PETRON MALAYSIA REFINING &
MARKETING BHD (3927-V)

PARTNERING RELATIONSHIPS

2018

ANNUAL REPORT & ACCOUNTS

COVER RATIONALE

For nearly a decade, Petron Malaysia has been bridging journeys as we fuel happiness in the lives of our customers, fuel the nation's progress with our quality petroleum products and fuel hope by investing in the well-being of our communities.

Because it's all about **PARTNERING RELATIONSHIPS** – coming together to achieve a common dream by forging closer ties with our customers, our dealers, business partners, government agencies, media, communities so we can do more, reach farther, grow stronger and make life better.

www.petron.com.my

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2018 AT A GLANCE

PETRON

RM12 BILLION REVENUE

35.5 MILLION BARRELS TOTAL SALES VOLUME

MORE THAN **640** SERVICE STATIONS*

STREAMED **32** NEW SERVICE STATIONS*

FIRST IN THE INDUSTRY TO INTRODUCE SALES OF **LPG AT SERVICE STATIONS**

BRAND OF THE YEAR SOCIAL MEDIA EXCELLENCE AWARD

SILVER PUTRA BRAND AWARDS

ALL PETRON TERMINALS IN PENINSULAR MALAYSIA ARE **ISO CERTIFIED**

21.8 YEARS WITHOUT LOST TIME INJURY AT ALL TERMINALS

MALAYSIAN SOCIETY FOR OCCUPATIONAL SAFETY AND HEALTH GRAND AWARD FOR PORT DICKSON REFINERY & KUANTAN TERMINAL

** PMRMB and sister companies*

OUR STORY

The Petron Malaysia Group

The Petron Malaysia Group is part of Petron Corporation in the Philippines, an emerging and rapidly evolving Asian oil company.

Petron Corporation joined Malaysia's dynamic and progressive market with the acquisition of ExxonMobil's downstream businesses in March 2012. Petron subsidiaries in Malaysia comprise of Petron Malaysia Refining & Marketing Bhd ("PMRMB"), a public company listed on the Main Board of Bursa Malaysia Securities Berhad, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.

PMRMB owns and operates Petron Port Dickson Refinery (PDR), which has a rated capacity of 88,000 barrels per day, producing a wide range of petroleum products which include gasoline, diesel, liquefied petroleum gas (LPG) and aviation fuel. Our world-class fuels are distributed from eleven strategically-located depots and terminals of Petron subsidiaries in Malaysia.

Through this robust distribution network, we are able to ensure a continuous and reliable supply of quality fuels to our various customers.

As an Asian company with a global mindset, we look forward to becoming an integral part of your lives as we fuel journeys through our network of more than 640 service stations nationwide, including stations that are of our sister companies. We embody what our brand stands for – innovative products, excellent service, successful partnerships built on trust and caring for our customers.

We are proud to be a part of your lives as we fuel safe journeys with our top-of-the line fuels, Blaze 100RON Euro 4M, Blaze 97RON Euro 4M, Blaze 95RON, Turbo Diesel Euro 5 and Diesel Max. Beyond just being a petrol station, Petron service stations also provide a one-stop service experience to travellers on the road. Our convenience store, Treats, offers amenities such as shopping marts and fast food restaurants.

Petron's premier LPG brand, Petron Gasul, provides efficient energy for Malaysian households.

We help power the Malaysian economy by providing commercial fuels to key industries.

Beyond our business agenda, we take our corporate and social citizenship to heart by supporting safety, environment and education programmes to ensure sustainability and contribute to social development. Through the combined experience and expertise of our highly-skilled and motivated management and personnel and our strong foundations in the oil & gas industry, we are dedicated and passionate about our vision to be the leading provider of total customer solutions in the oil sector and its allied businesses.

OUR VISION

To be the leading provider of total customer solutions in the oil sector and its allied businesses.

OUR MISSION

We will achieve this by:

- Being an integral part of our customers' lives, exceeding expectations and meeting changing needs, delivering a consistent customer experience through quality products and innovative services;
- Developing strategic partnerships in pursuit of growth opportunities;
- Fostering an entrepreneurial culture that encourages teamwork, innovation and excellence;
- Acting with professionalism, integrity and fairness at all times;
- Adhering to the strictest safety and environmental standards; and
- Promoting the best interests of all our stakeholders and caring for our community.

OUR VALUES

FUELLING

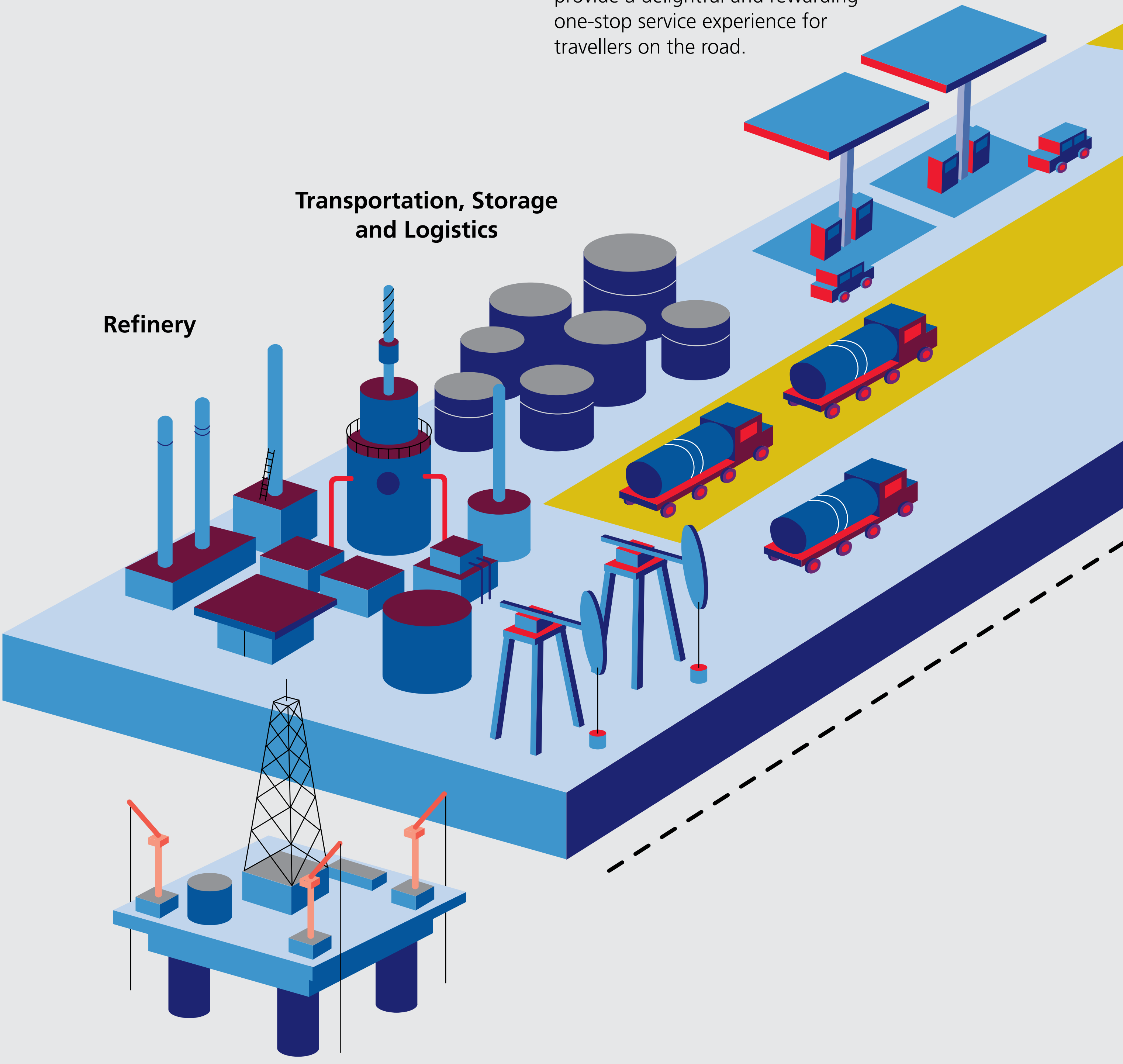
Your Everyday Journey

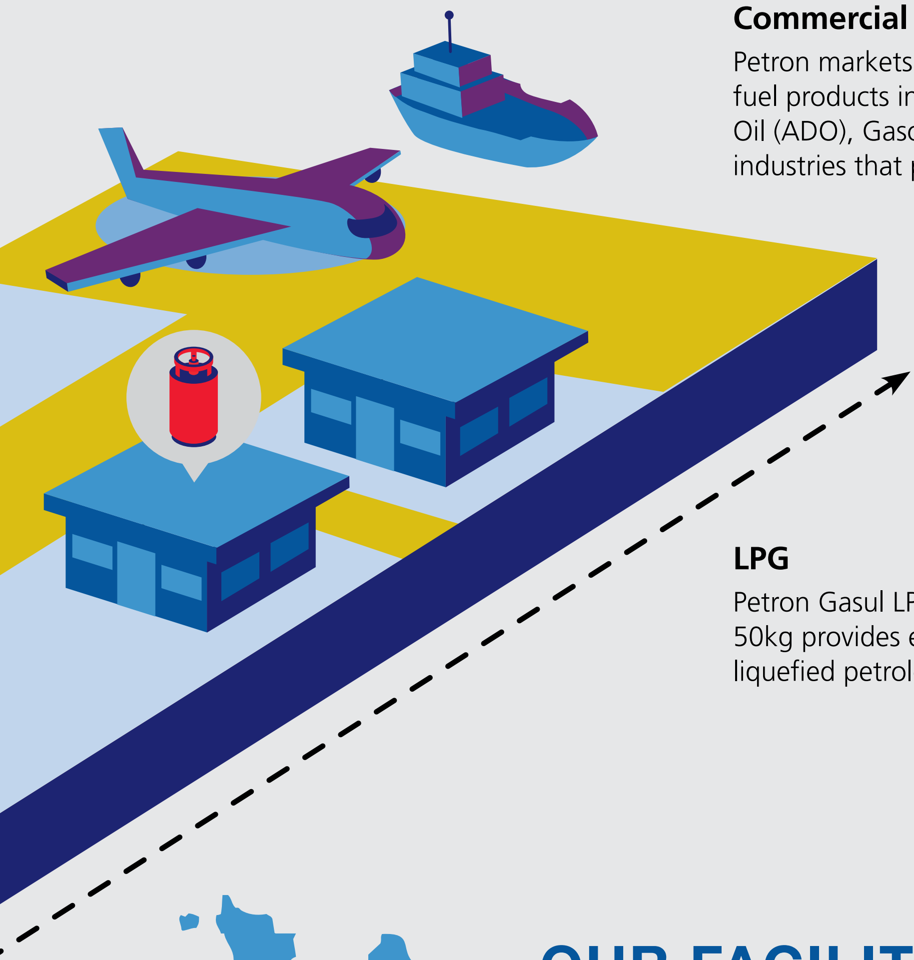
As your preferred partner on the road, we fuel happy journeys with our innovative, efficient and top-quality fuels, coupled with our excellent customer service and rewarding loyalty programmes. Our wide network of service stations are ready to bring you to your next destination and serve your refuelling needs.

HOW PETRON REACHES YOU

Retail

Over 640 Petron service stations provide a delightful and rewarding one-stop service experience for travellers on the road.





Commercial

Petron markets a wide range of industrial fuel products including Automotive Diesel Oil (ADO), Gasoline, Kerosene and Jet A1 to industries that power the Malaysian economy.

LPG

Petron Gasul LPG in 12kg, 14kg and 50kg provides efficient, clean-burning liquefied petroleum gas.

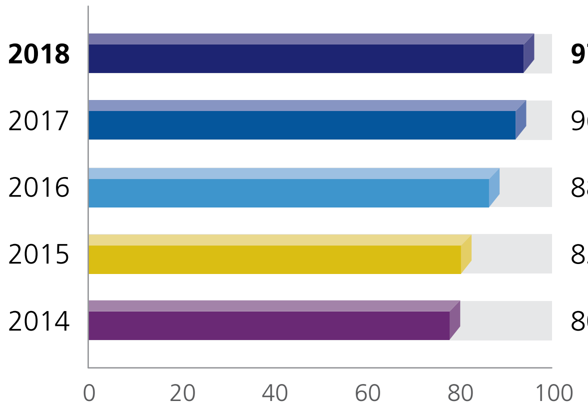
OUR FACILITIES IN MALAYSIA

1. Port Dickson Refinery, Negeri Sembilan
2. Port Dickson Terminal, Negeri Sembilan
3. Bagan Luar Terminal, Penang
4. Lumut POME Plant, Perak *(with effect from 1 March 2019)*
5. Kuantan Terminal, Pahang*
6. Westport Terminal (JV-BHP), Selangor*
7. KLIA Aviation Facility (JV-Petronas/Shell), Kuala Lumpur
8. Klang Valley Distribution Terminal (JV-Petronas/Shell), Selangor
9. Pasir Gudang Terminal (JV-Chevron), Johor*
10. Sepanggar Bay Terminal, Sabah*
11. Sandakan Terminal, Sabah*
12. Tawau Terminal, Sabah*

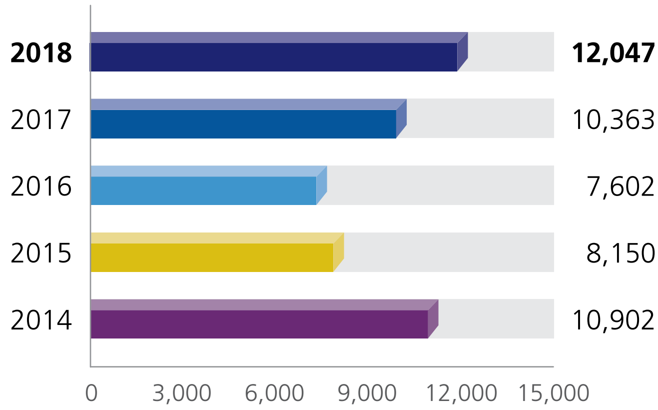
** PMRMB affiliate terminals*

FIVE-YEAR SUMMARY CHARTS

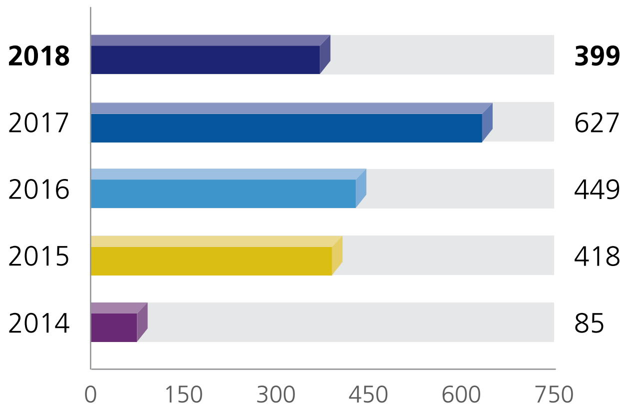
SALES VOLUME
Thousands of barrels per calendar day



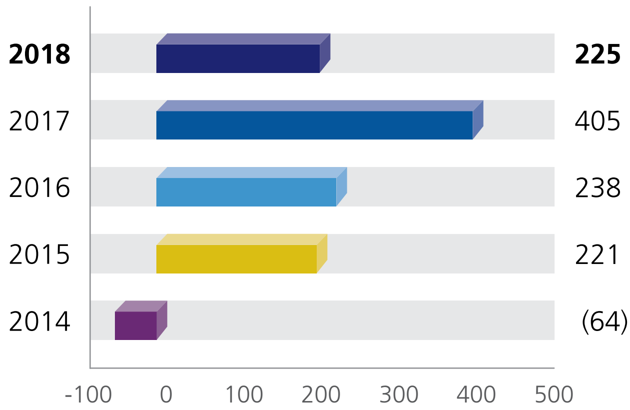
REVENUE (Net of government duties)
RM Million



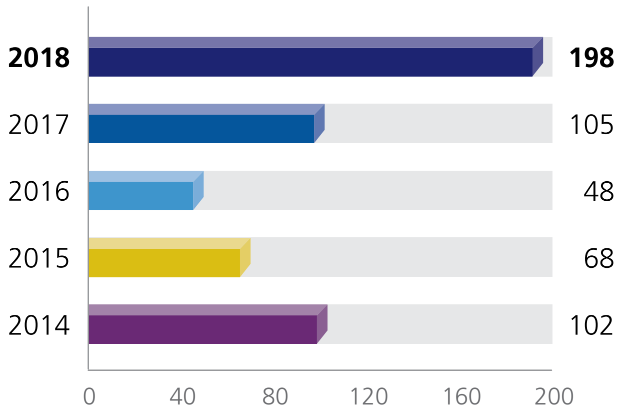
EBITDA
RM Million



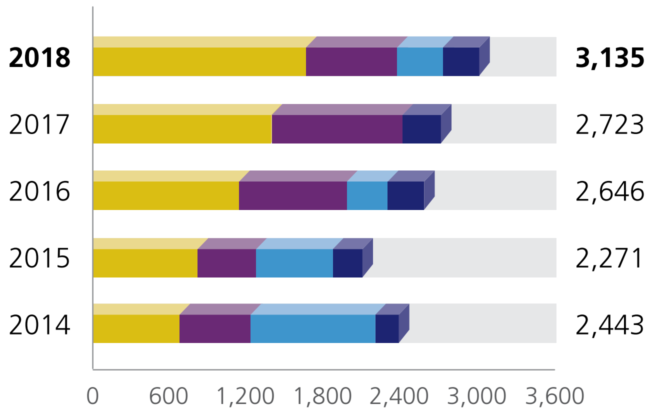
PROFIT/(LOSS) AFTER TAX
RM Million



CAPITAL EXPENDITURES
RM Million



TOTAL ASSETS EMPLOYED
RM Million (Financed by)



FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS	2018 *RM Million*	2017 *RM Million*	% Change
Revenue	**12,047**	10,363	16%
Profit after tax	**225**	405	-44%
Earnings per ordinary share unit (sen)	**83.2**	150.1	-45%
Dividend per ordinary share unit (sen)	**20**	25	-20%
Total assets employed	**3,135**	2,723	15%
Total shareholders' fund	**1,669**	1,512	10%
Sales volume (thousand barrels per calendar day)	**97**	96	2%

SHAREHOLDERS' INFORMATION		2018	2017	2016	2015	2014
Earnings/(Loss) per ordinary share unit (sen)		**83.2**	150.1	88.0	81.7	(23.9)
Gross dividend per ordinary share unit (sen)		**20**	25	22	20	-
Dividend yield (%)		**2.3**	3.0	4.6	6.6	N/A
Share price (RM)	- Highest	**14.16**	15.06	7.31	5.10	3.21
	- Lowest	**6.01**	4.09	3.51	2.51	2.30
	- Average	**8.59**	8.47	4.80	3.02	2.90
Number of employees at year-end		**343**	328	315	303	292

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2018 was full of excitement as we confronted many challenges, led by the volatility of oil prices and uncertainties in the global economy.

Crude Dated Brent averaged US$71 per barrel during the year, higher compared to US$54 per barrel in 2017. From an uptrend in July to October, Dated Brent plunged in November before further dropping by almost 30% to US$57 per barrel in December from US$81 per barrel in October because of slower global demand growth.

Malaysia welcomed a new government following the 14th General Election in May 2018. The country's GDP grew by 4.75% supported by resilient private consumption and improvements in the commodity and related sectors (BNM 4Q2018), enabling us to pursue our growth plans.

CHAIRMAN'S STATEMENT

Your company, PMRMB remained focused on undertaking strategic plans and programmes that bring greater value to our business.

Your company, Petron Malaysia Refining & Marketing Bhd (PMRMB) remained focused on undertaking strategic plans and programmes that bring greater value to our business. Higher demand for our products combined with continuous operational efficiencies enabled us to strengthen our business. At the same time, we built on our strategic partnerships while focusing on more profitable business sectors to sustain the growth of the company over the long term.

These factors helped increase our competitiveness through the continuous expansion of our service station network, upgrading our refining and logistical facilities and introduction of new innovative products and services to lock in more customers.

SUSTAINED GROWTH MOMENTUM

Despite a challenging business environment and lower market demand, our sales volume steadily grew from last year. Total sales volume in 2018 increased by 2% to 35.5 million barrels from the 34.9 million barrels sold in 2017. Our Port Dickson Refinery underwent a scheduled maintenance in October which reduced the production of export products, low sulphur waxy residue and naphtha.

Our revenue, meanwhile, grew 16% to RM12.0 billion compared to RM10.4 billion in 2017. Despite the increase in sales volume, net income stood at RM225 million, 44% lower compared to RM405 million in 2017. The decrease was mainly due to the significant inventory losses caused by the sudden drop in oil prices in the fourth quarter.

Petron Karak Highway KL Bound, the first station with four grades of fuel products in one dispenser

Despite a challenging business environment and lower market demand, our sales volume steadily grew from last year.

CHAIRMAN'S STATEMENT

BUILDING STRONG PARTNERSHIPS

Despite the odds, our business remained strong and resilient. Together with our sister companies, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd., we grew our network of service stations to more than 640. Working closely with our dealers, our fast-growing network enables us to be the customers' reliable partner on the road, providing cutting-edge fuels and excellent, personalised customer service that Petron has been known for.

As we aim to consistently exceed our customers' expectations, we continue to elevate the level of service at our service stations through Fuel Happy programmes and improved station facilities. We also set a new benchmark for cleaner toilets as we redefined our commitment to customer service excellence.

We also collaborated with our strategic partners and global brands such as Malaysia Airlines and Marvel Studios to strengthen our Petron Miles Card programme. Our partnerships give customers more value to enhance their fuelling experience.

Our sister company, Petron Fuel International Sdn. Bhd. was chosen to be one of the government's fuel suppliers. This has enabled us to deepen our role in nation-building by fuelling projects that support the country's growth and progress.

We likewise renewed our support for motorsports championships in the Formula 4 SEA Championship and in the 4x4 Rainforest Challenge, powering the teams with our quality fuels under extreme racing conditions.

We continue to be the nation's ally as we powered more industries through the expansion of our commercial business. This expansion not only provides a consistent energy supply for our customers, but it also creates opportunities to build new ties and dealer-partnerships in new markets.

Our dealers are our frontline brand ambassadors

We optimised our aviation sales by improving our services for the various international and domestic airlines we serve. We enhanced our capabilities by investing in new facilities to ensure that the airlines continue to receive prompt and efficient service.

Petron Gasul is fast becoming a popular household LPG brand. With the expansion of the dealers' network in Peninsular Malaysia, we are serving more households, commercial outlets and industries.

We are proud to be the first in the industry to introduce LPG cooking gas at service stations. Petron Gasul is available at selected stations to serve the needs of the community. Our service stations also offer a wide range of products to cater to the daily needs of customers – a convenience we offer under one roof.

Our fast-growing network enables us to be the customers' reliable partner on the road, providing cutting-edge fuels and excellent, personalised customer service that Petron has been known for.

CHAIRMAN'S STATEMENT

We enhanced our supply chain and increased our logistics capacities to support business expansion.


Throughout the year we achieved various awards for marketing and operational excellence

With our customer-focused initiatives, we were named Most Valuable Brand in the Oil & Gas category in the BrandLaureate Awards, where we also won the Social Media Excellence Award and the Marketing Excellence Award. Our fuels were also recognised by the consumers themselves in the Putra Brand Awards.

With the increased demand for our products, we continue to introduce improvements in our Port Dickson Refinery (PDR) to support growth. We will soon be able to produce more environmental-friendly diesel products that comply with Euro 5 specifications when the Diesel Hydrotreater project is completed in 2020.


Newly installed LPG filling machine at PDT to support growing demand

We enhanced our supply chain and increased our logistics capacities to support business expansion. We completed a new 50,000-barrel tank at our terminal in Bagan Luar and installed a new Liquefied Petroleum Gas (LPG) filling machine at PDT to support growing demand for our LPG products.

We employ the strictest safety and environmental standards consistently throughout the company. We recorded 16 years without any Lost Time Injury (LTI) at our refinery and achieved 21.8 years without LTI at all our terminals. Our service stations are recognised for their excellence in safety and health commitments, achieving 2.2 million-man hours without LTI within one year of implementation of Occupational Safety Health Practices.

The refinery also received the Prime Minister's Hibiscus Award for 'Exceptional Achievement in Environmental Performance' in 2017/2018 and was awarded the Grand Award for 2017 Occupational Safety & Health excellence performance by the Malaysian Society for Occupational Safety & Health (MSOSH). Seven terminals under the group also won various Gold awards in MSOSH.

These achievements bring us closer to our goal to be the industry leader in occupational safety and health in the downstream sector.

CHAIRMAN'S STATEMENT

CARING FOR OUR COMMUNITIES AND THE ENVIRONMENT

We care deeply for the environment and the communities where we operate in. This is exemplified through our green campaigns and community-based programmes that we carry out and champion throughout the years.

Together with our employees, we joined hands with various government agencies such as the Department of Environment, local municipals and universities to protect and preserve nature. These initiatives reduce our carbon footprint and create public awareness by sharing best practices in environmental protection and management.

As a reliable partner on the road, we continue to promote road safety awareness. We worked closely with the Road Safety Department of Malaysia and other groups to bring our biggest and longest-running advocacy – Petron Road Safety programme - to more universities, schools and service stations, promoting road safety practices amongst motorists and cyclists.

We also renewed our commitment for safer communities through our collaboration with the Royal Malaysia Police under the Go-To Safety Points programme. Through our student art competition Vision Petron, we continue to nurture and support young and talented student artists. Our employees also spent time volunteering in the Volunteerism in Action programmes in support of our Corporate Social Responsibility (CSR) initiatives.

CORPORATE GOVERNANCE

Our sincere gratitude to all the members of the Board, who are all experienced in business and governance, for their dedication in steering the Company to greater heights.

Y. Bhg. Dato' Zuraidah Atan resigned from the Board on 8 February 2019. She had been an Independent Director since 2013 and we are deeply grateful for her contributions in helping grow the company.

FUELLING FUTURE GROWTH

Looking ahead, we will continue to make Petron a stronger company, an even more desired partner to work with and the leading brand in the industry. We are optimistic about the future as we forge ahead armed with our plans for further growth and expansion. We will also continue to invest in our employees, who are critical to our continued success.

On behalf of the Board and Management team, we would like to express our utmost appreciation to our staff and employees, the driving force behind this successful journey. We thank them for always staying on course and for helping the company achieve great things. We also would like to thank our partners, government authorities, media and local communities for being with us every step of the way and of course, our customers for their continuous support and loyalty.

Last but certainly not least, we wish to thank you, our shareholders, for your trust and confidence in us. We take pride in being your partner in fuelling happy journeys.

Thank you.

RAMON S. ANG
Chairman
26 April 2019

CHAIRMAN'S STATEMENT

Looking ahead, we will continue to make Petron a stronger company, an even more desired partner to work with and the leading brand in the industry.

PROVIDING
Better Solutions

Our clean burning Petron Gasul provides homes and establishments the unique benefits of its pure LPG content, efficient energy burning and safety features. Our 50kg Petron Gasul is also widely used in the commercial sector, providing complete and efficient energy for key industries.


PUSAT JUALAN GAS MEMASAK
PETRON GASUL
BAHAYA
MUDAH TERBAKAR
DILARANG MEROKOK
12 KG
RM
22
14 KG
RM
26
Food
with
PETRON GASUL
14 KG
2,660
POINTS

MANAGEMENT DISCUSSION AND ANALYSIS

Petron Malaysia Refining & Marketing Bhd's ("PMRMB") core business activities involve the refining of world-class petroleum products at its refinery in Port Dickson and the marketing of these products through Petron's retail network and commercial businesses.

We continue to provide innovative and cutting-edge products, as well as excellent services to serve their needs better.

PMRMB together with its sister companies, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. form Petron Malaysia Group, the third largest and a major downstream player in Malaysia.

PMRMB operates Petron Port Dickson Refinery (PDR) in Negeri Sembilan which has a crude distillation capacity of 88,000 barrels per day. PDR produces a wide range of products including gasoline, diesel, aviation fuel, LPG, naphtha and low sulphur waxy residue. The refinery's production is mainly geared towards fuelling Malaysian domestic energy demands. From the refinery, our products reach consumers through PMRMB's and its affiliates' terminals and depots that are strategically located throughout Malaysia.

BRAND BUILDING AND MARKET EXPANSION	SUPPLY CHAIN AND REFINERY IMPROVEMENTS
Profitable network of service stations	Efficiency in crude and finished product purchasing and prudent inventory management
Innovative products and services	Refinery and logistics expansion and upgrade
Expansion of the commercial businesses through tie-ups with major customers	Robust risk management and enhancing operational excellence

Our retail business operates Petron service stations nationwide and markets high-quality fuel and non-fuel products and services. Our commercial business fuels the economy through the reliable supply of industrial and aviation fuels including Automotive Diesel Oil (ADO), gasoline, Jet A1 and Liquefied Petroleum Gas (LPG) to industries, corporations and end-customers in major sectors that contribute to the country's growth such as power generation, transportation, agriculture, construction, mining and manufacturing.

STRATEGIC OBJECTIVES

PMRMB is at the forefront of creating value and opportunities that are geared towards providing the best for our customers, partners and communities. We continue to provide innovative and cutting-edge products, as well as excellent services to serve their needs better. Fostering strategic partnerships with like-minded groups, who share in our commitment to excellence, play a key role to our continued success.

Over the years, we have continuously improved our strengths and capabilities, growing our business in all sectors and expanding our presence in more markets. Our efforts to continue expanding our retail network have

MANAGEMENT DISCUSSION AND ANALYSIS

Petron returning as the official fuel sponsor and engine oil partner for RFC

reached and benefitted more customers, while working closely with our dealers, helping develop our communities and contributing to the overall growth of the economy. From production to distribution, our safe, efficient and environment-friendly supply chain enables us to produce and deliver world-class and eco-friendly fuels, while maintaining the highest standards on operational safety and reliability.

Recognising the challenging market and business environment, we have put various processes and activities in place to mitigate potential risks that may affect our performance and disrupt our operations. We continue to explore more growth opportunities in pursuit of our vision to become the leading provider of total customer solutions in the oil sector and allied businesses.

We continue to explore more growth opportunities in pursuit of our vision to become the leading provider of total customer solutions in the oil sector and allied businesses.

RETAIL

Malaysia's fuel consumption posted a slight increase of almost 1% in 2018 from the previous year mostly on higher demand in the retail sector.

With this, we saw continued growth in our retail business driven by our aggressive expansion efforts, superior products and services, and excellent rewards as well as promotional programmes that keep our customers satisfied.

During the year, the Group opened 32 new service stations (18 under PMRMB), bringing our total count to more than 640 stations. To complement our growing network, we now have over 470 **Treats** convenience stores and **P Kedai** marts (of which 240 are PMRMB's) to serve customers who require more than just refuelling. We also partnered with more leading food and beverage brands as we continue to redefine convenience at our stations.

In response to higher demand for our products, more service stations now offer our high-performance **Blaze 100 Euro 4M** and our clean and environment-friendly **Turbo Diesel Euro 5**. **Blaze 100 Euro 4M** is now available at nearly 80 stations, while **Turbo Diesel Euro 5** is now offered at over 150 stations.

Being a leader in fuel innovation, we ensure that our world-class fuels meet global standards while catering to every consumer's needs and preferences. Our partnerships with major motorsports events showcase our fuels' superior qualities especially under extreme racing conditions. Our **Blaze 100 Euro 4M** fuelled the third season of the Formula 4 Southeast Asia Championship, as well as the X30 Southeast Asia Karting Championship. With our support, we are helping to shape the careers of up-and-coming local and regional professional drivers.

MANAGEMENT DISCUSSION AND ANALYSIS

Our **Turbo Diesel Euro 5**, on the other hand, powered one of the toughest off-roading events in the world, the Rainforest Challenge (RFC). This proved that the revolutionary fuel delivers better power, excellent engine protection and better mileage for vehicles even during a gruelling adventure race.

Through our rewards programme, we continue to recognise our loyal customers by giving them exclusive privileges and exciting perks. We are proud that our **Petron Miles Card** has more than 3 million members, generating repeat sales. We also made our redemption programme more rewarding by doubling the point for every litre purchased.

Our partnerships with Malaysia Airlines Enrich and AirAsia BIG allowed us to roll out new campaigns such as the **Petron-Enrich Fuel & Fly** and **Epic Asia**. We also continue to work with Marvel Studios as we held the screening of "Avengers: Infinity War", the biggest we have organised so far. We also gave 60 Petron Miles members the chance to attend a special 'meet and greet' session with the cast of the movie in Singapore and also introduced special Avengers figurines for fans to collect.

Setting new hygiene benchmark for customers' best experience at our stations

Delighting customers with the best rewards through Petron Miles Card

Our sister company, Petron Fuel International Sdn. Bhd. achieved a new milestone when the Petron Fleet Card was appointed as one of the fuel suppliers for government vehicles. Our Group's Petron Fleet Card assists corporate customers in managing their fuel expenses via prepaid and post-paid plans.

As our frontline brand ambassadors, Petron dealers play an essential role in helping to strengthen our brand by providing the best customer experience as exemplified in our **"Fuel Happy"** campaign. Our **"Tandas Kita Bersih"** programme set a new benchmark for toilet cleanliness at stations, as evidenced by the growing number of awards and recognitions our stations have received.

Our service stations likewise continue to play an active role in promoting safety in the community through our partnership with the Royal Malaysia Police's **"Go-To Safety Points"**. As we aimed to spread safety awareness more creatively, we unveiled installation arts with safety messages using as fun caricatures in 10 different service stations in the Klang Valley.

In essence, we ensure that the products and services we offer remain relevant, innovative and rewarding to our customers and that our programmes bring the best customer experience to everyone.

Being a leader in fuel innovation, we ensure that our world-class fuels meet global standards while catering to every consumer's needs and preferences.

In essence, we ensure that the products and services we offer remain relevant, innovative and rewarding to our customers and that our programmes bring the best customer experience to everyone.

COMMERCIAL

The country registered a 3.6% increase in market demand for commercial fuels even as demand for jet fuel and diesel softened compared to the previous year. Despite moderate industry growth, changing market structure and heightened competition, we remained motivated to deliver superior products and reliable service to our customers.

Petron Aviation remained a major petroleum provider at national airports and a key partner of the country's premier carriers, serving a wide range of multinational and regional carriers at the Kuala Lumpur International Airport (KLIA) and klia2. With this, we continue to improve our services at KLIA by investing in new facilities to cater to the growing volume.

Driven by stronger brand awareness, our **Petron Gasul** registered higher sales volume in 2018 compared to the previous year. We expanded our distribution channels to serve more customers and ensure wider availability particularly in underserved areas. In addition, we partnered with a third party bottling plant to enhance our operational efficiency.

We introduced another first with our move to begin selling domestic LPG at service stations, underscoring our commitment to fuelling convenience. Moreover, we offer them at government regulated prices through "cash and carry".

Providing customer solutions to commercial customers, we rolled out a new product, the unsubsidised 14kg LPG cylinder exclusively to fuel forklift vehicles. This comes in two colour tones (red and blue) to differentiate it from the subsidised domestic 14kg LPG cylinder.

We also continue to serve the utility sector through fuelling power plants, fishery and manufacturing and made our first bunker fuel sale at our Bagan Luar Terminal. With the strides we have taken in 2018, we are inspired to keep raising the bar on our promise to fuel the nation.

Newly introduced Petron's hybrid refueller refuelling Malaysia Airlines Berhad A330 flight at KLIA

MANAGEMENT DISCUSSION AND ANALYSIS

Groundbreaking of Diesel Hydrotreater mark the beginning of the project

SUPPLY, REFINERY & DISTRIBUTION

Expanding and Improving Our Supply Chain

We continue to upgrade our Port Dickson Refinery (PDR) and expand our logistics capabilities to support Petron's aggressive business expansion.

We are on track with completing our Diesel Hydrotreater (DHT) project in PDR which will enable our refinery to comply with the government's requirement to implement the Euro 5 specifications for diesel by September 2020.

In 2018, PDR was able to use new varieties of crude, such as Cossack, Agbami, Varanus and SLEB from countries like Africa, Australia and Brunei. This is part of a diversification programme to improve crude availability and support optimal crude run.

Part of improving refinery profitability is processing crude from third parties and purchase of white products only. This improves plant utilisation and profitability by passing up by-products with negative margins.

In September 2018, PDR underwent a Major Turnaround Programme for 37 days to allow maintenance of its equipment. This ensures long-term efficiency and plant reliability and conforms to Department of Occupational Safety Health's safety requirements. No significant effect on our product supply was recorded during the planned shutdown programme.

We also continue to enhance our supply chain under our **Logistic Master Plan**, specifically by upgrading our facilities to ensure our products reach customers safely and efficiently.

We continue to upgrade our Port Dickson Refinery (PDR) and expand our logistics capabilities to support Petron's aggressive business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

We are also building a new pipeline to link an existing facility we recently acquired, along with its associated offshore marine terminal facilities, with our PDR facility. We are in the midst of upgrading our recently acquired product jetty and replacing our Conventional Buoy Mooring facility with a new Single Buoy Mooring. Two new product tanks, each with a 250,000-barrel capacity are also currently under construction to accommodate growing demand. These projects are expected to be completed by early 2020.

We also commissioned a new LPG filling machine at our LPG plant in the **Port Dickson Terminal**. This initiative will help us improve the filling plant efficiency and reduce maintenance cost, while increasing the supply of our LPG cylinders to end-customers.

To further enhance our capacity to supply more products in the northern region, we commissioned a 50,000-barrel product tank at our **Bagan Luar Terminal** in Penang, as well as a new Barge Loading Facility.

In aviation, we commissioned a new hybrid refueller to further enhance our operations efficiency at the KLIA and klia2 airports. This hybrid refueller with hydrant servicer is the latest innovation in jet fuelling operation and the first in Southeast Asia. With this new facility, Petron Aviation can fulfil more refuelling orders at both airports and further boost sales.

In compliance with the Malaysian government's B10 biodiesel programme, Petron terminals started to blend 10% palm oil methyl ester in 90% diesel to produce Biodiesel. We began offering this at our service stations nationwide beginning 1 February 2019. To supply the Group's biodiesel requirements, we acquired a small Palm Oil Methyl Ester plant with 60,000 metric tonnes annual capacity in Lumut, Perak on 1 March 2019.

Ensuring The Safety of Our People and Our Facilities

PDR and our terminals strictly adhere to the highest health and safety standards. Their initiatives and efforts have resulted in various recognitions from reputable industry and certification bodies.

PDR maintained its flawless safety performance for the past 16 years without Lost Time Injury (LTI). This milestone underscores our employees and contractors' strong safety leadership, personal accountability and procedural compliance, as well as their commitment to safety procedures and management systems.

Under our Logistics Master Plan, we continue to enhance our supply chain by upgrading our facilities to ensure our products reach customers safely and efficiently.

Maiden bunkering at Bagan Luar Terminal recommissioned Barge Loading Facility

MANAGEMENT DISCUSSION AND ANALYSIS

In recognition of PDR's milestones in occupational safety and health, we received the grand award in the Malaysian Society for Occupational Safety and Health (MSOSH) Awards. PDR also earned the top citation in the Prime Minister's Hibiscus Award for Exceptional Achievement in Environmental Performance 2017-2018.

Our terminals attained a combined record of 23.6 Million Man Hours without LTI, equivalent to 21.8 years. This is an accomplishment achieved through strict conformance to stringent safety, security, health and environmental management systems.

Our sister company's Kuantan Terminal won the coveted Grand Award from MSOSH for the second consecutive year, with six more terminals under the Group in Port Dickson, Pasir Gudang, Bagan Luar, KLIA, Sepanggar Bay and Tawau receiving various Gold awards. The remarkable achievement is a testament that the values of safety are fully embedded throughout our operations.

Levelling Up to Global Standards of Operational Excellence

Our efforts to benchmark the operational quality of our refinery and terminal operations against local and international standards are affirmed by third-party certification bodies. Our PDR is an ISO 9001:2015 certified facility that strictly complies with global safety procedures and management systems. Other facilities in the Group such as the terminals in KLIA Aviation Facility, Bagan Luar and Pasir Gudang also achieved ISO 9001:2015 certification for Quality Management System. The Port Dickson Terminal and Kuantan Terminal also received ISO certifications for Quality Management System, Environmental Management System and Occupational Health and Safety Management System.

The remarkable achievement is a testament that the values of safety are embedded throughout our operations.

All operating sites adhere to the highest health and safety standards

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF 2018 FINANCIAL RESULTS

At a glance, 2018 was a particularly volatile year for oil prices due to global economic and geopolitical uncertainties. Compared to 2017, prices were generally high in 2018 and were on an upward trend until the month of October. Prices then plunged in the last two months with the Dated Brent crude averaging US$57 per barrel in December, down by almost 30% from the US$81 per barrel average in October. Despite the drop in prices towards the end of the year, Dated Brent averaged 31% higher in 2018 at US$71 per barrel compared to 2017.

PMRMB reported a full-year net income of RM225 million in 2018, down by 44% from last year's RM405 million.

Revenue and Gross Profit

PMRMB's total sales volume in 2018 reached 35.5 million barrels compared to the 34.9 million barrels sold in the previous year. With the steady growth in sales volume and higher oil prices, the Company's total revenue for 2018 rose by 16% to RM12.0 billion from RM10.4 billion in 2017.

The price differentials of finished products over crude narrowed in 2018 compared to 2017. The weakening of product differentials and the significant drop in prices in the last quarter reduced the Company's gross profit by 35% to RM444 million in 2018 from RM685 million in 2017.

HUMAN RESOURCES

Our efforts to nurture the growth and welfare of our people are anchored on our core values collectively known as **ExCITES** (**Ex**cellence, **C**ustomer Focus, **I**nnovation, **T**eamwork, **E**thics and **S**afety).

As we grew our business, strengthening the skills of our workforce remained a top priority. We reinforced our **Petron Associate Programme**, which focuses on building a pool of young, high-potential talents by promoting their development in the organisation.

Aside from investing in their skills, we also provide our people with opportunities to foster work-life balance and promote their wellbeing. Recreational clubs in Kuala Lumpur and Port Dickson inculcate the "Fuel Happy" spirit in our employees through various events and activities focusing on fitness, sports, arts and leisure, amongst others.

MANAGEMENT DISCUSSION AND ANALYSIS

Income and Expenses

In 2017, the Company reported non-recurring gains from compulsory service station divestments by the Government. These gains were significantly reduced in 2018 which resulted in lower other income compared to the previous year. Operating expenses, however, increased with the growth in operation, sales volume and new service stations.

Dividends

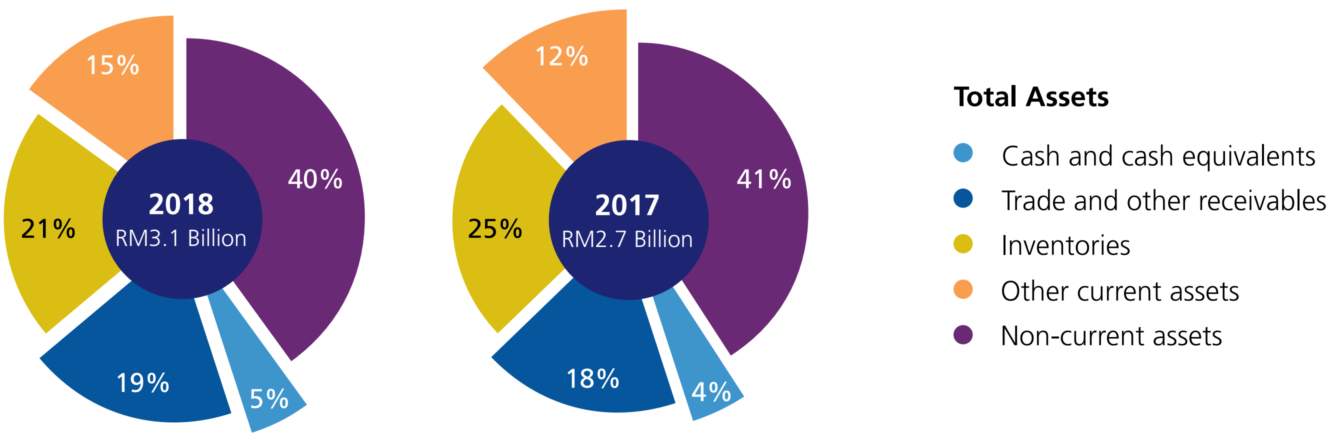
During the Annual General Meeting held in June 2018, shareholders approved a dividend payment of 25 sen per share for financial year ended 2017. For the financial year ended 31 December 2018, the Board of Directors recommended a final single tier dividend of 20 sen per share to be approved at the 2019 Annual General Meeting.

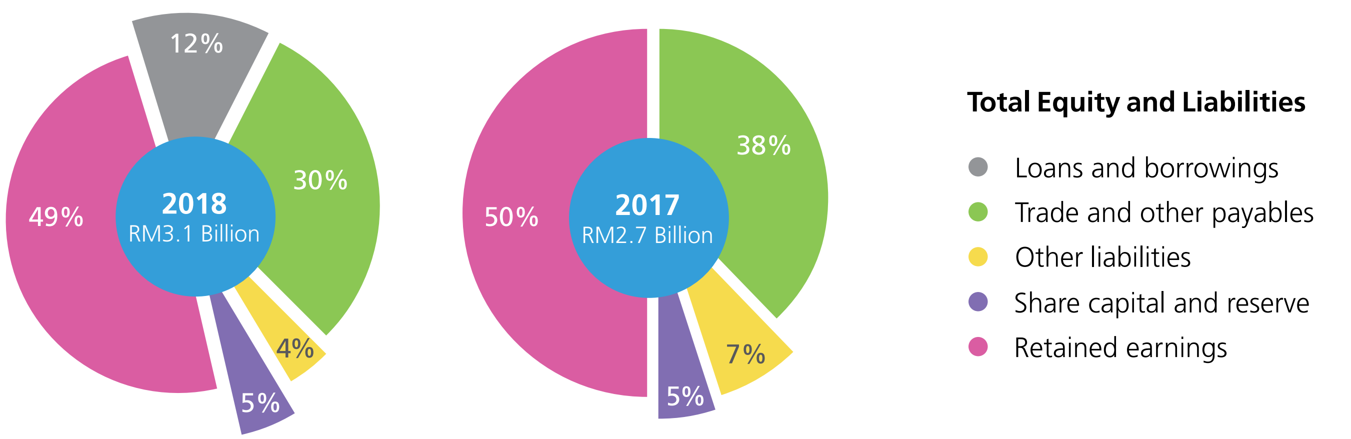
Financial Position

PMRMB's financial position continued to be robust as at 31 December 2018, as total assets increased by 15% from RM2.7 billion in 2017 to RM3.1 billion on account of expenditures on service stations' various facility upgrades and refinery projects. The Company's assets also include receivables from the Government from subsidies and GST claims.

Total liabilities increased by 21% from RM1.2 billion in 2017 to RM1.5 billion by the end of 2018 mainly from the short-term loans obtained for working capital. Cash was tied up with the outstanding receivables from the Government.

Simplified Statement of Financial Position





Capital Expenditure

The Company's total capital expenditures for the year including land leases amounted to RM198 million as compared to RM105 million in 2017. The increase was attributed to the continuous expansion of our Retail and Commercial networks and preliminary disbursements for our major projects at PDR.

Capital Structure and Capital Resources

The Company entered into new short-term credit facilities for working capital requirements.

The Company's total share capital remained unchanged at RM143 million. Retained earnings slightly increased from RM1.4 billion last year to RM1.5 billion in 2018 on account of the 2018 net profit less the dividend pay-out.

FORWARD-LOOKING STATEMENT

While we are gaining a stronger foothold in the Malaysian market, several external factors still challenge our performance. One such factor is the oil price movement which continues to be volatile. Other concerns such as geopolitical tensions and trade wars affecting oil supply and demand could also influence oil price. We have a risk management system in place that will help us deal with market uncertainties and mitigate their potential negative impact on the Company.

We remain optimistic in achieving operational efficiencies through our continuous service station network expansion programme, while upgrading the refinery and distribution facilities to support increasing demand.

APPROACH TO RISK MANAGEMENT

Petron is resolute in its commitment to sustain safety, security, health and environmental performance through operational excellence. Some of our operations and products are classified as potential high risks. Identifying and managing these risks are crucial to the business and we accomplish this through a capable and committed workforce rigorously following established safe practices and designs, and efficiently implementing environmentally responsible operations. We are also guided by clearly defined policies and practices with applied management systems designed to deliver results.

The Board Audit & Risk Management Committee recognises that managing a public listed downstream oil and gas company has many challenges and inherent risks. These include financial, foreign exchange, legal compliance, crude and product supply, distribution, environmental issues, industrial requirements, safety and managing the human resources of the Company. The Board ensures that the management integrity system (including risk management and internal controls process) which has been put in place continues to be faithfully adhered to by the Company in ensuring seamless continuity of the business and safe operations. The Board recognises that risks can be mitigated and even eliminated by having an effective system in identifying the principal risks faced by the Company.

Our approach to Risk Management is illustrated in the diagram below.

MANAGEMENT DISCUSSION AND ANALYSIS

Risk is any condition/situation that has the potential to create an unwanted impact on our business performance. The risks can be generalised into four (4) categories:

- Operational Risk
- Financial Risk
- Strategic/Market Risk
- Hazard Risk

Operational Risk

We build our facilities in accordance with Industry Standards and regulatory requirements. Operational Integrity is a priority at our PDR and fuels terminals to achieve unhampered operations. Process equipment failures can cause unplanned shutdowns and a fire breakout can render our facilities inoperable. These incidents will disrupt our product supply chain to the market. Operation sites are required to conform to Petron's Safety Management System expectations.

We are a member of the Petroleum Industry of Malaysia Mutual Aid Group (PIMMAG) and the Oil Spill Response Limited (OSRL), which can be called upon to respond to any of our oil spills in Malaysia and international waters, respectively.

The PDR is designed to process low sulphur crudes. This limited crude range and dependence on a few oil suppliers pose a challenge in getting a continuous supply of crude for the refinery. To manage this, we made forward purchases arrangements on Tapis and alternate crudes from international oil traders. We also arranged with other oil companies in Malaysia for the supply of finished products.

Financial Risk

Crude and product price volatility affects the bottom line of company performance. The Commodity Risk Management Committee meets weekly to steward proper ending inventory management, use of natural hedge cover for pricing and to identify appropriate hedging activities and determine the level of commodity exposure to hedge against impact. Treasury retention of US dollar from exports and hedging agreements with banks are executed to minimise exposure to Forex volatility.

Delay in recovering receivables (subsidies and GST) from the Government may impact cash flow for operations and working capital. Steps to engage the Government to seek priority for reimbursement and to ensure accuracy and completeness of documents to Customs are taken to address issues on cash flow for operations and working capital.

Change in Government policy for price deregulation/subsidy rationalisation is on-going. Continuous engagement with the Government is in progress to understand the changes and to prepare for any changes in policy.

Operational Integrity is a priority at our PDR and fuels terminals to achieve unhampered operations.

Joint oil spill response with stakeholders for response readiness

MANAGEMENT DISCUSSION AND ANALYSIS

We aim to be the leading provider of total customer solutions in the oil sector and allied businesses.

Strategic/Market Risk

We aim to be the leading provider of total customer solutions in the oil sector and allied businesses. We established a product quality management system to ensure strict control on product quality and to reduce the likelihood of any untoward incident. This also ensures efficient handling of customer complaints if there is a product quality issue.

To date, all of Petron's operating sites in Peninsular Malaysia have successfully obtained ISO certifications and are audited annually by Standard and Industrial Research Institute of Malaysia (SIRIM) to ensure full and faithful adherence to the global quality standards. Petron terminals in Sabah will pursue its ISO certification in 2019.

Hazard Risk

Procedure and controls are in place to target zero employee work-related injury or illness, third party liability and property loss. The appropriate response for natural hazards is specified in the Business Continuity Plan.

We have already put in place Emergency Response Plans and Business Continuity Plan in preparation for any potential emerging issues related to the respective risks. The readiness of each plan's ability to respond to such incidents is tested annually by each Business Unit's operating sites.

Emergency Response Plan is in place and tested annually

CREATING *Long-Term Partnerships*

As an ally in nation-building, we are committed to fuelling progress through our consistent delivery of service innovation. We foster and nurture our ties with our station dealers driven by our entrepreneurial culture that promotes teamwork, innovation and excellence. We also develop strong partnerships with our distributors and delivery partners to ensure seamless product delivery at all times.


PETRON
SCANIA

SUSTAINABILITY STATEMENT

Sustainable business practices are ingrained in our organisation and are conscientiously practiced to ensure the continued growth of our business. Strong partnerships form part of our journey towards achieving these sustainable business practices.

We are committed to see Petron become the most successful company in the energy industry – one that creates a positive and enduring impact on our shareholders, business partners, communities and the environment and one that fuels a brighter future for generations of Malaysians.

SUSTAINABILITY STATEMENT

In continuing our journey to further grow our business, we acknowledge the significance of integrating philosophies and practices that make Petron a company that is built to last.

As such, we pledge our commitment to adopt and implement initiatives that ensure that we create greater economic value for our shareholders, care for stakeholders within and outside of our organisation and be more responsible for the well-being of our planet, all anchored on the pillars of Environment, Safety & Security and Social and Economical sustainability.

A **Sustainability Council** composed of heads of Human Resources, Finance, Legal, Corporate Safety, Security, Health and Environment (SSHE), Retail Business, Commercial Business, Supply, Distribution & Terminal Operations, Business Planning, Procurement and Corporate Affairs provides guidance to the Technical Working Group and ensures that the international reporting guidelines are faithfully followed and that performance indicators are completely and accurately disclosed.

Disclosure On Sustainability Practices

Petron Malaysia has been disclosing its sustainability practices in its Annual Report since 2012.

In 2018, we published a separate Sustainability Report, which complements the 2017 PMRMB Annual Report & Accounts. The 2017 Sustainability Report is also available on our Company website www.petron.com.my.

The goal of publishing a Sustainability Report following global benchmarks and conforming with Bursa Malaysia Securities Berhad's requirements was adopted for the first time in the 2017 report.

Preparing The Report

This is Petron Malaysia's second sustainability report. The report takes into account the materiality matrix which was discussed extensively with our stakeholders on the various performance indicators and their significance to the continued success of our business and our communities. Data for the report were mainly generated from monitoring and measurement methods in the environmental manual of our facilities, which systems are in compliance with all regulatory requirements.

Communicating Sustainability

The Company undertakes regular trainings to effectively communicate its sustainability vision, particularly among permanent and casual employees, contractors, community leaders and programme beneficiaries. We constantly engage with our retail and commercial dealers to ensure that our Safety, Security, Health and Environment policies and practices are strictly adhered to across the organisation and highlights our emphasis on sound business partnerships.

ECONOMIC SUSTAINABILITY

The Company always looks for opportunities to grow the business and achieve long-term profitability. Despite the constant challenges faced by our industry, we continue to focus on key projects aimed at expanding our operations and providing more and better products and services to a growing market. These have allowed us to realise our financial bottomline and in the process, helped us better serve our stakeholders.

SUSTAINABILITY STATEMENT

We conduct our business in strict adherence to principles and policies that ensure effective corporate governance, transparency and accountability in every aspect of our operations. The Company also maximises use of cash generated from its operations to ensure sound cash management and maintain healthy financial ratios.

We also provide local enterprises with opportunities to do business with us, particularly in providing materials and services for our operations, as well as venues for employment. Through this, we are able to promote inclusion and contribute to growing the local economy.

At the same time, we require that all our suppliers and contractors also conform to the same sustainability parameters of the Company, including strict adherence to corporate governance, environment, health and safety standards and social responsibility.

ENVIRONMENTAL PERFORMANCE

We endeavour to meet, if not exceed, the country's environmental regulations in managing our environmental footprint. Our Corporate SSHE is tasked with formulating and implementing sound environmental policies, disseminating applicable regulations, standards and corporate policies throughout the organisation and share best practices on environmental management.

We develop our own systems for measuring, managing and minimising our carbon footprint and continuously invest in cleaner and greener product lines. To manage emissions, Petron employs Greenhouse Gas-Air Pollutant Accounting and Energy Conservation measures. We also implement various internal and external programmes that focus on reduction of waste, emissions and energy consumption at our Port Dickson Refinery, such as furnace operation optimisation, minimising distillation tower pressure, tracking of Energy Intensity Index (EII) and increasing efficiency of crude refining.

We likewise undertake activities such as mangrove planting and river clean-ups in Petron facilities located near critical ecosystems, for instance, coastal areas or watersheds to help protect natural habitats and promote biodiversity.

SOCIAL PERFORMANCE

Petron's long-term success largely depends on how the Company takes care of people within and beyond the organisation and the partnerships it builds to nurture healthy communities.

Our employees are our greatest assets and thus, we work hard to create a workplace environment that allows them to flourish, sharpen their skills through robust training and professional development programmes and foster teamwork at every opportunity. This involves having an effective HR system in place that provides competitive remuneration, benefits and regular performance appraisal, amongst others.

We endeavour to meet, if not exceed, the country's environmental regulations in managing our environmental footprint.

We partner with stakeholders for Green Programme, our flagship sustainability initiative

SUSTAINABILITY STATEMENT

We advocate LPG safety to communities during safety campaign

The employment of Total Quality Management (TQM) throughout the Company enhances our competitiveness and reinforces Petron's core values of **Ex**cellence, **C**ustomer Focus, **I**nnovation, **T**eamwork, **E**thics and **S**afety (ExCITES), enabling us to deliver more quality services and greater customer satisfaction.

Externally, we continue to put a premium on raising the standards of customer care with Petron Care hotline. As this is the primary touchpoint for our customers and other stakeholders to reach Petron, feedback received from the hotline is directed to relevant departments for immediate action.

In the same light, we recognise that we have an equal responsibility to care for our external stakeholders, more specifically our fenceline communities and help them attain a better quality of life. Thus, Corporate Social Responsibility (CSR) remains an integral part of the way we conduct our business. We are able to undertake relevant and effective programmes for their long-term success through partnerships with concerned government bodies and the vibrant participation of employee volunteers.

Safety

This is a key focus area for Petron, which is evident in our close working partnership with the Royal Malaysia Police in the Go-To Safety Points (GTSP) programme and with the Road Safety Department, which enabled us to continue with our road safety campaign in major universities and schools throughout Malaysia. We also strengthened our collaboration with the Fire and Rescue Department for the LPG safety programme in schools.

Youth Development

We continue our support for the Negeri Sembilan Human Capital Award of Distinction for schools in the state to recognise individuals and groups in academic, youth and sports excellence and with the aim of producing a well-balanced human capital in our refinery's host state.

Vision Petron

We championed the 2018 Vision Petron National Student Art Competition with the theme "Rediscovering Culture" to nurture and promote artistry of Malaysian youth, as well as to be a unique platform for the youth to promote national identity and culture through art.

Environmental Protection

Together with local government agencies, we continued to do our share in protecting the environment through our Green Programmes, which focuses on cleaning up and improving the condition of various rivers and coastlines of Malaysia.

Employee Engagement

We contributed to the betterment of our communities driven by the strong culture of volunteerism among our employees and partners. In 2018, we organised eight employee engagement activities through our Volunteerism in Action (VIA) to make a positive difference for our communities. These include the "Sahur or pre-dawn meal", "Give A Kid A Book", "Let's Read" and "Back-to-School" programmes.

The report of each initiative and project undertaken is further elaborated in the 2018 Sustainability Report, which is available on our corporate website.

WORKPLACE DIVERSITY

We provide equal employment opportunity in conformance to applicable local laws, regulations and Malaysian Government (GOM) Policy. This is specifically aimed to assist Malaysian nationals, regardless of gender, age and ethnicity, to avail of employment so long as they meet the qualifications of the job.

The Company implements personnel policies, programmes and practices according to any such applicable laws, regulations and GOM Policy in all stages of employment, including recruitment, hiring, work assignment, promotion, transfer, termination, wage and salary administration and selection for training.

Managers and supervisors are responsible for implementing and administering the policies, maintaining a work environment free from discrimination and promptly identifying and resolving any problem area regarding equal employment opportunity.

It is also the Company's workplace policy to:

- Develop and support educational programmes and recruiting sources and practices that facilitate employment of Malaysian nationals, regardless of gender;
- Develop and offer work arrangements that help to meet the needs of the diverse workforce in balancing work and family obligations;
- Establish company training and development efforts, practices and programmes that support diversity in the workforce and enhance the representation of Malaysian nationals, regardless of gender, throughout the Company;
- Foster a work environment free from sexual, racial, or other forms of harassment;
- Make reasonable accommodations that enable qualified differently-abled individuals to perform the essential functions of their jobs;
- Emphasise management responsibility in these matters at every level of the organisation.

Individuals who were discriminated upon are requested to immediately bring the incident to the attention of their managers or Human Resources personnel for prompt investigation and fair resolution, free from the threat of harassment, intimidation, or retaliation for exercising any of the rights protected by this policy.

We provide equal employment opportunity in conformance to applicable local laws, regulations and Malaysian Government (GOM) Policy.

	Petron Malaysia Refining & Marketing Bhd.	Petron Fuel International Sdn. Bhd.	Petron Oil (M) Sdn. Bhd.	Total
ETHNIC				
Malay	230	130	5	365
Chinese	72	69	1	142
Indian	32	18		50
Others	9	28	9	46
GENDER				
Male	274	124	14	412
Female	69	121	1	191
AGE				
21 – 30	84	73	1	158
31 – 40	95	116	8	219
>40	164	56	6	226

CORPORATE INFORMATION

PETRON MALAYSIA REFINING & MARKETING BHD (Company No.: 3927-V)

DIRECTORS

Mr. Ramon S. Ang
Chairman, Executive Director

Mr. Lubin B. Nepomuceno
Chief Executive Officer, Executive Director

Y. Bhg. Dato' Zainal Abidin Putih
Independent Director

Ms. Chua See Hua
Independent Director

Mr. Fong Seow Kee
Independent Director

Mr. Antonio M. Cailao
Independent Director

Ms. Aurora T. Calderon
Executive Director

Mr. Ferdinand K. Constantino
Non-Independent Non-Executive Director

**Y. Bhg. Dato' Zuraidah Atan, Independent Director resigned on 8 February 2019.*

COMPANY SECRETARY

Mr. Manoj Devadasan
(LS0006885)

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn. Bhd.
(11324-H)

Unit 32-01, Level 32, Tower A,
Vertical Business Suite, Avenue 3, Bangsar South,
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Tel : +603-2783 9299
Fax : +603-2783 9222

Customer Service Centre:
Unit G-3, Ground Floor, Vertical Podium
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur, Malaysia.

AUDITORS

KPMG PLT (No. LLP0010081-LCA & AF 0758)
Chartered Accountants
Petaling Jaya

STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia Securities Berhad
Stock Code: 3042
(Syariah-compliant securities)

SOLICITORS

Messrs Raja, Darryl & Loh, Kuala Lumpur
Messrs Lee Hishamuddin Allen & Gledhill

REGISTERED OFFICE

Office of the Secretary,
Petron Malaysia Refining & Marketing Bhd
Level 12A, Menara I&P 1,
No. 46, Jalan Dungun,
Damansara Heights,
50490 Kuala Lumpur.
Tel : +603-2082 8400
Fax : +603-2082 8578

PROFILE OF BOARD OF DIRECTORS

MR. RAMON S. ANG

Chairman
Executive Director

Age	Nationality	Gender
65	**Filipino**	**Male**

Mr. Ramon S. Ang was appointed as a Director on 30 March 2012 and appointed as Chairman/Chief Executive Officer of the Company on 2 April 2012. On 20 November 2013, Mr. Ang relinquished the position of Chief Executive Officer in adherence to the Malaysian Code on Corporate Governance 2012. Mr. Ang has served as the Chief Executive Officer and Executive Director of Petron Corporation in the Philippines since 8 January 2009 and the President of Petron Corporation since 10 February 2015. Mr. Ang is also the Chairman of a number of Petron Corporation's subsidiaries including its Malaysian subsidiaries, Petron Oil & Gas International Sdn. Bhd., Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. Mr. Ang is also Vice Chairman, President and Chief Operating Officer of Petron Corporation's parent company, San Miguel Corporation and is on the Board of Directors of a number of its subsidiaries including Chairman of San Miguel Foods, Inc. and Chairman and President of SMC Global Power Holdings Corp. Mr. Ang holds a Bachelor of Science degree in Mechanical Engineering from the Far Eastern University, Philippines.

MR. LUBIN B. NEPOMUCENO

Chief Executive Officer
Executive Director

Age	Nationality	Gender
67	**Filipino**	**Male**

Mr. Lubin B. Nepomuceno was appointed to the Board of the Company on 30 March 2012. On 20 November 2013, Mr. Nepomuceno was also appointed as the Chief Executive Officer, when the offices of Chairman and Chief Executive Officer were separated in line with the recommendations of the Malaysian Code on Corporate Governance 2012. Effective 10 February 2015, he was appointed as General Manager of Petron Corporation. He is also a Director of a number of Petron Corporation's subsidiaries including its Malaysian subsidiaries, Petron Oil & Gas International Sdn. Bhd., Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. Mr. Nepomuceno is a Director of San Miguel Corporation subsidiaries, San Miguel Paper Packaging Corporation and Mindanao Corrugated Fibreboard Inc. Mr. Nepomuceno holds a Bachelor of Science degree in Chemical Engineering and a Masters degree in Business Administration from the De La Salle University. He has also attended Advanced Management Programmes at the University of Hawaii, University of Pennsylvania and Japan's Sakura Bank Business Management.

PROFILE OF BOARD OF DIRECTORS

Y. BHG. DATO' ZAINAL ABIDIN PUTIH

Independent Director

Age	Nationality	Gender
73	**Malaysian**	**Male**

Chairman of the Board Audit & Risk Management Committee

Member of the Nominating Committee

Y. Bhg. Dato' Zainal Abidin Putih was appointed Director of the Company on 6 March 2003. Upon qualifying from the Institute of Chartered Accountants in England and Wales, he joined the firm of Hanafiah Raslan & Mohamad, which merged with Ernst & Young in July 2002. He has extensive experience in audit, having worked as a practicing accountant throughout his career covering many principal industries including banks, insurance, energy, transport, manufacturing, government agencies, plantations, properties, hotels, investment companies and unit trusts. He also has a good working knowledge of taxation matters and management consultancy, especially in the areas of acquisitions, takeovers, amalgamations, restructuring and public listing of companies. He plays an active role in the community and the corporate world being a Past President of the Malaysian Institute of Certified Public Accountants. He was also a member of the Malaysian Communication & Multimedia Commission, a body set up by the Malaysian government to oversee the orderly development of the multimedia and telecommunication industry in Malaysia. He was the Chairman of Pengurusan Danaharta Nasional Berhad as well as the Malaysian Accounting Standards Board (MASB). He is currently the Chairman of Dutch Lady Milk Industries Berhad, Land & General Berhad, CIMB Bank Berhad, Tokio Marine Insurans (Malaysia) Berhad and Touch 'n Go Sdn. Bhd. Y. Bhg. Dato' Zainal Abidin Putih acts as a Trustee of the National Heart Institute Foundation and is a member of Frost & Sullivan's FinTech Advisory Council. Y. Bhg. Dato' Zainal Abidin Putih is a Fellow of the Institute of Chartered Accountants in England and Wales and is also a Certified Public Accountant.

MS. CHUA SEE HUA

Independent Director

Age	Nationality	Gender
65	**Malaysian**	**Female**

Member of the Board Audit & Risk Management Committee

Chairman of the Nominating Committee

Ms. Chua See Hua was appointed a Director of the Company on 31 May 2013. She is an Advocate and Solicitor of the High Court of Malaya, as well as in England and Wales, Hong Kong and Singapore. Ms. Chua is the founding partner of Chua Associates, Advocates and Solicitors; a niche firm she set up in 2010 specialising in corporate, commercial, real estate, finance and capital markets laws. Prior to that Ms. Chua was in legal practice since 1985 with a number of leading firms including Skrine & Co (1985-1989) and as Partner of Raslan Loong (1997-2010). She was also the General Counsel for Ernst & Young in Hong Kong and at the international law firm of Simmons & Simmons in Hong Kong (collectively from 1989-1997). Ms. Chua graduated with B.A (law) from the University of East London, United Kingdom. She also completed her Masters in Law at the University of Cambridge specialising in companies & securities laws and international law.

PROFILE OF BOARD OF DIRECTORS

MR. FONG SEOW KEE
Independent Director

Age	Nationality	Gender
62	**Malaysian**	**Male**

Member of the Board Audit & Risk Management Committee

Mr. Fong Seow Kee was appointed as a Director of the Company on 18 August 2016. His career spans 38 years in the finance and investment industry. He worked in investment banking in Malaysia, Hong Kong and Singapore before joining a Singapore based venture capital group in 1992 where he was responsible for investments across Asia and also the United States. In 2000, he co-founded an investment management and advisory firm and from 2001 to 2010, managed a technology focused venture capital fund owned by Ministry of Finance, Malaysia. He has been active in the development of the Capital Market and Venture Capital Industry in Malaysia where he has sat on various industry working groups, including that pertaining to the Malaysia's capital market reforms announced by the Securities Commission in 2009. He was actively involved in the Malaysian Venture Capital & Private Equity Association in various capacities including as Chairman between 2008 and 2010. Mr. Fong was one of the founder members of the Fintech Association of Malaysia of which he is currently President and is a member of the Advisory Committee on Technology for Finance established by Bank Negara Malaysia. Between 2010 and 2018, he was a director of GHL Systems Bhd and sat as its senior independent director and Chairman of the Audit and Risk Committee and Remuneration Committee. He graduated with a BA (Hons) Economics and Social Studies from the University of Manchester, England, is a Fellow of the Institute of Chartered Accountants in England & Wales and a member of the Malaysian Institute of Accountants. Since 2018, he has been the lead faculty at the Iclif Leadership and Governance Centre, an independent non-profit organisation established and funded by Bank Negara Malaysia, where he runs a programme on fintech for directors of financial institutions.

MR. ANTONIO M. CAILAO
Independent Director

Age	Nationality	Gender
72	**Filipino**	**Male**

Member of the Board Audit & Risk Management Committee

Mr. Antonio M. Cailao was appointed to the Board on 23 November 2017. Mr. Cailao is currently an Independent Director of RCBC Savings Bank (Philippines) and is also a Faculty Lecturer in the Institute of Corporate Directors (Philippines). Mr. Cailao joined Citibank in 1973 on an Executive Trainee Development programme and went on to serve Citibank in various capacities and positions of increasing responsibilities. In this regard, he has served with Citibank in Manila, Hong Kong, Seoul, Caracas and Ho Chi Minh. His last position with Citibank (from 1997- 2001) was in Singapore as Citibank's Asia Regional Head (Pan Asian Corporations). From 2001 to 2013, Mr. Cailao was Managing Director of Asian Region Head (e-banking and Commercial Banking) for Fleet Bank of Boston (in Singapore). From 2003-2005, Mr. Cailao was the Senior Executive Vice-President/Chief Operating Officer of United Coconut Planters Bank (Philippines). From 2007 to 2016, Mr. Cailao was the President and CEO of the Philippine National Oil Company. Mr. Cailao obtained Bachelor of Business Administration from University of the Philippines (1968) and MBA, University of the Philippines (1973). He completed an Executive Development Program from Columbia University, New York, U.S.A (1989) and also Professional Directors Program – Certified Independent Directors by the Institute of Corporate Directors (2007).

PROFILE OF BOARD OF DIRECTORS

MS. AURORA T. CALDERON

Executive Director

Age	Nationality	Gender
64	**Filipino**	**Female**

Ms. Aurora T. Calderon was appointed to the Board of the Company on 30 March 2012. Ms. Calderon has served as a Director of Petron Corporation since 13 August 2010. She also sits on the Board of Directors of several Petron Corporation subsidiaries including Petron Oil & Gas International Sdn. Bhd. Ms. Calderon is also Senior Vice President and Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation and sits on the Board of Directors of San Miguel Corporation and several of its subsidiaries including SMC Global Power Holdings Corporation. She has served as a Director of Manila Electric Company-MERALCO (from January 2009-May 2009), Senior Vice President of Guoco Holdings (1994-1998), Chief Financial Officer and Assistant to the President of PICOP Resources (1990-1998) and Assistant to the President and Strategic Planning at the Elizalde Group (1981-1989). A certified public accountant, she graduated magna cum laude from the University of the East in 1973 with a degree in Business Administration, majoring in Accounting. She earned her Masters degree in Business Administration from the Ateneo de Manila University in 1980. She is a member of the Financial Executives and the Philippine Institute of Certified Public Accountants.

MR. FERDINAND K. CONSTANTINO

Non-Independent Non-Executive Director

Age	Nationality	Gender
67	**Filipino**	**Male**

Member of the Nominating Committee

Mr. Ferdinand K. Constantino was appointed to the Board on 30 August 2013. Mr. Constantino is the Chief Finance Officer and Treasurer and Corporate Information Officer of San Miguel Corporation (SMC) and has previously served as a Director of SMC (2010-2018). He is the Chairman of San Miguel Foundation Inc., Director/ President of Anchor Insurance Brokerage Corporation, Director and Vice-Chairman of SMC Global Power Holdings Corp. and Director of Top Frontier Investment Holdings Inc. He is also a Director of various SMC businesses namely: San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Purefoods International, Ltd., San Miguel Holdings Corp. (SMC Infrastructure), Citra Metro Manila Tollways Corporation (Skyway) and Northern Cement Corporation. He previously served as Director of San Miguel Foods, Inc. (2008-2009) and San Miguel Properties Inc. (2001-2009) and was Chief Finance Officer of San Miguel Brewery Inc. (2007-2009) and Manila Electric Company (2009). Mr. Constantino obtained a Bachelor's Degree in Economics from University of the Philippines in 1972.

PROFILE OF MANAGEMENT COMMITTEE

MR. LUBIN B. NEPOMUCENO

Chief Executive Officer and Executive Director

Chairman of the Management Committee

B.Sc (Chemical Engineering) – De La Salle University

M.B.A (Hons.) – De La Salle University

Age 67 | Filipino | Male

- Mr. Lubin B. Nepomuceno was appointed as the Chairman of the Management Committee and has held the position since the 2012 take-over of ExxonMobil's downstream businesses in Malaysia by Petron Corporation.
- He is an Executive Director on the Board of Directors of the Company.

The complete profile for Mr. Nepomuceno can be found in the Profile of Directors on page 37.

PN. FARIDAH ALI

General Manager

B.Sc. (Hons.) Accounting, University of East Anglia, United Kingdom

Institute of Chartered Accountant (England & Wales)

Age 54 | Malaysian | Female

- Pn. Faridah was appointed as the General Manager of Petron Malaysia effective 1 November 2018.
- She is also an Executive Director of Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.
- Pn. Faridah Ali was the Head of Retail Business of Petron Malaysia Group since 2012 until her present position.
- She was the Retail Business Director and Executive Director of the former Esso Malaysia Berhad, now PMRMB. She also held various positions under ExxonMobil as the Marketing Support Manager and Business Analyst and Reporting Manager.

MR. CHOONG KUM CHOY

Head of Retail and Commercial Business

B. Eng (Hons.), University of Malaya, Malaysia

Age 56 | Malaysian | Male

- Mr. Choong Kum Choy was appointed as the Head of Retail and Commercial Business of Petron Malaysia effective 23 January 2019.
- Mr. Choong Kum Choy was the Head of Commercial Business of Petron Malaysia since 2012 until his present position.
- He was ExxonMobil's Asia Pacific Wholesale Manager and the Country Lead for Industrial and Wholesale Business.

PROFILE OF MANAGEMENT COMMITTEE

MS. MYRNA C. GERONIMO

Chief Finance Officer

Bachelor in Accountancy
(Magna Cum Laude)
Polytechnic University of the Philippines

Certified Public Accountant (Philippines)

Certified Management Accountant
(ICMA, Australia)

Age 52	Filipino	Female

- Ms. Myrna C. Geronimo has held the position of Chief Finance Officer of PMRMB since 2014.
- She is an Assistant Vice President of Petron Corporation and is also the CFO of the other subsidiaries of Petron Corporation in Malaysia.
- Prior to this, she was attached with Petron Corporation for 24 years and has held various positions including with Internal Audit and Business Planning.

MR. MANOJ DEVADASAN

General Counsel/Company Secretary/
HR Manager

B. Soc. Sc. (Hons.) (Law/Politics),
University of Keele, United Kingdom

Barrister-at-Law (Lincoln's Inn,
United Kingdom)

Masters in Law (LL.M), University of
Malaya, Malaysia

Licensed Company Secretary

Age 55	Malaysian	Male

- Mr. Manoj Devadasan has held the position of General Counsel/Company Secretary of PMRMB since 2012 and HR Manager since 2018.
- He also serves as the General Counsel/Company Secretary of the other subsidiaries of Petron Corporation in Malaysia.
- He has served as the Company Secretary of the ExxonMobil Subsidiaries in Malaysia (including then Esso Malaysia Berhad) from 2006.

MS. FADZILAH MOHD TAHIR

Head of Refinery

B.Sc./MSc.(Chemistry), Illinois State
University, US

Age 56	Malaysian	Female

- Ms. Fadzilah Mohd Tahir has held the position of Head of Port Dickson Refinery since 2013.
- Prior to this role, she was the refinery's Process Manager.
- She has held various positions including Process Superintendent, Refinery Coordination Advisor and Crude Optimiser.

PROFILE OF MANAGEMENT COMMITTEE

EN. MOHD NIZAM MANSOR

Head of Supply

B.Sc. (Hons.) (Actuarial Science), University of Kent at Canterbury, United Kingdom

Age 51	Malaysian	Male

- En. Mohd Nizam Mansor was appointed Head of Supply with functional organisation implementation in 2015.
- Prior to this role, Nizam was the Supply Manager of PMRMB.
- He has held various roles including the Refinery Coordination & Business Support Manager, member of the Global Marine Transportation Optimisation group and Supply Associate.

EN. IBRAHIM ATAN

Head of Distribution & Terminal Operations

B.E (Hons.) (Civil Engineering), University of Malaya, Malaysia

Graduate member of Board of Engineers, Malaysia

Registered Competent Person with DOSH - Control of Industrial Major Accident Hazards (CIMAH)

Age 57	Malaysian	Male

- En. Ibrahim Atan was appointed Head of Distribution & Terminal Operations for PMRMB in 2015.
- Prior to this, Ibrahim was the Supply & Distribution Planning Manager.
- He has held various roles including Logistics Business Development Advisor, Senior Coordinator for SHE & Controls in Distribution Department and Terminal Manager.

None of the above Management Committee members have any family relationship with any Director and/or major shareholder of Petron Malaysia Refining & Marketing Bhd, no conflict of interest with Petron Malaysia Refining & Marketing Bhd, not convicted of any offences within the past five (5) years and have not been imposed any penalty by the relevant regulatory bodies during the financial year 2018.

The disclosure on the particulars of the above Management Committee members of Petron Malaysia Refining & Marketing Bhd is made in compliance with the requirements under Appendix 9C of Bursa Malaysia Securities Main Market Listing Requirements.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

NOTES

- This is a Corporate Governance Overview Statement relating to Petron Malaysia Refining & Marketing Bhd ("PMRMB" or "Company"). The full report on the compliance status of the Company in relation to the Malaysian Code on Corporate Governance 2017 ("CG Code 2017") as submitted to Bursa Malaysia Securities Berhad ("Bursa Malaysia") as per requirements of the Main Market Listing Requirements ("MMLR") can be accessed at www.petron.com.my.

- As at 1 January 2018, the Company had a market capitalisation of over RM2 billion. As such for the reporting period of 2018, PMRMB is deemed to be a "Large Company" as defined by the CG Code 2017.

- The following documents relating to the Company and its governance, can be accessed on the Company's website www.petron.com.my:

    - Board Charter
    - Management Committee Charter
    - Board Audit & Risk Management Committee Terms of Reference
    - Nominating Committee Terms of Reference
    - Standards of Business Conduct of Petron in Malaysia
    - Policy on Gender Equality (Diversity)
    - Policy on Corporate Disclosure

- This Corporate Governance Overview Statement will highlight the following:

    - Board leadership and its effectiveness
    - Effective audit and risk management
    - Integrity in corporate reporting and meaningful relationship with stakeholders
    - Key Focus Areas and Future Priorities in relation to Corporate Governance

PART A. BOARD LEADERSHIP AND ITS EFFECTIVENESS

General

The Board has nine (9) members (as of the end of 2018), with five (5) Independent Directors, one (1) Non-Executive Director and three (3) Executive Directors (including the Chairman).

Independent Directors on the Board

The Company recognises the value of having a majority of Independent Directors on the Board as their diverse qualifications, experience, skills and ability to provide a 'cold-eye' critical review of Management's proposals and presentations, will help the overall management of the Company and allow the Company's strong governance process to continue improving.

As at the end of the 2018, the Board had a majority of Independent Directors. On 8 February 2019, one (1) Independent Director resigned from the Board. This now brings the number of Independent Directors to be equal in numbers to the other members of the Board. However it is to be noted that the four (4) Independent Directors and one (1) Non-Executive Director together still form a majority over the three (3) Executive Directors. The Board is in the process of identifying candidates to fill the vacancy and hopes to appoint a new Independent Director by the end of 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Company's Board of eight (8) members as at 8 February 2019 is comprised of:

- three (3) Executive Directors (including the Chairman);
- one (1) Non-Executive Director; and
- four (4) Independent Directors

Independent Director, Y. Bhg. Dato' Zainal Abidin Putih, who is also the Chairman of the Board Audit & Risk Management Committee, has exceeded a tenure of nine (9) years on the Board. The Company recognises the rationale for the imposition of a nine (9) year tenure limit as familiarity with main shareholders, executive directors and Senior Management may, over a long duration, impinge upon the Independent Directors' ability to objectively and independently discharge their roles and responsibilities.

The Company, however wishes to highlight that whilst Y. Bhg. Dato' Zainal may have joined the (then Esso Malaysia Berhad) Board in 2003, the Board and Senior Management of the Company, had substantially changed with the takeover by Petron in 2012.

The Company further takes the view that, the guidance of an experienced and respected Independent Director such as Y. Bhg. Dato' Zainal Abidin Putih, with his impeccable reputation and vast knowledge and understanding of the Company's business, will benefit the Company and the Executive Directors in furthering the successful implementation and plans for the development and sustainability of the Company's business.

Y. Bhg. Dato' Zainal Abidin Putih's presence on the Board will also enable him to assist in the selection and training of his eventual successor as Chairman of the Board Audit & Risk Management Committee.

The election process for Y. Bhg. Dato' Zainal Abidin Putih at the 2019 Annual General Meeting, will not follow the 'two-tier' voting system prescribed by the CG Code 2017 as the necessary amendments to the Company's Constitution will only be approved at the said Annual General Meeting. The voting on Y. Bhg. Dato' Zainal Abidin Putih's re-appointment will nevertheless be conducted by poll.

The Board Charter

The Company has a Board Charter that has been in place since 1974 and is periodically updated. The most recent update was on 24 May 2016. The Board Charter had in 2018, undergone further revisions to meet the requirements of the new Malaysian Corporate Governance Code 2017.

In 2016, as an avenue to communicate the Company's approach to important governance practices, the Company formalised its Board Charter and made it public by providing access to it on the Company's website. The Board Charter deals with its purpose, authority, role of the Board, the Board Committees, the relationship between the Board and Management, responsibilities specifically reserved for the Board and the Board's other responsibilities, the Board composition, the individual roles of the Chairman and the Chief Executive Officer, annual assessment of the Board, Board Committees and individual Directors, tenure of Independent Directors, annual election/re-election of Directors, Directors' responsibilities in relation to the Board and Board Committees, meetings of the Board, minutes and review of the Board Charter. Whilst the Board has not appointed a Senior Independent Director, relevant provisions was incorporated into the Board Charter as part of the 2018 review.

However, recognising that the Board cannot manage day to day operational matters, necessary delegation of authority by the Board (as is permitted by law and the constitution of the Company) is in place. Such delegation of authority, as adopted by the Board, acts to identify the roles and responsibilities of the Management Committee and individual Management personnel, as well as the relevant level of authority that has been delegated by the Board. The Board Charter and the Management Committee Charter are reviewed periodically by the Board and

CORPORATE GOVERNANCE OVERVIEW STATEMENT

updated as necessary. Both the Board Charter and the Management Committee Charter, was reviewed in 2018. Changes to the delegation of authority to individual Management personnel are reviewed at quarterly meetings by the Board Audit & Risk Management Committee and approved by the Board.

Board's Management of the Company

The Board forms the mind and management of the Company and leads the Company. To ensure that it is able to fulfil its obligations to the Company and to ensure proper management of the Company, the Board meets at least four (4) times a year, with additional matters resolved by way of circular resolutions as and when required. Special meetings of the Board may be called when necessary.

Each Independent Director brings invaluable judgment and skills to bear on issues of strategy, performance, resource allocation, risk management and standards of conduct. Balance in the Board is achieved and maintained with the composition of both Executive, Non-Executive and Independent Directors. In recognition that the Independent Directors have a primary role in providing unbiased and independent views, the Company has selectively appointed highly qualified individuals of integrity and character, with broad experience and proven business and management expertise.

Currently, Y. Bhg. Dato' Zainal Abidin Putih is the longest serving Independent Director of the Company. Although he has not been formally appointed as the Senior Independent Director, shareholders are at liberty to approach Y. Bhg. Dato' Zainal Abidin Putih, or any of the other Independent Directors, to seek clarification should they have any queries or concerns relating to the Company and its Management. This would be in addition to the ability of the shareholders and other stakeholders directly contacting the Executive Directors or Senior Management. By engaging the Independent Directors, the Management is able to elicit their views and benefit from the Independent Directors' vast experience and expertise in various fields of business including the downstream oil & gas business. The engagement with the Independent Directors also enables the Company to manage Minority Shareholders' expectation that their rights continue to be protected.

The strategic plans of the Company and the operating plans for the year to grow the business, including the key factors taken into consideration in determination of the plans, are considered and approved by the Board. Approval by the Board is also obtained for the Company's budget. The progress of plans and budget as approved, are reviewed mid-year (following an internal mid-year review at Senior Management level) with adjustments made where deemed necessary. Adherence to the budget is also monitored in conjunction with the periodic review of the financials.

The key to the strategic plans of the Company is long-term sustainability. The success of the Company (and indeed its rate of expansion in the downstream oil & gas business in Malaysia) since 2012 is reflected by:

- the Company's rapid growth in the market as a major oil & gas company;
- the successful establishment of the 'Petron' brand in the Malaysian market, leading to the Company winning awards such as the 'Putra Brand Awards';
- the introduction of innovative products such as the only RON100 gasoline in Malaysia and the high-end Turbo Diesel Euro 5 fuel;
- the strengthening financial position of the Company; and
- the significant increase in the Company's market capitalisation and healthy dividend payouts, that benefits the shareholders of the Company via healthy yields in investments.

All this was done whilst maintaining an impeccable safety record with the Company's terminals having operated over twenty-two (22) years without any lost time injury and the Refinery operating over sixteen (16) years without any lost time injury.

Apart from the adoption of the Company's Vision and Mission Statements (adopted in 2012), to drive the Company's growth, the Company issued the Value Handbook in 2016. Entitled "ExCITES", it incorporates key values that will ensure the Company's success and long term sustainability. ExCITES stresses on six (6) key values namely:

- **Ex**cellence;
- **C**ustomer Focus;
- **I**nnovation;
- **T**eamwork;
- **E**thics; and
- **S**afety.

While the ExCITES project was driven by Management, it was the employees who formed, planned and executed the project as part of a cross functional Department team effort. This move to empower them ensured that employees take ownership of the values and help drive those values. In 2019, the ExCITES Program will be 're-freshed' with the infusion of additional teamwork emphasis to strengthen comradery in the workforce to enable the Company to achieve its long term goals and ambition.

The Board recognises that the business of the Company is one that has a moderate to high level of risk in terms of business, financial, economic outlook, environmental, safety and community/social risks. These are at all times kept in mind in planning and executing any venture that is to be undertaken by the Company. The Board nevertheless acknowledges that it is there to manage a business and risks (as in all businesses) are inherent part of the business. The Board recognises that identifying and adopting solutions to manage those risks is imperative in business and finding a successful balance between managing risks and promoting the business objectives of the Company is a consideration the Board fully recognises as necessary for its sustainability. The matters pertaining to risk management can be further viewed under the Statement of Risk Management and Internal Controls at pages 64 to 66, as well as the Board Audit & Risk Management Committee Report at pages 67 to 73 to An overview of the Company's risk management is also stated below in Part B of this Corporate Governance Overview Statement.

The Chairman of the Board

The Chairman of the Board, Mr. Ramon S. Ang, was appointed by the Board on 2 April 2012 upon the take-over of the Company by Petron Corporation on 31 March 2012, a takeover that he was instrumental in driving.

Mr. Ang is the President of the ultimate holding company, San Miguel Corporation and is also Chief Executive Officer of parent company, Petron Corporation. With his senior executive positions at the group level, he has and continues to provide the vision and executive leadership that has in a span of some seven (7) years since the takeover, led the Company to its present success as a major downstream oil & gas company in Malaysia.

Mr. Ang in his capacity as Chairman of the Board, reviews and approves the Agenda for every Board meeting. Similarly, all Board papers and Board resolutions (including those completed via circulars) are reviewed and approved in order that the papers and resolutions meet the needs of the Board in relation to information necessary for the Board to make a determination. As Chairman, with the assistance of the Company Secretary, he ensures that the relevant Board papers are disseminated to the Directors in advance of the Board meetings to enable the Directors to read, understand, evaluate and raise issues for discussion or clarification, before a determination is made by the Board. As a general rule, the Board papers are disseminated at least five (5) days before a meeting.

The Chairman chairs meetings of the Board (and leads the Board at the Annual General Meeting). The Chairman seeks the input from members of the Board and encourages members of the Board to express their views; even where the views may be divergent to the proposal moved by Management with the support of the Executive Directors.

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The Chairman strongly believes in unanimous decisions by the Board as Directors take collective responsibility for decisions. As a general practice, where there are divergence in views, the matter will be referred by the Chairman to Management for a further review (to take into consideration views expressed by Board members) and for Board to make a determination at a later date.

As a further measure to encourage active discussions in a candid manner (without the presence of the Chairman at such discussion), as a general practice, matters that are referred to the Board (be it for approval or notation) are first reviewed by either the Board Audit & Risk Management Committee (or where within its purview, the Nominating Committee). Discussions and views expressed at these meetings are then shared with the Board.

The Chairman in his capacity as an Executive Director (along with the other Executive Directors) is actively involved in the day-to-day management issues especially where they relate to strategic acquisitions or disposals, major procurement issues and plans for business development. The Chairman is also provided an extensive management and business update monthly by Management, from which Management receives instructions from the Chairman on expectations.

The Chairman reviews plans by Management in engaging stakeholders and shareholders. Communication plans and proposed meetings (for example with potential investors, plant visits requests, visits by regulators and other Government officials) including plans on discussion and presentation to shareholders during general meetings, are reviewed with the Chairman. The aim is to provide meaningful information to the shareholders and stakeholders whilst seeking to avoid providing information that may be confidential or business sensitive that could prejudice the Company and its interests.

To ensure adherence with the governance requirements, the Chairman ensures that the Board is provided updates on all new laws and regulations pertaining to corporate matters including governance. This in turn enables the Directors to ensure that the Company and Management not only adhere to the requirements on governance but also continue to practice the well-entrenched principles and policies of its Code of Conduct in managing the Company as a well-managed and sustainable business entity. Directors are also encouraged to attend additional training programmes, details of which can be viewed in Part D of this Corporate Governance Overview Statement.

The Chairman of the Board will not also hold office as Chairman of the Board Audit & Risk Management Committee at the same time.

The Chairman and the Chief Executive Officer

The position of Chairman and Chief Executive Officer are held by different persons. Mr. Ramon S. Ang is the Chairman of the Board. He is also an Executive Director. Mr. Lubin B. Nepomuceno is the Chief Executive Officer. He is also an Executive Director and the Chairman of the Management Committee that is tasked with the day-to-day operational management of the Company.

The separation was implemented in 2013 as recommended by the then Malaysian Corporate Governance Code 2012. The Company and the Board will continue with this practice. The separation in offices is also expressly stated in the Board Charter. The Board Charter further specifies the separate roles and responsibilities of the Chairman and the Chief Executive Officer.

Diversity on the Board

The Board Charter specifies that the Board will at all times endeavour to ensure that at least thirty per cent (30%) of the Directors of the Company are women. The Company has practiced the same for many years. The Company also does not seek to look at the thirty per cent (30%) as a target but a minimum number and when considering appointment of new Directors, also seek to give preference to women directors. Since 2012 following the takeover of the Company by Petron, two (2) male Independent Directors have retired and the Company has engaged since then four (4) new Independent Directors; two (2) of whom are women, one (1) of whom was also appointed as the Chairperson of the Nominating Committee.

The Board of Directors is currently comprised of persons with a diverse range of qualifications, experience and skills. These include qualified engineers, accountants and a lawyer, with diverse experience including in the downstream oil & gas industry, banking, corporate advisory, finance and venture capital work, all of which brings to the Board a diverse pool of highly talented individuals who are able to critically review and provide the Board and Senior Management candid views and advice on the strategy, business plans, operations, finance, products and other areas including customer relations and marketing. Their diverse cultural backgrounds - Malaysian and Filipino - provide the Board with a balance of understanding in managing the expectations of the stakeholders and, at the same time, the Company's business needs.

As at 31 December 2018, the Board of nine (9) members has three (3) women Directors; two (2) of whom are Independent Directors and one (1) Executive Director. As at 8 February 2019, with the resignation of one (1) woman Independent Director, the Board at the moment has one (1) woman Independent Director and one (1) woman Executive Director.

In regard to selection of candidates for Board appointments, the Board does not rely only on the Board members but also external consultants to recommend potential candidates for appointment to the Board.

Of the five (5) Directors appointed to the Board since the takeover by Petron in 2012, two (2) were proposed by Directors, one (1) was proposed by Management and two (2) by a consultant. In each case there is extensive review undertaken (including an interview) before the candidate is proposed for consideration.

Nominating Committee

The Nominating Committee's Report can be found at pages 74 to 77.

Remuneration Committee

The Company ceased to have a Remuneration Committee in 2014. The reason for this is due to the fact that:

- the Chairman, two (2) Executive Directors (that includes the Chief Executive Officer) and the one (1) Non-Executive Director of the Company, do not receive remunerations from the Company; and
- as the Remuneration Committee was comprised of only Independent Directors at the time and only reviewed and recommended their own remunerations, the Remuneration Committee members opined that there was a conflict of interest.

The Remuneration Committee also played no role in relation to the remunerations received by Senior Management personnel. Each Senior Management personnel on the Management Committee are regular employees who individually undergo an annual performance appraisal conducted by their superiors. These appraisals, determination of ratings and the resulting level increments and performance bonus (if any) are conducted and determined independent of the said Senior Management personnel. This process includes reviews by the Chairman and Executive Directors. Each Senior Management personnel has no control over the determination of the appraisal results, or changes in their remunerations following from the said appraisal process.

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As such, the Remuneration Committee was dissolved and the Board took charge of the erstwhile Committee's functions and has policies in place in regard to the determination of the Independent Directors' remunerations. These are as stated in the Board Charter.

Independent Directors on the Board may provide their input to the Board on any proposal regarding their benefits, but shall otherwise abstain from any decision making process at the relevant Board meeting that decides the recommendations to be made to shareholders for approval.

The Board and Management

The Board in ensuring the success of the Company's plans and operations, has in place a highly energetic and motivated team of Senior Management personnel (that form the Management Committee). This Committee is led by the Chief Executive Officer and supported by the General Manager of Petron in Malaysia. The Management Committee is comprised of a mix of Malaysian personnel as well as senior personnel seconded from the parent company (Petron Corporation) each of whom have impeccable qualifications, vast experience in the industry and the management skills necessary to deliver on the plans and objectives of the Company. Each key department is headed by a Head of Department with personnel identified and groomed to eventually succeed the Head of Department as part of the succession plan. This is part of an on-going review and the plans include rotation of the personnel's assignment to various functions within the Company to gain experience and exposure on the overall business and management of the Company.

Diversity in Senior Management

The Company's Code of Conduct, called the "Standards of Business Conduct", specifies that the Company is an equal opportunities employer and does not discriminate on gender, race or religion in relation to employees, including in relation to hiring and promotions.

The Company operates purely on a merit-based process in determining hiring and promotions. Gender plays no role whatsoever in the process. For instance, the Company engaged women managers to replace the men in key positions such as the Head of Refinery, as Chief Finance Officer and as General Manager.

Senior Management is made up of eight (8) Heads of Department / Managers that are in charge of key Departments. These are the Chief Executive Officer (who is also the Chairman of the Management Committee), the General Manager, the Chief Finance Officer, Head of Retail and Commercial Business, Head of Refinery, Head of Distribution & Terminal Operations, Head of Supply and the General Counsel /Company Secretary/HR Manager.

These Heads of Department and Managers form the Management Committee of the Company. They are each professionally qualified (with many having post graduate qualifications) and each have decades of experience in the downstream oil & gas business and in their respective fields of expertise, that helps the Board in implementing the strategies and managing the day-to-day business and operations.

Of the Management Committee of eight (8) members, three (3) are women holding key portfolios as General Manager, Chief Finance Officer and Head of Refinery.

Effective Stakeholder Communications

The Company has written guidelines on shareholders communication that are incorporated in the Company's Corporate Communication and Disclosure Guidelines that can be accessed on the Company's website. The guidelines also incorporate the parent company's best practices on all matters pertaining to communication, be it with shareholder or other stakeholders.

Code of Conduct

The Company has a written Code of Conduct in place that can also be accessed on the Company's website. The Code of Conduct contains policies and systems designed to create and support a strong system of corporate governance. The Code of Conduct has been communicated to the Company's employees, contractors and vendors, so that they have a clear understanding of the Company's requirements. These include policies on business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships. The Code of Conduct was updated in 2017 to incorporate revised guidelines issued by the parent company in relation to enhanced restrictions on receipt of gifts. Periodic training is also carried out for employees, contractors and vendors to ensure understanding of the requirements. Standard contracts of the Company (including employment contracts and contracts with third party vendors/ contractors), also incorporate key provisions of the Code of Conduct as standard terms in such contracts thus ensuring the Code of Conduct will be adhered to at all times. All employees of the Company have undergone training on the Standards of Business Conduct and new hires are required to undergo a comprehensive and compulsory training on the Standards of Business Conduct. Such training for new hires is conducted twice yearly to facilitate training of new employees joining the Company. In 2018, a 'refresher' training programme on the Code of Conduct was implemented for all employees.

A key factor toward ensuring that the Code of Conduct is effective, is the flow of information to Management of any violations or purported violations. The Code of Conduct provides for 'whistle-blower' protection.

In order for such information to be forthcoming, the employees are (as part of their training on the Code of Conduct) provided guidance on how they should report violations and are given assurance of the protection of 'whistle-blowers'.

All investigations are carried out expeditiously and confidentially by the relevant Head of Department and all such investigations are conducted with the support of the offices of the General Counsel and Human Resources Department. The process for any investigations on purported misconduct will be carried out in accordance with the Company's written guidelines on managing misconduct. Where there is any conflict of interest that can impact an independent investigation, the services of the Internal Audit Department can be sought.

The policies on protection of 'whistle-blowers' and conveying the assurance of 'whistle-blowers' protection was reinforced during the planned 'refresher' training programme for employees in 2018.

PART B. AUDIT AND RISK MANAGEMENT

Board Audit & Risk Management Committee

Report of the Board Audit & Risk Management Committee (including its composition, role and activities) can be found at pages 67 to 73.

Permanent agenda items for the Board Audit & Risk Management Committee's quarterly meetings include review and endorsements of the financials that are to be tabled to the Board for approval, review of related party transactions, review on transaction exceeding RM5 million that are not in the ordinary course of business, accounts receivables written-off and risk management updates. Both the Internal Audit as well as the external auditor report to the Board Audit & Risk Management Committee.

As a general practice to allow for candid discussion by (especially) the Independent Directors (usually in the absence of the Chairman and Executive Directors), matters that are to be tabled to the Board will first be raised at and

CORPORATE GOVERNANCE OVERVIEW STATEMENT

be reviewed by the Board Audit & Risk Management Committee and views expressed in Board Audit & Risk Management Committee are then raised at the Board meeting as well. This allows for the Board to have all views before deciding on such matters brought to it for determination.

Diverse Skills and Experience / Financial Literacy on the Board Audit & Risk Management Committee

The Chairman of the Board Audit & Risk Management Committee, Y. Bhg. Dato' Zainal Abidin Putih, is a chartered accountant and the current chairman of the board of a major bank. Ms. Chua See Hua is a practicing lawyer specialising mainly in corporate and finance matters. Mr. Fong Seow Kee, is a chartered accountant and was also the chairman of the audit committee of another public listed company. Mr. Antonio M. Cailao is a former senior banker with an international banking group and later headed the Philippines National Oil Company.

Apart from their financial literacy, each member of the Board Audit & Risk Management Committee brings to the job, her/his ability to grasp and understand complex business and financial related issues that are to be considered by the Board Audit & Risk Management Committee and the Board. They also have considerable experience dealing with management (in various other companies) and possess the necessary ability and independence to probe and seek clarifications on the financials, as well as on progress made and weaknesses detected in any financial or business matters or transactions presented by Management.

The Independent Directors are presented with the financials in considerable detail at all quarterly meetings. Much time is spent discussing questions on the financial and operations issues (and its impact on the financials) and actions taken by Management to address matters of concern.

The Board Audit & Risk Management Committee also has the ability to request the presence of the internal and external auditor to provide independent advice whenever deemed necessary and appropriate.

Chairman of the Board Audit & Risk Management Committee

In compliance with the CG Code 2017, the offices of the Chairman of the Board and the Chairman of the Board Audit & Risk Management Committee are separate.

Relationship with External Auditor

As a rule, the external auditor reports to Board Audit & Risk Management Committee on all audit related matter, be it routine statutory audits or special audits (if any) for which it is engaged. The Audit Plan is also reviewed annually and approved by the Board Audit & Risk Management Committee. The Board Audit & Risk Management Committee further ensures that it has private discussions twice a year with the external auditor in the absence of Management/Executive Directors.

The external auditor's fees are reviewed and endorsed by the Board Audit & Risk Management Committee before being tabled to the Board for approval. Similarly, the Board Audit & Risk Management Committee reviews the suitability of the external auditor and recommends appointment or re-appointment (as the case may be) to the Board, before being tabled for approval at the Annual General Meeting.

The policy on the assessment of the external auditor is stated in the Board Audit & Risk Management Committee Charter. The assessment although practised at all times, is now expressly mentioned in the Board Audit & Risk Management Committee Charter as part of the amendments to the Board Charter arising from the Malaysian Corporate Governance Code 2017.

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In evaluating the suitability of the external auditor, the Board Audit & Risk Management Committee, with input from Management, considers the following:

- the external auditor's reputation, resources and quality of audit;
- nature and extent of non-audit services rendered and the level of fees; and
- the independence and continued independence of the external auditor and written assurances of the same.

This process includes obtaining assurances from the external auditor that each of its partner(s) and personnel is free of any conflict or potential conflict of interest that may impair her/his judgment or objectivity. The external auditor further provides the Board Audit & Risk Management Committee with an assurance that the external audit staff undergoes stringent reviews based on their global practices to ensure that personnel assigned to audit the Company are indeed free of any conflicts or potential conflicts of interests.

Relationship with Internal Auditor

The Company's internal audit function is undertaken by an internal audit group based in Manila, at Petron Corporation, that also undertakes audit work for all Petron Corporation companies in the region. The internal audit group which reports directly to the Board Audit & Risk Management Committee, also takes functional guidance from Petron Corporation's internal audit function. This structure allows the Company to benefit from the application of Petron Corporation's internal audit best practices and assures the Company of internal audit independence.

The current arrangement ensures that Management of the Company has no control over the function of the internal audit. To ensure independence from Management, the internal audit personnel assigned to the Company's internal audit are not subject to any determination of their remuneration (or increase thereto) by the Company's Management. In order to maintain total independence from the Company's Management, their remunerations are not set or paid by the Company. The cost incurred for internal audit in 2018 was RM197,974.64.

The internal audit function undertakes independent, regular and systematic audit reviews of the Company's system of internal controls to assess the adequacy and effectiveness of those controls and overall control environment. This is to provide reasonable assurance that such systems are operating effectively. The internal audit process covers the audit of selected units and operations based on risk assessment. Internal Audit has a mid-year and annual review with the Board Audit & Risk Management Committee on audit carried out including the results/findings. Follow-up action plans arising from the audits, as recommendations by Internal Audit, are also reviewed.

The Board Audit & Risk Management Committee also reviews and approves the audit plan for the subsequent year. Further, where there are any amendments to the approved audit plan, such amendments to the plan will require approval from the Board Audit & Risk Management Committee.

The Board Audit & Risk Management Committee has reviewed the internal audit findings for 2018 as well as the closing out of recommendations made by the internal audit. The Board Audit & Risk Management Committee has also recognised the new Audit Rating System that was implemented in 2017 in line with the system adopted by the parent company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

With effect from 2018, per revisions made to the Board Audit & Risk Management Committee Charter in light of the Malaysian Code on Corporate Governance 2017, the Board Audit & Risk Management Committee will:

- satisfy itself of the independence of the internal audit function;
- satisfy itself that the resources allocated to the internal audit function are adequate;
- identify the name of personnel assigned to internal audit of the Company and their qualification and experience; and
- if the internal audit is carried out to recognised standards framework.

This will be in addition to the review and approval of the annual internal audit plan, as well as the mid-year review, on the audits carried out, follow through action and close-out of audit issues.

It is to be noted that a key function of internal audit is to not only identify weaknesses and recommend improvements but also to be mindful of new concepts and techniques used in the industry and at Petron Corporation and to suggest improvements and seek process and controls synergy. This has been an important focus area for internal audit since 2012.

Risk Management Committee

The Board Audit & Risk Management Committee is the Board Committee that oversees the risk management framework and policies. The Board Audit & Risk Management Committee has a regular agenda item on risk management at its quarterly meetings. The Company's Statement of Risk Management and Internal Controls is reviewed by the external auditor as part of its special engagement for that purpose. The external auditor also reports to the Board Audit & Risk Management Committee on its review.

The Company's Statement of Risk Management and Internal Controls ("SORMIC") can be found at pages 64 to 66. The SORMIC has been reviewed by external auditor, KPMG.

Controls and Management System

The management systems that are in place are designed to achieve high standards of performance in the areas of safety, operations integrity, internal control and legal and environmental compliance. As these systems have been previously adopted by the Board and were used by the Company for many years, upon the take-over of the Company by Petron Corporation in 2012, these management systems were deemed to continue in operation and employees, contractors and vendors continue to be guided by these same systems until such time they are revised. As the systems involve employees, contractors and vendors whose engagement spanned the take-over, it was recognised that a sudden change in the systems (and providing fresh training to the employees, contractors and vendors) would cause undue strain on the Company's resources. In this regard, the Company has opted to gradually change the systems (where necessary) by introducing new or revised sets of management systems to govern the Company that are in line with the policies and systems of the parent company. The Board and the Board Audit & Risk Management Committee with the assistance of an independent internal audit function, help ensure that the policies and the management systems are fully implemented and consistently enforced.

To manage risk, the Company's risk matrix (based on a likelihood/impact analysis) is reviewed annually to establish risks based on existing and projected factors. The risks identified are those which may have a high financial risk or a non-financial risk such as health and safety, environmental, regulatory and reputation risks. Key risks are identified and the processes to manage these risks are determined. These include the business recovery processes that are put in place. For 2018, the key risks identified include, major incident that disrupts supply of products and or operations, oil spill during shipment that causes catastrophic environmental impact and cyber-security risks. The review of risk management issues are a permanent agenda item at the Board Audit & Risk Management Committee meetings.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Apart from various controls processes in place to ensure financial matters are properly managed, the Board regularly reviews the necessary delegation of authority in the Company on various functions including the formulation and designation of authorised signatories with respect to various business and functional matters based on the value of any given transaction. Controls are also incorporated to ensure that each approval goes through a strict process and various levels of independent 'cold eye' reviews prior to approval, thus preventing any abuse of authority and ensuring thorough review prior to any decision being taken. The powers of the Management Committee are spelt out in the Management Committee Charter. The Management Committee Charter can be viewed on the Company's website. All matters that are not within the purview of the Management Committee (per the Management Committee Charter) are powers specifically reserved for the Board.

A summary of how the process of controls and risks are reviewed and managed are as follows:

Controls

- Controls are formulated, implemented and enforced strictly at each function and process. This ensures that all matters including day to day operations, procurement of materials and supplies and financial transactions follow set protocols and levels of independent verification. This includes set authority levels for independent approvals.
- The controls are applicable in all Departments be it a business or support function.
- As regulatory compliance is key to ensuring the continued operations of the Company, all corporate regulatory matters are reviewed by the Law Department, Controllers Division and the Tax Division. Matters pertaining to security, safety, health and environment ("SSHE") are managed by the SSHE Department in collaboration with the Government Affairs unit. Other day to day business and regulatory matters are also managed by the respective Departments, that have controls and processes in place that are strictly followed.
- The Management Committee and other Heads of Department meet weekly to review the business and the controls issues or any non-compliance (if any). Formulation and recommendation of solutions, to address any controls issues, form part of these discussions.

These processes and controls are also subjected to reviews by internal audit where any deficiencies are highlighted to the Department concerned with suggestions on improvements. The implementation of suggested improvements in the processes and controls are then monitored by internal audit in order to close out audit issues.

There is thus a clear framework in place for reporting on internal controls and compliance. This framework allows the members of the Management Committee to review all issues pertaining to compliance, not only with laws including the Listing Requirements, but also compliance with the Company's policies on expected conduct of the Company and its employees. Any issue of non-compliance can also be referred to the Company's independent internal audit group for review and investigation and, where recommended, necessary action. The review will also highlight process gaps that have to be corrected to ensure that such non-compliance does not recur. The Company's established 'whistle- blower' protection system in its Standards of Business Conduct safeguards employees from any recriminations for highlighting any non-compliance by any employee (including by a Director).

Where it involves a disciplinary issue, the matter of purported misconduct may be dealt with using the Company's internal guidelines for managing misconduct.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Risk Management Group

- Each Department has a risk management process specific to that Department's business and with a business recovery process in the event of a business disruption.
- In some high-risk areas especially when there could be high financial impact, there are inter-departmental groups tasked with evaluating risk seeking solutions. Such would include weekly meetings on hedging (on both commodities and crude and finished product as well as foreign exchange risk associated with the Company's business).
- The Management Committee that meets weekly also review risks in each Department.
- The Risk Management Group then meets once every two (2) to three (3) months to review the updates and findings. The Risk Management Group also reviews the risk matrix for the year and considers any updates that need to be done.
- The Board Audit & Risk Management Committee is then updated every quarter on risk management issues.

PART C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Integrity in Reporting

The Board and Management do not allow for any compromise in the factual accuracy of all reporting to stakeholder and require the need for such reporting to be made in a timely manner. To this end all reporting requirements such as financial reporting (both quarterly and at financial year end), disclosures to the stock exchange and the Securities Commission, reporting to the Companies Commission, regulatory reporting and response in relation to request for information to the regulators (collectively, "Reports"), are:

- prepared by the relevant Department charged with preparing the Report;
- reviewed by other Departments that have an interest in the Report;
- reviewed independently by the Law Department / Controllers' Division, as appropriate; and
- approved for release (for example, by the Board or by Senior Management).

This process will ensure that Reports submitted meet the necessary factual accuracy and disclosure integrity required.

In 2018, the Company was not subjected to any sanction or fines by the Securities Commission, Bursa Malaysia, the Companies Commission or other regulatory authority.

Stakeholder Engagement

The Board recognises the need for engaging stakeholders and maintaining a healthy line of communication with the stakeholders. The Board is also mindful that:

- the downstream oil & gas business in Malaysia is highly competitive and much of the information (especially on strategy and business plans and investment) are highly confidential in nature; and
- there are no other public listed integrated downstream oil & gas company (with both a refinery and a retail/ commercial business) in Malaysia (like Petron Malaysia Refining & Marketing Bhd), that are also subject to stakeholder engagement recommendations under the Malaysian Code on Corporate Governance 2017. Competitors in the industry that are not public-listed, are not subject to such disclosure requirements.

As such in order to be a sustainable business and in the best overall interest of the Company, the Board and Management recognises the need for transparency to be tempered with discretion.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board and Management nevertheless recognise the need to communicate effectively with shareholders. The Board values and encourages dialogue with the shareholders to establish better understanding of the Company's objectives and performance. To this end, suggestions made by shareholders have been incorporated, where appropriate, including the improvement of financial presentations at general meetings as well as enabling shareholders to visit the office for dialogues or clarification on matters disclosed or pertaining to the Company. The Annual General Meeting provides a suitable forum for the shareholders to hold dialogues with the Board. Additionally, queries from investors and potential investors are dealt with by our Investor Relations.

At the Annual General Meeting, a Management presentation will be made about the Company's performance for the year under review. Some information may also be provided about plans going forward. As a general rule the Company does not make or disclose any future financial performance estimates. The Annual General Meeting allows shareholders to ask questions and seek clarification on the Company, including on its financials, business, operations and governance matters. Shareholders are also allowed to submit written questions in advance and these will be addressed at the Annual General Meeting. Since 2013, all voting on all resolutions tabled at the Annual General Meetings of the Company have been by poll as recommended by the then Malaysian Corporate Governance Code. This method of voting will continue to be applied. Since the 2017 Annual General Meeting, voting has been fully electronic. For efficiency and accuracy of vote tabulation, an independent scrutineer monitors the entire tabulation of proxy submissions and poll voting process. The independent scrutineer is also the one who announces the voting results. The Company does not yet see it as necessary for 'remote' attendance and participation by shareholders at the Company's general meeting, given the relatively small number of shareholders the Company has and the convenient location where the Company's Annual General Meeting are held.

The Company's website has a Management Committee member as its named contact person with contact details, to ensure that shareholders' queries are promptly addressed. The Company holds open discussions with investors and analysts upon request. Material information relating to the Company is disclosed to the public by way of announcements to Bursa Malaysia Securities Berhad ("BMSB"), as required by the Main Market Listing Requirements of BMSB.

A summary of the key stakeholder engagement and communication is as follows:

Shareholders

Annual General Meeting ("AGM") forms the most important avenue for shareholders to question/seek clarification from the Board and Management. The Company receives questions in advance in writing from shareholders including the Minority Shareholders' Watchdog Group, all of which are addressed at the AGM.

The AGM also enables the Board and Management to update shareholders of the year's business and finances as well as to provide some input on what the business and oil industry outlook would be.

In addition, there are questions that are directed to the Company via the Company Secretary as lead for investor relations. Where the information sought is not unpublished price sensitive information, written responses or verbal responses are provided.

Further, the Company ensures that all disclosure requirements mandated by the Listing Requirements as well as voluntary disclosures (where necessary) are made to provide the investing public with relevant information.

Potential Investors

Management often engages with investment banks on request for briefings for themselves or their major clients who are keen to invest in the Company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Regulators

Engaging the Company's regulators is an important facet of stakeholder communication. Over the years, the Company has maintained a close rapport with its regulators as we believe a working partnership with the relevant agencies in realising the Company's business and the downstream oil & gas industry, are synonymous and interlinked.

Customers

As the customers are crucial to the success of the Company's business, communication with these customers via various means (including print and social media and in collaboration with other partners), enable the current and potential customers of the Company to know and appreciate the products and services on offer as well as the benefits of being a customer of the Petron brand. This is in line with the Company's 'Customer Focus' values.

Dealers

The dealers and their frontline personnel are the Company's ambassadors with the customers and communications with them on the Company's plans and aspirations, requirements and set targets are an important part of the Company's stakeholder engagement.

Employees

Communication with employees is key to ensuring that they are fully aware of the Company's plans and goals and how they can help grow the business as envisaged. To this end, the various Departments have annual 'kick-off' sessions with their personnel to ensure that everyone is fully on board and will fulfil their part in making the Company a success.

PART D. KEY FOCUS AREAS AND FUTURE PRIORITIES IN RELATION TO CORPORATE GOVERNANCE

The following are areas that will be focused on by the Company as a priority:

Constitution

Arising from the Companies Act 2016, the constitution of the Company (previously referred to as the Memorandum and Articles of Association), has been re-drafted to bring it in line with the same and will be tabled for shareholders' approval at the Annual General Meeting in 2019.

Investor Relations

Finding effective ways to manage requests for analyst briefings and the need to manage information that is disclosed which meets the requirements of the analysts and the Company's disclosure obligations. We will also explore avenues to encourage analysts to issues analyst reports pertaining to the Company so that shareholders will be able to make informed investment decisions.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The following matters are also disclosed as additional information:

The Directors' attendance at meetings of the Board meetings, the Board Audit & Risk Management Committee and Nominating Committee in 2018 are as follows;

Directors	Board of Director Meeting		Board Audit & Risk Management Committee Meeting		Nominating Committee Meeting	
	Held	Attended	Held	Attended	Held	Attended
Mr. Ramon S. Ang	4	4	Non-Member	Non-Member	Non-Member	Non-Member
Ms. Aurora T. Calderon	4	4	Non-Member	Non-Member	Non-Member	Non-Member
Mr. Lubin B. Nepomuceno	4	4	Non-Member	Non-Member	Non-Member	Non-Member
Mr. Ferdinand K. Constantino	4	4	Non-Member	Non-Member	2	2
Ms. Chua See Hua	4	4	5	5	2	2
Y. Bhg. Dato' Zainal Abidin Putih	4	4	5	5	2	2
Y. Bhg. Dato' Zuraidah Atan	4	4	5	5	Non-Member	Non-Member
Mr. Fong Seow Kee	4	4	5	5	Non-Member	Non-Member
Mr. Antonio M. Cailao	4	4	5	4*	Non-Member	Non-Member

**Meetings attended since appointment to the Committee*

Remunerations Paid to the Independent Directors in 2018

As approved by the Shareholders at the Annual General Meeting on 7 June 2018, the benefits paid to the Independent Director for 2018 are as follows:

- an Annual Fee of RM65,000 per Independent Director;
- attendance allowance of RM3,000 for the Independent Directors who are Chairpersons of the Board Audit & Risk Management Committee and the Nominating Committee;
- an attendance allowance of RM2,500 for each other Independent Director. The attendance allowance is for each meeting attended by the Independent Director;
- a fuel reimbursement of up to RM700 per month for each Independent Director; and
- an ex-gratia payment of RM20,000 each for each Independent Director who served a full term in 2017 (and pro-rated for those who served a shorter term in office).

CORPORATE GOVERNANCE OVERVIEW STATEMENT

An analysis of the remuneration paid by the Company to the Independent Directors for the financial year ended 31 December 2018 is set out below:

Independent Directors	RM Directors' Fees	RM Allowance Attendance Allowance	 Ex-Gratia Benefits	RM Fuel Reimbursement	RM Total
Y. Bhg. Dato' Zainal Abidin Putih	65,000	48,000	20,000	4,090	137,090
Ms. Chua See Hua	65,000	57,000	20,000	3,577	145,577
Y. Bhg. Dato' Zuraidah Atan	65,000	35,000	20,000	5,086	125,086
Mr. Fong Seow Kee	65,000	35,000	20,000	5,996	125,996
Mr. Antonio Martin Cailao	65,000	35,000	2,082	3,549	105,631
	325,000	292,082		22,298	639,380

Remunerations Paid to Senior Management in 2018

The top six (6) Senior Management personnel for this reporting are:

- Mr. Lubin B. Nepomuceno (Chief Executive Officer)
- Pn. Faridah Ali (General Manager)
- Ms. Fadzilah Mohd Tahir (Head of Refinery)
- Ms. Myrna C. Geronimo (Chief Finance Officer)
- Mr. Choong Kum Choy (Head of Retail & Commercial Business)
- Mr. Jaime O. Lu (Operations Manager) until 31.10.2018

Three of the above Senior Management personnel, namely the Chief Executive Officer, Operations Manager and Chief Finance Officer, are employees of Petron Corporation. The Chief Finance Officer and Operations Manager are seconded to Petron in Malaysia. Due to privacy requirements, the Company opts not to disclose the components of their remunerations. The total remunerations of the top six (6) Senior Management (attributable to the Company) is RM4,317,929.

In relation to the above total remunerations paid to the said Senior Management personnel, the following is to be noted:

- Like all staff, the top six (6) Senior Management personnel, may be employees of the parent company or a sister company, that provides service to Petron Malaysia Refining & Marketing Bhd via agreements to share resources. The sum of stated above is that attributable to Petron Malaysia Refining & Marketing Bhd. The percentage employed is based on a pre-determined service sharing ratio that would vary depending on the function that they serve. This service sharing ratio may be updated as needed for changes in activity level within each affiliated company.
- The sum is inclusive of salaries, fixed allowances and bonuses paid in 2018. The Company does not provide any share option scheme for Senior Management personnel.
- The total bonuses paid in 2018 comprised of:
  - two (2) months contractual bonus as per the regular employment terms for the Senior Management personnel;
  - an ex-gratia of one (1) month based on the Senior Management personnel's and the Company's financial performance for the year.

The provision of three (3) months bonus/ex-gratia was the same as in 2017.

Training Attended by Directors in 2018

Directors	Date
MR. RAMON S. ANG	
• SMC Corporate Governance 2018: Corporate Governance and Strategic Management	6 Dec
MR. LUBIN B. NEPOMUCENO	
• AGENDA 2018 by SMC-CAO	26 Jan
• 1st Alumni Speaks: CEO Lecture Series	28 May
• Mid-Year Economic Briefing 2018	20 Jun
• Corporate Governance and Strategic Management	8 Aug
MS. AURORA T. CALDERON	
• AGENDA 2018 by SMC-CAO	26 Jan
• VMV Sessions with Cardinal Tagle	17 Jul
• FINEX Conference: Future-Proofing through Innovation	12 Oct
• SMC Corporate Governance 2018: Corporate Governance and Strategic Management	6 Dec
MR. FERDINAND K. CONSTANTINO	
• UBS Conference	28 Feb
• KPMG: TRAIN Law	5 Apr
• 51st ADB Annual Meetings in Manila	3 May
• Deutsche Bank Company & Research Conferences : Philippines Conference	3 Oct
• FINEX Conference: Future-Proofing through Innovation	12 Oct
• SMC Corporate Governance 2018: Corporate Governance and Strategic Management	6 Dec
MS. CHUA SEE HUA	
• Securities Commission: Changes in the Listing Requirements Post Companies Act 2016: What to look out for.	8 Feb
• MIA: Bursa's Corporate Governance Guide 3rd Edition : Moving from Aspiration to Actualisation	12 Mar
• MIA: MFRS 9 Financial Instruments (for Non-Financial Institution) Made Simple	22-23 Mar
• Wolters Kluwer CCH: MFRS 15 Revenue from Contract with Customers & MFRS 16 Leases	26 Apr
• MIA: Internal Audit for Board and Audit Committee	10 Aug
• MICG: Introduction to Corporate Liability Provision: What it is, how will my company be affected and what do I need to put in place by way of safeguards?	6 Sep
• EPF: EPF Global Private Equity Summit 2018	28 Sep
• Bursa Malaysia Breakfast Series: Non Financials - Does it Matter?	5 Dec
• Bank Negara: Compliance Conference 2018 – Anti-money Laundering and Counter Financing of Terrorism	10 Dec

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Directors	Date
Y. BHG. DATO' ZAINAL ABIDIN PUTIH	
• In-House Presentation: ERM & Compliance Structure & Functions	25 Jan
• Directors In-House Training – Boardroom Dynamics – Shaping High Performance Transformation	1 Mar
• Audit Committee Conference 2018	27 Mar
• BNM Annual Report 2017/Financial Stability & Payment Systems Report 2017 Briefing	28 Mar
• Asia Launch of Global Financial Development Report 2017/2018: Bankers without Borders. Presentation of Key Findings followed with Panel Discussion: The Future of International Banking – Benefits & Costs	12 Apr
• 5th BNM-FIDE Forum Annual Dialogue with Deputy Governor of BNM	19 Apr
• CIMB: Beyond T18 Framing & Dialogue	26 Apr
• Sustainable Finance Training for Board of Directors	1 Aug
• CIMB Board Beyond 2018 Workshop	2 Aug
• L&G MFRS Briefing for Board Members	10 Aug
• CIMB 2019 Risk Posture Workshop	20 Aug
• Bernama Radio Interview: League of Bosses	26 Sep
• Khazanah Mega Trends Forum – Recalibrating Markets, Firms, Society & People	8-9 Oct
• Book Launch followed by Panel Discussion: Effective Policy Making : Harnessing Synergies and Cooperation	8 Oct
• Malaysia: A New Dawn Conference	8 Oct
• 2018 CIMB Group's Annual Management Summit (AMS)	23-24 Nov
MR. FONG SEOW KEE	
• Bursa Malaysia Breakfast Series: Non-Financials - Does It Matter?	5 Dec
MR. ANTONIO M. CAILAO	
• Mandatory Accreditation Program (MAP) Kuala Lumpur	29-30 Jan
• Distinguished Corporate Governance Speakers Series	11 Sep
• Corporate Governance Conference on Sustainability	9 Oct
• Fifth Security and Exchange Commission and Philippine Stock Exchange Corporate Governance Forum	23 Oct

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Statement of Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act 2016 and the MMLR to confirm that the financial statements for each financial year have been made out in accordance with the applicable approved accounting standards and that they give a true and fair view of the results of the business and state of affairs of the Company for the financial year.

The Directors have carried out their responsibilities by:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- ensuring that all applicable accounting standards have been adhered to; and
- basing the financial statements on a going-concern basis, as the Directors have a reasonable expectation, after having made due enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors are responsible for ensuring that the Company keeps such accounting and other records which will sufficiently explain the transactions and give a true and fair view of the financial position of the Company, enabling the Directors to ensure that the financial statements comply with the Companies Act 2016 and to safeguard the assets of the Company.

Material Contracts

The Company is not and was not a party to any material contracts involving the Directors' interests during the year. Further, the Company is not and was not a party to any material contracts that are not in its ordinary course of business. All new contracts in 2018 that are of a related party nature have been duly disclosed to Bursa Malaysia Securities Berhad during the year.

Non-Audit Fees

No non-audit fees were paid or are payable to the external auditor, KPMG PLT, by the Company for the financial year ended 31 December 2018.

Other Information

Family Relationship

None of the Directors have any family relationship with any other Director(s) and/or major shareholder(s) of the Company.

Conflicts of Interest

None of the Directors have any conflicts of interest with the Company that had not been disclosed to the Board.

Conviction for Offences (excluding Traffic Offences)

None of the Directors have been convicted for any offences within the past five (5) years.

Sanctions and/or Penalties

No sanction or penalty has been imposed on the Company, or the Directors or the Management, by the relevant regulatory bodies.

This Statement is made in accordance with the resolution of the Board dated 21 February 2019.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises that managing a publicly listed downstream oil and gas company has many challenges and inherent risks. These risks include financial, foreign exchange, legal compliance, crude and product supply, distribution, environment issues, industrial requirements, safety and managing the human resources of the Company. To this end, the Board had previously put in place a management integrity system that over the years, proved to be highly effective. Following the take-over by Petron Corporation, these management integrity systems continue to be adhered to by the Company to ensure seamless continuity of the business and safe operations. The Company has since made necessary changes as was deemed necessary to enhance and 'localise' its systems. Recognising that the parent company, Petron Corporation, too is in downstream oil and gas business and the management integrity systems it has in place, the Company has opted to align or adopt, where possible, best practices from Petron Corporation's own systems. In this regard, the Company continues to receive technical advice and support from Petron Corporation via its technical advisers based in Malaysia. The Company also receives technical support via formal arrangements with ExxonMobil.

The Board recognises that risks can be mitigated (and even eliminated) by having in place an effective system of internal controls. Key elements of the Company's internal controls include:

1. The alignment or adoption of best practices from Petron Corporation. These not only assist the Company in identifying the principal risks faced by the Company, but also prescribes the appropriate systems to manage these risks that include the overall control framework, the required control checks and the required assessment on the system's effectiveness;

2. A defined organisational structure with clear lines of accountability and delegation of authority;

3. Reviews of controls including through internal audits being performed periodically and financial audits are subject to annual review by external auditors. The results are reviewed with various levels of Management and any major concerns are raised to Senior Management and the Board Audit & Risk Management Committee;

4. Key policies covering, among others, business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships are in place in the form of the Code of Conduct. These include requirements to comply with all applicable laws and regulations. The revised Code of Conduct has been communicated to employees, vendors and contractors. Effective from 2014, trainings are provided periodically to employees, vendors and contractors. All new employees for example, are required to undergo mandatory training on the Code of Conduct. Where there are any serious violations, a 'controls stand-down' with employees will be carried out to reinforce the need for adherence. Employees are also reminded annually to adhere to the requirements of the Code of Conduct and to disclose to the Company any areas of concerns. These include where there are potential conflicts of interests and receipt of festive gifts and adherence to our internal guideline on such receipt of gifts. Revised guidelines on receiving of gifts (based on the new policy implemented by Petron Corporation), were implemented in 2017. In the 4th Quarter of 2018 a Company-wide re-fresher training on the Code of Conduct was conducted;

5. A management integrity system based on Petron Corporation's best practices to assess and sustain the effectiveness of the organisation's system of controls; and

6. The effective lines of communications within the Management with regular Management Committee meetings where all matters pertaining to each business unit and function are reviewed. This way any controls related issues are highlighted weekly and the action plans on any identified gaps are dealt with immediately.

The Board Audit & Risk Management Committee (a Committee comprised solely of Independent Directors) has oversight on the Company's Risk Management framework and policies. Apart from the weekly Management

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

Committee Meeting where potential business-related risks are discussed, a risk management working group comprised of key senior personnel, meet to review risks and from that meeting, provide updates to the Board Audit & Risk Management Committee. There is a specific fixed agenda in the quarterly Board Audit & Risk Management Committee Meetings on Risk Management.

It should be noted that systems of internal controls and risk management are designed to manage or mitigate rather than eliminate the risk of failure to achieve business objectives and any system can only provide reasonable and not absolute assurance against material misstatement or loss.

In 2014, the Company embarked on a programme to revisit its risk management by employing Petron Corporation's Enterprise-Wide Risk Management tools. The exercise pointed out that the key risks previously identified continue to be the main risks that must be managed even today. The Company, recognising that this is an evolving endeavour, will embark on an exercise to revisit the risk management preparations that are already in place with the intent to update the tools and assessment, where necessary. Examples of such evolution of this was the inclusion again of a previously eliminated risk on delays in recovering subsidies/goods and services tax from the authorities. In 2017, cyber-security risk was given more prominence following a spate of world-wide incidence of hacking and ransom-ware. The Board Audit & Risk Management Committee seeks to keep IT security as a matter of priority.

As part of the Risk Management review, all business continuity plans of the Company will be periodically reviewed to ensure that the business recovery process in the event of an emergency is sound and effective. In 2016, a fire incident at the Company's Port Dickson Refinery, caused a temporary shutdown of the facilities. The business continuity plans were immediately activated. The areas covered included two critical areas, namely repairs and re-starting operations at the Refinery and in the interim, management of incoming crude supply and continued supply of petroleum products to customers. Both these critical factors were successfully managed in accordance with the business continuity plans in place. The successful activation of the business continuity plans during the fire incident in 2016 prompted a review in 2017 of other critical areas and the adequacy of the business continuity plans in those critical areas. In 2018 a review of the business continuity plans for critical areas were completed indicating that the plans were current and able to meet the needs of the Company. This had been reported to the Board Audit & Risk Management Committee. The business continuity plans will continue to be reviewed periodically.

Key control-related matters in relation to the Company's Corporate Governance include:

1. Timely reporting of any changes to the prevailing delegation of authority that has been approved by the Board and ensuring that amendments are approved by the Board in a timely manner so as to not cause any disruption to the business;

2. Quarterly notice to all Directors and staff on Insider Trading and risks as well as restrictions on trading in the Company's shares during a 'closed period';

3. Quarterly reporting to the Board Audit & Risk Management Committee of all Trade Accounts Receivables that are written off;

4. Review of any contracts over the value of RM5 million that were not in the ordinary course of business;

5. Full review with the Board Audit & Risk Management Committee on a quarterly basis of all inter-company transactions to ensure compliance with laws pertaining to Related Party Transactions;

6. Review of amendments to the Company's List of Authorised Signatories; and

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

7. With effect from 2017, Risk Management updates were included as a fixed item in all Quarterly Board Audit & Risk Management Committee Meetings.

The risk management framework is developed internally based on the Company's experience in the down-stream oil and gas business requirements and honed over 50 years of experience in the business. The Company's Port Dickson Refinery and Terminals at Port Dickson and Bagan Luar had also obtained the ISO certification in 2017. The Company has also embarked on a Total Quality Management programme using the internationally recognised Malcolm Baldridge Excellence Framework (locally adapted as the Malaysian Business Excellence Framework). In 2018, the Company's Port Dickson Refinery (along with sister Company, Petron Fuel International Sdn. Bhd.'s Kuantan Terminal) was recognised by the Malaysian Society for Occupational Safety and Health with Grand Awards, whilst the Company's Port Dickson Terminal (along with sister company Petron Fuel International Sdn. Bhd.'s Pasir Gudang Terminal and sister company Petron Oil (M) Sdn. Bhd.'s Sepangar Bay Terminal) was awarded the Gold Class Awards. The Company's Port Dickson Refinery was also awarded the Prime Minister's Hibiscus (Exceptional Class) Award for its environmental excellence. In addition, in 2018, the Company's Port Dickson Refinery, as well all Petron Malaysia group's Terminals, achieved an outstanding milestone of 16 years and 22 years (respectively) without any Lost Time Injury to its employees.

From a day to day management perspective, certain other controls are in place for reviews and approvals are at various levels and Departments. Such an authorisation process minimises the risk of any possible abuse of authority. These include some critical areas such as approvals required in the procurement process for various Departments and acquisition of land for retail station expansion. Critical processes are also reviewed periodically by Internal Audit to ensure independent evaluation of the effectiveness of such controls. Overall, the Company's various risks and internal controls are not only periodically reviewed internally but are also the subject matter of review by Internal Audit and recommendations by Internal Audit are implemented within set time frames.

The Board has also received assurance from the CEO and CFO that the Company's risk management and internal control systems (for financial year ended 2018 and up to the date of this Report) are operating adequately and effectively, in all material respects.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

As at 31 December 2018, the Board Audit & Risk Management Committee ("Committee") comprises five (5) Independent Directors, namely:

1. Y. Bhg. Dato' Zainal Abidin Putih - the Chairperson of the Committee
2. Ms. Chua See Hua
3. Y. Bhg. Dato' Zuraidah Atan *(resigned with effect 8 February 2019)*
4. Mr. Fong Seow Kee; and
5. Mr. Antonio M. Cailao

The profile of the Committee members can be found at pages 38 and 39.

The Secretary to the Committee is the General Counsel/Company Secretary of the Company.

The Committee's Terms of Reference are as contained in the Company's website. The Terms of Reference were reviewed and updated in 2018 in light of the new recommendations in the Malaysian Code on Corporate Governance 2017.

The Committee had five (5) regular meetings during the last financial year. Ad hoc Meetings on specific matters were also called as and when necessary to discuss Company related matters. The details of the attendance of each Committee member have been tabulated under the Corporate Governance Statements section, which can be found at page 59. Executive Directors are encouraged to attend these meetings to provide guidance to the Committee. However, Management Committee Members, in particular the Alternate Chairman of the Management Committee/ Operations Manager/General Manager, the Chief Finance Officer and the General Counsel/Company Secretary regularly attend the Committee meetings by invitation to present matters for consideration by the Committee and to provide answers to queries. In addition to the Committee meetings, the Committee also met privately with the external auditor twice in 2018 and with the internal auditor.

As part of the new Petron-led management corporate governance culture and to ensure that Independent Directors are kept fully abreast of all matters pertaining to the Company, the Management implemented a process where if an Independent Director is unable to attend a Committee meeting, an advance private meeting, where possible, will be held with the said Director earlier to fully brief him of all matters to be tabled before the Committee. The views of that Director are then related to the Committee at its meeting.

Similarly, where a Circular Resolution of the Committee is moved, a private meeting will be arranged with each Independent Director, where possible, for a full briefing on the proposal prior to obtaining their consent to the Circular Resolution.

SUMMARY OF ACTIVITIES

During the last financial year, the Committee discharged its functions and carried out its duties as set out in the Duties of the Committee below.

INTERNAL AUDIT

To ensure independence from the Company's Management, the internal audit function of the Company, is managed by Petron Corporation's Internal Audit Department. The internal auditor reports directly to the Committee on all audits carried out in relation to the Company.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

The Internal Audit Department of Petron Corporation is highly experienced in auditing downstream oil & gas business and this enables the Internal Auditor to conduct the audits efficiently with minimal familiarisation and also be in a position to provide Management with much input process improvements in the Company's systems. Further, information about the internal audit function can be viewed under the Corporate Governance Statements on the www.petron.com.my.

Meeting with the internal auditor (30 November 2018)

Following the mid-year review with the internal audit manager on 24 May 2018, the Committee reviewed the audits carried out and completed in 2018 as follows:

Status of 2018 Internal Audit Plan

Completed Projects and Internal Control Ratings

1. Order and Delivery Management received a 'Very Satisfactory' rating of 90.61%. This was the first review of the division.
2. The Port Dickson Terminal received a 'Very Satisfactory' rating of 94.86%. The same division in a previous review received a 'Very Satisfactory' rating of 91.26%.
3. The Bagan Luar Terminal received a 'Very Satisfactory' rating of 93.49%. The same division in a previous review received a 'Very Satisfactory' rating of 91.88%.
4. Compensation related Regulatory Compliance received a 'Very Satisfactory' rating of 92.96%. This was the first review of the division.

The Committee was then informed of the few areas of improvement in each division that was recommended by Internal Audit.

The Committee also noted the status of the 2018 Audit Plan, as follows:

Audit Projects	Status
Bagan Luar Terminal	Completed
Port Dickson Terminal	Completed
Compensation Regulatory Compliance	Completed
Material Services and Procurement Process	For Finalisation
IT General Controls	On-going Petron wide vulnerability review
Crude importing and vessel chartering Process	Starts 1st Quarter 2019
Commodity Hedging Process	Starts 1st Quarter 2019

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

Internal Controls Assessment

- No issues that could have significant impact on the Company's financial statements and operations were noted.
- Some minor safety concerns at the Jetty Port and minor lapses on preparation of product volume reconciliation reports were observed.

Audit Plan for 2019

The Committee at its meeting on 30 November 2018, approved the following audit plan for 2019:

- There were seven (7) audit projects planned for 2019, of which three (3) were carried over from 2018. The projects were selected based on input from the latest Petron Malaysia Risk Profile, Management discussion and cyclical schedule for terminal audits.
- The three (3) carry-over audits were in relation to:
    - Commodity Hedging Process;
    - Crude Importing and Vessel Chartering Process; and
    - IT General Controls.

All of the above audits are to commence in the 1st Quarter of 2019.

The audits to be carried out in 2019 will also be as follows:

- Review of Klang Valley Distribution Terminal (to commence in the 2nd Quarter of 2019)
- Review of the Kuala Lumpur International Airport Terminal (to commence in the 2nd Quarter of 2019)
- Fleet Card Process and Systems (to commence in the 3rd Quarter of 2019)
- Credit Management Process (to commence in the 3rd Quarter of 2019)

The Committee also noted that arising from the recommendations of the Malaysian Code on Corporate Governance 2017:

- Whilst the Internal Audit Department is separate from the Company, it is necessary for the Committee to be given an opportunity to evaluate the performance of internal audit and provide feedback to Petron Corporation (as part of the Internal Audit Department's performance evaluation).
- Internal Audit Department would be required to provide the Committee with a written assurance of independence and continued independence from Management of the Company.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

DUTIES OF THE COMMITTEE

A summary of the Committee's activities carried out by the Committee in discharging its duties in 2018 are as follows:

Review of Risk Management matters

The Committee reviews and provides recommendations to Management and (where necessary) approve risk management reviews and findings. The Committee also reviews the mitigation initiatives implemented by the Company.

As of 2017, Risk Management was included as a fixed agenda item in all quarterly meetings of the Committee.

The Committee was informed that for 2018, Management had determined that the 'Major Risk' would be:

Major Risk	Type of Risk
Price volatility (both crude and petroleum products)	Financial
Major incident rendering facilities inoperable	Operations/Environment/Reputation
Shipping incident/Oil Spill	Operations/Environmental/Reputation
Supply disruption/over dependence on few suppliers	Operations/Financial
IT Systems/Infrastructure outage/Cybersecurity	Financial/Operations/Reputation
GST Recovery	Financial
Competition	Financial
Product Quality	Operations/Financial
Regulatory compliance	Regulatory/Operations/Reputation

For each of these identified risks, there are risk management tools and existing business continuity programmes in place. In this regard, the Committee was briefed in 2018 on the review of the effectiveness of the Business Continuity Plan (relating to the Refinery Operations and the potential Supply disruption). This included the successful activation of the Business Continuity Plan to manage the disruptions as a result of the fire incident in 2016 and deployed to re-commence operations at the Port Dickson Refinery, following the said incident.

The Committee also took note that for 2019, the same major risks in 2018, will continue to be regarded as major risks (i.e. those with highest potential impact on the Company). Thus the major risks for 2019 would be:

a) Commodity price risk/forex risk;
b) Major incident rendering facilities inoperable;
c) Shipping incident/oil spill;
d) Supply disruption/over dependence on few suppliers; and
e) IT Systems/Infrastructure outage/Cybersecurity.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

In addition, the Committee also took cognisance of the slower recovery of the GST and the subsidiaries performance from the authorities. Considering the size of the sum outstanding and the impact on the Company's financials performance, the Committee deemed that in the short-term, close monitoring of the situation was necessary. The Committee also took cognisance of the fact that the authorities were beginning to refund some of the sums due commencing the 4th quarter of 2018 and the view of Management that the sums due should be significantly reduced by the end of the 2nd quarter of 2019.

For each of this major risk (with the exception of Commodity price risk/forex risk), the Management continues to review and (where necessary) revise the existing Business Continuity Plans (a major part of the risk management activity in 2018) and its effectiveness in managing risks/threats to the business.

Review with the internal auditor and external auditor

The meeting with internal auditor is as described above.

In 2018, external auditor, KPMG PLT ("KPMG") met privately with the Committee on 20 February 2018 in relation to the 2017 audited Financial Statements and the review of the Statement of Risk Management and Internal Controls (SORMIC) that were then included in the 2017 Annual Report. KPMG also met with the Committee on 30 November 2018 to present and seek approval of the Committee for the 2019 Audit Plan and Strategy. The matters discussed at this meeting included:

1. The scope of the audit and that the audit would be conducted based on the Approved Standards on Auditing in Malaysia;
2. Materiality used in the audit;
3. Matters relating to the audit and the identified focus areas and the approach to be taken;
4. New MFRS requirements especially in relation to revenue recognition;
5. Assurance on the independence of KPMG; and
6. A review of the SORMIC.

The Committee also met privately with the external auditor without the presence of Management. There were no issues arising from this meeting that required further action. On 21 February 2019, KPMG presented the audit findings in relation to the audit for the year ended 31 December 2018 as well as its review of the SORMIC (to be included in the 2018 Annual Report) to the Committee. A summary of the discussion is as follows:

Key Audit Matters

The Key Audit Matters identified were:

a) Revenue Recognition – to evaluate fraud risks related to overstatement of revenues.
b) Valuation of Inventory – to ensure that the Company's inventory balances are stated at net realisable value.
c) Implementation of MFRS 15 (Revenue) – to evaluate possible risk of misstatements for first time application of the standard effective 1 January 2018.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

KPMG presented to the Committee the audit procedures performed and the findings in relation to the areas highlighted as Key Audit Matters. The Committee was also informed of the related party transactions that have been disclosed in the financial statements. The Committee was also informed that KPMG expects to sign the auditor's report without any modifications and that the disclosures made were in compliance with requirements and relevant standards.

Review of the Annual Report

As required under the auditing standards, KPMG review the statements contained in the Company's 2018 Annual Report which was obtained after the date of the auditor's report to identify any inconsistency with material information that KPMG is aware and identify the same for the Management.

Statement of Risk Management and Internal Controls

KPMG highlighted to the Committee that the purpose of its engagement was to express an independent limited assurance whether anything had come to its attention that causes KPMG to believe that the SORMIC was not prepared, in all material respects, in accordance with the reporting criteria as set out in paragraphs of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("SRMICG"), or was factually inaccurate. In this regard, KPMG informed the Committee that nothing had come to its attention that the SORMIC was not prepared, in all material respect, in accordance with the SRMICG.

KPMG also highlighted that the Management had been fully cooperative and has provided KPMG all necessary documentation and explanations. The Committee was informed by KPMG that it had not come across any offence involving fraud or non-compliance during the audit.

Ensure that the internal auditor and external auditor receive Management's co-operation

The Committee had sought and received confirmation at meetings with internal auditor and external auditor that Management and the Company's employees had extended the fullest co-operation to the internal auditor and the external auditor. At the Committee's meeting on 30 November 2018, the Committee also received assurances from KPMG that the internal auditor shared its findings with KPMG.

Adequacy of the independence, scope, functions, competency and resources of the internal audit function

The Committee at its meeting on 30 November 2018 had reviewed the independence, scope and functions of the internal audit and found that it had the necessary authority to carry out its tasks. The audit findings, the follow-up action as well as audit plan for 2019, were reviewed and approved. The Committee was assured that there was no element of interference or influence by Management with its audit findings.

Reporting of any internal audit issues

There were no special internal audit programme, processes, the results of the internal audit programme, or investigation undertaken, or action that had been taken, that were needed to be reported to the Board in 2018.

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE REPORT

Endorsement of Financial Statements

The Committee reviewed and reported to the Board the quarterly results in 2018 and year-end financial statements as at 31 December 2018, including the statement of financial position and statement of profit or loss and other comprehensive income, prior to submission of the statements to the Board for approval. The Committee had also paid particular attention to ensuring compliance with changes in existing accounting policies as well as implementation of new accounting policies, significant and unusual events (if any). The Committee also reviewed and ensured compliance with legal requirements including disclosures to the stock exchange and relevant authorities.

Endorsement of major transactions and related party transactions

There were no new undisclosed related party transactions in 2018.

Review of other significant matters

Apart from major transactions and related party transaction, the Committee at all quarterly meetings in 2018, reviewed:

a) All contracts (if any) with a value of over RM5 million that are not in the ordinary course of business;
b) Accounts receivables written-off (if any);
c) Amendment to the List of the Company's Authorised Signatories; and
d) Risk management updates.

Review of Conflict of Interest

As part of its review of any transactions undertaken by the Company, the Committee ensures that any conflicts of interest or potential conflicts of interests are highlighted. Where there is a conflict of interest, Directors involved abstain from discussion and voting on such matters. As a result, in relation to the related party transactions involving sister companies, Mr. Ramon S. Ang and Mr. Lubin B. Nepomuceno would abstained from discussion and voting on the matter as they are also directors of Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. As an additional note, Independent Directors, Y. Bhg. Dato' Zainal Abidin Putih, Ms. Chua See Hua, Mr. Fong Seow Kee and Mr. Antonio M. Cailao, abstained from discussion and voting on the matter of the Independent Directors' Fees at the Board Meeting on 21 February 2019.

Auditor's Re-Appointment/Fees

The Committee at its meeting on 21 February 2019, reviewed and endorsed the fees proposed to be paid to the external auditor, KPMG. The Committee at the same meeting in 2019 considered and recommended to the Board the re-appointment of KPMG as the Company's external auditor for the ensuing year.

Report to the Stock Exchange on matters pertaining to the Company

There were no matters in 2018 that was brought to the attention of the Board that was not acted on (and resulted in a breach of the Main Market Listing Requirements of BMSB) that required the Committee to report to the BMSB.

This Statement is made in accordance with the resolution of the Board dated 21 February 2019.

NOMINATING COMMITTEE REPORT

Establishment of a Nominating Committee

The Nominating Committee was established by the Board of Directors in 2003 with a written Charter that specifies its roles and responsibilities. The Nominating Committee Charter was last reviewed and approved by the Board of Directors in November 2013. The Charter was reviewed by the Committee and the Board in 2018. The Charter can be accessed on the Company's website www.petron.com.my.

The Nominating Committee is responsible for the recommendation of candidates for Independent, Non-Executive and Executive Directors and the recommendation of Directors for Board Committees, for the Board's consideration and decision. The Nominating Committee is also responsible for the review and recommendation of candidates for appointment as Chief Executive Officer, Chief Finance Officer and Company Secretary.

The current members of the Nominating Committee are as follows:

1. Ms. Chua See Hua
   (Independent Director) – Chairperson of the Committee
2. Y. Bhg. Dato' Zainal Abidin Putih
   (Independent Director)
3. Mr. Ferdinand K. Constantino
   (Non-Executive Director)

The composition of the Nominating Committee complies with the Malaysian Corporate Governance Code 2017.

Role of the Nominating Committee and Activities in 2018

Annual Assessment and Evaluation

Apart from reviewing and making recommendations to the Board with regard to candidates as mentioned above, the Nominating Committee is also responsible for the annual assessments and evaluations to assess the effectiveness of the individual Directors, Board Committees and the overall Board on an on-going basis. These assessments, based on a combination of qualitative and quantitative factors, as determined by the Nominating Committee, were carried out by the Nominating Committee for the year.

The findings and results of these assessments by the Nominating Committee were reported to the Board on 21 February 2019.

Training Programmes

The Nominating Committee can also direct Management to plan induction training programmes for new Directors (on request) to familiarise them with the fiduciary duties and need for compliance with securities and corporate laws. As directed by the Chairperson of the Nominating Committee, all Directors are informed by the Company Secretary of available training programmes and where requested by the Directors, the Company will arrange for Directors to attend such training programmes.

NOMINATING COMMITTEE REPORT

Board Diversity

The Nominating Committee, in recommending candidates, places emphasis on recommending the 'best person for the job and for the Company' regardless of race, religion, gender or social background. The same applies to the appointment of Directors to the Board. In considering candidates for appointment to the Board, the Nominating Committee places emphasis on the candidates' experience, qualifications, character, integrity, competence and available time to commit to the Company. As is the Company's practice of diversity, the Board and indeed the Nominating Committee is also keen to ensure diversity not only in gender but also in relation to age and ethnicity.

The Nominating Committee recognises that diversity on the Board in terms of having one-third women directors was a call from the Government, which the Nominating Committee will strive to always achieve and maintain. In 2018, the Board had three (3) women directors, out of nine (9) directors; thus complying with the recommendation on gender diversity. Of the three (3) women Directors, one is an Executive Director whilst two (2) are Independent Directors. On 8 February 2019, one (1) woman Independent Director resigned from the Board. The Board in seeking to fill the vacancy on the Board will endeavor to appoint a woman Independent Director.

Recommendation for Board Appointments

In accordance with the Company's Constitution, the Board can appoint any person to be a Director as and when it is deemed necessary. However, consistent with the Malaysian Corporate Governance Code 2017, the Nominating Committee makes recommendations to the Board prior to such appointments. Any person so appointed shall hold office until the next Annual General Meeting at which time the candidate will be subject to election by the shareholders. An election of Directors takes place every year, with each Director retiring from office at least once every three (3) years. Directors retiring by rotation are eligible for re-election by the shareholders at the Annual General Meeting.

In 2018, the Nominating Committee carried out the following activities:

- conduct and review of the annual evaluation of the Directors, Board and Board Committees for the year ended 2018 and reported the same to the Board in February 2019. A report of the same was then reported in the Annual Report of 2018;
- review of candidates to retire by rotation and to recommend their re-election (Mr. Ferdinand K. Constantino and Ms. Chua See Hua);
- review of the Independent Directors having exceeded nine (9) cumulative years in office and making recommendations to the Board on retention for another term (Y. Bhg. Dato' Zainal Abidin Putih); and
- review of candidate proposed for appointment as an Assistant Company Secretary (Datin Shahidah Aris) who was appointed by the Board on 29 August 2018.

Appointment of Director(s) in 2018

No new Directors were appointed to the Board in 2018.

NOMINATING COMMITTEE REPORT

Annual Review of Board/Committees/Directors Performance

For the Annual Evaluation, the Nominating Committee considered amongst others, the roles played by Directors (individually and as a group) during the year. The Nominating Committee also considered its role in charting the course for the Company, setting out the strategic plans for the Company and stewarding the implementation process. The Nominating Committee also reviewed other matters such as trainings attended, attendance record at meetings (including their respective participation) as well as their level of compliance with legal requirements, including the Main Market Listing Requirements (MMLR).

A customised evaluation survey as recommended by the Nominating Committee and approved by the Board in 2014 was used for the 2018 annual evaluation. The survey comprises five (5) sets of form of questionnaires required to be completed by the respective Directors evaluating, by self-assessment and/or peer-assessment, in relation to (i) the independence of the Independent Directors (ii) the performance of the Board Committees (iii) the performance of the Board (iv) the Board members' skills sets and (v) the Directors' performance and contribution to the Board.

The 2018 annual evaluation was completed in January 2019 and the results were presented to the Nominating Committee and the Board on 21 February 2019. A summary of the results are as follows:

- Independent Director's 'Independence' – All five (5) Independent Directors meet the necessary criteria for 'independence' and they are in compliance with the 2017 Corporate Governance Code.

- Board Committee Evaluations – There were no adverse findings and the average rating of the Audit Committee was 4.82 (out of a maximum of 5.0) and the Nominating Committee's average rating was 4.47 (out of a maximum of 5.0). The ratings are consistent with the ratings in 2017.

- Board Evaluation – The ratings received indicated an overall average of 4.36 (out of a maximum of 5.0) indicating 'Consistently Good'. This was comparable with the ratings in 2017.

- Board Skill Evaluation (Peer Assessment) – The Directors were rated between 3.91 and 4.85 (out of a maximum of 5.0), again indicating that, on the average, each Director was ranked as 'Consistently Good'; similar to the ratings in 2017.

- Performance Evaluation (Self-Assessment and a Peer Assessment by each Director) – Each Director was rated between 4.19 and 4.93 (out of a maximum of 5.0), again indicating that, on the average, each Director was ranked as 'Consistently Good' indicating consistency with ratings in 2017.

The evaluation in relation to the independence of the Independent Directors indicated that all the Independent Directors fulfilled all the necessary requirements, under the MMLR, of independence. One (1) of the Independent Directors namely Y. Bhg. Dato' Zainal Abidin Putih has exceeded the recommended nine (9) cumulative years in office but his continued presence on the Board, approved at the preceding Annual General Meeting, also fulfils the necessary requirements as recommended by the Malaysian Corporate Governance Code 2017.

The Board was satisfied with the results of the other evaluations, which showed the Directors, the Board Committees and the Board having achieved overall ratings of 'Consistently Good' and noting that the Board composition has the right mix of skills and experience and has individuals of integrity.

NOMINATING COMMITTEE REPORT

The evaluation results were also used by the Nominating Committee in considering and determining its endorsements in relation to the re-election of retiring Directors.

The Nominating Committee also noted that the Chief Executive Officer, Chief Finance Officer, Company Secretary and other members of the Management Committee (collectively "Key Executives") undergo a rigorous annual performance evaluation and ranking process based on set goals and Key Performance Indicators.

This is done as part of the Petron Group's annual employees' performance evaluation. The evaluation is done independently of each of the individual Key Executives concerned and who does not have any role in determining the results of the evaluation, the ranking, the salary increments and other remuneration, if any.

This report is dated 21 February 2019.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2018.

Principal activities

The Company is principally engaged in manufacturing and marketing of petroleum products in Peninsular Malaysia. There has been no significant change in the nature of these activities during the financial year.

Ultimate holding company

The Company is a subsidiary of San Miguel Corporation, which is incorporated in the Philippines and regarded by the Directors as the Company's ultimate holding company, during the financial year and until the date of this report.

Results

	RM'000
Profit for the year	224,540

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividends

Since the end of the previous financial year, the Company paid a final ordinary dividend of 25 sen per ordinary share totalling RM67,500,000 in respect of the financial year ended 31 December 2017, declared on 7 June 2018 and paid on 27 June 2018.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2018 is 20 sen per ordinary share totalling RM54,000,000 subject to the shareholders' approval at the forthcoming Annual General Meeting of the Company.

Directors of the Company

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

Y. Bhg. Dato' Zainal Abidin Putih
Mr. Ramon S. Ang
Ms. Aurora T. Calderon
Mr. Lubin B. Nepomuceno
Ms. Chua See Hua
Mr. Ferdinand K. Constantino
Mr. Fong Seow Kee
Mr. Antonio Martin Cailao
Y. Bhg. Dato' Zuraidah Atan (resigned on 8 February 2019)

DIRECTORS' REPORT

Directors' interests in shares

The interests and deemed interests in the shares of the Company and its related corporations of those who were Directors at financial year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.1.2018	Acquired	Sold	At 31.12.2018
Common shares of ultimate holding company (San Miguel Corporation)				
Ramon S. Ang	1,345,429	-	-	1,345,429
Aurora T. Calderon	22,600	-	-	22,600
Lubin B. Nepomuceno	7	-	-	7
Ferdinand K. Constantino	408,329	69,363	-	477,692
Common shares of intermediate holding company (Petron Corporation)				
Ramon S. Ang	1,000	-	-	1,000
Aurora T. Calderon	1,000	-	-	1,000
Lubin B. Nepomuceno	5,000	-	-	5,000

None of the other Directors holding office as at 31 December 2018 had any interest in the shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than those fees and benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Indemnity and insurance costs

The indemnity insurance coverage provided for the Directors and officers of the Company is RM15,000,000. The cost of premium incurred for the year amounted to RM48,800. During the financial year, no indemnity claim or payment was made.

DIRECTORS' REPORT

Other statutory information

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

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business 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 Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities 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 Company misleading.

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

i) any charge on the assets 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 Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Company 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 Company to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2018 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

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

The auditors' remuneration is disclosed in Note 18 to the financial statements.

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

....	....
Ramon S. Ang	Lubin B. Nepomuceno
Chairman	Director

Date: 21 February 2019

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31.12.2018 RM'000	31.12.2017 RM'000 Restated	1.1.2017 RM'000 Restated
Assets				
Cash and cash equivalents	3	**145,430**	119,614	171,640
Derivative financial assets	4	**32,419**	3,100	2,958
Trade and other receivables	5	**595,309**	480,192	486,023
Inventories	6	**648,342**	678,138	710,081
Other current assets	7	**438,582**	315,933	139,219
Tax recoverable		**11,408**	-	-
Total current assets		**1,871,490**	1,596,977	1,509,921
Property, plant and equipment	8	**690,744**	612,886	585,353
Investment property	9	**368,571**	347,300	370,654
Long-term assets	10	**204,392**	165,980	179,145
Intangible assets – software	11	**23**	71	1,194
Total non-current assets		**1,263,730**	1,126,237	1,136,346
Total assets		**3,135,220**	2,723,214	2,646,267
Liabilities				
Loans and borrowings	12	**390,000**	-	215,946
Trade and other payables	13	**952,059**	1,023,327	1,001,290
Derivative financial liabilities	4	**5,328**	33,563	21,702
Retirement benefit obligations	14	**4,509**	7,460	6,145
Tax payable		**-**	47,149	39,014
Total current liabilities		**1,351,896**	1,111,499	1,284,097
Loans and borrowings		**-**	-	92,014
Retirement benefit obligations	14	**40,967**	40,256	42,431
Deferred tax liabilities	15	**73,548**	59,482	63,828
Total non-current liabilities		**114,515**	99,738	198,273
Total liabilities		**1,466,411**	1,211,237	1,482,370
Equity				
Share capital	16	**143,000**	143,000	135,000
Reserves	16	**-**	-	8,000
Retained earnings		**1,525,809**	1,368,977	1,020,897
Total equity		**1,668,809**	1,511,977	1,163,897
Total equity and liabilities		**3,135,220**	2,723,214	2,646,267

The notes on pages 87 to 134 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
Revenue	17	**12,047,037**	10,363,058
Cost of sales		**(11,602,992)**	(9,678,216)
Gross profit		**444,045**	684,842
Other operating income		**70,093**	67,129
Other operating expenses		**(262,652)**	(246,418)
Administrative expenses		**(18,611)**	(18,498)
Results from operating activities		**232,875**	487,055
Other income		**87,557**	99,482
Other expenses		**(14,664)**	(53,441)
Finance income		**2,623**	2,976
Finance costs		**(12,046)**	(12,974)
Profit before tax	18	**296,345**	523,098
Tax expense	19	**(71,805)**	(117,925)
Profit for the year		**224,540**	405,173
Other comprehensive income, net of tax			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	20	**406**	2,307
Other comprehensive income for the year, net of tax		**406**	2,307
Total comprehensive income for the year		**224,946**	407,480
Basic earnings per ordinary share (sen)	21	**83.2**	150.1

The notes on pages 87 to 134 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

		Non-distributable		Distributable	
	Note	Share capital RM'000	Capital redemption reserves RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017		135,000	8,000	1,020,897	1,163,897
Remeasurement of defined benefit liability	20	-	-	2,307	2,307
Profit for the year		-	-	405,173	405,173
Total comprehensive income for the year		-	-	407,480	407,480
Dividends paid	22	-	-	(59,400)	(59,400)
Transition to no-par value regime	16	8,000	(8,000)	-	-
At 31 December 2017/1 January 2018		**143,000**	**-**	**1,368,977**	**1,511,977**
Opening balance adjustment from adoption of MFRS 9, net of tax	31	**-**	**-**	**(614)**	**(614)**
At 1 January 2018, restated		**143,000**	**-**	**1,368,363**	**1,511,363**
Remeasurement of defined benefit liability	20	**-**	**-**	**406**	**406**
Profit for the year		**-**	**-**	**224,540**	**224,540**
Total comprehensive income for the year		**-**	**-**	**224,946**	**224,946**
Dividends paid	22	**-**	**-**	**(67,500)**	**(67,500)**
At 31 December 2018		**143,000**	**-**	**1,525,809**	**1,668,809**
		Note 16	**Note 16**		

The notes on pages 87 to 134 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 Restated
Cash flows from operating activities			
Profit before tax		**296,345**	523,098
Adjustments for:			
Amortisation of intangible assets	11	**48**	1,123
Amortisation of long-term assets	10	**30,234**	29,089
Depreciation of investment property	9	**18,644**	16,196
Depreciation of property, plant and equipment	8	**46,377**	49,023
Finance costs		**12,046**	12,974
Finance income		**(2,623)**	(2,976)
Gain on disposal of investment property		**-**	(52,263)
Gain on disposal of long-term assets		**-**	(169)
Gain on disposal of property, plant and equipment		**(2,173)**	(2,913)
Impairment loss on trade and other receivables		**810**	439
Impairment loss on slow moving materials and supplies	6	**-**	6,914
Retirement benefit costs	14	**5,220**	5,285
Reversal of impairment loss on trade receivables		**(85)**	(75)
Reversal of impairment loss on slow moving materials and supplies	6	**(6,433)**	-
Unrealised foreign exchange gain		**(3,336)**	(1,532)
Unrealised (gain)/loss on derivatives		**(27,091)**	30,463
Write-down of inventory to net realisable value	6	**3,177**	-
Write-off of investment property	9	**54**	116
Write-off of property, plant and equipment	8	**38**	1,162
Operating profit before changes in working capital		**371,252**	615,954
Change in inventories		**33,052**	25,029
Change in long-term assets		**1,495**	798
Change in trade and other payables and other financial liabilities		**(105,448)**	(2,371)
Change in trade and other receivables and other financial assets		**(236,391)**	(169,274)
Cash from operations		**63,960**	470,136
Interest paid		**(8,034)**	(7,317)
Interest received		**2,604**	2,951
Tax paid		**(116,231)**	(114,864)
Retirement benefits paid	14	**(6,926)**	(3,110)
Net cash from/(used in) operating activities		**(64,627)**	347,796

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000 Restated
Cash flows from investing activities			
Acquisition of investment property	9	**(1,801)**	(4,546)
Acquisition of property, plant and equipment	8	**(158,196)**	(83,463)
Payment for long-term assets	10	**(74,962)**	(18,485)
Proceeds from disposal of investment property		**-**	66,087
Proceeds from disposal of property, plant and equipment		**2,749**	5,636
Proceeds from disposal of long-term assets		**-**	3,087
Net cash used in investing activities		**(232,210)**	(31,684)
Cash flows from financing activities			
Proceeds from borrowings		**390,000**	-
Repayment of borrowings		**-**	(308,583)
Dividends paid	22	**(67,500)**	(59,400)
Net cash from/(used in) financing activities		**322,500**	(367,983)
Net change in cash and cash equivalents		**25,663**	(51,871)
Effect of exchange rate fluctuations on cash held		**153**	(155)
Cash and cash equivalents at 1 January		**119,614**	171,640
Cash and cash equivalents at 31 December	3	**145,430**	119,614

The notes on pages 87 to 134 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Petron Malaysia Refining & Marketing Bhd is a public company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The addresses of the registered office and principal place of business of the Company are as follows:

Registered office/Principal place of business
Level 12A, Menara I & P Tower 1
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur

Principal place of business
Port Dickson Refinery
1 ½ mile, Jalan Pantai
71000 Port Dickson, Negeri Sembilan

The Company is principally engaged in manufacturing and marketing of petroleum products in Peninsular Malaysia.

The immediate, intermediate and ultimate holding companies during the financial year were Petron Oil & Gas International Sdn. Bhd. (POGI), Petron Corporation (PCOR) and San Miguel Corporation (SMC), respectively. POGI was incorporated in Malaysia while PCOR and SMC were incorporated in the Philippines. The Directors regard SMC as its ultimate holding company.

The financial statements were authorised for issue by the Board of Directors on 21 February 2019.

1. Basis of preparation

1.1 Statement of compliance

The financial statements 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.

The following are accounting standards, amendments and interpretations of MFRSs that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Company:

MFRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*

MFRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, amendments and interpretations effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

MFRSs, amendments and interpretations effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128*, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2019 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 3 and Amendments to MFRS 11 which are not applicable to the Company, and

- from the annual period beginning on 1 January 2020 for those accounting standards, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2020, except for Amendments to MFRS 3, *Business Combinations – Definition of a Business.*

The Company does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Company.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Company except as mentioned below:

(i) MFRS 16, *Leases*

MFRS 16 replaces the 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 model for lessees. A lessee recognises a right-of-use asset representing its right to use an underlying asset and a lease liability representing its obligations to make lease payments. The standard contains recognition exemption for short-term and low-value leases. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Company has performed its initial assessment of the impact of adopting MFRS 16 on its financial statements using Modified Retrospective Approach Option 1. This option allows the Company to recognise lease liabilities at the present value of outstanding lease obligations at transition date, to recognise corresponding right-of-use assets based on carrying values as if the standard has been applied from the beginning of the lease term, and to charge any difference to retained earnings. The option also allows the Company to use its incremental borrowing rate of 4.43% at transition date in determining the present value of lease obligations.

Based on the initial assessment, as at 1 January 2019, the Company is to set up right-of-use assets amounting to RM90 million, recognise corresponding lease liabilities of RM91 million, and charge retained earnings RM1 million for the difference. Prepaid leases of RM173 million are also to be reclassified to right-of-use assets. The resulting right-of-use assets totaling RM263 million would include leases amounting to RM190 million, which meet the definition of investment property, and would subsequently be reclassified to investment property in 2019.

The estimated impact of adopting MFRS 16 is based on assessment performed to date, and the actual impact of adopting the standard may change until the Company presents its 2019 audited financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in Note 2.

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1.4 Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs 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.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 14 – remeasurement of retirement benefit obligations and Note 24 – expected credit loss for impairment of financial instruments.

2. Significant accounting policies

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

With the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes on the accounting policies for:
i) revenue and other income;
ii) financial instruments; and
iii) impairment losses on financial instruments.

The impact arising from these changes are disclosed in Note 31.

2.1 Joint arrangements

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

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as joint operation when the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Company accounts 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 Company has rights only to the net assets of the arrangements. The Company accounts for its interest in the joint venture using the equity method, less any impairment losses unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.2 Foreign currency transactions

Transactions in foreign currencies are translated to Ringgit Malaysia at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to Ringgit Malaysia at the exchange rate at that date.

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

Foreign currency differences on retranslation are recognised in profit or loss.

2.3 Financial instruments

The Company applied the following accounting policies with the implementation of MFRS 9, *Financial Instruments*. Nevertheless, as permitted by the standard, the Company has elected not to restate the comparatives.

(i) Initial recognition and measurement

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

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

Previous financial year

A financial instrument was recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument classification and subsequent measurement

Financial assets

Current financial year

Classifications of financial assets are determined on initial recognition and depend on the business model followed by the Company for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless 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 reporting period following the change in the business model.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.3 Financial instruments (continued)

(ii) Financial instrument classification and subsequent measurement (continued)

Financial assets (continued)

Current financial year (continued)

(a) Financial assets at amortised cost

Financial assets are measured at amortised cost if they meet both of the following conditions and are not designated as fair value through profit or loss:

- the financial assets are held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Gains and losses are recognised in profit or loss when the financial assets are reclassified to fair value through profit or loss, impaired or derecognised.

(b) Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost are measured at fair value through profit or loss. This includes all derivative financial assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

At initial recognition, the Company may irrevocably designate a financial asset through profit or loss if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to impairment assessment (see Note 2.10(i)).

Previous financial year

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives or financial assets that are specifically designated into this category upon initial recognition.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.3 Financial instruments (continued)

(ii) Financial instrument classification and subsequent measurement (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. 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 profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.4 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its 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 materials 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 parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income and other expenses, respectively in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.4 Property, plant and equipment (continued)

(ii) Subsequent costs

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 Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use. The estimated useful lives for the current and comparative periods are as follows:

- Buildings and improvements 20-50 years
- Plant and equipment 10-33 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

2.5 Investment property

(i) Investment property carried at cost

Investment properties consist of land, buildings and improvements which are held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include freehold land and leasehold land classified as finance lease. Investment properties initially and subsequently measured at cost are depreciated and amortised similar to property, plant and equipment (see Note 2.4).

Depreciation and amortisation, which commence when the investment properties are available for their intended use, are recognised in profit or loss on a straight-line basis over the estimated useful life of the properties similar to property, plant and equipment (see Note 2.4).

The gain or loss on disposal of investment properties is determined similar to property, plant and equipment (see Note 2.4).

(ii) Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment property following a change in its use, the Company accounts for transfers in accordance with recognition and measurement under property, plant and equipment up to the date of change in use.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.5 Investment property (continued)

(ii) Reclassification to/from investment property (continued)

For transfers from investment property to property, plant and equipment, the cost of property for subsequent accounting is its carrying amount at the date of change in use.

2.6 Leased assets

(i) Finance lease

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance lease. 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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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

(ii) Operating lease

Leases where the Company does not assume substantially all the risks and rewards of ownership are classified as operating lease and, except for property interests held under operating lease, the leased assets are not recognised on the statement of financial position.

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

2.7 Intangible assets

Software cost

Software cost is measured at cost less any accumulated amortisation. Computer software costs are amortised on a straight-line basis over the estimated useful life of the software, which normally falls within a range of 5 to 7 years.

2.8 Inventories

Crude oil and petroleum product inventories are stated at the lower of cost and net realisable value. Cost includes all applicable purchase costs and production overheads and is determined on the first-in first-out (FIFO) basis. Materials and supplies are valued at cost, determined on a weighted average basis, and a deduction is made for obsolete and slow moving stocks.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, and fixed deposits with licensed banks, which have an insignificant risk of changes in fair value with original maturities of three months or less and are used by the Company in the management of their short-term commitments.

2.10 Impairment

(i) Financial assets

With the implementation of MFRS 9, *Financial Instruments*, the Company applied the following accounting policies. Nevertheless, as permitted by the standard, the Company elected not to restate the comparatives.

Current financial year

The Company recognises allowance for impairment losses on receivables and financial assets measured at amortised cost.

The Company recognises allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, 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 Company's historical experience and informed credit assessment as well as forward-looking information, where available.

The Company estimates the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

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.

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

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

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.10 Impairment (continued)

(ii) Other assets

The carrying amounts of other assets (except for inventories and deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amounts of other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. 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 profit or loss in the financial year in which the reversals were recognised.

2.11 Equity instruments

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

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Distributions of assets to owners of the Company

The Company measures a liability to distribute assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Company recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.12 Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate.

(iii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed by a qualified actuary every three years using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

The Company determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligations at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

2.13 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.14 Revenue and other income

(i) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the control over goods has been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The Company transfers control of goods sold at a point in time unless one of the following criteria to transfer over time is met:

(a) the customer simultaneously receives and consumes the benefits provided as the Company performs its obligation;
(b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
(c) the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

(ii) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Other rent related income is recognised in the accounting period in which the service has been rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

2.15 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing 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 is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.16 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that 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 be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

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, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax credit will be realised.

2.17 Earnings per ordinary share

The Company presents basic earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the period, adjusted for own shares held.

2.18 Operating segments

An operating segment is a component of the Company 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 Company's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Company, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

2.19 Fair value measurement

Fair value of an asset or a liability, except for share-based payment and 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.19 Fair value measurement (continued)

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

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

2.20 Contingencies

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. Cash and cash equivalents

	2018 RM'000	2017 RM'000
Fixed deposits	**105,000**	70,000
Cash and bank balances	**40,430**	49,614
	145,430	119,614

NOTES TO THE FINANCIAL STATEMENTS

4. Derivative financial assets/(liabilities)

	2018			2017		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Derivatives held for trading at fair value through profit or loss						
- Forward exchange contracts	**342,329**	**-**	**(2,412)**	465,961	104	(2,418)
- Commodity swaps	**64,794**	**32,419**	**(2,916)**	269,964	2,996	(31,145)
	407,123	**32,419**	**(5,328)**	735,925	3,100	(33,563)

Forward exchange contracts are used to manage the foreign currency exposures arising from the Company's receivables and payables denominated in currencies other than the functional currency of the Company. All forward exchange contracts have maturities of one year or less after the end of the reporting period.

Commodity swaps are used to mitigate crude and petroleum products price risks arising from volatile market prices. All commodity derivative contracts have maturities of one year or less after the end of the reporting period.

5. Trade and other receivables

	2018 RM'000	2017 RM'000
Trade		
Trade receivables	**162,178**	238,306
Less: Impairment allowance	**(721)**	(580)
	161,457	237,726
Amounts due from related company	**113,988**	117,621
	275,445	355,347
Non-trade		
Subsidy receivables	**276,347**	93,582
Amounts due from related company	**598**	1,442
Other receivables	**42,919**	29,821
	319,864	124,845
	595,309	480,192

Related party balances

Trade balances due from related companies are subject to normal trade terms. Non-trade balances due from related companies are unsecured, interest free and repayable on demand.

Subsidy receivables

Subsidy receivables are amounts due from the Government of Malaysia under the Automatic Pricing Mechanism. These receivables are normally collected within 1 to 3 months.

NOTES TO THE FINANCIAL STATEMENTS

6. Inventories

	2018 RM'000	2017 RM'000
Crude oil	**225,345**	264,608
Petroleum products	**413,232**	410,409
Materials and supplies	**9,765**	3,121
	648,342	678,138
Recognised in profit or loss:		
Inventories recognised as cost of sales	**11,464,799**	9,530,259
Impairment loss on slow moving materials and supplies	**-**	6,914
Reversal of impairment loss on slow moving materials and supplies	**(6,433)**	-
Write-down to net realisable value	**3,177**	-

7. Other current assets

	2018 RM'000	2017 RM'000
GST input	**364,236**	300,138
Prepayments	**74,346**	15,795
	438,582	315,933

NOTES TO THE FINANCIAL STATEMENTS

8. Property, plant and equipment

	Freehold land RM'000	Leasehold land RM'000	Buildings and improvements RM'000	Plant and equipment RM'000	Capital project in-progress RM'000	Total RM'000
Cost						
At 1 January 2017, as previously reported	199,485	106,217	465,556	1,276,737	87,911	2,135,906
Effect of reclassification from property, plant and equipment to investment property	(148,075)	(76,916)	(416,022)	-	-	(641,013)
At 1 January 2017, restated	51,410	29,301	49,534	1,276,737	87,911	1,494,893
Addition	-	-	56	14,896	68,511	83,463
Disposal	-	(28)	-	(5,909)	-	(5,937)
Write-off	-	-	(2)	(3,155)	(560)	(3,717)
Reclassification	-	-	11,329	70,761	(82,090)	-
Reclassification to investment property	-	-	(2,236)	-	-	(2,236)
Reclassification to long-term assets	(191)	(717)	-	-	-	(908)
At 31 December 2017/1 January 2018, restated	**51,219**	**28,556**	**58,681**	**1,353,330**	**73,772**	**1,565,558**
Addition	**-**	**-**	**189**	**9,243**	**148,764**	**158,196**
Disposal	**-**	**-**	**(1,178)**	**(1,021)**	**-**	**(2,199)**
Write-off	**-**	**-**	**-**	**(3,716)**	**-**	**(3,716)**
Reclassification	**-**	**-**	**19,244**	**31,324**	**(50,568)**	**-**
Reclassification to investment property	**-**	**(4,129)**	**(30,206)**	**-**	**-**	**(34,335)**
Reclassification from long-term assets	**-**	**192**	**-**	**-**	**-**	**192**
At 31 December 2018	**51,219**	**24,619**	**46,730**	**1,389,160**	**171,968**	**1,683,696**

NOTES TO THE FINANCIAL STATEMENTS

8. Property, plant and equipment (continued)

	Freehold land RM'000	Leasehold land RM'000	Buildings and improvements RM'000	Plant and equipment RM'000	Capital project in-progress RM'000	Total RM'000
Accumulated depreciation						
At 1 January 2017, as previously reported	-	22,171	288,569	869,159	-	1,179,899
Effect of reclassification from property, plant and equipment to investment property	-	(16,690)	(253,669)	-	-	(270,359)
At 1 January 2017, restated	-	5,481	34,900	869,159	-	909,540
Depreciation during the year	-	318	2,334	46,371	-	49,023
Disposal	-	(5)	-	(3,209)	-	(3,214)
Write-off	-	-	(2)	(2,553)	-	(2,555)
Reclassification to long-term assets	-	(122)	-	-	-	(122)
At 31 December 2017/ 1 January 2018, restated	**-**	**5,672**	**37,232**	**909,768**	**-**	**952,672**
Depreciation during the year	**-**	**268**	**9**	**46,100**	**-**	**46,377**
Disposal	**-**	**-**	**(951)**	**(672)**	**-**	**(1,623)**
Write-off	**-**	**-**	**-**	**(3,678)**	**-**	**(3,678)**
Reclassification to investment property	**-**	**(796)**	**-**	**-**	**-**	**(796)**
At 31 December 2018	**-**	**5,144**	**36,290**	**951,518**	**-**	**992,952**
Carrying amount						
At 1 January 2017, restated	51,410	23,820	14,634	407,578	87,911	585,353
At 31 December 2017/ 1 January 2018, restated	51,219	22,884	21,449	443,562	73,772	612,886
At 31 December 2018	**51,219**	**19,475**	**10,440**	**437,642**	**171,968**	**690,744**

Included in the above property, plant and equipment is the net book value for the Company's 20% participating interest in the joint venture assets of the Multi-Product Pipeline (MPP) amounting to RM97,105,000 (2017: RM95,452,000).

During the financial year, compulsory acquisitions by the government resulted in the divestments of properties and equipment amounting to RM576,000 (2017: RM3,024,000).

Included in the carrying amount of leasehold land is the net book value for leasehold land with lease period of more than 50 years amounting to RM17,344,000 (2017: RM20,698,000).

NOTES TO THE FINANCIAL STATEMENTS

9. Investment property

	Freehold land RM'000	Leasehold land RM'000	Buildings and improvements RM'000	Total RM'000
Cost				
At 1 January 2017, restated	148,075	76,916	416,022	641,013
Addition	-	-	4,546	4,546
Disposal	(9,967)	-	(10,667)	(20,634)
Write-off	-	-	(480)	(480)
Reclassification from property, plant and equipment	-	-	2,236	2,236
At 31 December 2017/1 January 2018, restated	**138,108**	**76,916**	**411,657**	**626,681**
Reclassification from long-term assets	**-**	**5,424**	**-**	**5,424**
Reclassification from property, plant and equipment	**-**	**4,129**	**30,206**	**34,335**
Addition	**-**	**-**	**1,801**	**1,801**
Write-off	**-**	**-**	**(122)**	**(122)**
At 31 December 2018	**138,108**	**86,469**	**443,542**	**668,119**
Accumulated depreciation				
At 1 January 2017, restated	-	16,690	253,669	270,359
Depreciation for the year	-	865	15,331	16,196
Disposal	-	-	(6,810)	(6,810)
Write-off	-	-	(364)	(364)
At 31 December 2017/1 January 2018, restated	**-**	**17,555**	**261,826**	**279,381**
Reclassification from long-term assets	**-**	**795**	**-**	**795**
Reclassification from property, plant and equipment	**-**	**796**	**-**	**796**
Depreciation for the year	**-**	**255**	**18,389**	**18,644**
Write-off	**-**	**-**	**(68)**	**(68)**
At 31 December 2018	**-**	**19,401**	**280,147**	**299,548**
Carrying amounts				
At 1 January 2017, restated	148,075	60,226	162,353	370,654
At 31 December 2017/1 January 2018, restated	138,108	59,361	149,831	347,300
At 31 December 2018	**138,108**	**67,068**	**163,395**	**368,571**

Included in the carrying amount of leasehold land is the net book value for leasehold land with lease period of more than 50 years amounting to RM63,413,000 (2017: RM57,570,000).

The investment property is reclassified from property, plant and equipment to reflect the usage of the assets. Comparative figures have been restated to conform with current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

9. Investment property (continued)

The following profit or loss items are related to investment property:

	2018 RM'000	2017 RM'000
Rental income	**26,740**	24,143
Direct expenses	**23,842**	21,921

Fair value information

The fair value of investment properties as at 31 December 2018 was RM737,743,000 based on recent appraisals made by independent property consultant having appropriate professional qualifications, and recent experience in the location and category of the property being valued.

The fair value information of investment property as at 31 December 2017 and 1 January 2017 are not presented as it is impractical to obtain the relevant information.

Level 3 fair value

The fair market value of investment property has been categorised as Level 3 in the fair value hierarchy.

Land

The fair value of land was arrived at using the *Comparison Approach*, which estimates the value of the land based on prices of similar properties recently sold in similar locations or comparable economic areas and adjusted for differences in condition, date of transaction and other relevant characteristics.

Buildings and improvements

The fair values of buildings and improvements were arrived at using the *Depreciated Replacement Cost* method, which estimates the current *replacement cost new* of each of the assets and adjusted for obsolescence, including physical, functional and economic obsolescence.

NOTES TO THE FINANCIAL STATEMENTS

10. Long-term assets

	2018 RM'000	2017 RM'000
Prepaid lease rentals	**156,091**	136,924
Deposits	**2,571**	2,461
Marketing assistance to dealers	**6,831**	9,498
Others	**38,899**	17,097
	204,392	165,980
The movement in the long-term assets is as follows:		
At 1 January	**165,980**	179,145
Addition	**74,962**	18,854
Reclassification to investment property	**(4,629)**	-
Reclassification (to)/from property, plant and equipment	**(192)**	786
Amortisation	**(30,234)**	(29,089)
Disposal	**-**	(2,918)
Reclassification to short-term	**(901)**	(676)
Others	**(594)**	(122)
At 31 December	**204,392**	165,980

Prepaid lease rentals

Included in the above prepaid lease rentals is leasehold land amounting to RM2,054,000 (2017: RM2,272,000) for the Company's 20% participating interest in the joint venture assets of MPP.

Marketing assistance to dealers

The marketing assistance programme is provided to selected dealers to assist in the construction of the service stations in order for the Company to gain access to locations and generate future revenue streams and is amortised over the period of the agreements.

Others

Included in others are deferred charges on major turnaround costs amounting to RM34,177,000 (2017: RM10,310,000) which will be amortised over 5 years.

NOTES TO THE FINANCIAL STATEMENTS

11. Intangible assets - software

	Total RM'000
Cost	
At 1 January 2017	24,294
Write-off	(1,465)
At 31 December 2017/1 January 2018/31 December 2018	**22,829**
Accumulated amortisation	
At 1 January 2017	23,100
Amortisation during the year	1,123
Write-off	(1,465)
At 31 December 2017/1 January 2018	**22,758**
Amortisation during the year	**48**
At 31 December 2018	**22,806**
Carrying amounts	
At 1 January 2017	1,194
At 31 December 2017/1 January 2018	**71**
At 31 December 2018	**23**

12. Loans and borrowings

	2018 RM'000	2017 RM'000
Current		
Revolving credit – unsecured	**390,000**	-
	390,000	-

The Company's borrowings consist of short-term bilateral loans with various financial institutions for working capital requirements.

Reconciliation of movement of liabilities to cash flows arising from financing activities

	Revolving credit – unsecured RM'000	Total liabilities from financing activities RM'000
At 1 January 2018	**-**	**-**
Net changes from financing cash flows	**390,000**	**390,000**
At 31 December 2018	**390,000**	**390,000**

NOTES TO THE FINANCIAL STATEMENTS

13. Trade and other payables

	2018 RM'000	2017 RM'000
Trade		
Trade payables	**782,282**	926,919
Non-trade		
Accrued expenses	**31,293**	42,208
Duties and tax payables	**63,684**	17,825
Amounts due to related companies	**288**	102
Other payables	**74,512**	36,273
	952,059	1,023,327

Accrued expenses

Accrued expenses are generally non-trade in nature from transactions other than the purchase of crude and petroleum products.

Related party balances

Non-trade balances due to related companies are unsecured, interest free and are repayable on demand.

14. Retirement benefit obligations

	2018 RM'000	2017 RM'000
Current	**4,509**	7,460
Non-current	**40,967**	40,256
	45,476	47,716

The Company operates an unfunded defined benefit retirement plan for its regular national employees. The plan assumptions are reappraised by an independent actuary every three years. The latest actuarial appraisal was carried out in December 2016.

The defined benefit plan exposes the Company to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

NOTES TO THE FINANCIAL STATEMENTS

14. Retirement benefit obligations (continued)

Movement in retirement benefit obligations

The following table shows reconciliation from the opening balance to the closing balance for the retirement benefit obligations and its components:

	2018 RM'000	2017 RM'000
At 1 January	**47,716**	48,576
Included in profit or loss		
Current service cost	**2,800**	2,782
Interest cost	**2,420**	2,503
	5,220	5,285
Included in other comprehensive income		
Remeasurement of retirement benefit obligations		
Actuarial (gain)/loss arising from:		
- Experience adjustments	**(534)**	(3,035)
Others		
Benefits paid	**(6,926)**	(3,110)
At 31 December	**45,476**	47,716

Actuarial assumptions

Principal actuarial assumptions at the end of the reporting period (expressed as weighted average):

	2018 %	2017 %
Discount rate	**5.5**	5.5
Future salary growth	**6.0**	6.0

As at 31 December 2018, the weighted average duration of the defined benefit obligation was 8.06 years (2017: 7.56 years).

NOTES TO THE FINANCIAL STATEMENTS

14. Retirement benefit obligations (continued)

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown below:

	Retirement benefit obligations			
	2018		2017	
	Increase RM'000	Decrease RM'000	Increase RM'000	Decrease RM'000
Discount rate (1% movement)	**(3,247)**	**3,726**	(3,202)	3,669
Future salary growth (1% movement)	**5,151**	**(4,535)**	4,598	(4,079)

Although the analysis does not account for the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

15. Deferred tax liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property, plant and equipment	**-**	-	**(72,419)**	(73,891)	**(72,419)**	(73,891)
Retirement benefit obligations	**5,066**	4,839	**-**	-	**5,066**	4,839
Other items	**1,687**	9,938	**(7,882)**	(368)	**(6,195)**	9,570
Net tax assets/(liabilities)	**6,753**	14,777	**(80,301)**	(74,259)	**(73,548)**	(59,482)

NOTES TO THE FINANCIAL STATEMENTS

15. Deferred tax liabilities (continued)

Movement in temporary differences during the year

	At 1.1.2017 RM'000	Recognised in profit or loss (Note 19) RM'000	Recognised directly in equity (Note 19) RM'000	At 31.12.2017/ 1.1.2018 RM'000	Adjustments on initial application of MFRS 9 (Note 19) RM'000	At 1.1.2018 RM'000	Recognised in profit or loss (Note 19) RM'000	Recognised directly in equity (Note 19) RM'000	At 31.12.2018 RM'000
Property, plant and equipment	(74,051)	160	-	**(73,891)**	**-**	**(73,891)**	**1,472**	**-**	**(72,419)**
Retirement benefit obligations	5,073	494	(728)	**4,839**	**-**	**4,839**	**355**	**(128)**	**5,066**
Other items	5,150	4,420	-	**9,570**	**193**	**9,763**	**(15,958)**	**-**	**(6,195)**
Net tax liabilities	(63,828)	5,074	(728)	**(59,482)**	**193**	**(59,289)**	**(14,131)**	**(128)**	**(73,548)**

16. Share Capital

	2018 Number of shares '000	2018 RM'000	2017 Number of shares '000	2017 RM'000
Issued and fully paid:				
At 1 January	**270,000**	**143,000**	270,000	135,000
Transition to no-par value regime	**-**	**-**	-	8,000
At 31 December	**270,000**	**143,000**	270,000	143,000

Share capital

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

Pursuant to the Companies Act 2016 in Malaysia which came into effect on 31 January 2017, the concept of authorised share capital no longer exists.

In accordance with section 74 of the Companies Act 2016, the Company's ordinary shares no longer have a par or nominal value with effect from 31 January 2017. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

Included in share capital is capital redemption reserves amounting to RM8,000,000 that is available to be used in accordance with Section 618 (3) of Companies Act 2016 on or before 31 January 2019 (24 months from commencement of Section 74 of Companies Act 2016). The Company's capital redemption reserves arose from redemption of 8,000,000 preference shares in 1986. As at the date of issuance of the financial statements, the Company did not utilise the capital redemption reserves amounting to RM8,000,000.

NOTES TO THE FINANCIAL STATEMENTS

17. Revenue

Revenues are mainly derived from the sale of petroleum products to Retail and Commercial customers in various geographical locations as disclosed in Note 23 – Operating segment. Revenues are recognised when control over products has been transferred to the customers through delivery and acceptance measured at fair value of consideration received or receivable, net of applicable discounts, rebates, and subject to applicable allowances and refunds. The general payment terms with customers are combination of prepayments and credit terms from a period of 3 to 30 days from invoice date.

The Company has no significant remaining performance obligations as it recognises revenues in amounts that correspond directly to the value of completed performance obligations.

	2018 RM'000	2017 RM'000
Revenue from contracts with customers		
Third-party sales	**9,374,760**	8,158,828
Sales to related companies	**2,632,399**	2,198,050
	12,007,159	10,356,878
Other revenue		
Credit card merchandise fees	**-**	17
Other revenues and rebates	**39,878**	5,476
Allied business rental	**-**	687
	12,047,037	10,363,058

Sales represent the value of goods sold inclusive of subsidies and net of Government duties and taxes.

Included in other revenues and rebates are revenues from processing third-party crude amounting to RM33,244,000 (2017: RM Nil).

NOTES TO THE FINANCIAL STATEMENTS

18. Profit before tax

	2018 RM'000	2017 RM'000 Restated
Profit before tax is arrived at after charging:		
Amortisation of intangible assets	**48**	1,123
Audit fees	**386**	373
Finance costs	**12,046**	12,974
Foreign exchange		
- Realised loss	**12,253**	-
Hire of plant and machinery	**217**	422
Impairment loss on trade and other receivables	**810**	439
Impairment loss on slow moving materials and supplies	**-**	6,914
Investment property		
- Depreciation	**18,644**	16,196
- Write-off	**54**	116
Long-term assets		
- Amortisation		
- Prepaid lease rentals	**13,664**	12,130
- Marketing assistance to dealers	**2,450**	3,277
- Others	**14,120**	13,682
Loss on derivatives	**-**	102,333
Personnel expenses (including key management personnel)		
- Contributions to Employees' Provident Fund	**7,091**	6,768
- Wages, salaries and others	**64,222**	60,608
- Retirement benefits	**5,220**	5,285
Property, plant and equipment		
- Depreciation	**46,377**	49,023
- Write-off	**38**	1,162
Property rental	**3,417**	3,424
Repair and maintenance	**39,656**	51,393
Trucking cost	**52,976**	47,684
Write-down of inventories to net realisable value	**3,177**	-

NOTES TO THE FINANCIAL STATEMENTS

18. Profit before tax (continued)

	2018 RM'000	2017 RM'000 Restated
and after crediting:		
Finance income	**2,623**	2,976
Foreign exchange		
- Realised gain	**-**	31,625
- Unrealised gain	**3,336**	1,532
Gain on derivatives	**22,338**	-
Gain on disposal of investment property	**-**	52,263
Gain on disposal of long-term assets	**-**	169
Gain on disposal of property, plant and equipment	**2,173**	2,913
Rental income	**45,081**	41,111
Reversal of impairment loss on trade and other receivables	**85**	75
Reversal of impairment loss on slow moving materials and supplies	**6,433**	-

NOTES TO THE FINANCIAL STATEMENTS

19. Tax expense

Recognised in profit or loss

	2018 RM'000	2017 RM'000
Current tax expense		
Current year	**62,842**	123,850
Prior years	**(5,168)**	(851)
Total current tax recognised in profit or loss	**57,674**	122,999
Deferred tax expense		
Origination and reversal of temporary differences	**13,324**	(5,541)
Under provision in prior years	**807**	467
Total deferred tax recognised in profit or loss	**14,131**	(5,074)
Total income tax expense	**71,805**	117,925
Reconciliation of tax expense		
Profit before tax	**296,345**	523,098
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	**71,123**	125,544
Non-deductible expenses	**5,340**	6,827
Non-taxable income	**(297)**	(14,062)
Over provision in prior years	**(4,361)**	(384)
	71,805	117,925
Income tax recognised directly in equity		
Deferred tax		
- Adjustments on initial application of MFRS 9	**(193)**	-
- Retirement benefit obligations	**128**	728
	(65)	728

20. Other comprehensive income

	2018 RM'000	2017 RM'000
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit liability		
Before tax	**534**	3,035
Tax expense	**(128)**	(728)
Net of tax	**406**	2,307

NOTES TO THE FINANCIAL STATEMENTS

21. 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 the number of ordinary shares in issue, calculated as follows:

	2018	2017
Net profit attributable to shareholders (RM'000)	**224,540**	405,173
Number of ordinary share units in issue ('000)	**270,000**	270,000
Basic earnings per share (sen)	**83.2**	150.1

Diluted EPS is not presented as the Company has no potential shares or other instruments with dilutive effects.

22. Dividends

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2018			
Final 2017 ordinary	**25.0**	**67,500**	**27 June 2018**
2017			
Final 2016 ordinary	22.0	59,400	30 June 2017

After the end of the reporting period the following dividend was proposed by the Directors. The dividend will be recognised in subsequent financial period upon approval by the owners of the Company.

	Sen per share	Total amount RM'000
Final 2018 ordinary	**20.0**	**54,000**

NOTES TO THE FINANCIAL STATEMENTS

23. Operating segment

The Company is organised as one integrated business segment which operates to manufacture and sell petroleum products. These integrated activities are known across the petroleum industry as the Downstream segment. As such, the assets and liabilities are disclosed within the financial statements as one segment.

Revenues are mainly derived from the sale of petroleum products to domestic customers including its affiliates and competitors. A breakdown of the revenues by geographical location is as follows:

	2018 RM'000	2017 RM'000
Domestic	**11,007,955**	9,431,993
Foreign	**1,039,082**	931,065
	12,047,037	10,363,058

Major customers

The following is a major customer with revenue equal or more than 10% of the Company's total revenue:

	2018 RM'000	2017 RM'000
Related party		
- Petron Fuel International Sdn. Bhd.	**2,632,399**	2,198,050

Other than this major customer, there are no individual customers contributing to equal or more than 10% of the Company's total revenue for the current and previous financial year.

All non-current assets of the Company are located in Malaysia.

24. Financial instruments

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:
(a) Amortised cost (AC);
(b) Fair value through profit or loss (FVTPL)
- Mandatorily required by MFRS 9

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.1 Categories of financial instruments (continued)

	Carrying amount RM'000	AC RM'000	FVTPL RM'000
2018			
Financial assets			
Trade and other receivables	**595,309**	**595,309**	**-**
Cash and cash equivalents	**145,430**	**145,430**	**-**
Derivative financial assets	**32,419**	**-**	**32,419**
	773,158	**740,739**	**32,419**
Financial liabilities			
Loans and borrowings	**(390,000)**	**(390,000)**	**-**
Trade and other payables	**(952,059)**	**(952,059)**	**-**
Derivative financial liabilities	**(5,328)**	**-**	**(5,328)**
	(1,347,387)	**(1,342,059)**	**(5,328)**

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:
(a) Loans and receivables (L&R);
(b) Fair value through profit or loss (FVTPL):
- Held for trading (HFT); and
(c) Financial liabilities measured at amortised cost (FL).

	Carrying amount RM'000	L&R/(FL) RM'000	FVTPL-HFT RM'000
2017			
Financial assets			
Trade and other receivables	480,192	480,192	-
Cash and cash equivalents	119,614	119,614	-
Derivative financial assets	3,100	-	3,100
	602,906	599,806	3,100
Financial liabilities			
Trade and other payables	(1,023,327)	(1,023,327)	-
Derivative financial liabilities	(33,563)	-	(33,563)
	(1,056,890)	(1,023,327)	(33,563)

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.2 Net gains and losses arising from financial instruments

	2018 RM'000	2017 RM'000
Net gains/(losses) on:		
Fair value through profit or loss	**22,338**	(102,333)
Financial liabilities measured at amortised cost		
- Finance costs	**(12,046)**	(12,974)
- Unrealised foreign exchange gain	**3,395**	2,697
- Realised foreign exchange gain/(loss)	**(16,033)**	42,838
	(24,684)	32,561
Financial assets measured at amortised cost		
- Finance income	**2,623**	-
- Net impairment loss on trade and other receivables	**(725)**	-
- Unrealised foreign exchange loss	**(59)**	-
- Realised foreign exchange gain	**3,780**	-
	5,619	-
Loans and receivables		
- Finance income	**-**	2,976
- Net impairment loss on trade and other receivables	**-**	(364)
- Unrealised foreign exchange loss	**-**	(1,165)
- Realised foreign exchange loss	**-**	(11,213)
	-	(9,766)
	3,273	(79,538)

24.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

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 Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant past due balances more than its credit term, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables as at the end of the reporting period by geographic region was:

	2018 RM'000	2017 RM'000
Domestic	**114,277**	122,358
Foreign	**47,180**	115,368
	161,457	237,726

Impairment losses

The Company uses a provision matrix using historical credit loss experience over the past three years to measure expected credit losses (ECLs) on receivables.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.4 Credit risk (continued)

Receivables (continued)

Impairment losses for trade receivables

The Company maintains an ageing analysis for trade receivables only. The following table provides information about the exposure to credit risk and ECLs on trade receivables as at 31 December 2018.

	Gross RM'000	Impairment RM'000	Net RM'000
2018			
Current	**161,525**	**(68)**	**161,457**
Past due 1 - 90 days	**300**	**(300)**	**-**
Past due 91 - 180 days	**57**	**(57)**	**-**
Past due 181 - 365 days	**28**	**(28)**	**-**
Past due more than 365 days	**268**	**(268)**	**-**
	162,178	**(721)**	**161,457**

The comparative information under MFRS 139, *Financial Instruments*: *Recognition* and *Measurement* were as follows:

	Gross RM'000	Impairment RM'000	Net RM'000
2017			
Current	234,581	-	234,581
Past due 1 - 90 days	3,011	-	3,011
Past due 91 - 180 days	134	-	134
Past due 181 - 365 days	42	(42)	-
Past due more than 365 days	538	(538)	-
	238,306	(580)	237,726

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	2018 RM'000	2017 RM'000
At 1 January	**580**	512
Adjustments on initial application of MFRS 9	**3**	-
Allowance made during the year	**223**	439
Reversal of impairment loss	**(85)**	(75)
Write-off	**-**	(296)
At 31 December	**721**	580

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Company is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivables directly.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.4 Credit risk (continued)

Receivables (continued)

Impairment losses for other receivables

With the adoption of MFRS 9, ECL was used resulting in the transition adjustment for the initial application of the standard and increase in the allowance for impairment of other receivables amounting to RM804,000 and RM587,000, respectively.

Inter-company advances

Risk management objectives, policies and processes for managing the risk

The Company provides advances to related companies. The Company monitors the results of the related companies regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Advances are only provided to related companies which are wholly owned by the immediate holding company.

Impairment losses

As at the end of the reporting period, there was no indication that advances to related companies are not recoverable.

Cash and cash equivalents

Exposure to credit risk, credit quality and collateral

The credit risk for cash and cash equivalents is deemed negligible, since the counterparties are considered reputable entities.

24.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Company maintains a level of cash and cash equivalents, bank facilities and inter-company financing arrangement deemed adequate by management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due. The Company reviews its revolving credit facilities on a periodic basis. In addition, the Company has subscribed to the fund pooling arrangements with its affiliates, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. This inter-company financing arrangement allows the Company to either draw cash from the pool in the event of a shortfall, or place cash into the pool in the event of excess, at competitive interest rates on a daily basis.

The Company continues to optimise the mix of its borrowing facilities to maximise financing flexibility whilst reducing financing cost. These facilities are short-term in nature unless opportunities arise to secure favourable longer term borrowing facilities.

Liquidity risk may also arise if debtors are not able to settle obligations to the Company within the normal credit term. To manage this risk, the Company periodically assesses the financial viability of debtors and may require certain debtors to provide bank guarantees or other security.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.5 Liquidity risk (continued)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate /coupon	Contractual cash flows RM'000	Under 1 year RM'000
2018				
Non-derivative financial liabilities				
Trade and other payables	**952,059**	**-**	**952,059**	**952,059**
Loans and borrowings				
Revolving credit	**390,000**	**4.4%**	**407,277**	**407,277**
	1,342,059		**1,359,336**	**1,359,336**
Derivative financial liabilities				
Forward exchange contracts (gross settled):				
Outflow	**2,412**	**-**	**342,329**	**342,329**
Inflow	**-**	**-**	**(339,917)**	**(339,917)**
Commodity swaps (gross settled):				
Outflow	**-**	**-**	**64,794**	**64,794**
Inflow	**(29,503)**	**-**	**(94,297)**	**(94,297)**
	1,314,968		**1,332,245**	**1,332,245**
2017				
Non-derivative financial liabilities				
Trade and other payables	1,023,327	-	1,023,327	1,023,327
Derivative financial liabilities				
Forward exchange contracts (gross settled):				
Outflow	2,314	-	465,961	465,961
Inflow	-	-	(463,647)	(463,647)
Commodity swaps (gross settled):				
Outflow	28,149	-	269,964	269,964
Inflow	-	-	(241,815)	(241,815)
	1,053,790		1,053,790	1,053,790

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices, will affect the Company's financial position or cash flows.

24.6.1 Currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company. The currencies giving rise to this risk are primarily U.S. Dollar (USD), Japanese Yen (JPY), Singapore Dollar (SGD) and British Pound (GBP).

Risk management objectives, policies and processes for managing the risk

The Company uses forward exchange contracts to manage its foreign currency risk. All forward contracts have maturities of one year or less after the end of the reporting period.

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in			
	USD	JPY	SGD	GBP
	RM'000	RM'000	RM'000	RM'000
2018				
Cash and cash equivalents	**19,994**	**-**	**-**	**-**
Trade and other receivables	**47,180**	**-**	**-**	**-**
Trade and other payables	**(468,742)**	**(3,827)**	**(88)**	**(9)**
Net exposure	**(401,568)**	**(3,827)**	**(88)**	**(9)**
2017				
Cash and cash equivalents	31,919	-	-	-
Trade and other receivables	115,368	-	-	-
Trade and other payables	(507,146)	(2,669)	(117)	(316)
Net exposure	(359,859)	(2,669)	(117)	(316)

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.1 Currency risk (continued)

Currency risk sensitivity analysis

Foreign currency risk mainly arises from USD. The exposure to other currencies is not material and hence, sensitivity analysis is not presented.

A 10% (2017:10%) strengthening of the RM against USD at the end of the reporting period would have increased/(decreased) equity and after-tax profit/(loss) by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Profit or loss	
	2018	2017
	RM'000	RM'000
USD	**30,519**	27,349

A 10% (2017:10%) weakening of RM against USD at the end of the reporting period would have had equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remained constant.

24.6.2 Interest rate risk

The Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, practice and processes for managing the risk

Interest rate exposure arising from the Company's borrowings is managed through monitoring and reviewing interest rate changes in the market and its impact to the Company's financial performance. The Company does not use derivative financial instruments to hedge its debt obligations.

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2018	2017
	RM'000	RM'000
Floating rate instruments		
Financial liabilities	**(390,000)**	-

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.2 Interest rate risk (continued)

Interest rate risk sensitivity analysis

Cash flow sensitivity analysis for variable rate instruments

The borrowings are generally based on floating interest rate unless opportunities arise for competitive fixed rate financing. The Company's financing arrangements are typically tracked against the Kuala Lumpur Interbank Offered Rate (KLIBOR). The impact of a 10 basis point (bp) change in interest rate affecting the Company's borrowings would not be material to the Company's financial statements.

A change of 10 basis points in interest rate at the end of the reporting period would have increased/(decreased) after tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

	Profit or loss			
	2018		2017	
	10 bp increase RM'000	10 bp decrease RM'000	10 bp increase RM'000	10 bp decrease RM'000
Floating rate instruments	**(6)**	**6**	-	-

24.7 Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables and short-term borrowings reasonably approximate fair values due to the relatively short-term nature of these financial instruments.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
2018										
Financial assets										
Commodity swaps	-	32,419	-	32,419	-	-	-	-	32,419	32,419
	-	32,419	-	32,419	-	-	-	-	32,419	32,419
Financial liabilities										
Forward exchange contracts	-	(2,412)	-	(2,412)	-	-	-	-	(2,412)	(2,412)
Commodity swaps	-	(2,916)	-	(2,916)	-	-	-	-	(2,916)	(2,916)
Loans and borrowings	-	-	-	-	-	-	(390,000)	(390,000)	(390,000)	(390,000)
	-	(5,328)	-	(5,328)	-	-	(390,000)	(390,000)	(395,328)	(395,328)

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.7 Fair value information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
2017										
Financial assets										
Forward exchange contracts	-	104	-	104	-	-	-	-	104	104
Commodity swaps	-	2,996	-	2,996	-	-	-	-	2,996	2,996
	-	3,100	-	3,100	-	-	-	-	3,100	3,100
Financial liabilities										
Forward exchange contracts	-	(2,418)	-	(2,418)	-	-	-	-	(2,418)	(2,418)
Commodity swaps	-	(31,145)	-	(31,145)	-	-	-	-	(31,145)	(31,145)
	-	(33,563)	-	(33,563)	-	-	-	-	(33,563)	(33,563)

Level 2 fair value

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Non-derivative financial liabilities

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. For other borrowings, the market rate of interest is determined by reference to similar borrowing arrangements.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2017: no transfer in either directions).

Level 3 fair value

The following table shows the valuation technique used in the determination of fair value within Level 3, as well as the key unobservable inputs used in the valuation model.

Financial instruments not carried at fair value

Type	Description of valuation technique and input used
Loans and borrowings	Discounted cash flows using a rate based on the current market rate of borrowings of the Company at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

25. Capital management

The Company's objectives when managing capital are to maintain a strong capital base and safeguard the Company's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors capital via carrying amount of equity as stated in statement of financial position.

The debt-to-equity ratios as at 31 December 2018 and 31 December 2017 were as follows:

	2018 RM'000	2017 RM'000
Total loans and borrowings (Note 12)	**390,000**	-
Total equity	**1,668,809**	1,511,977
Debt-to-equity ratios	**0.23**	-

There was no change in the Company's approach to capital management during the financial year.

26. Operating leases

Leases as lessee

	2018 RM'000	2017 RM'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	**913**	1,113
Between one and five years	**3,588**	2,624
More than five years	**11,861**	8,922
	16,362	12,659

The Company leases land under operating lease. The leases typically run for a period of 3 to 10 years, with an option to renew the lease after that date. None of the leases include contingent rentals.

27. Capital and other commitments

	2018 RM'000	2017 RM'000
Capital expenditure commitments		
Contracted but not provided for	**226,601**	64,793

Included above is contracted for the joint venture assets of the MPP amounting to RM619,000 (2017: RM817,000).

NOTES TO THE FINANCIAL STATEMENTS

28. Other proceeding

An action was filed against the Company by its former transportation contractor, Konsortium Lord Saberkat Sdn. Bhd. (KLSSB), in 2014. The claim against the Company amounted to approximately RM41,091,000. The High Court in Kuala Lumpur, on 30 June 2015, delivered Judgment on the lawsuit and dismissed most of KLSSB's claims but nevertheless ruled that a sum of RM3,387,000 was payable by the Company to KLSSB including interest on the said sum (at the rate of 5% per annum from the date of the filing of the Writ of Summons until the date of full and final settlement) and costs of RM15,000.

On 13 July 2015, in a clarification on the Judgment, the High Court ruled that an additional sum of RM352,000 to be part of the sum payable by the Company to KLSSB.

The Company filed a notice of appeal with the Court of Appeal on 21 July 2015 in relation to parts of the Judgment that were against the Company namely: (1) the sum of RM3,739,000 (inclusive of the RM352,000 per clarification on the Judgment by High Court), (2) interest on the said sum (at the rate of 5% per annum from the date of filing of the Writ of Summons until the date of full and final settlement) payable by the Company to KLSSB; and (3) costs of RM15,000 payable by Company to KLSSB.

Further, on 24 July 2015, KLSSB filed a notice of appeal with the Court of Appeal in relation to parts of the Judgment where most of KLSSB's claims were dismissed.

On 10 December 2015, the Court of Appeal held that all KLSSB's appeal was dismissed and the Company's appeal on 21 July 2015 was allowed. The Company was also awarded cost of RM30,000. Following the Court of Appeal's decision, KLSSB on 6 January 2016 filed a motion to seek leave to appeal to the Federal Court (the Motion). On 8 November 2016, the Federal Court dismissed the Motion by KLSSB, with an order for costs of RM10,000 in favour of the Company.

Subsequently, a notice of motion for a review of the Federal Court decision (Motion for Review) was then served by KLSSB's solicitors to the Company's solicitors on 13 December 2016.

On 10 January 2018, the Federal Court has dismissed the application for review by KLSSB, with an order for costs of RM10,000 made in favour of the Company.

KLSSB also filed a motion to amend the Order made by the Court of Appeal dated 10 December 2015 and was dismissed by the Court of Appeal on 24 September 2018. KLSSB has since filed an application for leave to appeal to the Federal Court in relation to the dismissal by the Court of Appeal. The matter is fixed for hearing on 5 March 2019.

On 3 December 2018, KLSSB filed a new claim against the Company allegedly over a breach of contract in relation to the same Agreement (the Second Suit). The amount of damages claimed was approximately RM109,183,500. The Company has filed an application to strike out the Second Suit and it is now fixed for hearing on 4 April 2019. The Company has instructed its external counsel to act on its behalf and does not expect any financial or operational impact as a result of this Second Suit.

29. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if 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 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 Company either directly or indirectly. Key management personnel includes all the Directors, and certain members of senior management of the Company.

The Company has related party relationship with its holding companies, significant investors, related companies and key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

29. Related parties (continued)

Significant related party transactions

In the ordinary course of business, the Company undertakes transactions with related parties which include the sale and purchase of products carried out on commercial terms and conditions negotiated amongst the related parties, and the sharing of services and facilities at cost apportioned on a mutually agreed basis.

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Company are shown below. The balances related to the below transactions are shown in Note 5 and 13.

	2018 RM'000	2017 RM'000
Purchase of petroleum products from related company:		
Petron Fuel International Sdn. Bhd.	**1,300,684**	1,147,452
Sale of petroleum products to related company:		
Petron Fuel International Sdn. Bhd.	**2,632,399**	2,198,050
Central management, shared facilities and service costs with related companies:		
Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.		
Charged from:	**88,293**	82,045
Charged to:	**1,107**	2,290
Central management, shared facilities and service costs with intermediate holding company:		
Petron Corporation		
Charged from:	**286**	71
Key management personnel:		
Non-executive directors		
Fees	**325**	266
Other short-term employee benefits	**314**	186
	639	452

NOTES TO THE FINANCIAL STATEMENTS

30. Interest in joint operations

Details of the joint operations are as follows:

Name of joint operation	Other joint operation parties	Principal place of business	Principal activity	Percentage of ownership	
				2018	**2017**
Joint Venture Agreement for Multi-Product Pipeline and Distribution Terminal	Petronas Dagangan Berhad (PDB) and Shell Malaysia Trading Sendirian Berhad (SMTSB)	Port Dickson	Construct, own and operate the MPP	**20%**	20%
Joint Facilities Operating Agreement	Hengyuan Refining Company Bhd (Operator)	Port Dickson	Construct and maintain common carrier pipeline facilities	**50%**	50%

31. Significant changes in accounting policies

During the year, the Company adopted MFRS 15, *Revenue from Contracts with Customers*, and MFRS 9, *Financial Instruments*, on their financial statements. The Company applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards.

31.1 Accounting for revenue

The Company has adopted MFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognised at the beginning of the year of initial application, with no restatement of comparative period.

The adoption of the new standard has no impact on the Company's financial statements.

31.2 Accounting for financial instruments

As permitted by MFRS 9, the Company has elected not to restate the comparative information. The adoption of MFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Company except for the effect of applying the expected credit loss model in estimating impairment, which resulted in the increase in the allowance for impairment of receivables and decrease in retained earnings as disclosed in Note 31.3 – Impacts on financial statements.

Trade and other receivables that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

31. Significant changes in accounting policies (continued)

31.3 Impacts on financial statements

The following tables summarise the impacts arising from the adoption of MFRS 9 on the Company's financial statements.

Statement of financial position

	As previously reported RM'000	1 January 2018 MFRS 9 adjustments RM'000	As restated RM'000
Current assets	**1,596,977**	**(807)**	**1,596,170**
Non-current assets	**1,126,237**	**-**	**1,126,237**
Current liabilities	**(1,111,499)**	**-**	**(1,111,499)**
Non-current liabilities	**(99,738)**	**193**	**(99,545)**
Equity	**(1,511,977)**	**614**	**(1,511,363)**

32. Comparative figures

Certain comparatives figures of the Company have been restated to conform with current year's presentation. The restatements do not have any impact to the statement of profit or loss and other comprehensive income, and only reclassification impact to the statement of financial position. The effects are disclosed below:

Statement of Financial Position

	31.12.2017		1.1.2017	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
Assets				
Property, plant and equipment	612,886	960,186	585,353	956,007
Investment property	347,300	-	370,654	-

NOTES TO THE FINANCIAL STATEMENTS

32. Comparative figures (continued)

The restatements do not have any material impact to the statement of cash flows. The effects are disclosed below:

Statement of Cash Flows

	31.12.2017	
	As restated RM'000	As previously stated RM'000
Cash flows from operating activities		
Depreciation of investment property	16,196	-
Depreciation of property, plant and equipment	49,023	65,219
Gain on disposal of investment property	(52,263)	-
Gain on disposal of property, plant and equipment	(2,913)	(55,176)
Write-off of investment property	116	-
Write-off of property, plant and equipment	1,162	1,278
Cash flows from investing activities		
Acquisition of investment property	(4,546)	-
Acquisition of property, plant and equipment	(83,463)	(88,009)
Proceeds from disposal of investment property	66,087	-
Proceeds from disposal of property, plant and equipment	5,636	71,723

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 82 to 134 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 Company as of 31 December 2018 and of its 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:

....

Ramon S. Ang

....

Y.Bhg. Dato' Zainal Abidin Putih

Date: 21 February 2019

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, **Myrna C. Geronimo**, the officer primarily responsible for the financial management of Petron Malaysia Refining & Marketing Bhd, do solemnly and sincerely declare that the financial statements set out on pages 82 to 134 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 above named at Kuala Lumpur in the Federal Territory on 21 February 2019.

....
Myrna C. Geronimo

Before me:

....
Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PETRON MALAYSIA REFINING & MARKETING BHD

(Company No. 3927-V)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petron Malaysia Refining & Marketing Bhd, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 82 to 134.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its 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 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 Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(i) Revenue recognition

Refer to accounting policy Note 2.14(i) and Note 17 of the financial statements.

The key audit matter

Revenue is an important measure used to evaluate the performance of the company. It is accounted for when controls of the goods have been transferred to the customers. Revenue generated through certain sectors is susceptible to manipulation as the pricing is dependent on contractual terms rather than publicly available pricing. Whilst revenue recognition and measurement is not complex for the Company, voluminous sales transactions and the sales target which forms part of the Company's key performance measure create incentive to record revenue incorrectly.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PETRON MALAYSIA REFINING & MARKETING BHD

Key Audit Matters (continued)

(i) Revenue recognition (continued)

The key audit matter (continued)

How the matter was addressed in our audit

We performed the following audit procedures, among others, around revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess that these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts to identify unusual or irregular items.
- We tested credit notes recorded after the financial year to assess whether revenue has been recognised in the appropriate financial year.

(ii) Valuation of inventories

Refer to accounting policy Note 2.8 and Note 6 of the financial statements.

The key audit matter

Inventory is a significant balance and the valuation of the Company's raw materials and finished goods inventories, is subject to price volatility. The volatility of the crude oil price can therefore lead to potential issues over the full recoverability of inventory balances. There was also judgement involved in estimating the cost of conversion for the raw materials, carried at year end to determine whether the cost of raw materials should be written down to its net realisable value at the end of the reporting period.

How the matter was addressed in our audit

We performed the following audit procedures, among others, around valuation of inventories:

- We obtained test of impairment of its raw materials and finished goods based on the net realisable value of the finished goods around year end.
- For raw material, projected production yield for raw material was used to estimate the cost of conversion for the raw materials as of year end. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated cost of finished goods to the net realisable value around year end to determine any potential write down.
- For finished goods, we checked the selling price of various products to the sales invoice around year end. We assessed the need of any write down based on the difference in the pricing based on the year end inventories amount held.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PETRON MALAYSIA REFINING & MARKETING BHD

Key Audit Matters (continued)

(iii) Adoption of MFRS 15 *Revenue from Contracts with Customers*

Refer to accounting policy Note 2.14(i) and Note 17 of the financial statements.

The key audit matter

MFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the considerations to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the 5-step model. As with any new standard, there are also increased disclosures. The main revenue streams of the Company are currently from retail and commercial sector. The Company is required to review each contract arrangement to identify different revenue streams besides selling PMRMB's petroleum related products. There is judgement involved in the assessment of performance obligations and estimating the stand alone price of each performance obligations.

How the matter was addressed in our audit

We performed the following audit procedures, among others, around adoption of MFRS 15:

- We evaluated the appropriateness of the accounting policies based on the requirements of MFRS 15, our business understanding and industry practice.
- We obtained understanding of the transition approach and any practical expedients applied.
- We obtained understanding of management's new or revised processes, systems and controls implemented.
- We identified and test relevant controls.
- We assessed the appropriateness of management's revenue recognition under MFRS 15 across significant revenue streams for a sample of contracts.
- We assessed the completeness, accuracy and relevance of disclosures required by MFRS 15.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report and Statement on Risk Management and Internal Control (but does not include the financial statements of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate actions in accordance with the approved standards on auditing in Malaysia and International Standards on Auditing.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PETRON MALAYSIA REFINING & MARKETING BHD

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements 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 Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the ability 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 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 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 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 Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the 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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PETRON MALAYSIA REFINING & MARKETING BHD

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 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.

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Ong Beng Seng
Approval Number: 02981/05/2020 J
Chartered Accountant

Petaling Jaya, Selangor

Date: 21 February 2019

INFORMATION ON SHAREHOLDINGS

As at 15 March 2019

Class of share : Ordinary Share Unit
Voting right : One vote per share unit

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Units Held	% of Issued Capital
Less than 100	406	3.918	11,860	0.004
100 - 1,000	4,390	42.366	3,279,020	1.214
1,001 - 10,000	4,677	45.136	17,300,268	6.407
10,001 - 100,000	795	7.672	21,692,521	8.034
100,001 - 13,499,999	93	0.897	29,537,268	10.939
13,500,000 and above	1	0.009	198,179,063	73.399
	10,362	100.00	270,000,000	100.00

THIRTY LARGEST SHAREHOLDERS

As at 15 March 2019

	Name	No. of Units Held	% of Issued Capital
1.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PETRON OIL & GAS INTERNATIONAL SDN BHD	198,179,063	73.399
2.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN HOCK CHENG (E-BMM)	2,621,000	0.970
3.	TAN KAH HOCK	1,677,600	0.621
4.	CITIGROUP NOMINEES (ASING) SDN BHD CBLDN FOR POLUNIN EMERGING MARKETS SMALL CAP FUND, LLC	1,447,786	0.536
5.	NEOH CHOO EE & COMPANY, SDN. BERHAD	1,106,400	0.409
6.	JOHAN ENTERPRISE SDN. BHD.	884,600	0.327
7.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR EMERGING MARKET CORE EQUITY PORTFOLIO DFA INVESTMENT DIMENSIONS GROUP INC	863,700	0.319
8.	CIMSEC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CGS-CIMB SECURITIES (SINGAPORE) PTE.LTD. (RETAIL CLIENTS)	751,948	0.278
9.	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE LAK CHYE @ LI CHOY HIN (E-IMO)	728,900	0.269

INFORMATION ON SHAREHOLDINGS

	Name	No. of Units Held	% of Issued Capital
10.	SOON HOCK TEONG	600,000	0.222
11.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR CREDIT SUISSE SECURITIES (USA) LLC (PB CLIENT)	588,200	0.217
12.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT AL-FAUZAN (5170)	549,500	0.203
13.	YAYASAN GURU TUN HUSSEIN ONN	539,200	0.199
14.	TAN HOCK CHENG	524,000	0.194
15.	UOB KAY HIAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)	519,760	0.192
16.	HSBC NOMINEES (TEMPATAN) SDN BHD HSBC (M) TRUSTEE BHD FOR MANULIFE INVESTMENT PROGRESS FUND (4082)	511,300	0.189
17.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (AM INV)	500,100	0.185
18.	DB (MALAYSIA) NOMINEE (ASING) SDN BHD SSBT FUND SD4N FOR GOVERNMENT OF THE PROVINCE OF ALBERTA	490,000	0.181
19.	CHIA KUN JUAN	390,000	0.144
20.	LIM SOO HIAN	388,000	0.143
21.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CEKD VENTURE SDN BHD	370,400	0.137
22.	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	338,873	0.125
23.	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND C021 FOR COLLEGE RETIREMENT EQUITIES FUND	323,400	0.119
24.	CITIGROUP NOMINEES (ASING) SDN BHD CBNY FOR DFA EMERGING MARKETS SMALL CAP SERIES	322,599	0.119

INFORMATION ON SHAREHOLDINGS

	Name	No. of Units Held	% of Issued Capital
25.	ELETECHNICS SDN BHD	300,000	0.111
26.	KIM POH HOLDINGS SDN BHD	300,000	0.111
27.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LAU SIE HING @ LAU SIE CHIN	300,000	0.111
28.	REUBEN TAN CHERH CHUNG	300,000	0.111
29.	HSBC NOMINEES (ASING) SDN BHD BPSS SYD FOR UNISUPER LIMITED	290,713	0.107
30.	NEW TONG FONG PLYWOOD SDN BHD	280,000	0.103
	TOTAL	**216,987,042**	**80.351**

SUBSTANTIAL SHAREHOLDER
As at 15 March 2019

	Name	No. of Units Held	% of Issued Capital
1.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PETRON OIL & GAS INTERNATIONAL SDN BHD	198,179,063	73.399

TOP 10 PROPERTIES

AS AT 31 DECEMBER 2018

	Tenure	Land area (sq m)	Description of properties	Acquisition date	Expiry date	Age	Net book value
FEDERAL TERRITORY							
PETRON MRR2 Melati (PBL#306660) PT8085, SPK. Jalan Taman Melati, Taman Melati, 53100 Wilayah Persekutuan	F	2,992	Service station	01.01.2008		11	6,794,073
PETRON East-West Link (PBL#302815) Lot 18113, Lebuhraya Hubungan Timur-Barat, Taman Connaught, 56000 Cheras, Wilayah Persekutuan	F	3,158	Service station	01.01.2004		15	6,221,302
PETRON Jalan Maarof (PBL#101340) Lot 199/200, Seksyen 96, Jalan Maarof, 50470 Bangsar, Wilayah Persekutuan	F	2,087	Service station	01.08.1993		26	5,067,352
NEGERI SEMBILAN							
MPP and KVDT	L	759,677	MPP/KVDT facilities	01.03.2001	01.02.2100	18	18,488,039
Port Dickson Refinery Lot 1222, 1593-1595, 1757, 1803, 1805, 1836, 1838, 1926-1930, 2645-2647, 12111-12112, 30151-30156 Mukim Port Dickson, Negeri Sembilan	F	1,634,812	Refinery, storage and distribution terminal	Revalued in 1982		59	11,159,825
PENANG							
Bagan Luar Terminal Lot 95-125, 2327-2338 Section 4, Butterworth, Seberang Perai Utara, Pulau Pinang	F	49,280	Storage and distribution terminal	Revalued in 1982		59	11,919,636
PETRON Jalan Jelawat (PBL#303054) Lot 5371, Jalan Jelawat, Mukim 1, 13700 Seberang Jaya, Pulau Pinang	L	3,693	Service station	1.07.2003	18.08.2073	16	5,828,522
PETRON Jalan Hussein Onn (PBL#101346) LOT 2188 (1445), Jalan Hussein Onn, 13700 Butterworth, Pulau Pinang	F	3,488	Service station	30.09.2001		18	5,038,464
SELANGOR							
PETRON Puncak Jalil (PBL#304551) Lot PT 62357, Taman Puncak Jalil, Mukim Petaling, 47100 Selangor	L	4,047	Service station	06.01.2004	09.06.2103	15	5,683,804
PETRON Bukit Sentosa (PBL#101464) Lot 4844, Jalan Orkid 2B, Seksyen BS2, Bukit Sentosa, 48300 Rawang, Selangor	F	3,035	Service station	22.07.1997		22	5,133,502

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixtieth (60th) Annual General Meeting of the Company will be held at the Ballroom, Ground Level, Grand Dorsett Subang Hotel, Jalan SS12/1, 47500 Subang Jaya, Selangor on Thursday, 13 June 2019 at 2:00 p.m., for the purpose of transacting the following business:

1. To receive the Company's Audited Accounts for the year ended 31 December 2018 and the Directors' and Auditors' Reports thereon.

2. To approve the declaration of final dividend of 20 sen per ordinary share for the year ended 31 December 2018. **(Ordinary Resolution 1)**

3. a) To re-elect Mr. Ferdinand K. Constantino retiring in accordance to Articles 104 and 105 of the Company's Articles of Association **(Ordinary Resolution 2)**

   b) To re-elect Ms. Chua See Hua retiring in accordance to Articles 104 and 105 of the Company's Articles of Association. **(Ordinary Resolution 3)**

4. To appoint Y. Bhg. Dato' Zainal Abidin Putih, who has served for more than nine (9) years, as an Independent Director in compliance with Practice 4.2 of the Malaysian Code on Corporate Governance 2017. **(Ordinary Resolution 4)**

5. To approve the payment of Directors' fees and benefits payable to the Independent Directors with effect from 1 January 2019 until the next Annual General Meeting of the Company. **(Ordinary Resolution 5)**

6. To appoint Messrs KPMG PLT as Auditor of the Company and to authorise the Directors to determine their remuneration. **(Ordinary Resolution 6)**

7. As Special Business, to consider and, if thought fit, pass the following resolution as a Special Resolution:-

   "**THAT** approval be and is hereby given to revoke the existing Memorandum and Articles of Association of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company, as set out in the 'Appendix' of the Circular to Shareholders dated 26 April 2019 dispatched together with the Company's Annual Report 2018 be and is hereby adopted as the Constitution of the Company ("Proposed Adoption").

   AND THAT, the Directors of the Company be and are hereby authorised to assent to any modification, variation and/or amendment as may be required by the relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give effect to the Proposed Adoption." **(Special Resolution)**

8. To transact any other business of the Company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF BOOK CLOSURE

NOTICE IS HEREBY GIVEN that:

For purpose of attendance at the Annual General Meeting: shareholders who are registered in the Register of Members and Record of Depositors as at the close of business on 31 May 2019.

For purposes of dividend entitlement: shareholders who are registered in the Register of Members and Record of Depositors as at the close of business on 18 June 2019, shall be entitled to the final dividend which, if approved by the shareholders at the Annual General Meeting, will be paid on 27 June 2019.

A shareholder shall qualify for entitlement only in respect of:

(a) Securities transferred to the Depositor's Securities Account before 4:00p.m. on 18 June 2019 in respect of transfers;
(b) Securities deposited into the Depositor's Securities Account before 12:30p.m. on 14 June 2019 in respect of securities which are exempted from mandatory deposit; and
(c) Securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board,
Manoj Devadasan (LS0006885)
Company Secretary
Kuala Lumpur, 26 April 2019

Note:
A Member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the Member. A proxy need not be a member of the Company. Where a member is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, that hold shares for multiple beneficiaries in one securities account ("Omnibus Account"), there is no limit on the number of proxies it may appoint in respect of such Omnibus Account. The instrument appointing a Proxy shall be deposited at the Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than 24 hours before the time set for the Annual General Meeting.

On the day of the Annual General Meeting:
1. Registration counters (located outside the Ball Room) will be opened from 11:45 a.m. and will close at 2:15 p.m.
2. Refreshments will be served at the same place from 11:45 a.m. to 2:15 p.m. (subject to availability).

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. **Directors standing for re-election/appointment**

    - Mr. Ferdinand K. Constantino and Ms. Chua See Hua, retire by rotation and are eligible for re-election pursuant to Articles 104 and 105 of the Company's Articles of Association

    - Y. Bhg. Dato' Zainal Abidin Putih, age 73, is an Independent Director of the Company. As Y. Bhg. Dato' Zainal Abidin Putih has served on the Board for more than nine (9) years, in compliance with Practice 4.2 of the Malaysian Code on Corporate Governance 2017, he will retire. The Board is however desirous of appointing Y. Bhg. Dato' Zainal Abidin Putih for another term as an Independent Director. The Board is of the opinion that Y. Bhg. Dato' Zainal Abidin Putih, who is also the Chairman of the Board Audit & Risk Management Committee, has a wealth of experience and knowledge about the Company's business and the oil & gas industry and can greatly contribute to the Board.

    - The Nominating Committee following its annual evaluation of the Board's performance, concluded that Mr. Ferdinand K. Constantino, Ms. Chua See Hua and Y. Bhg. Dato' Zainal Abidin Putih, in performing their duties as Directors, have met and/or exceeded expectations. The Board (based on representations by the Nominating Committee) recommends to the shareholders that Mr. Ferdinand K. Constantino and Ms. Chua See Hua be re-elected and that Y. Bhg. Dato' Zainal Abidin Putih be appointed to the Board for another one year term as an Independent Director.

    - Section 230(1) of the Act provides amongst others, that "fees" of the Directors and "any benefits" payable to the Directors of a listed company and its subsidiaries must be approved at a general meeting. Pursuant thereto, shareholders' approval is sought for the payment of Directors' fees and the benefits payable to the Directors as follows:

        (a) RM78,000 per annum as directors' fee to each Independent Director of the Company;
        (b) RM2,500 as meeting allowance for each meeting of the Board and of the Board Committees that an Independent Director (who is not the Chairperson of a Committee) attends;
        (c) RM3,000 as meeting allowance for each meeting of the Board and of the Board Committees that an Independent Director (who is the Chairperson of a Committee) attends;
        (d) RM700 per month to each Independent Director as fuel allowance, on reimbursement basis; and
        (e) RM15,000 as an ex-gratia payment to each Independent Director of the Company for services rendered to the Company in 2018.

2. **Proposed Adoption of the New Constitution of the Company ("Proposed Adoption")**

    The Special Resolution, if passed will streamline the Company's Constitution with the new provisions of the Companies Act 2016, amendments made to Main Market Listing Requirements and enhance administrative efficiency. The Board proposed that the existing Memorandum & Articles of Association of the Company be revoked in its entirety and the proposed new Constitution of the Company be adopted. The Proposed Adoption shall take effect once it has been passed by a majority of not less than 75% of such members who are entitled to vote and do vote in person or by proxy at the 60^{th} AGM.

3. **Mode of Voting**

    In line with the recommendation of the Malaysian Code on Corporate Governance 2017, and for the purpose of providing fair representation of votes based on shareholding, voting at the Annual General Meeting shall be by Poll.

4. **Details of Directors standing for re-election/appointment**

    (i) Profiles
    The profiles of the Directors standing for re-election/appointment are set out in pages 38 and 40 of the Annual Report.

    (ii) Statement of shareholdings
    None of the Directors standing for re-election/appointment hold shares in the Company.

    (iii) Family relationship
    None of the Directors standing for re-election/appointment has any family relationship with any Director and/or major shareholder of the Company.

    (iv) Conflicts of interest
    None of the Directors standing for re-election/appointment has any conflicts of interest with the Company.

    (v) Conviction for offences (excluding traffic offences), sanctions or penalty
    None of the Directors standing for election/re-election/appointment has been convicted for offences within the past five (5) years nor was there any director imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year.

PETRON MALAYSIA REFINING & MARKETING BHD
(Co. No. 3927-V)

CDS Account No. of Authorised Nominee:

PROXY FORM

I/We ____ (Name of Company/Business/individual's full name in Block Capitals (as per NRIC)), NRIC/Company No. ____________________ (new) ____________________ (old)

of ____ (full address)

being a member/members of the Company, hereby appoint ______________________________ (full name of proxy)

NRIC/Company No. ______________________________ (new) ______________________________ (old)

of ____ (full address)

or failing which the Chairman of the Annual General Meeting as my/our Proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 13 June 2019 at 2:00 p.m. and at any adjournment thereof.

My/Our instruction to my/our proxy (on each Agenda Item as per the Notice of Meeting) are as follows:

Resolution No.	Agenda Item	For	Against
	To receive the Company's Audited Accounts	-NIL-	-NIL-
1.	To approve the declaration of final dividend		
2.	Re-elect Mr Ferdinand K. Constantino		
3.	Re-elect Ms Chua See Hua		
4.	Appointment of Y. Bhg. Dato' Zainal Abidin Putih		
5.	Payment of Directors' fees and benefits for 2019		
6.	Appoint KPMG PLT as Auditors and authorise the Directors to determine their remuneration		
Special Resolution:	Adoption of new Constitution		

(Please indicate an "X" in the spaces provided on how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his/her discretion)

____
Signature/Common Seal

Number of shares held : ______________________________

Date : ______________________________

Contact No : ______________________________

Notes:

A Member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the Member. In the case of a corporation, the Proxy Form must be executed under the corporation's Common Seal or under the hand of an officer or attorney duly authorised. A Member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the Member. A proxy need not be a member of the Company. Where a member is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, which hold shares for multiple beneficiaries in one securities account ("Omnibus Account"), there is no limit on the number of proxies it may appoint in respect of such Omnibus Account. The instrument appointing a proxy shall be deposited at the Share Registrar's office at **Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur** or alternatively, the **Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur,** not less than 24 hours before the time set for the meeting.

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AFFIX
STAMP
HERE

The Share Registrar

TRICOR INVESTOR & ISSUING HOUSE SERVICES SDN BHD

Unit 32-01, Level 32, Tower A, Vertical Business Suite,
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur, Malaysia.

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PETRON

www.petron.com.my

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