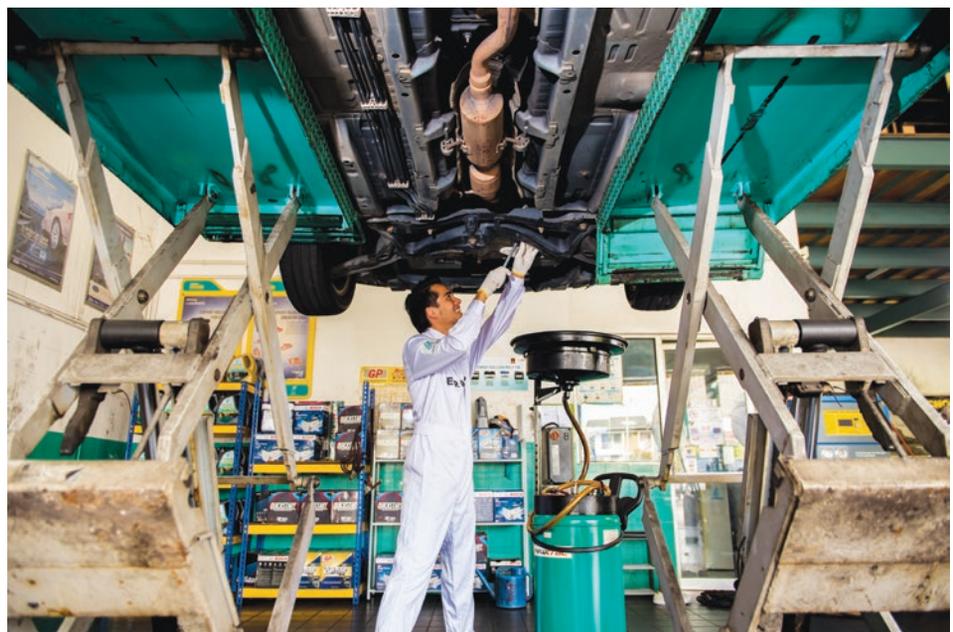
## ECONOMIC



 For more information on the Company's Financial Performance, please refer to page 46 of this <IR>

### LOCAL ECONOMIC OPPORTUNITIES

PDB supports the local economy by engaging local suppliers and vendors through our Retail, Commercial, LPG and Lubricant businesses. All our dealers, contractors and suppliers are mostly Malaysian-owned companies which have registered with PETRONAS and are accredited with the necessary licenses to carry the required scope of work. These include our *Rakan Niaga* operating at more than 1,000 PETRONAS stations nationwide.



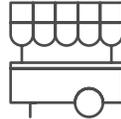
PDB, through our businesses, provide economic opportunities to the local communities

# ECONOMIC

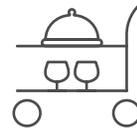
## Retail's Initiative Reach



> **800 Rakan Niaga**  
nationwide



Established partnerships with  
> **500 local SME Food suppliers** nationwide



**Provided platforms**  
for surrounding communities to  
set-up small scale businesses  
at PETRONAS stations

## Commercial's Initiative Reach



> **200 Dealers**  
nationwide



**Developed entrepreneurship and business skills** of business partners



**Appointed and developed local entrepreneurs** as the sole supplier of fuel to PETRONAS Refinery and Petrochemical Integrated Development Project project in Pengerang, Johor

## LPG's Initiative Reach



> **300 Dealers**  
nationwide



Created **business opportunities** for **700 sub-dealers** at all regions, nationwide



**Continuous development and upgrading of** sub-dealers to become dealers or premier dealers, improving their income

## Lubricant's Initiative Reach



> **40 MEPs**  
nationwide



Provided **entrepreneurial development** and **skill enhancement** of the MEPs



Franchising the **PETRONAS brand** to **60 local automotive SME workshops** driving customer footfall

## ECONOMIC

### Annual Dealer Convention

Along with providing business opportunities to our dealers, we keep them up-to-date on the market outlook and PDB's strategic direction through our annual dealer conventions. We also provide insights on the latest market intelligence and local regulatory requirements through our capability development trainings.



Annual LPG Dealer Convention held in Penang, attended by nearly 200 premier dealers and dealers

### Dealers' Capability Programmes



Dealers' trainings are conducted to increase their capability

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, these are specially catered development modules for dealers to consistently deliver quality customer experience at our stations. Nearly 150 sessions were held for over 890 dealers across the country.

### Local Employment

PDB contributes to economic growth through indirect employment, by helping to create jobs and supporting local businesses. Our dealers are encouraged to provide a variety of 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 8,000 Malaysians at PETRONAS stations nationwide.

Additionally, employment opportunities are made available through businesses appointed to supply locally-made products for sale at *Kedai Mesra*. Our LPG Business, through our network of dealers, has employed close to 900 Malaysians at their premises nationwide. During the year, in support of initiatives to close the job gap for the disabled and create an inclusive culture, our LPG Business hired five disabled persons under our dealership chain.



**5**

disabled persons employed under LPG dealership chain



#### Malaysians employed through

- *Rakan Niaga*: > 8000
- Commercial Dealers: > 2000
- LPG Channel Members: ~ 900
- Lubricant Distributors: ~ 80



Our *Krew PETRONAS* are trained to consistently deliver excellent customers experience

# ENVIRONMENT



Our environmental stewardship is guided by the Company's HSE Policy, which entails a commitment to managing our emissions, discharges and waste responsibly; and use energy, water and other resources sustainably. We are committed to protecting the environment we operate in through full compliance with regulations and standards as well as robust operational management. We regularly conduct compliance evaluations and monitoring programmes. We have tools to assess the environmental risks of our operations, and take the appropriate actions to reduce our impact to the environment.

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



*For more information on our Management Approach for the Environment discussed holistically under HSE, please refer to page 146 of this <IR>*

## ENVIRONMENT AND CLIMATE CHANGE

Climate change projections have elicited a global search 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 years to come, there has been a discernible shift towards energy-efficient products and solutions, and the use of renewable energy as well as of EEVs and EVs.

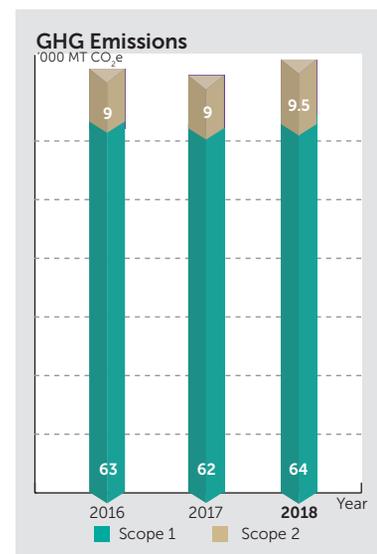
## ENVIRONMENT

In view of stakeholder demand for greater transparency, parallel to PETRONAS Group, PDB is actively enhancing our environmental reporting. Concurrently, we are exploring feasible solutions to integrate environmental good practices across our supply chain. In addition, we also acknowledge greater demands for energy-efficient products and solutions as well as for efforts to minimise carbon emissions through renewable sources of energy.

During the year, an independent verification of our environmental performance data was conducted by PETRONAS' Downstream Business measured against the requirements of PETRONAS Technical Standards which are aligned with ISO 14064 (Part 3). The exercise provided gap identifications which will guide us in meeting the international requirements in the future. Though we have yet to acquire third party assurance for the data presented in this Sustainability Statement, we intend to do so in the future.

### GHG EMISSIONS AND ENERGY USE

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

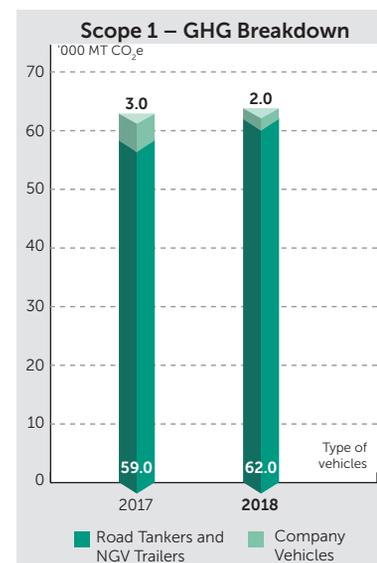


#### PETRONAS' Climate Change Position Statement

"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 report on GHG emissions covers direct and indirect emissions from our terminals, fleet and office buildings owned by PDB. We are currently developing the methodology to govern data collection for emissions from our PETRONAS stations and business travels by employees, hence we have yet to include emissions from those sources. Once this data is included, the Company's total emissions may differ substantially and its carbon baseline will have to be restated. The Company plans to adopt all the data in its calculations once the methodology has been finalised.

Direct GHG emissions (Scope 1) are defined as those from assets that are owned or controlled by a company. For PDB, this currently includes our road tankers, 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 at our terminals, regional office buildings and training centre. In 2018, our total GHG emissions measured approximately 73,700 metric tonnes of carbon dioxide equivalent (MT CO<sub>2</sub>e). Apart from CO<sub>2</sub>, there are no other GHG emitted by our operations.



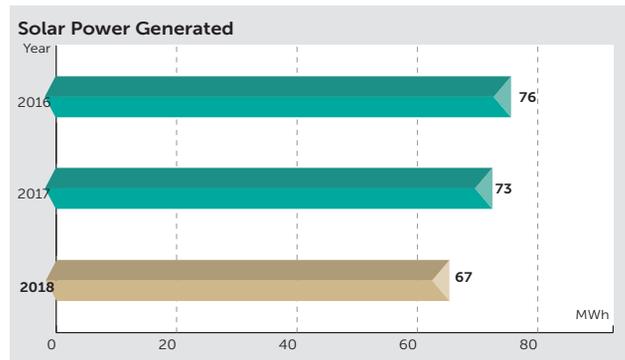
The diesel sold in Malaysia contain 7.0% of biodiesel. Through our B7 biodiesel available at our PETRONAS stations, this has helped reduce as much as 296,959 MT CO<sub>2</sub>e from the transportation sector's GHG emission, thereby positively contributing to the Malaysian Government's commitment to the Paris Agreement. The Government plans to further increase the biodiesel blend percentage to 10.0%. During the year, we have introduced PETRONAS Dynamic Diesel (B10) at two PETRONAS stations in Klang Valley.

## ENVIRONMENT

### Renewable Energy

We support and contribute towards the Government’s target to reduce the Nation’s GHG emissions by 45.0% by 2030 from the 2005 baseline. The solar panels at our PETRONAS Station Solaris Putra and PETRONAS Station Solaris Serdang have generated approximately 67 MWh of electricity during the year, which was fed back to the grid under the Feed-in-Tariff scheme.

In line with the announcement of the revised Net Energy Metering scheme by the Malaysian Government, we have implemented broader trials in renewable energy by partnering with TNB Energy Services to complete the installation of solar panels at an additional five PETRONAS stations by Quarter 1 FY2019. PDB is looking into scaling up the implementation to 10.0% of our total station network.



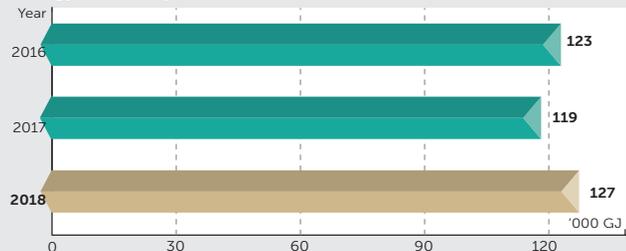
In 2018, we have strengthened our partnership with Malaysian Green Technology Corporation through the installation of six additional ChargeEV units, bringing the number of PETRONAS stations equipped with ChargeEV facilities to 60 stations. The facilities are located in strategic positions along the major highways. This allows our customers with electric vehicles to have easier access to charging facilities while they travel across the Country, and support a low carbon energy landscape, in line with the Government’s vision.

In view of our energy management systems, our solar panels installed at PETRONAS Station Solaris Putra are connected to a dedicated back office system where generated data is collected and monitored by PDB. On the other hand, the utilisation of each of our ChargeEV facility is monitored remotely by Greentech Malaysia at their headquarters, and monthly reports are then shared with PDB.

### Energy Efficiency

As the cost of energy continues to rise, electricity consumption becomes a more significant component in the cost of our operations. During the year, PDB consumed approximately 19,900 MT of Diesel, while electricity consumption from our terminal operations, training centre and regional offices amounted to approximately 127,300 GJ.

### Energy Consumption



## ENVIRONMENT

PDB first began installing energy-saving LED lighting in 2015. LED lights were installed in the forecourts and perimeters of our stations, and were used to illuminate signage. In addition to improving the overall quality of lighting, LED lights consume 50.0% less electricity than conventional fluorescent lights, thereby cutting GHG emissions by 50.0%. As at end of 2018, a total of 240 PETRONAS stations have been equipped with LED lights, approximately tripling the number of installations since 2017.

For the past few years, we have implemented energy efficiency initiatives such as VSD at hydrant pumps and “hybrid” split air conditioning systems at selected distribution terminals. We found that the VSD reduced electricity consumption by more than 10.0% as compared to conventional pumps, whilst the “hybrid” split air conditioning system reduced energy consumption by about 40.0% by recovering heat generated by the split unit’s compressor.

### AIR EMISSIONS

Air emissions are gaseous pollutants, most commonly SO<sub>x</sub> and NO<sub>x</sub>. At PDB, these exhaust gases are mainly emitted by our fleet operations. During the year, our SO<sub>x</sub> and NO<sub>x</sub> emissions are 20 MT and 771 MT, respectively.

As part of our stewardship of the environment, we leverage PETRONAS’ R&D to develop and market energy-efficient fuel products. Following the successful launch of PETRONAS Primax 97 with Advanced Energy Formula in 2016, the

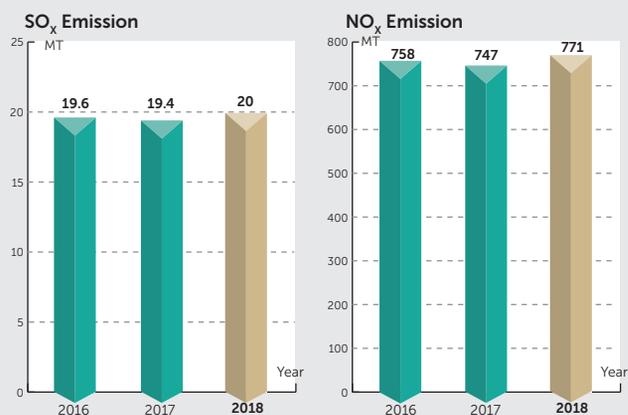
Company launched the new PETRONAS Dynamic Diesel Euro 5 with Pro-Drive in 2017, a new-generation sulphur-free Diesel which meets Euro 5 standards, while delivering superior fuel economy. With a higher cetane number, PETRONAS Dynamic Diesel Euro 5 with Pro-Drive improves combustion resulting in overall reduction in vehicular emissions of SO<sub>x</sub> and NO<sub>x</sub>, particulate matters and volatile organic compounds. We now have over 700 PETRONAS stations supplying PETRONAS Primax 97 with Advanced Energy Formula, while PETRONAS Dynamic Diesel Euro 5 with Pro-Drive is currently available at over 100 PETRONAS stations.

### SPILLS

We have clear control systems 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.

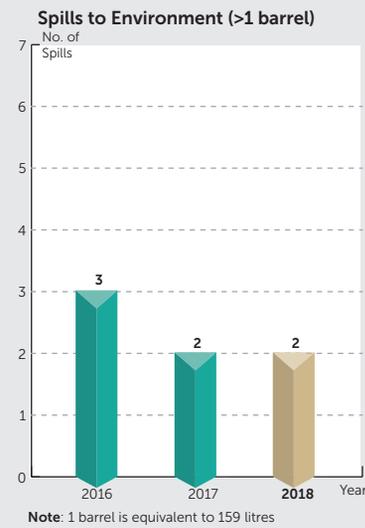
All our fuel storage and dispensing systems are equipped with secondary containment, leak detection and monitoring systems to prevent and detect releases into the environment. Spill and overfill control equipment ensure the filling of underground storage tanks is safe. To enhance our asset integrity, 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 2018, piping replacement work was completed at approximately 50 PETRONAS stations as part of the Annual Asset Refresh Programme 2018, with future works to be carried out at approximately 40 more PETRONAS stations, targeted to be completed by mid-2019.

 For more information on spills reduction initiatives, please refer to ‘Process Safety’ on page 149 of this <IR>



# ENVIRONMENT

The number of hydrocarbon spills this year remains unchanged at two compared to last 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.

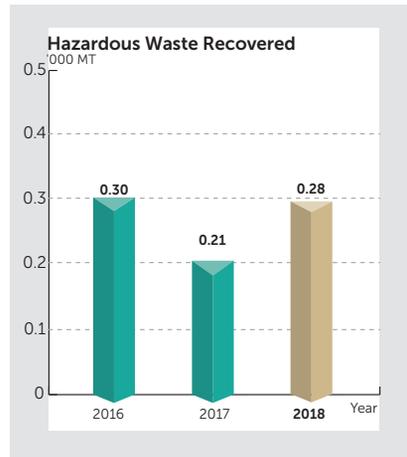
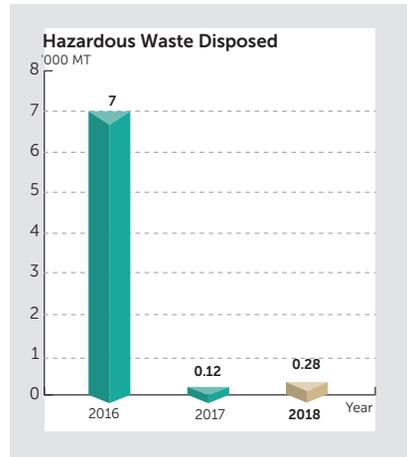
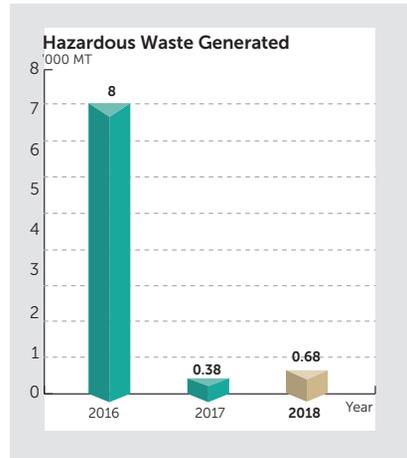
 For more information on oil spills response initiatives, please refer to 'Emergency Preparedness' on page 150 of this <IR>

## 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, at our terminals.

In 2018, we generated a total of 680 MT of hazardous waste consisting primarily of waste oil and oily sludge from our terminals. Over 280 MT were recovered, which were mainly spent hydraulic oil and spent lubricant. As a responsible company, we will continue to collect and analyse our waste data to find ways to minimise waste generation, reduce disposal and increase our recycling and recovery efforts.

We are currently developing a waste recovery sourcing strategy for our Sabah operations to improve our scheduled waste management. We target to achieve 100% recovery of our recoverable scheduled waste for our Sabah operations by the end of 2019. This appointment will increase the amount of scheduled waste recovered, and hence reduce the amount that needs to be treated and disposed of. In the future, we plan to extend this initiative across all PDB operations.

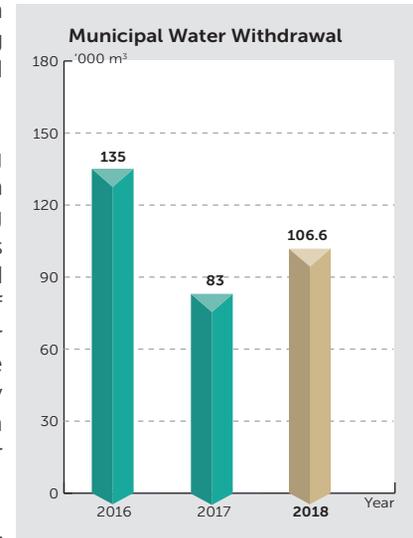


## ENVIRONMENT

### WATER

At our terminals, we use water primarily for washing, maintenance and chain lubrication, and a smaller volume to satisfy employees' needs. We believe in using water responsibly as it is becoming a scarce resource amid competing demand from the growing population, urbanisation and industrialisation.

We have reduced the amount of withdrawal throughout our operations by reusing water for LPG cylinder washing where appropriate, conducting piping inspection to check for leakages. In addition, we have also installed rainwater harvesting systems at all four terminals in the Sabah region. Rain water collected in gutters around the filling plant is channelled into a 4,500-litre harvest tank and then used for cleaning and gardening. During the year, we have recorded 32,000 litres of water withdrawal from harvested rainwater. The installation of additional rainwater harvesting systems at three terminals are currently ongoing with a target to be completed by Quarter 1 FY2019. However, our overall municipal water supply withdrawal increased from 83,000 m<sup>3</sup> in 2018 and 106,630 m<sup>3</sup> in 2019 due to an increase in tank hydrotesting conducted at a few of our terminals as part of our maintenance activity.



We extended our water saving initiatives beyond our terminals. During the year under review, we have replaced the conventional water taps in the toilets at PETRONAS stations with a more efficient design, hence reducing water consumption at the facilities. To date, the taps at nearly 160 PETRONAS stations have been replaced, with the exercise expected to be completed at another 75 PETRONAS stations by Quarter 2 FY2019.

Another way of protecting our fresh water resources is to ensure we minimise the harm when we discharge to the natural waterways. All of our facilities are equipped with oil interceptor system to prevent any unplanned or uncontrolled discharges from directly entering public drains.

All wastewater are treated prior to discharge, which are monitored regularly to ensure compliance. Key parameters analysed are Oil and Grease as well as COD. All treated wastewater discharged is channelled into stormwater drains and ultimately to the sea. During the year, PDB reported a total of 0.006 MT of Oil and Grease and 0.223 MT of COD from treated discharges from our LPG terminals.

### ENVIRONMENTAL SUPPLY CHAIN



*We only acquire PME from sources that have been certified by the RSPO*

To address concern over the health and livelihood of communities and ecosystems associated with the production of palm oil, we have started to implement the policy of responsible sourcing of PME, one of the components of our biodiesel fuel, by only acquiring PME from sources that have been certified by the RSPO. RSPO certification provides assurance to consumers that the palm oil is produced to a sustainable standard, by legal, economically viable, environmentally appropriate and socially beneficial management and operations.

Environmental standards are also embedded as part of our overall HSE requirements in our procurement procedures and tender documents in which we require suppliers and contractors to establish and implement our HSE plan that details the practices, procedures and control measures for effective HSE management. In 2018, we enhanced our procurement procedures and tender documents to include prohibition and control of use of selected Environment Hazardous Substances. This is applicable at all our operations and for contractual services on-site.

# SOCIAL




PDB recognises the value and impact of our business in the social ecosystem that we operate in. We are committed to operating safely, responsibly and reliably, and aligning our practices with acceptable business norms and the industry’s benchmarks.

Social Sustainability Aspects that are material to us and our stakeholders include:

- Safety and Health,
- Workforce Development,
- Human Rights,
- CSR, and
- Responsibility to Customers

## SAFETY AND HEALTH

As reflected in our HSE Policy, PDB makes it a priority to safeguard the safety and health of our employees, contractors, dealers and business partners, as well as customers and the local communities residing in areas where we operate. In view of the nature of our products and operations, it is critical for us to operate in a safe manner.

Our HSE policy is operationalised through our HSE MS throughout the organisation; from the corporate level to the operations. PDB HSE MS which is equivalent to the requirements of OHSAS 18001:2007 and ISO 14001:2015 is aligned to PETRONAS HSE Mandatory Control Framework and PETRONAS Technical Standards. It provides a platform for a complete cycle of managing HSE, from planning, implementation, checking, assurance, and continual improvement; ensuring an effective and sustainable management system.

## SOCIAL

In order to ensure safety compliance, we have implemented the PETRONAS Zero Tolerance Rules, consisting of a set of 10 mandatory principles which must be adhered to by everyone including third-party personnel at our facilities to ensure safe operations and conduct.

The PDB LT upholds and drives safety excellence through their leadership values, competencies and behaviour. They demonstrate their commitment by leading and integrating HSE aspects into business plans, performance limits and targets that are strategically aligned with our HSE Plan and cascaded to all working levels. Through continuous employee engagement, they set clear expectations, targets and objectives for each employee, assigning high HSE KPI weightage. Leadership visits which include the “*Jom Patuh & Tegur*” (Let’s Comply and Intervene) programme which focuses on HSE compliance and provides a platform to engage with employees at all levels to teach and encourage safe behaviours within the organisation.

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



*MD/CEO engagement with employees*

In ensuring safety and health improvements, employees’ involvement in worksite HSE Committee meetings take place through deliberations on site-specific HSE issues, programmes and performance on a monthly basis. The periodic meetings see the participation of both employees and management representatives. Significant HSE issues identified at the monthly HSE Committee meetings are then escalated to, and deliberated at the quarterly HSE Steering Committee meetings, which is chaired by the MD/CEO.

Regular internal HSE audits are carried out to assess the efficacy of HSE management systems to prevent incidents as well as to control other operational risks. During the year, 13 HSE audits were undertaken at our terminals, business partners’ premises and regional offices. These audits and the annual HSE MS review were carried out as part of a continual improvement cycle. PDB was also subjected to an independent HSE audit by PETRONAS Group and the Internal Audit Department, and the findings were presented to the PDB LT, PDB Board and PETRONAS Executive LT. Corrective Action Plans were consolidated for Company-wide implementation and tracked to closure, providing not only a holistic approach in gap closures but also sustained implementation.

 For more information on PDB’s Environmental aspects, please refer to Environment and Climate Change on page 140 of this <IR>

## SOCIAL

### SAFETY PERFORMANCE

Our aim is to achieve zero fatality and zero lost time due to injury. The Company has recorded an increase of LTIF and TRCF for employees involving business traveling and operations activity. We regret that there has been one fatality involving a road tanker driver during product delivery. We take this matter seriously and are taking agile steps to prevent its recurrence. We have commenced an intervention programme to strengthen our transport safety risks, which is explained further in the 'Transport Safety' section on at page 149 of this <IR>.

	2016	2017	2018
<b>No. of Fatality Incidents</b>			
Employees	0	0	0
Contractors	2	1	1
<b>Fatality Accident Rate (FAR)</b>			
Employees	0	0	0
Contractors	65.59 <sup>1</sup>	24.86	21.73
<b>Lost Time Injury Frequency (LTIF)</b>			
Employees	0.49	0	0.69
Contractors	2.95 <sup>1</sup>	0.57	0.43
<b>Total Reportable Case Frequency (TRCF)</b>			
Employees	0.73	0.35	0.69
Contractors	3.61 <sup>1</sup>	1.30	0

**Note:**

<sup>1</sup> 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 page 140 of this <IR>

<b>FAR</b>	= Recordable Fatalities per 100 million man-hours
<b>LTI</b>	= Lost Time Injury (injury, including fatality and permanent total or partial disability, resulting in inability to work the next day/shift)
<b>LTIF</b>	= No. of LTI per million man-hours
<b>TRC</b>	= No. of Total Recordable Case (cases involving LTI, restricted work due to injury and medical treatment case)
<b>TRCF</b>	= No. of TRC per million man-hours
<b>Total Manhours</b>	= 7,495,892 man-hours for PDB staff, excluding Krew PETRONAS and PIMTCL staff

All incidents are investigated in a timely manner and all recommended corrective and preventive actions are monitored and tracked for closure. Lessons learnt from incidents are shared across the Company, and with our contractors and business partners to prevent recurrence. Factors that contributed to the incidents are analysed to identify root cause and actions to prevent future recurrence.

We will continue to strive to make sure that our people prioritise safety in their day-to-day activities. The LT remains committed to driving continuous improvement in our HSE performance and reviewing the effectiveness of our HSE MS annually.

## SOCIAL

### RISK MANAGEMENT

We apply a risk-based approach to HSE in which we 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 inherent 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. We have previously completed CIMAH at all the terminals as required by the Occupational Safety and Health Act 1994. As part of the ongoing assessment, we conducted CIMAH reviews at two of our fuel and LPG terminals this year.

### TRANSPORT SAFETY

PDB places great emphasis on the safe transportation of our products throughout our value chain, stretching from product sourcing to safe and timely delivery of products to customers and dealers. Our commitment is evident by our practice of partnering only with transport service providers who share our HSE aspirations, as signified by:

- Demonstration of strong HSE commitment via resource allocation and competency.
- Implementation of road transport management system with strict governance for compliance.
- Structured operational process and assurance on compliance by internal and external auditors.



Vehicle inspection as part of the Defensive Driving Course conducted

In order to strengthen the safety of our land transportation, we have established and maintained the following key elements in our transport safety management:

- Routine and ad-hoc drug and alcohol testing of our drivers;
- In-Vehicle Management System comprising Global Positioning System; cameras and sensors to monitor safe driving behaviours and violations;
- Regular internal and third party assurance and inspection on compliance to our requirements;
- Route and Site Hazard Assessments;
- Vehicle Roadworthiness Inspections.



Lessons learnt from the fatal incident in 2018 have led us to improve our route and site hazard assessment by having a segmentised route assessment according to risks, as well as more stringent pre-departure inspections and approval processes.

During the year, we have continued our structured Defensive Driving Course for our road tanker and LPG premier dealer drivers. We have extended the course to our employees who are frequent road travellers such as our sales and operations teams, as well as to our LPG dealer drivers.

### PROCESS SAFETY

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

In line with our commitment to Process Safety, PDB has embarked on an LOPC Reduction Framework to reduce the number of hydrocarbon leaks in our operations. This initiative focuses on the improvement of asset integrity on piping, joints, flanges and valves, successfully reducing the number of LOPC throughout the year by 27.4%.

## SOCIAL

We have also conducted a fire and gas mapping study for six of our LPG Terminals to ensure safe operations through full coverage of fire and gas detectors to prevent any major incidents.

### CONTRACTOR AND SUPPLIER HSE MANAGEMENT

Contractors perform extensive works across our facilities, and ensuring that these works are undertaken safely is of utmost importance to PDB. To demonstrate our commitment to a safe and effective Contractor Management, our contractors are strictly screened for their compliance to the law and our HSE requirements before being awarded the contract. Specific HSE requirements are spelt out in our contracts to achieve a positive HSE culture. Prior to work execution, the HSE risks are communicated to our contractors. Actions to mitigate the risks are translated into the HSE Plan which will be monitored and audited by the contract owner.

In addition to audits, we communicate with our contractors through platforms such as PDB Contractor's Day and HSE Clinics at which we share our HSE knowledge and expectations. These engagement sessions also provide our contractors with 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 applied for serious non-compliance.

During the year, PDB embarked on the Contractor Mentorship Programme with selected contractors. This programme is designed to strengthen contract management and collaboration for sustainable HSE Performance by sharing technical expertise, conducting HSE audits and providing specific HSE training. We conducted 13 HSE audits this year on contractors and suppliers during the execution of contracts.

### EMERGENCY PREPAREDNESS

PDB is committed to ensuring readiness for emergencies or crises to minimise the impact on our people and the environment while safeguarding our assets and reputation. We place importance on our readiness for any unexpected emergency situations. PDB Crisis and Disaster Management Manual specifies the emergency response structure along

with clear roles and responsibilities. We develop scenario planning for possible high-risk emergency situations. Periodically, we conduct assessments with collaboration from local agencies such as Fire and Rescue Department, DOSH, Department of Environment, Hospitals, Royal Malaysia Police, Port Authority and mutual aid organisations to ensure adequacy and effectiveness of controls to manage emergency scenarios.



#### The highlights of emergency preparedness in 2018 include:

- A Tier 3 Table Top Exercise and Training was conducted for our LT to ensure their readiness in managing crises.
- 15 Tier 1 Functional Exercises were conducted at our terminals, PETRONAS stations and NGV Mother Station which involved the.
- Completed reviews of Oil Spill Response Plans for 10 fuel terminals to ensure the plans remain current and updated.



For more information on our Crisis Management, please refer to SORMIC on page 123 of this <IR>



Tier 1 Oil Spill Response Exercise at Miri Fuel Terminal

**SOCIAL**

**HEALTH AND WELL-BEING**

We continued to strengthen various occupational health and hygiene programmes across the business covering key areas such as fitness to work, fatigue, noise, ergonomics and chemical exposure. We continuously evaluate, analyse, monitor and manage conditions effectively towards maintaining a healthy workforce. In 2018, we embarked on PETRONAS Groupwide Fatigue Management System at our Melaka and Kertih Terminals to manage and ensure compliance to the allowable working hours. We will step up our efforts in fatigue management across the Company in the next two years.

One of the Company’s concerns on global health issues is mental illness. As part of our commitment to improve the well-being of our workforce, we have adopted the PETRONAS Health and Wellness programme, MESTIfit4health, to effectively manage risk factors that contribute towards non-communicable diseases. This initiative, developed based on the principle of designing a healthy lifestyle, was implemented across our various operations.

**Elements of MESTIfit4health**



**M MOVE RIGHT!**

Getting off the chair is the first step in overcoming lifestyle-related illness

**E EAT RIGHT!**

We are what we eat.

**S SLEEP RIGHT!**

A well-rested mind is a safe and productive mind

**T THINK RIGHT!**

Mental resilience is the key to managing stress at the workplace

**I INDIVIDUAL RIGHT!**

Despite the four elements above, healthy living ultimately is a personal choice

**Mr and Mrs Fit Programme**



The programme initiated for our staff at the Terminals aims to increase awareness for a healthy lifestyle, to contribute towards fulfilment of Fitness to Work.

**PETRONAS Inter-OPU Walking Challenge**



As part of our initiative under the element of Move Right, the PETRONAS Inter-OPU Walking Challenge was conducted to encourage our staff to increase their daily number of steps.

**Employee Assistance Programme**



The Employee Assistance Programme upholds employees’ mental wellness by providing them an avenue to seek confidential support on personal as well as professional matters, such as stress, harassment, life events and substance misuse; thereby ensuring employee’s performance and well-being, towards attaining greater workplace productivity.

# SOCIAL

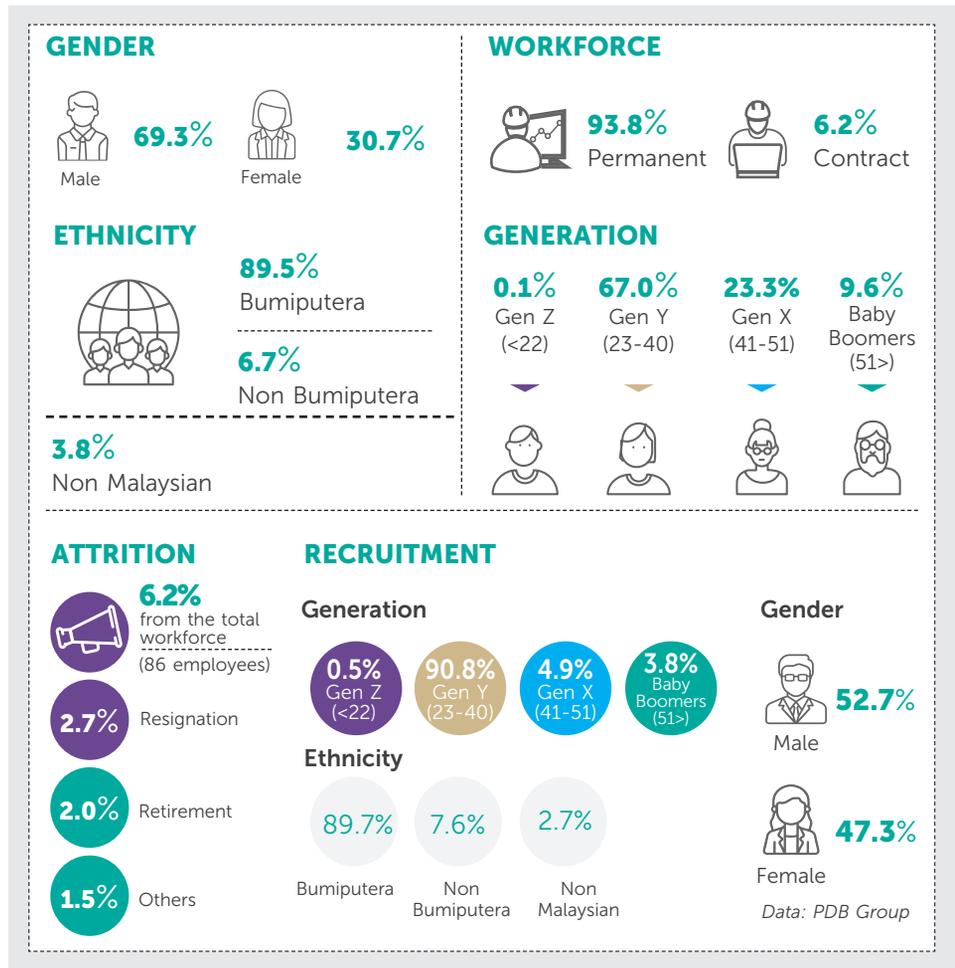


## WORKFORCE DEVELOPMENT

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

Our talent management practices are guided by the 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 recruiting and managing talent, focusing on three strategic thrusts of Right Leader, Right Talent and Right Environment, whilst leveraging on the organisation's Employment Value Proposition of Trust, Grow and Reward.

PDB celebrates a diverse and inclusive workforce, as we believe that input by varied talents, experiences and expertise will enhance our value creation. Through our equal opportunity and non-discrimination hiring policy, we provide equal opportunities for employment and subsequently career advancement to all employees irrespective of gender, race, religion, age, disability or nationality.



## TALENT ACQUISITION

In line with our Talent Sourcing policies and procedures, talents are sourced through a wide range of recruitment channels and are selected based on criteria that focus on the individual's experience, knowledge and skills. We hire local talents from the areas where we operate, whilst maintaining the principle of meritocracy.

We strive towards gender equality in the workplace and are committed to creating an inclusive workplace for women, including during their pregnancy period. Employees who are pregnant seven months or more may leave for home an hour earlier than the prescribed working hours. Apart from that, to ensure our female employees are physically fit upon their return to work, fully paid maternity leave for 90 consecutive calendar days is provided for up to five deliveries during a female employee's service with the Company. This special time off allows mothers to comfortably observe their confinement period and make the necessary arrangements for their newborn's well-being. Once they return to the office, dedicated nursing rooms are available within our working facilities.

SOCIAL



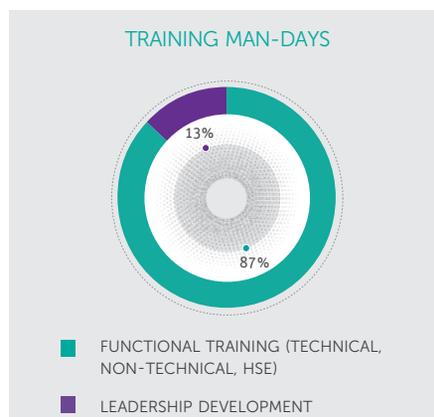
Orchid Run and Ride is an annual event organised by PETRONITA

Approximately 13.0% of PDB staff subscribe to PETRONITA, an association for wives and female staff of PETRONAS, with the objective to unite and foster closer relationships amongst the employees' spouses and the female employees of PETRONAS.

**TALENT AND CAPABILITY DEVELOPMENT**

As part of Employee Value Propositions, we pay close attention to our employees' professional and personal growth. The organisation identifies with the employee's aspiration to further develop his or her potential and provides opportunities to enhance expertise, skills and experience to enjoy an enriching and fulfilling career.

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.



# SOCIAL

## TRAINING AND DEVELOPMENT PROGRAMMES

### Internship and Familiarisation Programmes



#### Internship Programme

Designed for undergraduates to undertake internship for a duration stipulated by their respective academic institutions. The platform provides students with career development by enhancing their employability through real work experience that gives them the opportunity to explore their interests and develop professional skills and competencies. During the year, we have placed 81 students across PDB's organisation.

#### Onboarding Programme

Familiarisation programme to integrate new or recently transferred employees and interns into the organisation.

### Functional and Behavioural Programmes

Development opportunities provided to all employees to ensure they are competent and capable in performing their job functions.



#### PETRONAS Competency-based Assessment System

Structured skills assessment system for non-executive technical employees that covers elements of knowledge, skills and behaviour.



#### HSE Competency and Training

Mandatory training for employees and contractors to ensure that they are able to carry out their duties safely.

#### Accelerated Capability Development Coaching

Personal coaching and knowledge sharing by discipline resource persons to prepare employees for their ACD assessment.

### Harvard ManageMentor - A digital learning

A digital learning approach introduced in 2018 that seeks to redefine and create a rich learning experience, integrating conventional methods with cutting-edge technology; collaboration between PETRONAS myLearning and HMM.



## SOCIAL

### Leadership Development Programmes



#### Leadership Excellence at PETRONAS

Designed for leaders who are transitioning into senior management roles.

#### Leaders Develop Leaders

Informal platform for our Top Talents and Leaders to connect and discuss specific leadership topic.

#### Purpose:

Designed to help new managers to develop their leadership skills during their transition into leadership roles.

### On-the-Job Training

#### Cross Pollination

The Downstream Marketing LT in February 2018 approved the implementation of Cross Pollination of talents in Downstream Marketing OPU. The objectives of this initiative are to provide employees with a platform for career progression and international exposure. Through this, we also recognise that exchanging of information is an effective method in disseminating and sharing of expertise within the Company.

### EMPLOYEE PERFORMANCE MANAGEMENT (EPM)

Our EPM emphasises the importance of continuous engagement in managing the performance of employees within the context of the the Company's 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 are based on differentiated performance standards linked to reward and consequence management as part of the strategy of motivating and sustaining a High Performance Culture.

To assist an employee with performance deficiencies and to provide the opportunity to succeed, a structured Performance Improvement Plan is implemented through continuous coaching by superiors for constructive reviews of performance.



During the year under review, PDB had undertaken an organisational realignment that provides more focus and clearer accountabilities to drive a more agile organisation in fueling growth for the future. The realignment includes centralisation of functions such as project delivery, finance and procurement, thereby allowing us to leverage the expertise and center of excellence from within the PETRONAS Group.

### SUCCESSION MANAGEMENT

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

In ensuring uninterrupted operations, we regularly review our succession planning for senior management positions to ensure availability and readiness of suitable successors at all times. We also develop succession plans for critical positions and carry out annual reviews on the plans to ensure the feasibility of their implementation.

## SOCIAL

### WELFARE AND BENEFITS

We adopt PETRONAS' policies on employees' welfare and benefits which cover both tangible and non-tangible standardised benefits for our full-time employees. We provide medical benefits, life insurance, allowances, leaves and other general provisions.

#### Leave Without Pay

LWP facilitates 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



Male  
18



Female  
24

##### Returned from LWP



Male  
15



Female  
22

*Note: 40% of employees taking LWP mentioned a parental reason*

#### Maternity Leave



243 No. of employees entitled

19 Taken leave

19 Return from leave

Facilitates female employees to observe confinement, recover from the rigours of pregnancy and labour, and bond with their new born infant.

#### Paternity Leave



748 No. of employees entitled

93 Taken leave

93 Return from leave

Granted to male employees, active in service, inclusive of new hires both experienced and fresh graduates, to support his family.



#### Transition 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 employees within three to five years of retirement, allowing for sufficient time to plan and prepare for leaving employment.



#### Preventive Health Screening

We pay serious attention to our employees' health with the provision of preventive health screening to ensure their fitness to work. This provision has been enhanced and extended to all permanent employees upon reaching 30 years and above. Previously the screening was provided for employees reaching the age of 40 and above.

## SOCIAL

### Flexible Work Options

We believe in assisting our employees to strike a good work-life balance and to facilitate this, the FWO have been put in place for all non-shift employees across the Group. The FWO comprise of:



#### Compressed Work Week

Allowing employees to end their working hours at noon on the 5<sup>th</sup> day of the week upon completing 39 working hours of 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 also introduced the FWA since 2016, enabling employees to work from alternate work locations other than the standard place of work, with accessibility to appropriate communications technology. A total of 138 employees have benefitted from the FWA during the year.

### EMPLOYEE RELATIONS

Employee relations refer to the Company's effort to manage the relationship between the employer and employee by providing fair and consistent treatment to the employee so he or she will be committed to the job and stay loyal to the Company.



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

To achieve a culture of compliance, the organisation practices "Jom Patuh & Tegur", manifested as part of the Behavioural Observation. The MD/CEO "Jom Patuh & Tegur" Roadshow was conducted in three different regions in 2018.



#### Townhall sessions

A total of two sessions were carried out during the year. The purpose of these sessions is to keep employees informed of the business strategies, plans, and targets for the year, as well as progress made towards targets. The sessions are also aimed at motivating employees and ensuring their aspirations are in line with that of the Company's.



#### Kelab Sukan dan Rekreasi PETRONAS

PDB employees are given the opportunity to join the club to foster close camaraderie among members, and enhance physical fitness and mental well-being through the sports, recreational, social and cultural activities organised. In the year under review, about 65.0% of PDB employees subscribed to *Kelab Sukan dan Rekreasi* PETRONAS.



#### Long Service Award

An annual event is held to recognise and appreciate employees' commitment, dedication and contribution to the company. In 2018, 51 employees received their 15, 20 and 25 years anniversary service awards with PETRONAS.

## SOCIAL

### CoBE PART III WORKPLACE CULTURE AND ENVIRONMENT

PETRONAS is committed to providing 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.

#### Workplace Culture and Environment Standard

Any inappropriate work-related behaviour or conduct such as harassment, bullying, bribery, corruption, conflict of interest and breach of terms that are not in accordance with an employee's obligations as an employee of PETRONAS shall be treated as misconduct, due to non-compliance with Part IV – Discipline, Disciplinary Process and Sections of the PETRONAS CoBE and may be liable for disciplinary action, subject to the requirements of applicable laws.

We pay serious attention to such issues as they disrupt our working environment, and upset the physical, emotional and psychological well-being of our employees. Our policies on work culture and conduct are spelt out in CoBE, which is available in multiple languages, and communicated to all employees through various platforms.

Alongside CoBE, our People Policies and Procedures as well as other manuals provide the guidelines and processes in managing non-compliance and misconduct issues. We encourage employees and other stakeholders to report any observed infringement of

our policies or expected standards of behaviour through our Whistleblowing channel. Key personnel have been trained to handle reports on potential misconduct cases. We have in place structured procedures to conduct investigation into any allegation and, if there has been any non-compliance of our regulations, take the necessary follow-up actions.

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

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 the PETRONAS Grievance Management process, under which grievances are managed according to outlined procedures with the aim of having both parties reach amicable agreement. This approach goes a long way towards maintaining continuous good relations between PDB and our employees.

#### PETRONAS CULTURAL BELIEFS



We continue to adopt PETRONAS Cultural Beliefs (PCBs) to strengthen the culture of personal accountability in delivering results. We believe that invigorating the Company culture will transform the organisation and deliver sustainable, safe, reliable and efficient performance. The focus is for everyone to embrace these beliefs in their work culture.

During the year, several programmes were implemented to ensure our people internalise PCBs across the organisation. Power Up Sessions held at all divisions in PDB are a feedback exercise to align everyone to the Company's vision and mission. In addition, numerous inspirational stories were shared in the form of posters and videos. Other programmes were Focused Recognition awarded to unsung heroes during PDB Engagement sessions to recognise and motivate employees, as well as PDB LT Meetings and surprise visits from the MD/CEO and LT.

To increase the participation of PCB throughout the organisation, we leveraged Downstream Business' PCB Challenge and encouraged our employees to take part in the challenge. Over 7,000 Focused Recognition cards were issued across Downstream Business employees and numerous feedback were exchanged throughout the challenge. In addition, quarterly profiling of leaders, providing them with appreciative and constructive feedback, were done to ensure the leaders demonstrate the right PCB behaviour and create positive experience in the organisation.



## SOCIAL

### HUMAN RIGHTS

Respecting human rights is of utmost importance to us in PDB as we recognise that it is our duty to care for the people across our business and value chain. 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. Failure to discharge our responsibility on human rights will infringe on the health, safety and general well-being of the people impacted by our operations.

The PETRONAS' Human Rights Commitment, which is in line with the UN's Guiding Principles on Business and Human Rights, helps guide us in our actions.

The commitment also applies to our contractors, suppliers, and dealers, in line with the PETRONAS' Contractors Code of Conduct on Human Rights, which has been incorporated into the General Terms and Conditions of all new contracts.

#### ANTI-DISCRIMINATION

PDB stands strongly against any form of discrimination at the workplace, whether by gender, race, religion, age, nationality or disability as highlighted in PETRONAS' CoBE. To demonstrate our commitment to anti-discrimination, equal pay is accorded to men and women for the same role and position.

 For more information on the diversity and profile of our workforce, please refer to Workforce Development on page 152 of this <IR>

In addition, PDB is also 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.

#### MINIMUM WAGE

PETRONAS complies with the minimum wage requirement as stipulated by the National Wages Consultative Council. We continuously make efforts in reviewing the salary structure while ensuring the requirement of minimum wages by the Government is met. Apart from that, the salary structure for KAPENAS members is also reviewed every three years as part of the negotiation process of the Collective Agreement between Management and KAPENAS' representatives.

#### ELIMINATION OF EXCESSIVE WORKING HOURS

We take a positive stand to ensure our employees' rights are not infringed through overwork because doing so 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 stipulate a limit of overtime of not more than 104-hours a month.

With the help of a tracking tool, we monitor employees' overtime and ensure the work schedules for shift and non-shift employees are properly planned to curb 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 Human Resource Management for proper risk assessment of the jobs.

## SOCIAL

### FORCED AND CHILD LABOUR

As a socially responsible organisation, we do not condone any act of forced and child labour, while we are also governed by the prevailing labour legislation against forced and child labour. The Company adheres to the Employment Act 1955, Sarawak Labour Ordinance (ACT A1237) and Sabah Labour Ordinance (CAP 67) which state that employment shall be based on contract of service. Hence at PDB, all employment offers are based on "Offer and Acceptance" whereby individuals enter into contract of service on their own free will, and we expect our contractors and dealers to comply to this standard as well, based on our requirements in the CoCHR.

We also fully comply with the Children and Young Persons (Employment) Act 1966 in our business operations. We abide strictly to and with PETRONAS' Talent Sourcing Policy and Procedure that clearly stipulates guidelines and criteria in hiring individuals by not employing children below the legal minimum working age. PDB employees and contract personnel must be at least 18 years of age.

#### Assessing Human Rights Risks at Our Stations

During the year, we continued with our Social Risk Assessment to understand more about the labour and salient human rights issues at all new and existing PETRONAS stations. We use screening questionnaires derived from PETRONAS Technical Guidelines on Social Risk Assessment with respect to Human Rights elements to assess risks, such as working and living conditions of *Krew PETRONAS*, their nationality, the use of recruitment agencies and security. We have also provided human rights awareness training for all of our retail sales and operational staff, and we plan to extend this training to our Dealers and contractors. We are working to identify other potential risk areas and learn from what we find.

#### Human Rights elements in SRA:



Engagement with KAPENAS members

### FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

PDB respects the rights of its employees 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 or associations.

We support the rights of our employees to collective bargaining. PETRONAS has five in-house unions 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 who are entrusted to uphold the well-being of employees.

PDB maintains an open and constructive relationship with KAPENAS through regular engagement for the benefit of the Company and the 677 employees who are union members. During the year under review, three engagement sessions were held with KAPENAS which saw the participation of Management and staff to address concerns pertaining to wages, and terms of work such as working conditions, occupational safety and health matters as well as benefits. Agreed outcomes will be incorporated into the Collective Agreement when it is renewed. PETRONAS renews its Collective Agreement with KAPENAS every three years.

### GRIEVANCE MECHANISM

Our Mesralink contact centre was established as a platform to assist customers with any difficulties relating to PDB's services and products, HSE impacts and other social issues. Besides the contact centre, we also monitor, gather and respond to customer feedback from various social media platforms.

## SOCIAL



### CORPORATE SOCIAL RESPONSIBILITY

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. CSR is an important platform through which we are able to give back to communities which have fueled our business growth.

Our approach to CSR is guided by the Group’s philosophy of integrating into the communities where we operate in. Simultaneously, we empower members of these communities

through educational and social development programmes, and protect the environment, which are linked to the Company’s business strategies.

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

#### PETRONAS Coffee Break Campaign



Objective	To promote road safety awareness and remind motorists to take a break, refresh and rejuvenate. The programme is held during festive seasons including Chinese New Year, Hari Raya, Kaamatan and Gawai Festivals.
Mechanism	Organise road safety talks and complimentary vehicle inspections and health checks, as well as distribute complimentary coffee and snacks to customers at participating PETRONAS stations located along major highways and trunk roads.
Impact	1.7 million cups of coffee were given away at more than 150 PETRONAS stations nationwide.
Inception Year	1998
Partners	Road Safety Department, St. John Ambulance Malaysia, Nestle, Delfi, Julie’s, Mondelez, Munchworld, Suntory, Shopee and Dunkin Donuts.

#### PETRONAS StreetSmart



Objective	To promote road safety awareness to primary and secondary school students focusing on tips to stay vigilant and safe on the road.
Mechanism	Organise a half-day programme at schools nationwide which include road safety briefing, hands-on practical road safety concepts and basic first aid skills.
Impact	Reached over 1,200 students from 6 schools.
Inception Year	2013
Partners	PETRONAS Science Discovery Centre, Road Safety Department and St. John Ambulance Malaysia.

## SOCIAL

### Water for Life



Objective	To supply clean water to rural areas that are affected by unclean water resources or water disruption.
Mechanism	Develop necessary infrastructure to enable clean water supply for the communities, which include installation of piping, filtration system and water tanks.
Impact	Benefitted over 900 residents in two villages and improved the overall hygiene of the district.
Inception Year	2013
Partner	Malaysian Nature Society.

### Ramadan Community Service



Objective	To spread joy to the less privileged during the holy month of Ramadan and to support the local community's tradition of cooking <i>Bubur Lambuk</i> – a favourite delicacy for breaking fast.
Mechanism	Contribute RM50,000 from the sales of Iftar@Mesra breakfast pack to five charitable organisations, as well as sponsorship of 200 Gas PETRONAS worth almost RM20,000 for Masjid Jamek Kampung Baru's signature <i>Bubur Lambuk Agong</i> .
Impact	Benefitted 450 less fortunate residents from five homes and contributed to the success of Masjid Jamek's yearly <i>Bubur Lambuk</i> cooking tradition which is distributed to the local community.
Inception Year	2002
Partner	Masjid Jamek Kampung Baru.

### SKIM LATIHAN 1MALAYSIA

SL1M or Graduate Employability Enhancement Scheme is a soft skills training programme developed in collaboration between PETRONAS and the Malaysian Government to enhance the marketability and employability of Malaysian graduates. In line with our aspiration to contribute towards nation building, the initiative was created to improve the quality and employment opportunities of unemployed graduates by providing experiential learning within the organisation.

The programme is open to youths aged up to 26 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, 15 trainees from across the Country were placed in PDB to undergo the programme.

## SOCIAL



### RESPONSIBILITY TO CUSTOMERS

We engage in a variety of efforts to provide the best customers experience to win the confidence of our customers and gain their trust in our brand. Our commitment to our customers is manifested through quality customer support and engagement, as well as putting priority towards customer safety and security.

#### CUSTOMERS' SAFETY AND HEALTH

In treating customers right, we apply strict standards of policies and procedures as we believe that our customers deserve safe, high quality products and services. Some key safety initiatives across the PDB system recently established include:

##### Retail Business

###### Go-to-Safety-Point Programme

to assist members of public facing emergency situations. It is an on-going initiative organised in collaboration with the police and local authorities to ensure that our customers feel safe and secure at our facilities.

###### Safety signages at PETRONAS stations

recommending behaviour that must be adhered to before, during and after refueling.

###### Zero trans-fat in Mesra Bites

as part of the Mornings@Mesra breakfast campaign intended to promote a healthier breakfast habit among customers.



Customer with our Mornings@Mesra product

##### Commercial Business

**Asset and Facility Audits** at customers' sites covering safety and health aspects.

**Product Knowledge Enrichment** to ensure customers have adequate knowledge on safe handling of petroleum products.

**Quarterly Engagement Sessions** with Dealers to keep them abreast on industry best practices and highlight any arising HSE issues.

##### LPG Business

**Cylinder inspection** at terminals before reaching our customers to ensure product safety and reliability.

**Complimentary LPG cylinder safety-checks** during delivery of gas cylinders via the Gas PETRONAS Home Delivery hotline and Gas2U app.

**Quality control** rejected cylinders that do not meet the set standards are sent for requalification, reconditioning, or repainting.

**Gas Safety Programmes** conducted for local communities in collaboration with local authorities to raise safety awareness on LPG cylinders

**Safety advice** by Dealers on proper usage and handling of cylinders through talks and inspections.



Our LPG cylinders are strictly inspected at terminals to maintain the highest levels of safety and quality

## SOCIAL



*We protect our customers' data during every transaction*

### CUSTOMERS' DATA PRIVACY AND CYBER SECURITY

We have established a strong governance practice in order to gain greater trust and loyalty from our customers. For instance, as we opened up more diverse payment channels in 2018, we work diligently to protect personal information for every transactional activity. We adopt best practices on all data management by adhering to protocols and guidelines, i.e. Personal Data Protection Act 2010, and the Bank Negara Secrecy Provisions of Financial Services Act 2013, among others.

At operational level, we continually assess our risk controls and implement specific activities to secure personal information including:

- Strict control over customers' information in our database with regular updates on latest security fixes; and
- A data breach preparedness process from investigation to resolution in the event that customers' privacy is compromised.

During the year, a Cyber Security Assessment was conducted by an independent risk consulting firm. The objective of this assessment was to identify areas of improvement to strengthen the cyber security posture of PDB, focusing on People, Process and Technology segments across all PDB key IT environments.



*Customer using the Setel, 1<sup>st</sup> petrol e-payment solution in Southeast Asia*

### CUSTOMER SUPPORT AND ENGAGEMENT

We value all our customers and build our relationships as we continuously strive to ensure that the voice of the customer is analysed, by extending customers' feedback to relevant units within the company, and finally reflected in the development of our products and services.

The constant interaction with our customers have resulted in some of the following initiatives:

- Customised targeted campaigns that were derived from paying heed to customer feedback e.g. Mesra Bonanza, Mornings@Mesra; and
- Omni-channel communications to enable customers who use our digital payment modes namely Setel, an e-payment solution; and Samsung Pay, a contactless mobile payment, to interact easily with us.

We believe that every feedback counts as we provide other channels including emails, fax, webchats and social media i.e. Facebook, Instagram and Twitter, hence appealing to our customers in multiple demographics. We also continuously look at new methods to serve our various segments of customers as modes of communication evolve globally. During the year, we work on improving and upskilling the capabilities of our support team at our contact centre to address customers experience which is also measured through close monitoring of net promoter scores which inspire us to enhance our business offerings.



**Total Social Media followers in 2018**

**1.46 million**

2017: 1.2 million

## SUSTAINABILITY PERFORMANCE AT A GLANCE

Material Matters	Indicators	Unit	2016	2017	2018
 Environment and Climate Change	Greenhouse Gas Emissions	'000 MT CO <sub>2</sub> e	72.0	71.0	73.7
	Total Energy generated from Solar Photovoltaic Installations	MWh	76	73	67
	Spill to Environment above 1 barrel (159 litre)	Number	3	2	2
	Sulphur oxides (SO <sub>x</sub> ) emissions	MT	19.6	19.4	20
	Nitrogen oxides (NO <sub>x</sub> ) emissions	MT	758	747	771
	Hazardous waste disposed	'000 MT	7	0.12	0.28
 Safety and Health	Fatalities • Employees • Contractors	Number	0 2	0 1	0 1
	Fatality Accident Rate • Employees • Contractors	Recordable fatalities per 100 million man-hours	0 65.69	0 24.86	0 21.73
	Lost Time Injury Frequency • Employees • Contractors	No. of LTI per one million man-hours	0.49 2.95	0 0.57	0.69 0.43
	Total Reportable Case Frequency • Employees • Contractors	No. of TRC per one million man-hours	0.73 3.61	0.35 1.30	0.69 0
 Workforce Development	Total employees	Number	1,565	1,498	1,380
	Female Employee Composition • Total Workforce • Leadership Team • Board Composition	%	32 30 25	32 25 25	31 27 25
	Contract Workforce	%	6	6	6
	Employee Turnover	%	12	8	6
	Manpower Investment* (salaries and benefits excluding training)	RM Million	223	193	237
	Training Investment*	RM Million	4.7	4.4	5.3
	Average Training Man-days per employee*	Days	2.0	2.26	2.7
	Talent Ratio per Critical Positions*	Ratio	2.8:1	2.2:1	2.5:1
 Human Rights	Employees under Collective Bargaining Agreements	Number	594	590	490
 Corporate Social Responsibility	Water for Life Output	No. of receivers reached	2,000	1,350	900
	StreetSmart Output	No. of receivers reached	900	1,120	1,227
	Coffee Break Output	No. of receivers reached	974,000	1,625,000	1,700,000
	Skim Latihan 1Malaysia	No. of receivers reached	13	14	15

\* Numbers include PDB Company only

WE WILL **MOVE LIKE NEVER BEFORE** TO CREATE A SEAMLESS AND FRICTIONLESS  
CUSTOMERS EXPERIENCE TO BE THE **'BRAND OF 1<sup>ST</sup> CHOICE'**



# Financial Statements

**168** Approaching the Financial Statements

**170** Financial Statements

- Statement of Directors' Responsibility in Relation to the Financial Statements
- Directors' Report
- Statement by Directors
- Statutory Declaration
- Consolidated Statement of Financial Position
- Consolidated Statement of Profit or Loss and Other Comprehensive Income
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Statement of Financial Position
- Statement of Profit or Loss and Other Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements
- Independent Auditors' Report

# APPROACHING THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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.

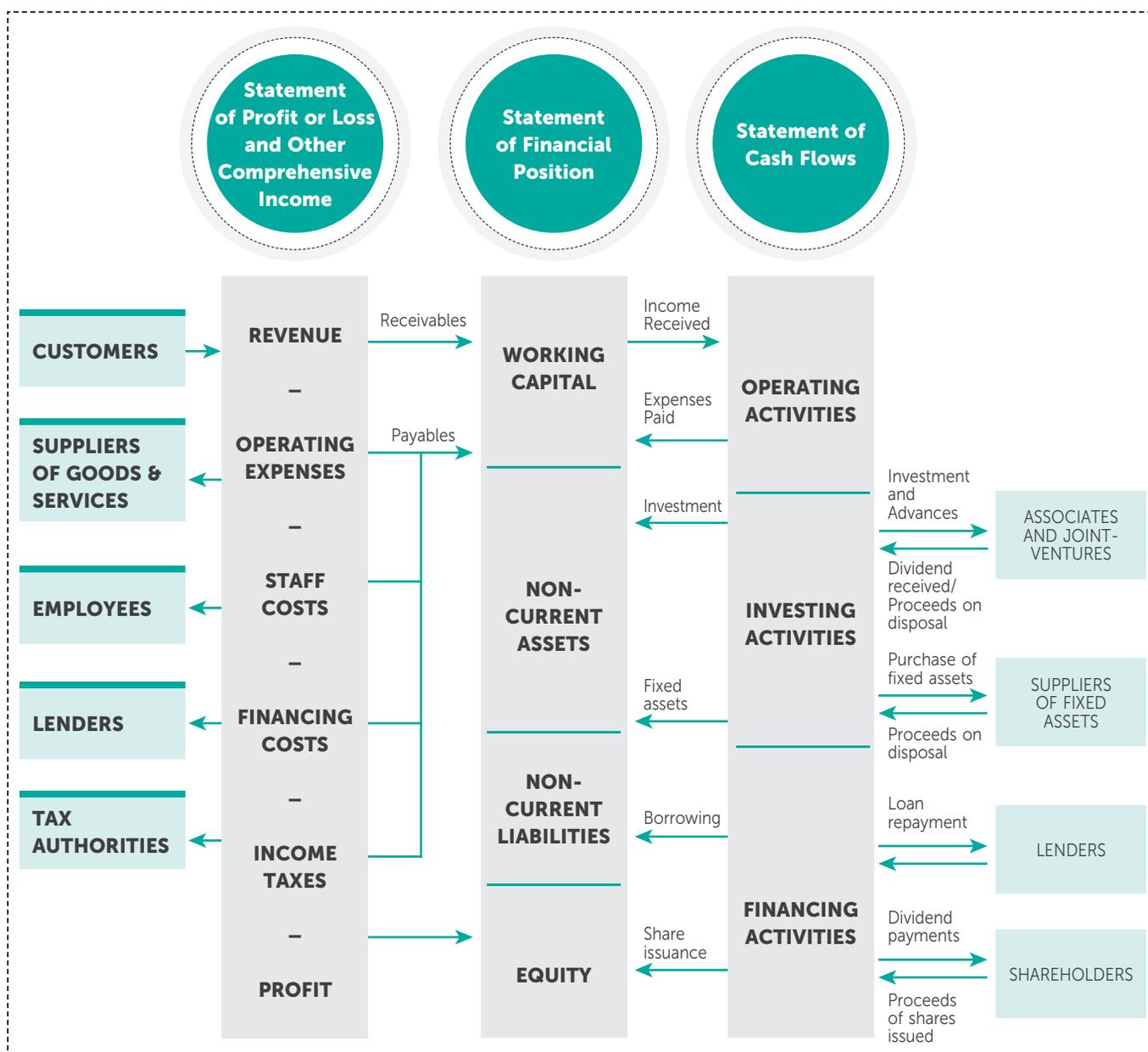
 <p><b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b></p>	<p><i><b>"Financial performance measured by recording the flow of resources over a period of time"</b></i></p>	<p>The objective of this statement is to present all income and expenses (transactions with non-owners) in a performance statement.</p>
 <p><b>STATEMENT OF FINANCIAL POSITION</b></p>	<p><i><b>"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"</b></i></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 2018. It also shows how the economic resources contributed by lenders and shareholders are used in the business.</p>
 <p><b>STATEMENT OF CASH FLOWS</b></p>	<p><i><b>"A report on sources and uses of cash"</b></i></p>	<p>This statement divides the cash flows into operating, investing and financing. 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

### FOR THE YEAR ENDED 31 DECEMBER 2018

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.



# 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 180 to 258, 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 2018 and of the results of their 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

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018.

## 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 35, Note 36 and Note 37 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 35 to the financial statements.

## RESULTS

	<b>Group RM'000</b>	<b>Company RM'000</b>
Profit for the year	861,459	806,520
Attributable to:		
Shareholders of the Company	849,849	806,520
Non-controlling interests	11,610	–
	<b>861,459</b>	<b>806,520</b>

## DIVIDENDS

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

- a) In respect of the financial year ended 31 December 2017 as reported in the Directors' Report of that year:
  - i. An interim dividend of 27.0 sen per ordinary share amounting to RM268,232,580 and a special dividend of 22.0 sen per ordinary share amounting to RM218,559,880 declared on 26 February 2018 and paid on 27 March 2018.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### DIVIDENDS (continued)

- b) In respect of the financial year ended 31 December 2018:
- i. An interim dividend of 13.0 sen per ordinary share amounting to RM129,149,020 declared on 18 May 2018 and paid on 14 June 2018;
  - ii. An interim dividend of 16.0 sen per ordinary share amounting to RM158,952,640 declared on 20 August 2018 and paid on 19 September 2018; and
  - iii. An interim dividend of 16.0 sen per ordinary share amounting to RM158,952,640 declared on 27 November 2018 and paid on 26 December 2018.

The Directors had on 26 February 2019 declared an interim dividend of 25.0 sen per ordinary share amounting to RM248,363,500 in respect of the financial year ended 31 December 2018.

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 2019.

### 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:

#### **PETRONAS Dagangan Berhad**

Datuk Md Arif bin Mahmood  
Dato' Sri Syed Zainal Abidin bin Syed Mohamed Tahir  
Vimala a/p V.R. Menon  
Lim Beng Choon  
Datuk Anuar bin Ahmad  
Nuraini binti Ismail  
Shafie bin Shamsuddin  
Alvin Michael Hew Thai Kheam  
Dato' Mohd Ibrahimnuddin bin Mohd Yunus (resigned on 1 June 2018)

#### **Subsidiaries**

##### **PETRONAS Lubricants Marketing (Malaysia) Sdn. Bhd.**

Dato' Sri Syed Zainal Abidin bin Syed Mohamed Tahir (appointed on 21 June 2018)  
Hardeep Singh a/l Kirpal Singh (appointed on 25 February 2019)  
Ruslan Halim bin Islahudin (appointed on 25 February 2019)  
Norliwati binti Abdul Wahab  
Dato' Mohd Ibrahimnuddin bin Mohd Yunus (resigned on 21 June 2018)  
Anton Salleh Hashim (resigned on 25 February 2019)  
Mohd Khalid bin Mohamed Latiff (resigned on 25 February 2019)

**DIRECTORS' REPORT****FOR THE YEAR ENDED 31 DECEMBER 2018****DIRECTORS OF THE COMPANY (continued)****Kuala Lumpur Aviation Fuelling System Sdn. Bhd.**

Dato' Sri Syed Zainal Abidin bin Syed Mohamed Tahir (appointed on 29 June 2018)

Mohd Shobri bin A. Bakar

Yeow Tau Ling

Norliwati binti Abdul Wahab

Zainol bin Mohd Isa (appointed on 14 May 2018)

Ikhwan Hamzah bin Azizan (appointed on 1 July 2018)

Khairiah binti Salleh (resigned on 14 May 2018)

Dato' Mohd Ibrahimnuddin bin Mohd Yunus (resigned on 29 June 2018)

Mahmad Zahri bin Mahzan (resigned on 1 July 2018)

**PETRONAS Aviation Sdn. Bhd.**

Ikhwan Hamzah bin Azizan (appointed on 8 August 2018)

Shahrom bin Harun (appointed on 8 August 2018)

Mohd Shobri bin A. Bakar

Zamiel bin Saadan (resigned on 24 May 2018)

Akmal Nur bin Anuar (resigned on 9 August 2018)

Mahmad Zahri bin Mahzan (resigned on 9 August 2018)

**PETRONAS International Marketing (Thailand) Co. Ltd.**

Anton Salleh Hashim

Pipop Ponsean

Mohd Khalid bin Mohamed Latiff

**PDB (Netherlands) B.V.**

Dato' Sri Syed Zainal Abidin bin Syed Mohamed Tahir (appointed on 30 September 2018)

Peter Alexandar Napoleon Huizen

Dato' Mohd Ibrahimnuddin bin Mohd Yunus (resigned on 30 September 2018)

## DIRECTORS' REPORT

**FOR THE YEAR ENDED 31 DECEMBER 2018**

### 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	Number of ordinary shares in PETRONAS Chemicals Group Berhad			Balance at 31.12.2018
	Balance at 1.1.2018	Bought	Sold	
Datuk Md Arif bin Mahmood	20,000	–	–	20,000
Vimala a/p V.R. Menon	20,000	–	–	20,000
Nuraini binti Ismail	10,000	–	–	10,000

Name	Number of ordinary shares in PETRONAS Gas Berhad			Balance at 31.12.2018
	Balance at 1.1.2018	Bought	Sold	
Nuraini binti Ismail	5,000	–	–	5,000

None of the other Directors holding office at 31 December 2018 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 Note 28 of the financial statements or the fixed salary of a full time employee of the Company or of the related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the 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.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### OPTIONS GRANTED OVER UNISSUED SHARES

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

### INDEMNITY AND INSURANCE COSTS

During the financial year, PETRONAS and its subsidiaries, including the Company, maintained a Directors' and Officers' Liability Insurance in accordance with Section 289 of the Companies Act 2016. The total insured limit for the Directors and Officers Liability Insurance effected for each of the Directors and Officers of the PETRONAS Group was RM1,290 million per occurrence and in the aggregate. The insurance premium for the Company is RM102,823.

### OTHER STATUTORY INFORMATION

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

- (i) necessary actions had been taken in relation to the writing off of bad debts and the provisioning of doubtful debt and satisfied themselves that all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets which were unlikely to be realised in the ordinary course of business have 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.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

### OTHER STATUTORY INFORMATION (continued)

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

- (i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any 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, the financial performance of the Group and of the Company for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

In respect of the directors or past directors of the Company, the amount of:

- (i) fees and other benefits paid to or receivable by them from the Company or its subsidiary companies as remuneration for their services to the Company or its subsidiary companies; and
- (ii) the estimated money value of any other benefits received or receivable by them otherwise than in cash from the Company or from any of its subsidiaries.

There are no amounts paid to or receivable by any third party in respect of the services provided to the company or any of its subsidiary companies by any director or past director of the company.

are disclosed in Note 28 Related Parties Disclosures.

### SUBSEQUENT EVENT

On 9 January 2019, Setel Ventures Sdn. Bhd. ("SETEL"), a wholly-owned subsidiary, was incorporated in Malaysia with an issued share capital of 5,000 ordinary shares at a total cash consideration of RM5,000,000.

**DIRECTORS' REPORT****FOR THE YEAR ENDED 31 DECEMBER 2018****AUDITORS**

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

The auditors' remuneration is disclosed in Note 24 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' SRI SYED ZAINAL ABIDIN BIN SYED MOHAMED TAHIR**

Director

Kuala Lumpur,

Date: 26 February 2019

# 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 180 to 258 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 2018 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' SRI SYED ZAINAL ABIDIN BIN SYED MOHAMED TAHIR**

Director

Kuala Lumpur,

Date: 26 February 2019

# STATUTORY DECLARATION

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 180 to 258 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of 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 2019.



BEFORE ME:



Lot 5.28, Tingkat 5  
Wisma Central  
Jalan Ampang  
50450 Kuala Lumpur

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
<b>ASSETS</b>			
Property, plant and equipment	3	3,335,561	3,372,292
Prepaid lease payments	4	492,256	456,821
Investments in associates	6	1,555	1,556
Investments in joint ventures	7	17,135	14,630
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,846,507</b>	3,845,299
Inventories	8	825,818	869,241
Trade and other receivables	9	2,260,569	1,675,951
Fund investment	10	50,000	–
Cash and cash equivalents	11	2,187,891	3,357,742
<b>TOTAL CURRENT ASSETS</b>		<b>5,324,278</b>	5,902,934
<b>TOTAL ASSETS</b>		<b>9,170,785</b>	9,748,233
<b>EQUITY</b>			
Share capital	12	993,454	993,454
Reserves	13	4,903,651	5,008,202
<b>Total equity attributable to shareholders of the Company</b>		<b>5,897,105</b>	6,001,656
Non-controlling interests	14	40,135	39,025
<b>TOTAL EQUITY</b>		<b>5,937,240</b>	6,040,681
<b>LIABILITIES</b>			
Borrowings	15	29,924	48,909
Deferred tax liabilities	16	124,518	140,099
Other long term liabilities and provisions	17	29,268	30,996
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>183,710</b>	220,004
Borrowings	15	25,036	18,366
Trade and other payables	18	2,972,400	3,359,112
Taxation		52,399	110,070
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,049,835</b>	3,487,548
<b>TOTAL LIABILITIES</b>		<b>3,233,545</b>	3,707,552
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,170,785</b>	9,748,233

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000 (restated)
<b>Continuing operations</b>			
Revenue	19	<b>30,068,753</b>	27,420,647
Cost of revenue		<b>(27,217,943)</b>	(24,407,684)
<b>Gross profit</b>		<b>2,850,810</b>	3,012,963
Selling and distribution expenses		<b>(1,013,826)</b>	(958,318)
Administration expenses		<b>(1,083,816)</b>	(1,016,729)
Other income		<b>424,901</b>	402,628
<b>Operating profit</b>		<b>1,178,069</b>	1,440,544
Financing costs	20	<b>(4,547)</b>	(6,689)
Share of profit after tax of equity accounted associates and joint ventures		<b>3,504</b>	4,002
<b>Profit before taxation</b>		<b>1,177,026</b>	1,437,857
Tax expense	21	<b>(315,567)</b>	(349,917)
<b>Profit from continuing operations</b>		<b>861,459</b>	1,087,940
Profit from discontinued operations, net of tax	22	–	457,029
<b>Profit for the year</b>	24	<b>861,459</b>	1,544,969
<b>Other comprehensive expense</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising from translation of financial statements of foreign operations		<b>(18,467)</b>	(23,952)
Reclassification of foreign currency translation differences to profit or loss on disposal of subsidiaries		–	(27,420)
<b>Total other comprehensive expense for the year</b>		<b>(18,467)</b>	(51,372)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>842,992</b>	1,493,597

The notes set out on pages 192 to 258 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2018**

(continued)

	Note	2018 RM'000	2017 RM'000
<b>Profit attributable to:</b>			
Shareholders of the Company		<b>849,849</b>	1,539,496
Non-controlling interests		<b>11,610</b>	5,473
<b>PROFIT FOR THE YEAR</b>		<b>861,459</b>	1,544,969
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		<b>831,382</b>	1,488,124
Non-controlling interests		<b>11,610</b>	5,473
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>842,992</b>	1,493,597
Basic earnings per ordinary share	26		
– from continuing operations		<b>85.5 sen</b>	109.0 sen
– from discontinued operations		–	46.0 sen
		<b>85.5 sen</b>	155.0 sen

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2018

Note	← Attributable to shareholders of the Company →						
	← Non-distributable			→ Distributable			
	Share capital RM'000	Foreign currency translation reserve RM'000	Capital reserves RM'000	Retained profits RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
<b>At 1 January 2017</b>	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
<b>Total comprehensive (expense)/income for the year</b>	-	(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	27	-	-	(774,894)	(774,894)	-	(774,894)
<b>Total transactions with shareholders of the Company</b>	-	-	(14,548)	(774,894)	(789,442)	-	(789,442)
<b>At 31 December 2017</b>	993,454	263	(18,732)	5,026,671	6,001,656	39,025	6,040,681
	Note 12	Note 13	Note 13			Note 14	

The notes set out on pages 192 to 258 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2018**

(continued)

Note	← Attributable to shareholders of the Company →						
	Share capital RM'000	Foreign currency translation reserve RM'000	Capital reserves RM'000	Retained profits RM'000	Total RM'000	Non- controlling interests RM'000	Total equity RM'000
<b>At 1 January 2018</b>							
– As previously reported	993,454	263	(18,732)	5,026,671	6,001,656	39,025	6,040,681
– Effect on the adoption of pronouncement	–	–	–	(2,086)	(2,086)	–	(2,086)
<b>At 1 January 2018, restated</b>	993,454	263	(18,732)	5,024,585	5,999,570	39,025	6,038,595
Exchange difference arising from translation of financial statements of foreign operations	–	(18,467)	–	–	(18,467)	–	(18,467)
Total other comprehensive expense for the year	–	(18,467)	–	–	(18,467)	–	(18,467)
Profit for the year	–	–	–	849,849	849,849	11,610	861,459
<b>Total comprehensive (expense)/income for the year</b>	–	(18,467)	–	849,849	831,382	11,610	842,992
<i>Distribution to shareholders of the Company</i>							
Dividends paid	27	–	–	(933,847)	(933,847)	(10,500)	(944,347)
<b>Total transactions with shareholders of the Company</b>	–	–	–	(933,847)	(933,847)	(10,500)	(944,347)
<b>At 31 December 2018</b>	993,454	(18,204)	(18,732)	4,940,587	5,897,105	40,135	5,937,240
	Note 12	Note 13	Note 13			Note 14	

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation from:			
– continuing operations		1,177,026	1,437,857
– discontinued operations		–	458,469
Adjustments for:			
Depreciation and amortisation		341,215	363,172
Impairment on long term receivables		–	2,321
Net impairment loss/(reversal) on trade and other receivables		4,491	(6,541)
Share of profit after tax of equity accounted associates and joint ventures		(3,504)	(4,222)
Gain on disposal of subsidiaries	22	–	(430,834)
Net gain on disposal of property, plant and equipment		(10,125)	(22,688)
Interest income		(96,006)	(94,716)
Financing costs		4,547	7,052
Property, plant and equipment written off		8,769	3,178
Net unrealised foreign exchange (gain)/loss		(2,323)	4,643
Operating profit before changes in working capital		1,424,090	1,717,691
Changes in working capital:			
Inventories		43,423	(71,215)
Trade and other receivables		(584,618)	118,665
Trade and other payables		(412,930)	(326,940)
Cash generated from operations		469,965	1,438,201
Taxation paid		(388,161)	(319,485)
<b>Net cash generated from operating activities</b>		<b>81,804</b>	1,118,716
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income		96,006	94,716
Placement of fund investment		(50,000)	–
Purchase of property, plant and equipment		(374,865)	(58,781)
Proceeds from disposal of prepaid lease assets		716	4,195
Proceeds from disposal of property, plant and equipment		35,662	39,306
Cash flow on disposal of subsidiaries, net of cash disposed of	22	–	552,408
Dividend received from joint ventures	7	1,000	3,362
<b>Net cash (used in)/generated from investing activities</b>		<b>(291,481)</b>	635,206

The notes set out on pages 192 to 258 are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED 31 DECEMBER 2018**

(continued)

	Note	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	23		
Dividends paid		<b>(933,847)</b>	(774,894)
Dividends paid to non-controlling interests		<b>(10,500)</b>	–
Repayment of term loan		–	(25,619)
Net drawdown/(repayment) of revolving credit facility		<b>5,729</b>	(5,928)
Repayment of Islamic financing facilities		<b>(18,305)</b>	(17,726)
Interest paid on revolving credit and term loan		<b>(178)</b>	(386)
Profit margin paid for Islamic financing facilities		<b>(2,725)</b>	(3,405)
<b>Net cash used in financing activities</b>		<b>(959,826)</b>	(827,958)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,169,503)</b>	925,964
<b>NET FOREIGN EXCHANGE DIFFERENCES</b>		<b>(348)</b>	141
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>3,357,742</b>	2,431,637
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	11	<b>2,187,891</b>	3,357,742

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	2018 RM'000	2017 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	<b>1,973,835</b>	3,008,769
Cash and bank balances	<b>31,584</b>	265,557
Deposits placed with licensed banks	<b>182,472</b>	83,416
	<b>2,187,891</b>	3,357,742

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

**AS AT 31 DECEMBER 2018**

	Note	2018 RM'000	2017 RM'000
<b>ASSETS</b>			
Property, plant and equipment	3	<b>3,144,897</b>	3,138,370
Prepaid lease payments	4	<b>492,256</b>	456,821
Investments in subsidiaries	5	<b>29,010</b>	29,010
Investments in associates	6	<b>530</b>	530
Investments in joint ventures	7	<b>25</b>	25
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,666,718</b>	3,624,756
Inventories	8	<b>810,897</b>	844,394
Trade and other receivables	9	<b>2,061,662</b>	1,543,449
Cash and cash equivalents	11	<b>1,969,066</b>	3,086,937
<b>TOTAL CURRENT ASSETS</b>		<b>4,841,625</b>	5,474,780
<b>TOTAL ASSETS</b>		<b>8,508,343</b>	9,099,536
<b>EQUITY</b>			
Share capital	12	<b>993,454</b>	993,454
Reserves	13	<b>4,491,727</b>	4,620,813
<b>TOTAL EQUITY</b>		<b>5,485,181</b>	5,614,267
<b>LIABILITIES</b>			
Deferred tax liabilities	16	<b>95,727</b>	110,539
Other long term liabilities and provisions	17	<b>28,777</b>	30,782
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>124,504</b>	141,321
Trade and other payables	18	<b>2,854,988</b>	3,234,865
Taxation		<b>43,670</b>	109,083
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,898,658</b>	3,343,948
<b>TOTAL LIABILITIES</b>		<b>3,023,162</b>	3,485,269
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,508,343</b>	9,099,536

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000 (restated)
Revenue	19	<b>29,476,319</b>	26,862,146
Cost of revenue		<b>(26,774,432)</b>	(24,000,580)
<b>Gross profit</b>		<b>2,701,887</b>	2,861,566
Selling and distribution expenses		<b>(997,004)</b>	(934,388)
Administration expenses		<b>(1,006,050)</b>	(877,451)
Other income		<b>402,564</b>	517,024
<b>Operating profit</b>		<b>1,101,397</b>	1,566,751
Financing costs	20	<b>(1,644)</b>	(3,262)
<b>Profit before taxation</b>		<b>1,099,753</b>	1,563,489
Tax expense	21	<b>(293,233)</b>	(332,392)
<b>PROFIT/TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	24	<b>806,520</b>	1,231,097

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2018

Attributable to shareholders of the Company				
← Non-distributable → Distributable				
Note	Share capital RM'000	Capital reserves RM'000	Retained profits RM'000	Total equity RM'000
<b>At 1 January 2017</b>	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	–	–	(774,894)	(774,894)
27				
<b>At 31 December 2017/ 1 January 2018</b>	993,454	–	4,620,813	5,614,267
– As previously reported	<b>993,454</b>	–	<b>4,620,813</b>	<b>5,614,267</b>
– Effect of adoption of pronouncement	–	–	<b>(1,759)</b>	<b>(1,759)</b>
<b>At 1 January 2018, restated</b>	<b>993,454</b>	–	<b>4,619,054</b>	<b>5,612,508</b>
Profit/Total comprehensive income for the year	–	–	<b>806,520</b>	<b>806,520</b>
Dividends paid	–	–	<b>(933,847)</b>	<b>(933,847)</b>
27				
<b>At 31 December 2018</b>	<b>993,454</b>	–	<b>4,491,727</b>	<b>5,485,181</b>
	Note 12	Note 13		

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		<b>1,099,753</b>	1,563,489
Adjustments for:			
Depreciation and amortisation		<b>317,563</b>	332,546
Net impairment loss/(reversal) on trade and other receivables		<b>4,293</b>	(410)
Net gain on disposal of property, plant and equipment		<b>(10,125)</b>	(22,190)
Interest income		<b>(89,226)</b>	(90,821)
Dividend income		<b>(20,500)</b>	(119,980)
Property, plant and equipment written off		<b>308</b>	1,151
Net unrealised foreign exchange (gain)/loss		<b>(2,271)</b>	4,655
Financing costs		<b>1,644</b>	3,262
Operating profit before changes in working capital		<b>1,301,439</b>	1,671,702
Changes in working capital:			
Inventories		<b>33,497</b>	(90,868)
Trade and other receivables		<b>(518,213)</b>	88,708
Trade and other payables		<b>(387,861)</b>	(319,559)
Cash generated from operations		<b>428,862</b>	1,349,983
Taxation paid		<b>(372,904)</b>	(309,417)
<b>Net cash generated from operating activities</b>		<b>55,958</b>	1,040,566
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividends received		<b>20,500</b>	119,980
Interest income		<b>89,226</b>	90,821
Purchase of property, plant and equipment		<b>(366,907)</b>	(36,172)
Proceeds from disposal of prepaid lease assets		<b>716</b>	4,195
Proceeds from disposal of property, plant and equipment		<b>16,483</b>	39,763
Proceeds from redemption of redeemable preference shares		–	252,965
<b>Net cash (used in)/generated from investing activities</b>		<b>(239,982)</b>	471,552

The notes set out on pages 192 to 258 are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2018

(continued)

	Note	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Dividends paid	27	<b>(933,847)</b>	(774,894)
<b>Net cash used in financing activity</b>		<b>(933,847)</b>	(774,894)
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,117,871)</b>	737,224
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>3,086,937</b>	2,349,713
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	11	<b>1,969,066</b>	3,086,937

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	2018 RM'000	2017 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	<b>1,944,019</b>	2,989,035
Cash and bank balances	<b>25,047</b>	97,902
	<b>1,969,066</b>	3,086,937

The notes set out on pages 192 to 258 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 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 2018, the Group and the Company had adopted new MFRS, 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 38.

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 39. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in Note 41.

These financial statements were approved and authorised for issue by the Board of Directors on 26 February 2019.

### 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 JUDGEMENTS

The preparation of financial statements in conformity with MFRS requires management to make judgements, 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 judgements 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 16 : Deferred Tax; and
- (ii) Note 32 : Financial Instruments.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 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.

Arising from the adoption of MFRS 9 *Financial Instruments*, and MFRS 15 *Revenue from Contracts with Customers* there are changes to the accounting policies of:

- (i) financial instruments;
- (ii) revenue, and
- (iii) impairment

as compared to those adopted in previous financial statements. The impact arising from the changes are disclosed in Note 40.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.1 BASIS OF CONSOLIDATION (continued)

##### *Business combinations (continued)*

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

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

##### *Non-controlling interests*

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

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

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

##### *Loss of control*

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

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

Depreciation for property, plant and equipment other than freehold land and projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Buildings are depreciated over 20 to 30 years or over the remaining land lease 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 – 10 years
Computer software and hardware	5 years

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

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

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.5 LEASED ASSETS

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

##### ***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 payments. 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.

#### 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(ii)).

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 FINANCIAL INSTRUMENTS

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9 *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

##### **Recognition and initial measurement**

A financial asset or financial liability 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.

##### **Current financial year**

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

No change to the accounting policy in relation to regular way purchases or sales (purchases or sales under a contract whose terms require delivery of financial assets within a time frame established by regulation or convention in the marketplace concerned).

##### **Previous financial year**

Financial instruments were recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, any directly attributable transaction costs incurred at the acquisition or issuance of the financial instrument.

Regular way purchases or sales were recognised on the trade date i.e. the date that the Group and the Company committed to purchase or sell the financial asset.

##### **Classification and subsequent measurement**

###### **(i) Financial assets**

###### **Current financial year**

Upon adoption of MFRS 9 *Financial Instruments*, financial assets are classified as measured at amortised cost.

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

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 FINANCIAL INSTRUMENTS (continued)

##### *Classification and subsequent measurement (continued)*

##### *(i) Financial assets (continued)*

###### **Amortised cost**

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method (Note 2.7 (v)). Interest income and foreign exchange gains and losses are recognised in profit or loss.

###### **Previous financial year**

In the previous financial year, financial assets of the Group and Company were classified and measured under MFRS 139 *Financial Instruments: Recognition and Measurement* as Loans and receivables.

###### **Loans and receivables**

Loans and receivables category comprises debt instruments that were not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables were measured at amortised cost using the effective interest method (Note 2.7(v)).

##### *(ii) Financial liabilities*

###### **Current financial year**

The category of financial liabilities at initial recognition is as follows:

###### **Amortised cost**

Subsequent to initial recognition, financial liabilities are subsequently 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.

###### **Previous financial year**

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost.

###### **Loans and borrowings**

Subsequent to initial recognition, loans and borrowings were measured at amortised cost using the effective interest method (Note 2.7(v)).

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

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 FINANCIAL INSTRUMENTS (continued)

##### *Classification and subsequent measurement (continued)*

##### *(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.

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.

##### *Current financial year*

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

##### *Previous financial year*

An embedded derivative was 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, was accounted for in accordance with the policy applicable to the nature of the host contract.

##### *(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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 FINANCIAL INSTRUMENTS (continued)

##### *Classification and subsequent measurement (continued)*

##### *(v) Amortised cost of financial instruments*

###### *Current financial year*

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (Note 2.7 (i)) where effective interest rate is applied to the amortised cost.

###### *Previous financial year*

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

##### *(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, except for equity investments at fair value through other comprehensive income where the gain or loss are recognised in other comprehensive income.

###### *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. In the case of waiver of debt from owners, the gain is recognised in equity as capital reserve.

#### 2.8 IMPAIRMENT

##### *(i) Financial assets*

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9 *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.8 IMPAIRMENT (continued)

##### (i) *Financial assets (continued)*

###### ***Current financial year***

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

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

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

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

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

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

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

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

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

###### ***Previous financial year***

All financial assets (except for investments in subsidiaries, investments in associates and investments in joint ventures) were assessed at each reporting date to determine whether there was 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, were not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost was an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount was estimated.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.8 IMPAIRMENT (continued)

##### (i) *Financial assets (continued)*

###### *Previous financial year (continued)*

An impairment loss in respect of loans and receivables was recognised in profit or loss and was 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 was reduced through the use of an allowance account.

If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was 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 was recognised in profit or loss.

##### (ii) *Other assets*

The carrying amounts of other assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 EMPLOYEE BENEFITS (continued)

#### (ii) *Defined contribution plans*

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

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

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

### 2.13 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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.14 FOREIGN CURRENCY TRANSACTIONS

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

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

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

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on retranslation of equity instruments at fair value through other comprehensive income ("FVOCI"), which are recognised in equity and are never reclassified to profit or loss.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.15 BORROWING COSTS AND FOREIGN CURRENCY EXCHANGE DIFFERENCES RELATING TO PROJECTS-IN-PROGRESS (continued)

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

##### *Current financial year*

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group or the Company recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time in accordance with the above criteria, an entity satisfies the performance obligation and recognises revenue at a point in time.

##### *Previous financial year*

Revenue from sale of petroleum products was recognised in the profit or loss when the risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered was recognised in the profit or loss based on the value of services performed during the year.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.17 FINANCING COSTS

Financing costs comprise interest payable on borrowings and profit sharing margin on Islamic Financing Facilities as well as accretion in provision of dismantling, removal and restoration costs due to the passage of time.

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.

#### 2.18 CONTRACT LIABILITY – 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 contract liability and only recognised as revenue in the profit or loss upon redemption, cancellation and expiration of the points. Currently, members can redeem the awarded points for purchase of fuel at PETRONAS stations, items at *Kedai Mesra* or with selected partners.

Fair value of the contract liability is determined by reference to the monetary value attributable to the awarded points and the redemption expiry dates.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

##### (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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 3. PROPERTY, PLANT AND EQUIPMENT

Group	At 1.1.2018 RM'000	Additions RM'000	Disposals/ write-offs RM'000	Transfers RM'000	Translation exchange difference RM'000	At 31.12.2018 RM'000
<b>At cost:</b>						
Freehold land	1,012,366	3,087	(521)	(6,595)	–	1,008,337
Leasehold land	637,347	380	(1,476)	(9,501)	–	626,750
Buildings	2,116,559	11	(20,711)	25,686	–	2,121,545
Plant, machinery, tankage and pipeline	2,405,031	11,485	(71,035)	95,395	13	2,440,889
Office equipment, furniture and fittings	502,754	4,085	(4,126)	13,335	9	516,057
Motor vehicles	86,722	314	(1,495)	8,437	60	94,038
Computer hardware and software	658,941	7,123	(37,134)	7,946	35	636,911
Projects-in-progress	113,042	348,380	(286)	(206,098)	–	255,038
	<b>7,532,762</b>	<b>374,865</b>	<b>(136,784)</b>	<b>(71,395)*</b>	<b>117</b>	<b>7,699,565</b>

\* Amount relates to transfer to Prepaid Lease Payments (Note 4).

Group	At 1.1.2018 RM'000	Charge for the year RM'000	Disposals/ write-offs RM'000	Transfers RM'000	Translation exchange difference RM'000	At 31.12.2018 RM'000
<b>Accumulated depreciation and impairment losses:</b>						
Freehold land	809	–	–	–	–	809
Leasehold land	106,186	8,206	(1,324)	–	–	113,068
Buildings	1,400,993	87,428	(16,808)	–	–	1,471,613
Plant, machinery, tankage and pipeline	1,621,733	138,767	(41,930)	(347)	7	1,718,230
Office equipment, furniture and fittings	377,775	29,293	(4,011)	347	2	403,406
Motor vehicles	74,795	7,050	(1,495)	–	20	80,370
Computer hardware and software	578,179	35,227	(36,910)	–	12	576,508
	<b>4,160,470</b>	<b>305,971</b>	<b>(102,478)</b>	<b>–</b>	<b>41</b>	<b>4,364,004</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 3. PROPERTY, PLANT AND EQUIPMENT (continued)

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
<b>At cost:</b>							
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).

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
<b>Accumulated depreciation and impairment losses:</b>							
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

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 3. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	At 1.1.2018 RM'000	Additions RM'000	Disposals/ write-offs RM'000	Transfers RM'000	At 31.12.2018 RM'000
<b>At cost:</b>					
Freehold land	1,012,366	3,087	(521)	(6,595)	1,008,337
Leasehold land	635,672	380	(1,476)	(9,501)	625,075
Buildings	2,089,484	11	(20,711)	25,686	2,094,470
Plant, machinery, tankage and pipeline	2,008,274	9,444	(40,061)	65,454	2,043,111
Office equipment, furniture and fittings	498,949	4,055	(4,121)	12,455	511,338
Motor vehicles	79,331	–	(1,495)	8,437	86,273
Computer hardware and software	644,328	6,426	(37,114)	5,379	619,019
Projects-in-progress	80,872	343,504	(286)	(172,710)	251,380
	<b>7,049,276</b>	<b>366,907</b>	<b>(105,785)</b>	<b>(71,395)*</b>	<b>7,239,003</b>

\* Amount relates to transfer to Prepaid Lease Payments (Note 4).

Company	At 1.1.2018 RM'000	Charge for the year RM'000	Disposals/ write-offs RM'000	Transfers RM'000	At 31.12.2018 RM'000
<b>Accumulated depreciation and impairment losses:</b>					
Freehold land	809	–	–	–	809
Leasehold land	105,910	8,196	(1,324)	–	112,782
Buildings	1,374,983	86,673	(16,808)	–	1,444,848
Plant, machinery, tankage and pipeline	1,416,896	119,354	(38,605)	–	1,497,645
Office equipment, furniture and fittings	376,061	28,653	(4,007)	–	400,707
Motor vehicles	69,622	5,586	(1,495)	–	73,713
Computer hardware and software	566,625	33,857	(36,880)	–	563,602
	<b>3,910,906</b>	<b>282,319</b>	<b>(99,119)</b>	<b>–</b>	<b>4,094,106</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 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
<b>At cost:</b>					
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
<b>Accumulated depreciation and impairment losses:</b>					
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 2018**

### 3. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group Carrying amount		Company Carrying amount	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Freehold land	<b>1,007,528</b>	1,011,557	<b>1,007,528</b>	1,011,557
Leasehold land	<b>513,682</b>	531,161	<b>512,293</b>	529,762
Buildings	<b>649,932</b>	715,566	<b>649,622</b>	714,501
Plant, machinery, tankage and pipeline	<b>722,659</b>	783,298	<b>545,466</b>	591,378
Office equipment, furniture and fittings	<b>112,651</b>	124,979	<b>110,631</b>	122,888
Motor vehicles	<b>13,668</b>	11,927	<b>12,560</b>	9,709
Computer hardware and software	<b>60,403</b>	80,762	<b>55,417</b>	77,703
Projects-in-progress	<b>255,038</b>	113,042	<b>251,380</b>	80,872
	<b>3,335,561</b>	3,372,292	<b>3,144,897</b>	3,138,370

#### **Restrictions of land title**

The titles to certain freehold and leasehold land are in the process of being registered in the Company's name.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 4. PREPAID LEASE PAYMENTS

Group and Company	At	Additions	Transfer	Disposals	Charge for	At
	1.1.2018		from		the year	31.12.2018
	RM'000	RM'000	Property, Plant and Equipment RM'000	RM'000	RM'000	RM'000
Leasehold land	20,181	–	2,697	(276)	(1,120)	21,482
Prepaid rental	436,640	–	68,698	(440)	(34,124)	470,774
	456,821	–	71,395	(716)	(35,244)	492,256

Group and Company	At	Additions	Transfer	Disposals	Charge for	At
	1.1.2017		from		the year	31.12.2017
	RM'000	RM'000	Property, Plant and Equipment RM'000	RM'000	RM'000	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

**Restrictions of land title**

The titles to certain leasehold land are in the process of being registered in the Company's name.

## 5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2018	2017
	RM'000	RM'000
Unquoted shares at cost	29,010	29,010

In the previous financial year, the Company redeemed preference shares of subsidiaries amounting to RM252,965,000.

Details of the subsidiaries are stated in Note 35 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 6. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unquoted shares at cost	530	530	530	530
Share of post-acquisition profits and reserves	1,025	1,026	–	–
	<b>1,555</b>	1,556	<b>530</b>	530

Summary of financial information on associates:

	Group	
	2018 RM'000	2017 RM'000
<b>As at 31 December</b>		
Total assets (100%)	9,458	9,172
Total liabilities (100%)	(1,680)	(1,011)
Net assets (100%)	<b>7,778</b>	8,161
<b>Year ended 31 December</b>		
Revenue (100%)	17,011	18,022
Total comprehensive income (100%)	<b>995</b>	1,218

In the previous financial year, the Group had disposed 40% of its equity interest in Duta Inc. ("DUTA") with carrying amount of RM1,429,000 as part of the total disposal of PETRONAS Energy Philippines, Inc. ("PEPI") (Note 22).

Details of the associates are stated in Note 36 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 7. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unquoted shares at cost	1,053	1,053	25	25
Share of post-acquisition profits and reserves	16,082	13,577	–	–
	<b>17,135</b>	14,630	<b>25</b>	25
Dividend received	<b>1,000</b>	3,362	<b>1,000</b>	2,500

Summary of financial information on joint ventures:

	Group	
	2018 RM'000	2017 RM'000
<b>As at 31 December</b>		
Total assets (100%)	<b>96,992</b>	91,654
Total liabilities (100%)	<b>(51,846)</b>	(53,636)
Net assets (100%)	<b>45,146</b>	38,018
<b>Year ended 31 December</b>		
Revenue (100%)	<b>515,976</b>	327,491
Total comprehensive income (100%)	<b>8,968</b>	9,424

Details of the joint ventures are stated in Note 37 to the financial statements.

## 8. INVENTORIES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Petroleum products	<b>824,383</b>	867,774	<b>810,897</b>	844,394
Others	<b>1,435</b>	1,467	–	–
	<b>825,818</b>	869,241	<b>810,897</b>	844,394
Recognised in profit or loss:				
Inventories recognised as cost of sales	<b>27,193,713</b>	24,382,254	<b>26,774,432</b>	24,000,580
Write-down to net realisable value	<b>1,192</b>	853	–	–
Reversal of write-down	<b>(65)</b>	–	–	–

Inventories are carried at the lower of cost and net realisable value.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Trade</b>				
Amounts due from:				
– Holding company	<b>183</b>	–	<b>119</b>	–
– Subsidiaries	<b>–</b>	–	<b>101</b>	–
– Related companies	<b>81,194</b>	95,550	<b>78,703</b>	92,436
Trade receivables	<b>1,211,449</b>	940,714	<b>1,019,115</b>	811,094
Less: Impairment losses	<b>(10,645)</b>	(8,236)	<b>(3,292)</b>	(1,539)
	<b>1,282,181</b>	1,028,028	<b>1,094,746</b>	901,991
<b>Non-trade</b>				
Other receivables, deposits and prepayments	<b>100,217</b>	230,248	<b>90,753</b>	225,889
Advances and loans to:				
– Associates and joint ventures	<b>4,348</b>	3,583	<b>1,282</b>	516
Amounts due from:				
– Holding company	<b>198,104</b>	18,980	<b>197,308</b>	18,980
– Subsidiaries	<b>–</b>	–	<b>1,899</b>	961
– Related companies	<b>10,523</b>	5,937	<b>10,479</b>	5,937
Subsidy receivables	<b>801,273</b>	521,105	<b>801,272</b>	521,105
Less: Impairment losses	<b>(136,077)</b>	(131,930)	<b>(136,077)</b>	(131,930)
	<b>978,388</b>	647,923	<b>966,916</b>	641,458
Trade and other receivables	<b>2,260,569</b>	1,675,951	<b>2,061,662</b>	1,543,449

The trade amounts due from holding company, subsidiaries and related companies arose in the normal course of business.

The non-trade amounts due from holding company, subsidiaries, associates, joint ventures and related companies are unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 10. FUND INVESTMENT

	Group	
	2018 RM'000	2017 RM'000
Deposits placed with licensed banks	50,000	–

Fund investment consists of deposits placed with licensed banks which typically have a maturity period of more than 3 months.

## 11. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash with PETRONAS Integrated Financial Shared Services Centre	1,973,835	3,008,769	1,944,019	2,989,035
Cash and bank balances	31,584	265,557	25,047	97,902
Deposits placed with licensed banks	182,472	83,416	–	–
	<b>2,187,891</b>	3,357,742	<b>1,969,066</b>	3,086,937

A portion of the Group's and of the 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 RM2,178,077,000 (2017: RM3,338,957,000) and RM1,959,448,000 (2017: RM3,078,541,000) respectively.

## 12. SHARE CAPITAL

	Number of shares		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
<b>Group and Company</b>				
Issued ordinary shares	993,454	993,454	993,454	993,454

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 13. RESERVES

#### Capital reserve

Capital reserve arose as a result of business combination of entities under the common control of PETRONAS and comprise 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.

#### 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.

### 14. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of a non-wholly owned subsidiary.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 15. BORROWINGS

	Group	
	2018 RM'000	2017 RM'000
<b>Non-current</b>		
<b>Unsecured</b>		
Islamic financing facilities	29,924	48,909
<b>Total non-current borrowings</b>	29,924	48,909
<b>Current</b>		
<b>Unsecured</b>		
Islamic financing facilities	19,046	18,366
Revolving credit facility	5,990	–
<b>Total current borrowings</b>	25,036	18,366
<b>Total borrowings</b>	54,960	67,275

## Terms and debt repayment schedule

Group	Total RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000
<b>2018</b>				
<b>Unsecured</b>				
Islamic financing facilities	48,970	19,046	29,924	–
Revolving credit facility	5,990	5,990	–	–
	54,960	25,036	29,924	–
<b>2017</b>				
<b>Unsecured</b>				
Islamic financing facilities	67,275	18,366	19,059	29,850

## 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 4.68 % (2017: 4.27% to 4.41%) per annum with principal repayment by quarterly instalments until September 2021.

## Unsecured revolving credit facility

The unsecured revolving credit facility bears an interest rate of 2.55% per annum.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 16. DEFERRED TAX

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

Group	At 1.1.2018 RM'000	Credited to profit or loss RM'000	Equity RM'000	At 31.12.2018 RM'000
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(150,824)	7,803	–	(143,021)
Contract liability - Loyalty Programme	10,725	7,092	–	17,817
Expected Credit Loss ("ECL")	–	28	658	686
	<b>(140,099)</b>	<b>14,923</b>	<b>658</b>	<b>(124,518)</b>

Group	At 1.1.2017 RM'000	Credited to profit or loss RM'000	Disposal of subsidiaries (Note 22) RM'000	At 31.12.2017 RM'000
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(151,811)	835	152	(150,824)
Contract liability - Loyalty Programme	9,683	1,042	–	10,725
	(142,128)	1,877	152	(140,099)
<b>Deferred tax assets</b>				
Unused tax losses	5,424	–	(5,424)	–
	5,424	–	(5,424)	–

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 16. DEFERRED TAX (continued)

Company	At 1.1.2018 RM'000	Credited/ (charged) to profit or loss RM'000	Equity RM'000	At 31.12.2018 RM'000
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(121,264)	7,217	–	(114,047)
Contract liability – Loyalty Programme	10,725	7,092	–	17,817
Expected Credit Loss (“ECL”)	–	(51)	554	503
	<b>(110,539)</b>	<b>14,258</b>	<b>554</b>	<b>(95,727)</b>

Company	At 1.1.2017 RM'000	Credited to profit or loss RM'000	Equity RM'000	At 31.12.2017 RM'000
<b>Deferred tax liabilities</b>				
Property, plant and equipment	(129,437)	8,173	–	(121,264)
Contract liability – Loyalty Programme	9,683	1,042	–	10,725
	<b>(119,754)</b>	<b>9,215</b>	<b>–</b>	<b>(110,539)</b>

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 17. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Dismantling, removal and restoration costs	<b>28,777</b>	30,782	<b>28,777</b>	30,782
Other long term liabilities	<b>491</b>	214	–	–
	<b>29,268</b>	30,996	<b>28,777</b>	30,782

#### 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	
	2018 RM'000	2017 RM'000
Balance at 1 January	<b>30,782</b>	26,954
Net changes in provisions	<b>(3,649)</b>	566
Unwinding of discount	<b>1,644</b>	3,262
Balance at 31 December	<b>28,777</b>	30,782

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 2018

## 18. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Trade</b>				
Amounts due to:				
– Holding company	92,546	133,737	92,546	133,737
– Subsidiaries	–	–	4,810	288
– Associates and joint ventures	17	–	17	–
– Related companies	1,934,078	2,360,216	1,879,289	2,303,468
Trade payables	20,888	145,792	6,325	110,303
Contract liability	74,237	44,687	74,237	44,687
	<b>2,121,766</b>	2,684,432	<b>2,057,224</b>	2,592,483
<b>Non-trade</b>				
Other payables	772,216	664,450	721,400	625,731
Amounts due to:				
– Holding company	62,688	1,035	60,636	–
– Subsidiaries	–	–	–	7,456
– Associates and joint ventures	5,064	726	5,064	726
– Related companies	10,666	8,469	10,664	8,469
	<b>850,634</b>	674,680	<b>797,764</b>	642,382
Trade and other payables	<b>2,972,400</b>	3,359,112	<b>2,854,988</b>	3,234,865

Contract liability is attributable to the monetary value of the awarded Mesra points under PETRONAS Mesra Loyalty Programme.

The trade amounts due to the holding company, subsidiaries, associates, joint ventures and related companies arose in the normal course of business.

The non-trade amounts due to holding company, subsidiaries, associates, joint ventures and related companies are unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 19. REVENUE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue from contracts with customers				
Sales of petroleum products	<b>30,048,313</b>	27,401,115	<b>29,476,319</b>	26,862,146
Rendering of services	<b>20,440</b>	19,532	–	–
Total revenue	<b>30,068,753</b>	27,420,647	<b>29,476,319</b>	26,862,146

#### **Disaggregation of revenue from contracts with customers**

In the following table, revenue is disaggregated by major products/services lines.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Major products/services lines</b>				
– Retail	<b>15,033,532</b>	14,543,976	<b>14,858,440</b>	14,360,453
– Commercial	<b>15,014,781</b>	12,857,139	<b>14,617,879</b>	12,501,693
– Others	<b>20,440</b>	19,532	–	–
	<b>30,068,753</b>	27,420,647	<b>29,476,319</b>	26,862,146

Revenue derived from petroleum products are predominantly sold to the retail and commercial sectors in Malaysia which have been disclosed in the Operating Segment (Note 30). The timing and recognition of revenue derived from petroleum products is recognised at a point in time.

#### **Nature of goods and services**

<b>Nature of goods and services</b>	<b>Timing of recognition or method used to recognise revenue</b>	<b>Significant payment terms</b>
Retail	Revenue is recognised when petroleum products goods are delivered and accepted by the customers at their premises/sites or ex-depot.	Payment for the products supplied shall be made before delivery, on delivery or within stipulated credit period.
Commercial	Revenue is recognised when petroleum products are delivered and accepted by the customers at their premises/sites or ex-depot.	Payment for the products supplied shall be made within stipulated credit period.
Others	Revenue is recognised over time when services are rendered to customer.	Payment for the services rendered shall be made within stipulated credit period.

There were no variable element in consideration, obligation for returns or refunds nor warranty in the provision of the goods and services by the Group and the Company.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 20. FINANCING COSTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Unwinding of discount				
– Provision for dismantling, removal and restoration costs	1,644	3,262	1,644	3,262
Profit margin on Islamic financing facilities	2,725	3,405	–	–
Interest on revolving credit facility	178	–	–	–
Interest on term loan	–	22	–	–
	<b>4,547</b>	6,689	<b>1,644</b>	3,262

## 21. TAX EXPENSE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Current tax expense</b>				
Current year	312,941	362,040	289,586	351,666
Prior year	17,549	(10,246)	17,905	(10,059)
	<b>330,490</b>	351,794	<b>307,491</b>	341,607
<b>Deferred tax expense</b>				
Reversal of temporary differences	(14,144)	(5,283)	(14,751)	(10,075)
Under/(Over) provision in prior year	(779)	3,406	493	860
Total deferred tax expense	<b>(14,923)</b>	(1,877)	<b>(14,258)</b>	(9,215)
<b>Total tax expense</b>	<b>315,567</b>	349,917	<b>293,233</b>	332,392

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 21. TAX EXPENSE (continued)

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

	2018		2017	
	%	RM'000	%	RM'000
<b>Group</b>				
Profit before taxation		<b>1,177,026</b>		1,437,857
Taxation at Malaysian statutory tax rate	<b>24</b>	<b>282,530</b>	24	345,086
Effect of different tax rates in foreign jurisdictions	–	<b>190</b>	–	(116)
Non-deductible expenses, net of non-taxable income	<b>1</b>	<b>16,077</b>	1	11,787
	<b>25</b>	<b>298,797</b>	25	356,757
Under/(Over) provision in prior year				
– current tax expense	<b>2</b>	<b>17,549</b>	(1)	(10,246)
– deferred tax expense	–	<b>(779)</b>	–	3,406
Tax expense	<b>27</b>	<b>315,567</b>	24	349,917
<b>Company</b>				
Profit before taxation		<b>1,099,753</b>		1,563,489
Taxation at Malaysian statutory tax rate	<b>24</b>	<b>263,941</b>	24	375,237
Non-allowable/(Non-deductible) expenses, net of non-taxable income	<b>1</b>	<b>10,894</b>	(2)	(33,646)
	<b>25</b>	<b>274,835</b>	22	341,591
Under/(Over) provision in prior year				
– current tax expense	<b>2</b>	<b>17,905</b>	(1)	(10,059)
– deferred tax expense	–	<b>493</b>	–	860
Tax expense	<b>27</b>	<b>293,233</b>	21	332,392

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**22. DISPOSAL OF SUBSIDIARIES**

In 2017, the Group has disposed 100% of its equity interest in Thang Long LPG Company Limited ("TLCL") and PETRONAS Energy Philippines, Inc. ("PEPI") for a fair value consideration of RM18,474,000 and RM560,529,000 respectively.

The net effects 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 were as follows:

**Profit attributable to the discontinued operations**

	<b>Group</b>
	<b>2017</b>
	<b>RM'000</b>
Revenue	162,332
Expenses	(134,697)
<b>Profit from operating activities</b>	<b>27,635</b>
Tax expense	(1,440)
Gain on disposal of discontinued operations	430,834
<b>Profit for the year</b>	<b>457,029</b>
<b>Included in results from operating activities were:</b>	
Depreciation of property, plant and equipment	5,026
Impairment loss on receivables	2,921
Share of profit after tax of equity accounted associate	220
Financing costs	363
Property, plant and equipment written off	2,026
Interest income	283

The profit from discontinued operations in 2017 of RM457,029,000 was attributable entirely to the owners of the Company.

**Cash flows from disposal of subsidiaries**

	<b>Group</b>
	<b>2017</b>
	<b>RM'000</b>
Net cash generated from investing activities	552,408

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 22. DISPOSAL OF SUBSIDIARIES (continued)

#### Effect of disposal on the financial position of the Group

	<b>2017</b>
	<b>RM'000</b>
Property, plant and equipment	98,602
Current assets*	66,475
Current liabilities	(2,523)
Other liabilities**	(1,008)
Other assets	14,043
Net assets disposed of	175,589
Foreign exchange translation reserve	(27,420)
Gain on disposal	430,834
Consideration received, satisfied in cash	579,003
Less: Cash and cash equivalents of subsidiaries disposed of	(26,595)
Cash flow on disposal of subsidiaries, net of cash disposed of	552,408

\* Included in the current assets is investment in DUTA with a carrying value of RM1,429,000 (Note 6) and deferred tax assets of RM5,424,000 (Note 16).

\*\* Included in the other liabilities is deferred tax liabilities of RM152,000 (Note 16).

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 23. CASH FLOWS FROM FINANCING ACTIVITIES

## Reconciliation of movement of liabilities to cash flows arising from financing activities

	Group		Company
	Borrowings RM'000	Dividends RM'000	Dividends RM'000
<b>Balance at 1 January 2018</b>	<b>67,275</b>	–	–
Changes from financing cash flows			
Net Drawdown/(Repayment) of:			
– Islamic financing facilities	<b>(18,305)</b>	–	–
– Revolving credit facility	<b>5,729</b>	–	–
Interest expenses:			
– Islamic financing facilities	<b>(2,725)</b>	–	–
– Revolving credit facility	<b>(178)</b>	–	–
Dividend paid	–	<b>(933,847)</b>	<b>(933,847)</b>
Dividend paid to non-controlling interest	–	<b>(10,500)</b>	–
<b>Total changes from financing cash flows</b>	<b>(15,479)</b>	<b>(944,347)</b>	<b>(933,847)</b>
<i>The effect of changes in foreign exchange rates</i>	<b>261</b>	–	–
<i>Other changes</i>			
– Dividend declared	–	<b>944,347</b>	<b>933,847</b>
– Finance costs	<b>2,903</b>	–	–
<b>Balance at 31 December 2018</b>	<b>54,960</b>	–	–
<b>Balance at 1 January 2017</b>	118,771	–	–
Changes from financing cash flows			
Net Drawdown/(Repayment) of:			
– Islamic financing facilities	(17,726)	–	–
– Revolving credit facility	(5,928)	–	–
– Term loan	(25,619)	–	–
Interest expenses			
– Islamic financing facilities	(3,405)	–	–
– Revolving credit facility	–	–	–
– Term loan	(22)	–	–
Dividend paid	–	(774,894)	(774,894)
<b>Total changes from financing cash flows</b>	<b>(52,700)</b>	<b>(774,894)</b>	<b>(774,894)</b>
<i>The effect of changes in foreign exchange rates</i>	<b>(2,223)</b>	–	–
<i>Other changes</i>			
– Dividend declared	–	774,894	774,894
– Finance costs	3,427	–	–
<b>Balance at 31 December 2017</b>	<b>67,275</b>	–	–

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 24. PROFIT FOR THE YEAR

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Included in profit for the year are the following charges:</b>					
Audit fees:					
– KPMG Malaysia		638	619	520	500
– overseas affiliates of KPMG Malaysia		–	24	–	–
– other auditors		106	106	–	–
Non Audit fees:					
– KPMG Malaysia		220	195	220	195
Amortisation of prepaid lease payments	4	35,244	25,899	35,244	25,899
Staff costs:					
– wages, salaries and others		244,634	205,378	215,211	171,631
– contributions to EPF		31,950	31,335	29,785	28,932
Depreciation of property, plant and equipment	3	305,971	337,273	282,319	306,647
Impairment losses on:					
– trade receivables		1,993	2,727	1,558	1,055
– other receivables		4,541	–	4,541	–
– long term receivables		–	2,321	–	–
Net unrealised loss on foreign exchange		–	4,643	–	4,655
Net realised loss on foreign exchange		302	5,022	275	–
Inventories written down to net realisable value	8	1,192	3,776	–	–
Property, plant and equipment written off		8,769	3,178	308	1,151
Rental of:					
– plant and equipment		4,949	4,966	4,863	4,876
– land and buildings		34,849	38,065	26,711	29,904
<b>and credits:</b>					
Net gain on disposal of property, plant and equipment		10,125	22,688	10,125	22,190
Gain on disposal of subsidiaries	22	–	430,834	–	–
Dividend income:					
– subsidiary		–	–	19,500	117,480
– joint venture	7	1,000	3,362	1,000	2,500
Interest income		96,006	94,716	89,226	90,821
Income from rental of premises		1,075	1,958	60	56
Net unrealised gain on foreign exchange		2,323	–	2,271	–
Net realised gain on foreign exchange		–	–	–	79,904
Reversal of write-down of inventories to net realisable value	8	65	–	–	–
Write back of impairment loss on trade receivables		2,043	9,268	1,806	1,465

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**25. OPERATING LEASE*****Leases as lessee***

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Less than one year	<b>127,322</b>	167,937	<b>119,880</b>	160,369
Between one and five years	<b>158,666</b>	278,223	<b>121,726</b>	240,004
More than five years	<b>181,764</b>	189,856	<b>18,096</b>	19,697
	<b>467,752</b>	636,016	<b>259,702</b>	420,070

The Group leases a number of land, shipping vessels and office space under operating leases, typically with tenures for a period of 5 years.

**26. EARNINGS PER ORDINARY SHARE*****Basic earnings per ordinary share***

The calculation of basic earnings per ordinary share at 31 December 2018 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	Group	
	2018	2017
Profit for the year attributable to shareholders (RM'000)		
– continuing operations	<b>849,849</b>	1,082,467
– discontinued operations	–	457,029
Number of ordinary shares ('000)	<b>993,454</b>	993,454
Basic earnings per ordinary share (sen)		
– continuing operations	<b>85.5</b>	109.0
– discontinued operations	–	46.0

***Diluted earnings per ordinary share***

No diluted earnings per share is disclosed in these financial statements as there is no potential dilutive ordinary share.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 27. DIVIDENDS

	Company	
	2018 RM'000	2017 RM'000
<b>In respect of financial year ended 31 December 2017:</b>		
Interim dividend of 49.0 sen per ordinary share (2016: 30.0 sen)	<b>486,792</b>	298,036
<b>In respect of financial year ended 31 December 2018:</b>		
Interim dividend of 13.0 sen per ordinary share (2017: 14.0 sen)	<b>129,149</b>	139,084
Interim dividend of 16.0 sen per ordinary share (2017: 14.0 sen)	<b>158,953</b>	139,084
Interim dividend of 16.0 sen per ordinary share (2017: 20.0 sen)	<b>158,953</b>	198,690
	<b>933,847</b>	774,894

The Directors had declared on 26 February 2019 an interim dividend of 25.0 sen per ordinary share amounting to RM248,363,500 in respect of the financial year ended 31 December 2018 which has not been accounted for in the financial statements for the year ended 31 December 2018.

### 28. 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. 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 holding company, PETRONAS and its related entities. The Group's related parties also includes Government of Malaysia and its related entities as the holding company is wholly-owned by the Government of Malaysia.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 28. RELATED PARTIES DISCLOSURES (continued)

*Key management personnel compensation*

	Group and Company	
	2018 RM'000	2017 RM'000
<b>Directors</b>		
– Fees	891	358
– Other short term benefits (including estimated monetary value of benefits-in-kind)	18	18
	<b>909</b>	376

The Company pays management fees to the holding company in relation to services of an Executive Director and also director fees for certain Non-Executive Directors of the Company as disclosed in the related parties disclosures.

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Holding company</b>				
Purchase of petroleum products	(890,212)	(1,022,838)	(890,212)	(1,022,838)
Rental of office space	(17,937)	(18,515)	(17,937)	(18,515)
Management fees	(752)	(906)	(752)	(906)
Interest income from PETRONAS IFSSC	96,006	90,185	89,226	89,705
Fees for representation in the Board of Directors*	(559)	(310)	(559)	(310)
Information, communication and technology charges	(40,588)	(37,725)	(39,750)	(37,635)
<b>Related companies</b>				
Sales of petroleum products	1,219,023	1,188,794	1,193,865	1,162,391
Purchase of petroleum products	(27,378,757)	(23,517,369)	(27,021,156)	(23,199,566)
<b>Federal and State Government of Malaysia</b>				
Sales of petroleum products	322,090	295,801	322,090	295,801
<b>Government of Malaysia's related entities</b>				
Sales of petroleum products	5,058,331	4,557,405	5,058,331	4,557,405

\* 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 2018 is disclosed in Note 9 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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 29. 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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>Property, plant and equipment</b>				
Approved and contracted for	5,407	45,818	3,249	45,695
Approved but not contracted for	12,322	241,771	287	236,275
	<b>17,729</b>	287,589	<b>3,536</b>	281,970

### 30. 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 segments, 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 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.

Revenues derived from petroleum products are predominantly sold to the retail and commercial sectors in Malaysia which have been disclosed in the operating segment. In this respect, no further disaggregation of revenue is presented.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 30. OPERATING SEGMENTS (continued)

Business Segments	2018				2017 (restated)			
	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	15,033,532	15,014,781	20,440	30,068,753	14,543,976	12,857,139	19,532	27,420,647
Depreciation and amortisation*	285,946	37,897	17,372	341,215	292,967	44,900	20,279	358,146
Other income/(expense)	317,253	67,676	39,972	424,901	332,517	70,308	(197)	402,628
Operating profit	596,075	534,236	47,758	1,178,069	838,330	572,058	30,156	1,440,544
Financing costs*	(1,734)	(88)	(2,725)	(4,547)	(2,665)	(619)	(3,405)	(6,689)
Share of profit after tax of associates and joint ventures				3,504				4,002
<b>Profit before taxation from continuing operations</b>				<b>1,177,026</b>				<b>1,437,857</b>

\* Excludes disposed subsidiaries (PEPI and TLLCL) in relation to financial year ended 31 December 2017

**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 2018, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

## 31. CONTINGENCIES

	Group	
	2018 RM'000	2017 RM'000
<b>Contingent assets</b>		
An award in favour of a subsidiary was issued by the arbitrator following an arbitration proceeding, which allowed additional costs and expenses for restructuring works at one of the subsidiary's major facility. The award as of the financial statement date is pending final settlement.	26,662	—

There were no material contingent liabilities since the last consolidated statement of financial position as at 31 December 2017.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 32. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

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

- (i) Amortised cost ("AC");
- (ii) Loans and receivables ("L&R"); and
- (iii) Loans and borrowings ("L&B").

Group 2018	Note	AC RM'000	Total carrying amount RM'000
<b>Financial assets</b>			
Trade and other receivables*	9	2,024,851	2,024,851
Fund investment	10	50,000	50,000
Cash and cash equivalents	11	2,187,891	2,187,891
		<b>4,262,742</b>	<b>4,262,742</b>
<b>Financial liabilities</b>			
Borrowings	15	(54,960)	(54,960)
Trade and other payables*	18	(2,898,118)	(2,898,118)
		<b>(2,953,078)</b>	<b>(2,953,078)</b>

Group 2017	Note	L&R/ (L&B) RM'000	Total carrying amount RM'000
<b>Financial assets</b>			
Trade and other receivables*	9	1,630,721	1,630,721
Cash and cash equivalents	11	3,357,742	3,357,742
		4,988,463	4,988,463
<b>Financial liabilities</b>			
Borrowings	15	(67,275)	(67,275)
Trade and other payables*	18	(3,312,006)	(3,312,006)
		<b>(3,379,281)</b>	<b>(3,379,281)</b>

\* These balances exclude non-financial instruments balances.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 32. FINANCIAL INSTRUMENTS (continued)

## Categories of financial instruments (continued)

Company 2018	Note	AC RM'000	Total carrying amount RM'000
<b>Financial assets</b>			
Trade and other receivables*	9	1,829,663	1,829,663
Cash and cash equivalents	11	1,969,066	1,969,066
		<b>3,798,729</b>	<b>3,798,729</b>
<b>Financial liability</b>			
Trade and other payables*	18	(2,780,751)	(2,780,751)

Company 2017	Note	L&R/ (L&B) RM'000	Total carrying amount RM'000
<b>Financial assets</b>			
Trade and other receivables*	9	1,501,344	1,501,344
Cash and cash equivalents	11	3,086,937	3,086,937
		4,588,281	4,588,281
<b>Financial liability</b>			
Trade and other payables*	18	(3,190,179)	(3,190,179)

\* These balances exclude non-financial instruments balances.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 32. FINANCIAL INSTRUMENTS (continued)

#### 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 and market risk relating to profit margin or interest rate risk and foreign currency risk.

#### 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

##### **Risk management objectives, policies and processes for managing the risk**

The Group and the Company minimise credit risk by ensuring that all potential third party counterparties are assessed prior to registration and entering into new contracts. Existing third party counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's 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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 32. FINANCIAL INSTRUMENTS (continued)

#### Credit risk (continued)

##### *Trade and other receivables (continued)*

##### ***Risk management objectives, policies and processes for managing the risk (continued)***

The Group uses ageing analysis to monitor the credit quality of the receivables. As at the year end, 99% (2017: 99%) 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 10% (2017: 14%) 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 89% (2017: 69%) 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.

At each reporting date, the Group or the Company assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

##### ***Recognition and measurement of impairment loss***

In managing credit risk of trade receivables, the Group monitors its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances.

The Group performs credit rating assessment of all its counterparties in order to measure ECLs of trade receivables for all segments using the PETRONAS Credit Risk Rating System. This credit rating assessment considers quantitative assessment using the counterparties' financial statements or a qualitative assessment of the counterparties' which includes but is not limited to their reputation, competitive position, industry and geopolitical outlook.

In determining the ECL, the probability of default assigned to each counterparty is based on their individual credit rating. This probability of default is derived by benchmarking against available third party and market information, which also incorporates forward looking information.

Loss given default is the assumption of the proportion of financial asset that cannot be recovered by conversion of collateral to cash or by legal process, and is assessed based on the Company's historical experience.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018 which are grouped together as they are expected to have similar risk nature.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 32. FINANCIAL INSTRUMENTS (continued)

#### Credit risk (continued)

#### Trade and other receivables (continued)

#### Recognition and measurement of impairment loss (continued)

		Group 2018		
	Note	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
<b>Credit Risk Rating</b>				
Sovereign rating		66,087	–	66,087
Good rating		977,015	(664)	976,351
Standard rating		218,175	(1,652)	216,523
		<b>1,261,277</b>	<b>(2,316)</b>	<b>1,258,961</b>
Credit impaired:				
More than 90 days past due		31,549	(8,329)	23,220
		<b>1,292,826</b>	<b>(10,645)</b>	<b>1,282,181</b>
Representing:				
Trade receivables	9	<b>1,292,826</b>	<b>(10,645)</b>	<b>1,282,181</b>
		Company 2018		
	Note	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
<b>Credit Risk Rating</b>				
Sovereign rating		47,523	–	47,523
Good rating		852,388	(492)	851,896
Standard rating		195,861	(1,319)	194,542
		<b>1,095,772</b>	<b>(1,811)</b>	<b>1,093,961</b>
Credit impaired:				
More than 90 days past due		2,266	(1,481)	785
		<b>1,098,038</b>	<b>(3,292)</b>	<b>1,094,746</b>
Representing:				
Trade receivables	9	<b>1,098,038</b>	<b>(3,292)</b>	<b>1,094,746</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**32. 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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
<b>At net</b>				
Current	<b>1,208,763</b>	980,055	<b>1,076,183</b>	872,103
Past due 1 to 30 days	<b>40,646</b>	32,882	<b>15,224</b>	20,542
Past due 31 to 60 days	<b>8,751</b>	5,747	<b>669</b>	1,971
Past due 61 to 90 days	<b>10,693</b>	2,339	<b>404</b>	901
Past due more than 90 days	<b>13,328</b>	7,005	<b>2,266</b>	6,474
	<b>1,282,181</b>	1,028,028	<b>1,094,746</b>	901,991
Representing:				
Trade receivables (Note 9)	<b>1,292,826</b>	1,036,264	<b>1,098,038</b>	903,530
Less: Impairment losses (Note 9)	<b>(10,645)</b>	(8,236)	<b>(3,292)</b>	(1,539)
	<b>1,282,181</b>	1,028,028	<b>1,094,746</b>	901,991

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are secured by collateral and/or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

Trade receivables which are credit impaired amounting to RM10,645,000 are partially collateralised in the form of financial guarantee by banks. Impairment loss has been provided in excess of the collateral value of the financial guarantee of RM94,229,000.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 32. FINANCIAL INSTRUMENTS (continued)

#### Credit risk (continued)

#### Trade and other receivables (continued)

#### Recognition and measurement of impairment loss (continued)

The movements in the allowance for impairment losses of trade receivables during the year are as follows. Comparative amounts for 2017 is presented based on MFRS 139.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Opening balance under MFRS 139	<b>8,236</b>	14,777	<b>1,539</b>	1,949
Adjustment on initial application of MFRS 9	<b>2,459</b>	–	<b>2,001</b>	–
Opening balance under MFRS 9	<b>10,695</b>	14,777	<b>3,540</b>	1,949
Impairment losses recognised	<b>1,993</b>	2,727	<b>1,558</b>	1,055
Reversal of impairment	<b>(2,043)</b>	(9,268)	<b>(1,806)</b>	(1,465)
Closing balance	<b>10,645</b>	8,236	<b>3,292</b>	1,539

#### Fund investments

The Group and the Company are also exposed to counterparty credit risk from financial institutions through fund investment activities which was managed by IFSSC on behalf of the Group comprising primarily money market placement. 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 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 invested in short term domestic money market instrument. In view of the sound credit rating of counterparties, the Group and the Company do not expect any counterparties to fail to meet its obligation and hence, loss allowance is not provided for.

#### 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 its trade payables and borrowings. 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 2018

## 32. FINANCIAL INSTRUMENTS (continued)

## Liquidity risk (continued)

## Maturity analysis

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

Group	Carrying amount RM'000	Effective profit margin/ interest	Contractual cash flows RM'000	Within 1 year RM'000	1-2 years RM'000	2-5 years RM'000
		rates per annum %				
<b>2018</b>						
<b>Financial liabilities</b>						
Unsecured Islamic financing facilities floating rate	48,970	4.27 – 4.68	52,457	19,038	33,419	–
Unsecured revolving credit facility fixed rate	5,990	2.55	6,142	6,142	–	–
Trade and other payables	2,898,118	–	2,898,118	2,898,118	–	–
	<b>2,953,078</b>		<b>2,956,717</b>	<b>2,923,298</b>	<b>33,419</b>	<b>–</b>
<b>2017</b>						
<b>Financial liabilities</b>						
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	–	–
	<b>3,379,281</b>		<b>3,384,916</b>	<b>3,333,022</b>	<b>20,888</b>	<b>31,006</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 32. FINANCIAL INSTRUMENTS (continued)

#### Liquidity risk (continued)

#### Maturity analysis (continued)

Company	Carrying amount RM'000	Effective profit margin/ interest rates per annum %	Contractual cash flows RM'000	Within 1 year RM'000
<b>2018</b>				
<b>Financial liability</b>				
Trade and other payables	2,780,751	–	2,780,751	2,780,751
<b>2017</b>				
<b>Financial liability</b>				
Trade and other payables	3,190,179	–	3,190,179	3,190,179

#### 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 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 cashflow due to changes in profit margin or interest rates relates primarily to the Islamic financing facilities of a subsidiary with floating profit margin. Short term receivables and payables are not significantly exposed to interest rate risk.

The Group's remaining interest-bearing financial assets and financial liabilities, which consist 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 2018, 89% (2017: 100%) of the interest-bearing financial liabilities of the Group are floating rate instruments.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**32. FINANCIAL INSTRUMENTS (continued)****Market risk (continued)****Profit margin risk sensitivity analysis**

As at 31 December 2018, it is estimated that an increase/decrease of 100 basis points in profit margin of the Islamic financing facilities with all other variables held constant, is not expected to 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 IFSSC whereby foreign currency exposure is typically managed by matching receipts and payment for the same currency and internally hedged with IFSSC. When deemed necessary and appropriate, the Company, via IFSSC will enter into external hedging to minimise its exposure to the foreign currency movements.

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	
	2018 RM'000	2017 RM'000
<b>Group</b>		
<b>Financial asset</b>		
Trade and other receivables	132,805	121,581
<b>Financial liability</b>		
Trade and other payables	(15,508)	(32,809)
<b>Net exposure</b>	<b>117,297</b>	88,772
<b>Company</b>		
<b>Financial asset</b>		
Trade and other receivables	132,634	121,289
<b>Financial liability</b>		
Trade and other payables	(15,508)	(32,809)
<b>Net exposure</b>	<b>117,126</b>	88,480

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 32. FINANCIAL INSTRUMENTS (continued)

#### Market risk (continued)

#### Foreign exchange risk (continued)

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2018 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2018 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 judgement 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.

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:

	2018		2017	
	Appreciation in foreign currency rate %	Effect on profit or loss RM'000	Appreciation in foreign currency rate %	Effect on profit or loss RM'000
<b>Group</b>				
USD	10	11,730	10	8,877
<b>Company</b>				
USD	10	11,713	10	8,848

A depreciation in USD would have had equal but opposite effect, on the basis that all other variables remain constant.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**32. FINANCIAL INSTRUMENTS (continued)****Fair value information**

The Group's financial instruments consist of borrowings, cash and cash equivalents, fund investment, trade and other receivables and trade and other payables.

The carrying amounts of cash and cash equivalents, short term fund investment, 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 consolidated statement of financial position.

Group	Fair value of financial instruments not carried at fair value		Carrying amount RM'000
	Level 3 RM'000	Total RM'000	
<b>2018</b>			
<b>Financial liabilities</b>			
Islamic financing facilities	45,528	45,528	48,970
Revolving credit facility	5,841	5,841	5,990
	<b>51,369</b>	<b>51,369</b>	<b>54,960</b>
<b>2017</b>			
<b>Financial liability</b>			
Islamic financing facilities	60,956	60,956	67,275

**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.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 32. FINANCIAL INSTRUMENTS (continued)

#### Gains and losses arising from financial instruments

Group	Interest income RM'000	Interest expense RM'000	Reversal/ (impairment loss) RM'000	Others RM'000	Total RM'000
<b>2018</b>					
Financial assets at amortised cost	96,006	–	(4,491)	(4,512)	87,003
Financial liabilities at amortised cost	–	(2,903)	–	6,533	3,630
<b>Total</b>	<b>96,006</b>	<b>(2,903)</b>	<b>(4,491)</b>	<b>2,021</b>	<b>90,633</b>

#### 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)
<b>Total</b>	<b>94,716</b>	<b>(3,790)</b>	<b>4,220</b>	<b>(9,665)</b>	<b>85,481</b>

Company	Interest income RM'000	Interest expense RM'000	Reversal/ (impairment loss) RM'000	Others RM'000	Total RM'000
<b>2018</b>					
Financial assets at amortised cost	89,226	–	(4,293)	(4,509)	80,424
Financial liabilities at amortised cost	–	–	–	6,505	6,505
<b>Total</b>	<b>89,226</b>	<b>–</b>	<b>(4,293)</b>	<b>1,996</b>	<b>86,929</b>

#### 2017

Loans and receivables					
– recognised in profit or loss	90,821	–	410	77,732	168,963
Loans and borrowings	–	–	–	(2,483)	(2,483)
<b>Total</b>	<b>90,821</b>	<b>–</b>	<b>410</b>	<b>75,249</b>	<b>166,480</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 33. 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 2018 is 0.9:100 (2017: 1.1:100).

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.

### 34. HOLDING AND ULTIMATE HOLDING COMPANY

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

### 35. SUBSIDIARIES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2018	2017	
<b>Companies incorporated in Malaysia</b>			
Kuala Lumpur Aviation Fuelling System Sdn. Bhd.	<b>65%</b>	65%	To operate aviation fuelling at Kuala Lumpur International Airport, Sepang.
PETRONAS Lubricants Marketing (Malaysia) Sdn. Bhd.	<b>100%</b>	100%	To market and distribute lubricants.
PETRONAS Aviation Sdn. Bhd.	<b>100%</b>	100%	To provide technical consultancy services.
<b>Company incorporated in Netherlands</b>			
**PDB (Netherlands) B.V.	<b>100%</b>	100%	Investment holding company.
<b>Company incorporated in Thailand</b>			
*PETRONAS International Marketing (Thailand) Co., Ltd. <sup>1</sup>	<b>100%</b>	100%	To market and distribute lubricants.

\* Audited by firm of auditors other than KPMG PLT

\*\* Consolidated based on management accounts as the company is exempted from preparing audited financial statements as allowed by Articles 396 Book 2 of the Dutch Civil Code.

<sup>1</sup> Directly owned by PDB (Netherlands) B.V.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 36. ASSOCIATES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2018	2017	
<b>Companies incorporated in Malaysia</b>			
*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.

\* Audited by firm of auditors other than KPMG PLT

### 37. JOINT VENTURES AND ACTIVITIES

	Effective ownership and voting interest		Principal Activities
	2018	2017	
<b>Companies incorporated in Malaysia</b>			
PS Pipeline Sendirian Berhad	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 Sendirian Berhad	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.
<b>Company incorporated in Kingdom of Saudi Arabia</b>			
*United Fuel Company Limited (Limited Liability Company) <sup>2</sup>	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.

\* Audited by firm of auditors other than KPMG PLT

<sup>2</sup> Interest owned by PETRONAS Aviation Sdn. Bhd.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 38. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2018, 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 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*

The principal changes in accounting policies and their effects are set out below:

#### **MFRS 9 Financial Instruments**

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets 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 cash flow characteristics and business model in which financial assets are managed. The new standard contains three classifications for financial assets measured at amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI"), and eliminates the existing MFRS 139 categories of loans and receivables, held to maturity and available for sale.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss ("ECL") model. Under MFRS 9, loss allowances are measured on either 12-month ECLs or lifetime ECLs.

The Group and the Company have applied the requirements of MFRS 9 retrospectively with practical expedients and transitional exemptions as allowed by the standard, as follows:

- (i) The Group has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139; and
- (ii) The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 38. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (continued)

**Effective for annual periods beginning on or after 1 January 2018 (continued)**

#### **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.

Upon adoption of MFRS 15, the Group recognised revenue from contracts with retail dealers, gross of commission on the basis that Group is able to direct the use and the benefit received from the operation of petrol stations. Dealers commission is accordingly recognised as selling and distribution expense. Prior to the adoption of MFRS 15, the Group recognises revenue from contracts with retail dealers, net of commission. The Group have applied MFRS 15 retrospectively with comparatives have been restated in accordance with the above changes.

The initial application of the abovementioned pronouncements do not have any material impact to the financial statement of the Group and the Company except as mentioned in Note 40.

### 39. 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 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*

Amendments to MFRS 119 *Employee Benefits: Plan Amendment, Curtailment or Settlement*

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

#### **Effective for annual periods beginning on or after 1 January 2020**

Amendment to MFRS 3 *Business Combinations* (Definition of a Business)

Amendments to MFRS 101 *Presentation of Financial Statements* (Definition of Material)

Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (Definition of Material)

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

**39. PRONOUNCEMENTS YET IN EFFECT (continued)**

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: (continued)

**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:

**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*.

MFRS 16 introduces a single, on balance sheet lease accounting for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating leases.

The Group and the Company have assessed the estimated financial impact on its financial statements upon initial application of MFRS 16. As allowed by the transitional provision of MFRS 16, the Group and the Company have elected the modified retrospective approach with no restatement of comparative and cumulative adjustments resulting from the initial application of MFRS 16 to be recognised in retained earnings and reserves as at 1 January 2019, as disclosed below:

	Estimated adjustments at 1 January 2019	
	Group RM'000	Company RM'000
Increase in rights-of-use assets	242,804	184,268
Decrease in retained earnings	87,120	47,319
Increase in finance lease liability	(329,924)	(231,587)

## NOTES TO THE FINANCIAL STATEMENTS

**31 DECEMBER 2018**

### 40. IMPACT OF THE ADOPTION OF PRONOUNCEMENTS

**i. Classification and measurement of financial assets and financial liabilities on the date of initial application of MFRS 9**

The following tables below show the measurement under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Group and of the Company's financial assets and financial liabilities as at 1 January 2018 based on the business model assessment done.

	<b>31 December 2017 RM'000</b>	<b>Remeasurement RM'000</b>	<b>1 January 2018 Reclassification to new MFRS 9 category AC RM'000</b>
<b>Group</b>			
<b>Category under MFRS 139</b>			
<b>Financial assets</b>			
Loans and receivables			
Trade and other receivables	1,630,721	(2,744)	<b>1,627,977</b>
Cash and cash equivalents	3,357,742	–	<b>3,357,742</b>

	<b>31 December 2017 RM'000</b>	<b>Remeasurement RM'000</b>	<b>AC RM'000</b>
<b>Company</b>			
<b>Category under MFRS 139</b>			
<b>Financial assets</b>			
Loans and receivables			
Trade and other receivables	1,501,344	(2,313)	<b>1,499,031</b>
Cash and cash equivalents	3,086,937	–	<b>3,086,937</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

## 40. IMPACT OF THE ADOPTION OF PRONOUNCEMENTS (continued)

## ii. Impacts on financial statements

The following tables summarises the impact of the above changes on the Group's and Company's financial statements.

<b>As at 1 January 2018</b>	<b>As previously stated</b>	<b>MFRS 9 adjustments</b>	<b>As restated</b>
<b>Impact of MFRS 9 adoption</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Group</b>			
<b>Consolidated Statement of Financial Position</b>			
Trade and other receivables	1,630,721	(2,744)	1,627,977
Deferred tax liabilities	(140,099)	658	(139,441)
Retained earnings	6,040,681	(2,086)	6,038,595
<b>Company</b>			
<b>Statement of Financial Position</b>			
Trade and other receivables	1,501,344	(2,313)	1,499,031
Deferred tax liabilities	(110,539)	554	(109,985)
Retained earnings	5,614,267	(1,759)	5,612,508
<b>For the year ended 31 December 2017</b>			
<b>Impact of MFRS 15 adoption</b>	<b>As previously stated</b>	<b>MFRS 15 adjustments</b>	<b>As restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Group</b>			
<b>Consolidated Statement of Profit or Loss</b>			
Revenue	26,737,860	682,787	27,420,647
Selling and distribution expenses	(275,531)	(682,787)	(958,318)
<b>Company</b>			
<b>Statement of Profit or Loss</b>			
Revenue	26,173,359	688,787	26,862,146
Selling and distribution expenses	(245,601)	(688,787)	(934,388)

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

### 41. NEW PRONOUNCEMENTS NOT APPLICABLE TO THE GROUP AND THE COMPANY

The MASB has issued the following pronouncements which are not yet effective, and since these are not relevant to the operations of the Group and the Company, no further disclosure is warranted.

**(i) Effective for annual periods beginning on or after 1 January 2019**

Amendments to MFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

**(ii) Effective for annual periods beginning on or after 1 January 2021**

MFRS 17 *Insurance Contracts*

### 42. SUBSEQUENT EVENT

On 9 January 2019, Setel Ventures Sdn. Bhd. ("SETEL"), a wholly-owned subsidiary, was incorporated in Malaysia with an issued share capital of 5,000 ordinary shares at a total cash consideration of RM5,000,000.

# 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, which comprise the statements of financial position as at 31 December 2018 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 180 to 258.

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 2018, 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 207 (Note 2.16 Significant Accounting Policies) and page 226 (Note 19) 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 whether sales transactions either side of the statement of financial position date as well as credit notes issued after year end are recognised in the appropriate period;
- We tested sales transactions recorded to the acknowledged customer delivery orders as an indication of transfer of control on goods to ascertain validity of sales; and
- We involved our Information Risk Management 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.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

# 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)

#### Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

## 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 (continued)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 acted as auditors are disclosed in Notes 35 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**

**KPMG PLT**

(LLP0010081-LCA & AF 0758)

Chartered Accountants



**Vengadesh A/L Jogarajah**

Approval Number: 03337/12/2019 J

Chartered Accountant

Petaling Jaya

26 February 2019

# ANALYSIS OF SHAREHOLDINGS

**AS AT 14 FEBRUARY 2019**

## SHARE CAPITAL

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)

## DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Holders	% of Total Shareholders	No. of Shares	% of Total Shares
Less than 100	371	5.20	2,270	0.00
100 - 1,000	1,738	24.38	1,142,853	0.12
1,001 - 10,000	4,188	58.75	11,346,446	1.14
10,001 - 100,000	567	7.96	19,962,911	2.01
100,001 to less than 5% of issued shares	262	3.68	208,569,920	20.99
5% and above of issued shares	2	0.03	752,429,600	75.74
	<b>7,128</b>	<b>100.00</b>	<b>993,454,000</b>	<b>100.00</b>

## CLASSIFICATION OF SHAREHOLDERS

Category	No. of Holders		No. of Shares		% of Total Shareholdings	
	Malaysian	Foreign	Malaysian	Foreign	Malaysian	Foreign
• Individual	5,577	61	15,105,705	274,633	1.53	0.03
• Body Corporate						
a. Banks/Finance Companies	42	1	75,338,200	5,000	7.58	0.00
b. Investment Trusts/ Foundation/Charities	1	0	1,400	0	0.00	0.00
c. Other types of companies	174	6	2,523,602	644,000	0.25	0.06
• Government Agencies/ Institutions	8	0	7,419,300	0	0.75	0.00
• Nominees	608	650	802,215,299	89,926,861	80.75	9.05
• Others	0	0	0	0	0.00	0.00
	<b>6,410</b>	<b>718</b>	<b>902,603,506</b>	<b>90,850,494</b>	<b>90.86</b>	<b>9.14</b>

## ANALYSIS OF SHAREHOLDINGS

AS AT 14 FEBRUARY 2019

## LIST OF SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders	Direct		Indirect	
	No. of Shares	% of Shareholding	No. of Shares	% of Shareholding
CIMB Group Nominees (Tempatan) Sdn Bhd (Exempt AN for Petroliam Nasional Berhad) (Exempt AN for Petroliam Nasional Berhad (PRF))	694,004,000 200,900	69.88	Nil	Nil
Citigroup Nominees (Tempatan) Sdn Bhd (Exempt AN for Employees Provident Fund)	58,224,700	5.86	Nil	Nil

## LIST OF DIRECTORS' SHAREHOLDINGS

No.	Name	Direct		Indirect	
		No. of Shares	% of Total Shareholding	No. of Shares	% of Total Shareholding
1.	Datuk Md Arif Mahmood	Nil	Nil	Nil	Nil
2.	Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir	Nil	Nil	Nil	Nil
3.	Lim Beng Choon	Nil	Nil	Nil	Nil
4.	Vimala V.R. Menon	Nil	Nil	Nil	Nil
5.	Datuk Anuar Ahmad	Nil	Nil	Nil	Nil
6.	Nuraini Ismail	Nil	Nil	Nil	Nil
7.	Shafie Shamsuddin	Nil	Nil	Nil	Nil
8.	Alvin Michael Hew Thai Kheam	Nil	Nil	Nil	Nil

## LIST OF LEADERSHIP TEAM'S SHAREHOLDINGS

No.	Name	Direct		Indirect	
		No. of Shares	% of Total Shareholding	No. of Shares	% of Total Shareholding
1.	Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir	Nil	Nil	Nil	Nil
2.	Aadrin Azly	Nil	Nil	Nil	Nil
3.	Norliwati Abdul Wahab	Nil	Nil	Nil	Nil
4.	Khalil Jaffri Muhammad Muri	Nil	Nil	Nil	Nil
5.	Ikhwan Hamzah Azizan	Nil	Nil	Nil	Nil
6.	Ramzulkhakim Ramli	Nil	Nil	Nil	Nil
7.	Mohd Shobri A Bakar	Nil	Nil	Nil	Nil
8.	Hardeep Singh Kirpal Singh	Nil	Nil	Nil	Nil
9.	Naina Mohd Shukri Omar	Nil	Nil	Nil	Nil
10.	Nur Nadia Mohd Nordin	Nil	Nil	Nil	Nil
11.	Ruziah Azdi Abdul Rahman	Nil	Nil	Nil	Nil
12.	Min Edina Mustapha Kamal	Nil	Nil	Nil	Nil
13.	Mahadzer Arshad	Nil	Nil	Nil	Nil
14.	Mohd Imran M. Ashraf	Nil	Nil	Nil	Nil
15.	Rosnan Hamzah	Nil	Nil	Nil	Nil

## ANALYSIS OF SHAREHOLDINGS

**AS AT 14 FEBRUARY 2019**

### LIST OF THIRTY LARGEST SHAREHOLDERS

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	49,040,100	4.94
3. AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA	16,000,000	1.61
4. AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA	15,350,500	1.55
5. AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 2 - WAWASAN	11,064,700	1.11
6. CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	7,437,300	0.75
7. PERMODALAN NASIONAL BERHAD	7,252,200	0.73
8. CARTABAN NOMINESS (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	6,995,900	0.70
9. MALAYSIA NOMINEES (TEMPATAN) SENDIRIAN BERHAD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	5,031,100	0.51
10. AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM MALAYSIA 3	4,999,900	0.50
11. DB (MALAYSIA) NOMINEE (ASING) SDN BHD BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM)	4,874,600	0.49
12. HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	4,867,707	0.49
13. HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	4,574,900	0.46
14. CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (AFFIN-HWG)	4,125,400	0.42
15. CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	4,097,000	0.41
16. MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	3,250,000	0.33
17. AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	3,037,600	0.31

## ANALYSIS OF SHAREHOLDINGS

AS AT 14 FEBRUARY 2019

Name	No. of Shares	% of Total Shares
18. MAYBANK NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR CIMB ISLAMIC DALI EQUITY GROWTH FUND (UT-CIMB-DALI)(419455)	2,982,700	0.30
19. HSBC NOMINEES (ASING) SDN BHD JPMBL SA FOR ROBECO CAPITAL GROWTH FUNDS	2,535,400	0.26
20. AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 2	2,500,000	0.25
21. CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (CIMB PRIN)	2,500,000	0.25
22. MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC REGULAR SAVINGS FUND (N14011940100)	2,432,000	0.24
23. PERTUBUHAN KESELAMATAN SOSIAL	2,116,200	0.21
24. AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	2,057,100	0.21
25. MAYBANK NOMINEES (TEMPATAN) SDN BHD SETIAUSAHA KERAJAAN PULAU PINANG	2,000,000	0.20
26. STATE FINANCIAL SECRETARY SARAWAK	2,000,000	0.20
27. CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	1,959,200	0.20
28. HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEES BHD FOR AFFIN HWANG SELECT OPPORTUNITY FUND (3969)	1,932,500	0.19
29. STATE SECRETARY KEDAH INCORPORATED	1,800,000	0.18
30. AMANAHRAYA TRUSTEES BERHAD AMANAH SAHAM BUMIPUTERA 3 – DIDIK	1,779,700	0.18

# NET BOOK VALUE OF LAND AND BUILDINGS OF THE COMPANY

AS AT 31 DECEMBER 2018

	Freehold			Leasehold			Total Land			Buildings
	Net Book Value of Land (RM'000)	No. of Lots	Area (sq.ft.)	Net Book Value of Land (RM'000)	No. of Lots	Area (sq.ft.)	Net Book Value of Land (RM'000)	No. of Lots	Area (sq.ft.)	Net Book Value of Buildings (RM'000)
<b>CENTRAL REGION</b>	395,478	114	4,207,276	277,525	90	19,623,514	673,003	204	23,830,790	229,080
<b>NORTHERN REGION</b>	193,995	87	3,777,571	50,448	42	5,680,299	244,442	129	9,457,870	113,792
<b>SOUTHERN REGION</b>	348,309	138	5,468,481	81,753	45	1,669,173	430,062	183	7,137,654	137,691
<b>EAST COAST REGION</b>	66,034	36	1,549,598	38,809	52	1,879,317	104,843	88	3,428,915	84,879
<b>SARAWAK</b>	3,497	2	72,463	29,322	37	1,518,621	32,819	39	1,591,084	47,654
<b>SABAH</b>	215	1	49,223	34,436	38	2,532,456	34,651	39	2,581,679	36,526
<b>Grand Total</b>	<b>1,007,528</b>	<b>378</b>	<b>15,124,612</b>	<b>512,293</b>	<b>304</b>	<b>32,903,380</b>	<b>1,519,820</b>	<b>682</b>	<b>48,027,992</b>	<b>649,622</b>

## USAGE OF LAND\*

	Bulk Depot	Klang Valley Distribution Terminal	LPG Storage and Bottling Plant	Multi Product Pipeline	Service Station	Training Centre and Service Station	Vacant Land	Grand Total
<b>CENTRAL REGION</b>	-	2	-	1	192	1	8	204
<b>NORTHERN REGION</b>	3	-	-	-	117	-	9	129
<b>SOUTHERN REGION</b>	-	-	-	-	173	-	10	183
<b>EAST COAST REGION</b>	-	-	1	-	80	-	7	88
<b>SARAWAK</b>	3	-	-	-	35	-	1	39
<b>SABAH</b>	3	-	-	-	34	-	2	39
<b>Grand Total</b>	<b>9</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>631</b>	<b>1</b>	<b>37</b>	<b>682</b>

\* This represents usage of freehold and leasehold lands only, and exclude stations or facilities built on operating and prepaid lease lands.

# LIST OF TOP 10 LANDED PROPERTIES

AS AT 31 DECEMBER 2018

Name of facilities and location	Net Book Value (RM)
<b>LUMUT FUEL TERMINAL</b> Lumut Port Industrial Park, Kg Acheh, 32000 Sitiawan, Perak	12,616,989
<b>PS JLN KOLAM AYER AMPANG</b> Lot 36904, Jalan Kolam Air Lama, 68000 Ampang, Kuala Lumpur	9,736,903
<b>PASIR GUDANG LPG BOTTLING PLANT</b> Lot 108, Lorong Sawit 2, Kawasan Pelabuhan Johor, 81700 Pasir Gudang, Johor	9,508,196
<b>PRAI LPG BOTTLING PLANT</b> Lot 93, Prai Industrial Area, 13600 Prai, Penang	6,356,773
<b>PS PLUS/BESRAYA HIGHWAY</b> KM 305, PLUS Arah Selatan, Lot 896, Mukim Kajang, 43650 Hulu Langat, Selangor	6,013,249
<b>PS KM 58 KL-KARAK HIGHWAY</b> Lot 8207 Mukim Bentong, Daerah Bentong, 28400 Bentong, Pahang	5,395,408
<b>PS LEBUHRAYA SILK DENGKIL</b> Lot 44116, KM 26.8 Lebuhraya Silk (Arah Kajang), 43300 Seri Kembangan, Selangor	5,367,963
<b>PS JURU LAYBY NORTH BOUND</b> Lot 4290, MK.6, Lebuhraya Utara Selatan, Perhentian Juru, 14000 Bukit Mertajam, Penang	5,095,571
<b>PS KM0.7 BESRAYA</b> KM 0.7, Lebuhraya Sg. Besi, 43300 Seri Kembangan, Selangor	4,877,509
<b>PS TELAGA HARBOUR PARK</b> Harbour Park Langkawi, Pantai Kok, 07000 Padang Matsirat, Kedah	4,726,977

# CORPORATE INFORMATION

## DIRECTORS

### Datuk Md Arif Mahmood

Chairman

Non-Independent Non-Executive Director

### Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir

Managing Director/Chief Executive Officer

### Lim Beng Choon

Senior Independent Director

### Vimala V.R. Menon

Independent Non-Executive Director

### Datuk Anuar Ahmad

Independent Non-Executive Director

### Nuraini Ismail

Non-Independent Non-Executive Director

### Shafie Shamsuddin

Independent Non-Executive Director

### 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@petronas.com.my

## COMPANY SECRETARIES

Nur Nadia Mohd Nordin (LS0009231)

Yeap Kok Leong (MAICSA 0862549)

## REGISTERED ADDRESS

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

Tel : (+603) 2051 5000

## BUSINESS ADDRESS

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

Tel : (+603) 2051 5000

## INVESTOR RELATIONS ADDRESS

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

Tel : (+603) 2392 4678

## SHARE REGISTRARS

Boardroom Share Registrars Sdn. Bhd.  
(378993-D)

(Formerly known as Symphony Share Registrars Sdn. Bhd.)

Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

Tel : (+603) 7849 0777 (Helpdesk)

Fax : (+603) 7841 8151/7841 8152

Email: BSR.Helpdesk@boardroomlimited.com

## AUDITORS

KPMG PLT (LLP0010081-LCA & AF 0758)

Chartered Accountants  
10<sup>th</sup> 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: Consumer Products  
and Services

## CREDIT RATING

Local Rating Agency  
Malaysian Rating Corporation Berhad  
MARC-1<sub>5</sub>/AAA<sub>5</sub>

## WEBSITE

www.mymesra.com.my

## CUSTOMER SERVICE CENTRE (MESRALINK)

Tel : 1-300-88-8181

E-mail : mesralink@petronas.com.my

# CORPORATE DIRECTORY



## 1 HEAD OFFICE

Level 30-33, Tower 1  
PETRONAS Twin Towers  
Kuala Lumpur City Centre  
50088 Kuala Lumpur  
Tel : (+603)-2051 5000  
Fax : (+603)-2331 1583

## REGIONAL OFFICES

### 2 Northern Region

Lot No. 93  
Prai Industrial Estate  
13600, Prai, Pulau Pinang  
Tel: (+604)-390 7291/7201  
Fax: (+604)-399 0211

### 3 Southern Region

2<sup>nd</sup> Floor  
Bangunan PETRONAS  
Lot 12106, Bandar Baru UDA  
Km 7, Jalan Skudai  
81200, Johor Bahru, Johor  
Tel: (+607)-233 6000  
Fax: (+607)-233 6001

### 4 Eastern Region

A-39 and A-43, 2<sup>nd</sup> Floor  
Jalan Haji Abdul Aziz  
25000, Kuantan, Pahang  
Tel: (+609)-513 7022/7099  
Fax: (+609)-514 4040

### 5 Sarawak Region

4<sup>th</sup> Floor  
Wisma Naim  
Lot 2679, Jalan Rock  
93200, Kuching, Sarawak  
Tel: (+6082)-255 200  
Fax: (+6082)-412 712

### 6 Sabah Region

Lot 7AF01-7AF13  
Block A, Level 7  
Karamuning Complex  
88300, Kota Kinabalu, Sabah  
Tel: (+6088)-525 777  
Fax: (+6088)-269 817

# GRI CONTENT INDEX

GRI Standards	Brief Description of the Disclosures	Page number(s)
<b>Organisational Profile</b>		
102-1	Name of the organisation	12
102-2	Activities, brands, products and services	14 to 15
102-3	Location of headquarters	272
102-4	Location of operations	16
102-5	Ownership and legal form	28
102-6	Markets served	14 to 15
102-7	Scale of the organisation	16, 24, 41, 75
102-8	Information on employees and other workers	152
102-9	Supply chain	18 to 19
102-11	Precautionary Principle or approach	119 to 129
<b>Strategy</b>		
102-14	Statement from senior decision-maker	5 to 9
<b>Ethics and Integrity</b>		
102-16	Values, principles, standards, and norms of behaviour	13
<b>Governance</b>		
102-18	Governance structure	91 to 92
<b>Stakeholder Engagement</b>		
102-40	List of stakeholder groups	38
102-41	Collective bargaining agreements	160
102-42	Identifying and selecting stakeholders	38 to 39
102-43	Approach to stakeholder engagement	38 to 39
102-44	Key topics and concerns raised	38 to 39

## GRI CONTENT INDEX

GRI Standards	Brief Description of the Disclosures	Page number(s)
<b>Reporting Practice</b>		
102-45	Entities included in the consolidated financial statements	251 to 252
102-46	Defining report content and topic boundaries	133
102-47	List of material topics	135
102-48	Restatements of information	134
102-50	Reporting period	1
102-51	Date of most recent report	1
102-52	Reporting cycle	1
102-55	GRI content index	273 to 275
102-56	External assurance	141
<b>Management Approach</b>		
103-1	Explanation of the material topic and its boundary	135
103-2	The management approach and its components	134
103-3	Evaluation of the management approach	130, 136, 140, 146, 152, 159, 161, 163
<b>Topic-Specific Disclosures</b>		
201-1	Direct economic value generated and distributed	136
201-2	Financial implications and other risks and opportunities due to climate change	35, 140
202-2	Proportion of senior management hired from the local community	78, 86 to 89
203-2	Significant indirect economic impacts	136 to 139
204-1	Proportion of spending on local suppliers	137
205-2	Communication and training about anti-corruption policies and procedures	130
302-1	Energy consumption within the organisation	142
303-1	Water withdrawal by source	145

## GRI CONTENT INDEX

GRI Standards	Brief Description of the Disclosures	Page number(s)
305-1	Direct (Scope 1) GHG emissions	141
305-2	Energy indirect (Scope 2) GHG emissions	141
305-7	Nitrogen oxides (NO <sub>x</sub> ), sulfur oxides (SO <sub>x</sub> ), and other significant air emissions	143
306-1	Water discharge by quality and destination	145
306-2	Waste by type and disposal method	144
306-3	Significant spills	143
401-1	New employee hires and employee turnover	152
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	156
401-3	Parental leave	156
403-1	Workers representation in formal joint management–worker health and safety committees	147
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	148
404-1	Average hours of training per year per employee	153
404-2	Programmes for upgrading employee skills and transition assistance programmes	154 to 155
405-1	Diversity of governance bodies and employees	78, 86 to 89, 152
405-2	Ratio of basic salary and remuneration of women to men	159
413-1	Operations with local community engagement, impact assessments, and development programmes	161 to 162

# GLOSSARY

<IR>	Integrated Report
ABC	Anti-Bribery and Corruption
AGM	Annual General Meeting
AIDS	Acquired Immune Deficiency Syndrome
AMG	Aufrecht, Melcher and Großaspach
ASB	Asian Supply Base Sdn Bhd
B2B	Business to Business
B2C	Business to Consumer
BAC	Board Audit Committee
bbl	Barrel
BCM	Business Continuity Management
BCMF	Business Continuity Management Framework
BCP	Business Continuity Plans
BEE	Board Effectiveness Evaluation
Board	The Board of Directors of PDB
BRR	Business Risk Report
BRS	Business Recovery Strategy
Bursa Malaysia	Bursa Malaysia Securities Berhad
CFO	Chief Financial Officer
CIMAH	Control of Industrial Major Hazard
CMT	Crisis Management Team
CO <sub>2</sub>	Carbon Dioxide
CO <sub>2</sub> e	Carbon Dioxide Equivalent
CoBE	Code of Conduct and Business Ethics
CoCHR	Contractors Code of Conduct on Human Rights
COD	Chemical Oxygen Demand
COI	Conflict of Interest
COSO	Committee of Sponsoring Organisations of the Treadway Communism
CSR	Corporate Social Responsibility
DN	Delivery Note
DOE	Department of Environment
DOSH	Department of Occupational Safety and Health
EEVs	Energy Efficient Vehicles
EMT	Emergency Management Team
EPF	Employees Provident Fund
EPM	Employee Performance Management
EPS	Earnings per Share
ERM	Enterprise Risk Management
ESS	Economics, Environment and Social

EVs	Electric Vehicles
FBM KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FCF	Financial Control Framework
FTSE	Financial Times Stock Exchange
FWA	Flexible Working Arrangement
FWO	Flexible Work Options
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GJ	GigaJoule
GPS	Global Positioning System
GRI	Global Reporting Initiative
Group	PETRONAS Dagangan Berhad and its subsidiaries
GST	Goods and Services Tax
HEMP	Hazards and Effects Management Process
HIV	Human Immunodeficiency Virus
HRM	Human Resource Management
HSE	Health, Safety and Environment
HSE MS	Health, Safety and Environment Management System
IAD	Internal Audit Department
INED	Independent Non-Executive Director
ISO	International Standards Organisation
IT	Information Technology
IVMS	In-Vehicle Management System
JV	Joint Venture
KAPENAS	Kesatuan Kakitangan Petroliaam Nasional Berhad
KLIA	Kuala Lumpur International Airport
KPI	Key Performance Indicator
KRIs	Key Risk Indicators
KVDT	Klang Valley Distribution Terminal
LED	Light Emitting Diode
LNG	Liquefied Natural Gas
LOA	Limits of Authority
LOPC	Loss of Primary Containment
LPG	Liquefied Petroleum Gas
LT	Leadership Team
LTIF	Lost Time Injury Frequency
LWP	Leave Without Pay
MARC	Malaysian Rating Corporation Berhad
MASB	Malaysian Accounting Standards Board
MCCG 2017	Malaysian Code on Corporate Governance 2017
MD/CEO	Managing Director/Chief Executive Officer

## GLOSSARY

MEP	Market Execution Partners
MFRS	Malaysian Financial Reporting Standard
MIER	Malaysian Institute of Economic Research
Mil	Million
MMLR	Main Market Listing Requirements
MPP-KVDT	Multi-Product Pipeline and Klang Valley Distribution Terminal
MRT	Mass Rapid Transit
MSOSH	Malaysian Society for Occupational Safety and Health
MSWG	Minority Shareholders Watch Group
MT	Metric Tonnes
MWh	Megawatt-hour
NDR(s)	Non-Deal Roadshows
NED	Non-Executive Directors
NGV	Natural Gas Vehicle
No <sub>x</sub>	Nitrogen Oxide
NPS	Net Promoter Score
NRC	Nomination and Remuneration Committee
OEM(s)	Original Equipment Manufacturer(s)
OPU(s)	Operating PETRONAS Units
OSH	Occupational Safety and Health
OTP	On Time Performance
PAT	Profit After Tax
PBT	Profit Before Tax
PCB	PETRONAS Cultural Beliefs
PDB	PETRONAS Dagangan Berhad
PEPI	PETRONAS Energy Philippines, Inc.
PERODUA	Perusahaan Otomobil Kedua Sdn Bhd
PETRONAS	Petroleum Nasional Berhad (PETRONAS)

PIMTCL	PETRONAS International Marketing (Thailand) Co. Ltd.
PLMMSB	PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd
PME	Palm Methyl Ester
PS	PETRONAS Stations
QAIP	Quarterly Assurance and Improvement Program
QASR	Quarterly Audit Status Report
R&D	Research and Development
RCSA	Risk Control Self-Assessment
RM	Ringgit Malaysia
RMGC	Risk Management and Governance Committee
RMD	Risk Management Department
ROACE	Return on Average Capital Employed
RON	Research Octane Number
RPTs	Related Party Transactions
RRPTs	Recurrent Related Party Transactions
RSPO	Roundtable on Sustainable Palm Oil
SAP	Systems, Applications and Products
SME	Small Medium Enterprise
SORMIC	Statement on Risk Management and Internal Control
So <sub>x</sub>	Sulphur Oxide
SRA	Social Risk Assessment
TRCF	Total Recordable Case Frequency
TOR	Terms of Reference
U.S.	United States of America
UN SDG	United Nations Sustainable Development Goals
USD	United States Dollar
VSD	Variable Speed Drives
WBP	Whistleblowing Policy

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the 37<sup>th</sup> Annual General Meeting (AGM) of PETRONAS Dagangan Berhad (“the Company”) will be held at the Grand Ballroom, Level 2, InterContinental Kuala Lumpur, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia on Thursday, 25 April 2019 at 10.00 a.m. to transact the following businesses:

## AGENDA

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 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:
  - (a) Lim Beng Choon **(Resolution 1)**
  - (b) Vimala a/p V.R. Menon **(Resolution 2)**
  - (c) Datuk Anuar bin Ahmad **(Resolution 3)***Please refer to Explanatory Note B*
3. To approve the Directors’ Fees and Allowances payable to the Non-Executive Directors of up to RM2,300,000 with effect from 26 April 2019 until the next AGM of the Company. **(Resolution 4)**  
*Please refer to Explanatory Note C*
4. To approve the re-appointment of KPMG PLT, as Auditors of the Company for the financial year ending 31 December 2019 and to authorise the Directors to fix their remuneration. **(Resolution 5)**  
*Please refer to Explanatory Note D*

### SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Special Resolution, with or without modifications:

5. **PROPOSED ADOPTION OF A NEW CONSTITUTION OF THE COMPANY** **(Special Resolution)**  

“**THAT** the draft new set of the Constitution of the Company in the form and manner as set out in Appendix A attached herewith, be and is hereby approved and adopted as the new Constitution of the Company, in substitution for, and the exclusion of, the existing Constitution of the Company **AND THAT** the Directors be and are hereby authorised to do all such acts and things and to take such steps that are necessary to give effect to the adoption of the new Constitution of the Company.”

*Please refer to Explanatory Note E*
6. To transact any other business of which due notice shall have been given in accordance with the Companies Act 2016 and the Company’s Constitution.

**FURTHER NOTICE IS HEREBY GIVEN THAT** for the purposes of determining a member who shall be entitled to attend and vote at the forthcoming 37<sup>th</sup> AGM, the Company shall be requesting the Record of Depositors as at 19 April 2019. Only a depositor whose name appears on the Record of Depositors as at 19 April 2019 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.

## NOTICE OF ANNUAL GENERAL MEETING

### BY ORDER OF THE BOARD

**NUR NADIA BINTI MOHD NORDIN** (LS0009231)

**YEAP KOK LEONG** (MAICSA 0862549)

*Company Secretaries*

Kuala Lumpur  
27 March 2019

### NOTES:

#### Proxy and/or Authorised Representative

1. 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.
2. 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.
3. 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.
4. 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.
5. 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, Boardroom Share Registrars Sdn. Bhd. (formerly known as 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.
6. 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

### 7. Explanatory Notes

#### **Note A**

##### **Audited Financial Statements for the Financial Year Ended 31 December 2018**

The audited financial statements are laid before the shareholders pursuant to the provision of Section 244(2)(a) of the Companies Act 2016 for discussion only. The Audited Financial Statements do not require shareholders' approval and hence, will not be put forward for voting.

#### **Note B**

##### **Re-election of Directors who retire in accordance with Article 93 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.

The Board has endorsed the Nomination and Remuneration Committee's recommendation that the Directors who retire in accordance with Article 93 of the Company's Constitution are eligible to stand for re-election.

The profiles of the retiring Directors are set out in the Profile of the Board of Directors on pages 79 to 83 (inclusive) of the 2018 <IR>.

#### **Note C**

##### **Non-Executive Directors' Fees and Allowances**

Pursuant to Section 230(1) of the Companies Act 2016, the fees of the directors, and any benefits payable to the directors including any compensation for loss of employment of a director or former director of a public company or a listed company and its subsidiaries, shall be approved at a general meeting.

The fees and allowances structure of the Non-Executive Directors (NEDs) of the Company is as follows:

- Monthly fixed fees for duties as Director/Chairman;
- Meeting allowance for each Board/Board Committee attended; and
- Fuel allowance.

The Directors' fees and meeting allowances for Non-Independent Non-Executive Directors who are also employees of Petroliaam Nasional Berhad (PETRONAS) are paid directly to PETRONAS.

The shareholders at the last AGM held on 25 April 2018 approved the Directors' fees of up to RM2,430,000 for the period from 1 January 2018 until the next AGM of the Company. The actual Directors' fees and other benefits paid to NED for the financial year ended 31 December 2018 was RM1,467,000.

The Directors' fees and allowances for the NEDs for the period from 26 April 2019 until the conclusion of the next AGM are estimated not to exceed RM2,300,000. The calculation is based on the estimated number of scheduled Board and Board Committees' meetings and on assumption that all the NEDs will remain in office until the next AGM. This resolution is to facilitate payment of the Directors' fees and allowances for financial year 2019/2020.

## NOTICE OF ANNUAL GENERAL MEETING

The Board will seek shareholders' approval at the next AGM in the event the Directors' fees and allowances proposed are insufficient.

Details of the Directors' fees and allowances paid to the NEDs for the financial year ended 31 December 2018 are published in the Corporate Governance Report section on the Company's corporate website at [www.mymesra.com.my](http://www.mymesra.com.my).

### **Note D**

#### **Re-appointment of Auditors**

The Board at its meeting held on 26 February 2019 recommended the re-appointment of KPMG PLT as external Auditors of the Company for the financial year ending 31 December 2019 for approval of the shareholders.

KPMG PLT has met the criteria prescribed by Paragraph 15.21 of the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia).

### **Note E**

#### **Proposed Adoption of a New Constitution of the Company**

The Special Resolution, if passed, shall align the Constitution of the Company with the new Companies Act 2016 which came into force on 31 January 2017, the updated provisions of the Main Market Listing Requirements of Bursa Malaysia, and prevailing statutory and regulatory requirements as well as to render clarity and consistency throughout, details of which are as set out in Appendix A.

### **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 37<sup>TH</sup> ANNUAL GENERAL MEETING

### REGISTRATION

- 1) Registration will start at 8.00 a.m. on 25 April 2019 in front of the Grand Ballroom, Level 2, InterContinental Kuala Lumpur, 165 Jalan Ampang, 50450 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 PDB's Help Desk for any clarification or enquiry.
- 2) The Share Registrar's Help Desk will handle the revocation of a 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 B2 or B5 of InterContinental Kuala Lumpur. Please bring your original parking ticket for validation at the counter near the Grand 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 2019. 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.

### INTEGRATED ANNUAL REPORT

- 1) PDB's Integrated Annual Report for the Financial Year 2018 is available on:

<http://www.bursamalaysia.com>

<http://www.mymesra.com.my>

# PROXY FORM

FOR THE 37<sup>TH</sup> ANNUAL GENERAL MEETING



**PETRONAS**

Number of Ordinary Shares Held	CDS Account No.

I/We \_\_\_\_\_ NRIC/Passport No./Company No. \_\_\_\_\_  
(full name in block letters)

of \_\_\_\_\_ Telephone No. \_\_\_\_\_  
(full address)

being a member of PETRONAS Dagangan Berhad (the Company) hereby appoint:

Full Name (in block letters)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Full Address			

and/or (delete as appropriate)

Full Name (in block letters)	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Full 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 37<sup>th</sup> Annual General Meeting of the Company to be held at the Grand Ballroom, Level 2, InterContinental Kuala Lumpur, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia on **Thursday, 25 April 2019 at 10.00 a.m.** and at any adjournment thereof.

Resolutions	Ordinary Business	For	Against
1	Re-election of Lim Beng Choon as a Director		
2	Re-election of Vimala a/p V.R. Menon as a Director		
3	Re-election of Datuk Anuar bin Ahmad as a Director		
4	Directors' Fees and Allowances of up to RM2,300,000 with effect from 26 April 2019 until the next Annual General Meeting of the Company payable to the Non-Executive Directors		
5	Re-appointment of KPMG PLT as Auditors of the Company		
Resolution	Special Business	For	Against
Special	Proposed Adoption of a New Constitution 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 casted for or against the Resolutions. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit)

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature(s)/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 37<sup>th</sup> Annual General Meeting, the Company shall be requesting the Record of Depositors as at 19 April 2019. Only a depositor whose name appears on the Record of Depositors as at 19 April 2019 shall be entitled to attend and vote at the Annual General 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.
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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, Boardroom Share Registrars Sdn Bhd (formerly known as 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.
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**Boardroom Share Registrars Sdn Bhd**

(formerly known as 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

[www.mymesra.com.my](http://www.mymesra.com.my)

