

The Supply and Distribution Division (SDD) plays a key role in ensuring reliable and steady supply through its robust supply network, extensive coverage of terminals and effective distribution channel that will ensure PDB achieves its overall aspiration of becoming the Brand of 1st Choice. This is demonstrated by having uninterrupted end-to-end supply chain from product sourcing right up to delivery of the Company's products to customers and dealers.

The Division's strategies are driven by its four (4) core pillars namely Stakeholders Value, Customers Satisfaction, Operational Excellence and Organisational Effectiveness.

STAKEHOLDERS VALUE

The Division is committed to create value for its customers and business partners through continuous cost savings initiatives. This is derived by having a robust sourcing strategy and effective primary and secondary distribution operations. During the year under review, for the sourcing of its petroleum products, SDD has embarked on strategic alliance with PETRONAS Trading Labuan Co Ltd (PTLCL) to leverage on its

global presence whilst strengthening our domestic front. In addition, the Division also focuses on improving the overall primary distribution cost through effective freighting strategy encompassing well-structured scheduling, optimum time and spot charter ratio and significant demurrage reduction. The cost is further reduced through efficient secondary distribution operations which hinge on the improved road tanker utilisation and better economies of scale through injections of bigger capacity road tankers.

CUSTOMER SATISFACTION

Our focus towards enhancing customer satisfaction latches on the reliable delivery of quality products and differentiated services in a cost effective manner. In doing so, it will continue to invest in new and advanced equipment to ensure that the required product quality is maintained in delivering the Company's brand promise.

OPERATIONAL EXCELLENCE

Safety is highly valued in SDD and becomes top priority throughout our supply and distribution chain. With 39 Terminals in operations for LPG,

SUPPLY AND DISTRIBUTION



The Division's strategies are driven by its four (4) core pillars namely Stakeholders Value, Customers Satisfaction, Operational Excellence and Organisational Effectiveness.

Aviation and Fuel, covering both Peninsular Malaysia and East Malaysia, the Division holds steadfastly in delivering operational excellence through high HSE standards and efficient operations. Do-Your-Bit 24/7 campaign was launched to instill safety culture among its employees whilst strengthening the compliance of the Company's Zero Tolerance (ZeTo) rules.

From the efficient operational standpoint, the Overall Equipment Efficiency for the Division had improved significantly mainly contributed by the automation initiatives through commissioning of Flexspeed machine in Melaka LPG Terminal. Flexspeed is a new high speed LPG cylinder filling system utilising a single carousel with multiple filling posts and a series of process modules for weight checking, leak detection, compact valve testing and valve cap application. The system is integrated to a central cylinder washing facility and 3-tier pallet plant. PDB has already installed and commissioned one (1) unit of flexspeed system at Melaka LPG Terminal in 2013 which is capable of producing 3600 cylinders per hour. The flexspeed system installed at Melaka LPG Terminal is the 1st system installed in Malaysia and the 10th in the world.

In a bid to further improve operational efficiency at our distribution terminals, SDD has developed Infrastructure Planning Study on yearly basis that aims to optimise tankage utilisation, strategic expansion of storage facility and improvement of road tanker utilisation. In addition, for Aviation

operation, 'On-Time-Performance' had been introduced as an enhanced measure of operational excellence.

ORGANISATIONAL EFFECTIVENESS

To create technically competent and highly skilled workforce towards achieving PDB growth agenda, the Division continues to invest relentlessly in people, capability and competency development.

PROJECTS

Biodiesel Project

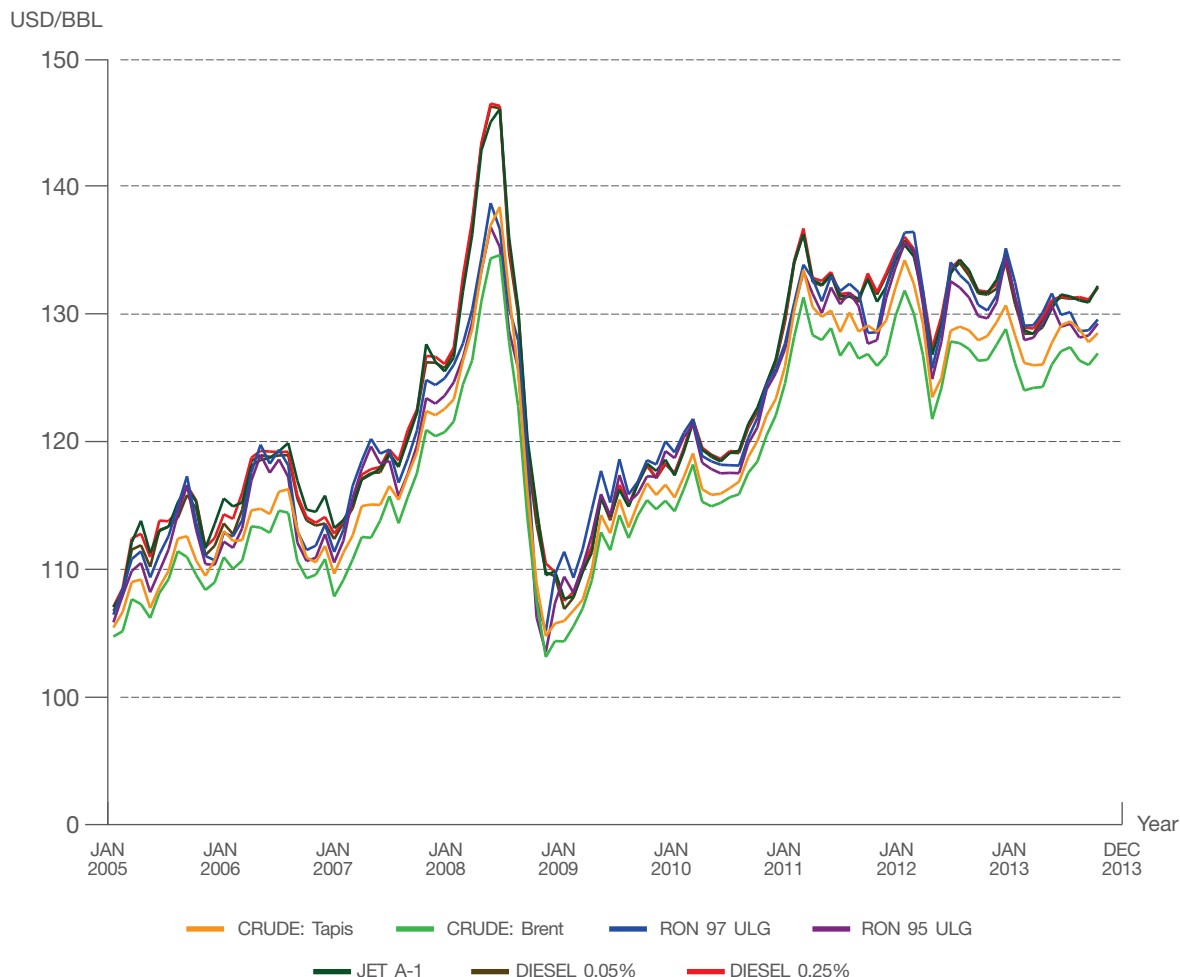
Following the Government's mandate of Biodiesel implementation, the Division has completed the Biodiesel facility in Pasir Gudang, Kuantan, Prai, Lumut and Kerteh Fuel Terminals ahead of schedule. This early completion allows PDB to become the first oil company with fully compliant Biodiesel facilities.

PROSPECTS

The Supply and Distribution Division will continue to focus on cost optimisation, supply reliability and sustainability, customers satisfaction, HSE assurance and operational excellence towards supporting the Company's overall aspiration of becoming the Brand of 1st Choice.



CRUDE OIL AND PETROLEUM PRODUCTS PRICE TRENDS



Note: Average monthly prices are based on Mean of Platts Singapore (MOPS)

For the year under review, crude oil and petroleum products prices continued to fluctuate, with Brent crude oil price averaging at USD108.66/bbl.

In February 2013, there was a hike in the price of crude oil and petroleum products following concerns on the possible disruption of international supply due to the unsettling political situation in the Middle East.

The subsequent quarter saw a downtrend in prices as demand for oil was weaker following the continued global economic slowdown. By the end of May 2013, average prices decreased by almost 13.0% from its peak in February 2013.

In the third quarter of 2013, prices showed an upward trend particularly in July and August, boosted by positive economic activities which led to a stronger demand for oil. Geopolitical developments in the Middle East and North Africa also continued to boost the oil prices. Thereon, prices continued to fluctuate in the fourth quarter of the year under review.

Average price for RON 97 ULG and RON 95 ULG in 2013 were USD121.44/bbl and USD119.11/bbl respectively, while diesel 0.05% Sulfur and Jet A1 closed at an average of USD123.38/bbl and USD122.99/bbl respectively.

ECONOMIC OUTLOOK AND PROSPECTS

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The advanced economies, particularly the US and Japan, are showing signs of recovery through improving economic activities. However, Eurozone remains in recession and the major emerging economies are growing at a slower pace. The world economy recorded a growth rate of 2.9% in 2013, a slight decline from previous year's of 3.2% due to emerging economies' slower growth and tighter financial conditions. In 2014, the global economy is expected to register a growth of 3.6% with the emerging market economies continue to account for the bulk of global growth. The other key drivers supporting the growth will come from stronger US economy, a reduction in fiscal tightening in emerging economies and highly accommodative monetary conditions.

Meanwhile, the Asian economy – notably the commodity exporters among the emerging market and developing economies – are affected by the slower growth of China. Overall, the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam) registered an economic growth of 5.0% in 2013 and is expected to slightly improve to 5.4% in 2014, in line with the projection of a stronger world economy next year.

Malaysia's economy expanded by 4.7% in 2013 as domestic demand continued to power growth of the Malaysian economy. Improving external demand and a slightly better performance of private investment resulted from persistent strengthening of the private sector, will provide the push for growth.

Growth outlook for 2014 is projected to be between 5.0 – 5.5%, amid improving global market environment even though the expected fiscal belt-tightening measures to rein in budget deficit may result in some downside risks.

Despite challenging environment, PDB is committed to further defend its overall market leadership position and grow the Company's business through the strengthening of our brand, sweating our existing assets and continuously enhancing our customer relationship management. The Company will also continue its cost optimisation efforts via enhancement of supply and distribution efficiency and improvement of terminal operational excellence to further improve cost of operations.





CORPORATE RESPONSIBILITY

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We have continued to grow and build a competitive edge in all our four core businesses – Retail, Commercial, LPG and Lubricants.

As a member company of the PETRONAS Group, sustainability is at the core of PDB's operations and our key commitment to ensure continued growth as well as success for the benefit of present and future generations. For PDB, sustainability entails carrying out our business in a socially responsible and holistic manner.

Towards this end, PDB has continued to pursue strategies to integrate sustainable practices into its operations. Our initiatives cover key focus areas as outlined within the PETRONAS Corporate Sustainability Framework, namely:

1. Shareholder Value
2. Natural Resource Use
3. Climate Change
4. Biodiversity
5. Health, Safety and Environment
6. Product Stewardship
7. Societal Needs

PDB implements these focus areas accordingly within the marketplace, workplace, environment and the community.





PDB's steady growth over the years is premised on the Company's commitment to leadership, innovation and sustainability of its products and services.



Today, PDB is the overall leading retailer and marketer of domestic downstream oil and gas products. We are the market leader in the Commercial and LPG Businesses in Malaysia with strong fundamentals to retain and further solidify this position. PDB's Retail Business has also grown to become Malaysia's largest petroleum retail network with over 1,000 stations and 725 Kedai Mesra, offering one-stop convenience for fuelling, dining, shopping, banking, car spa and other services.

Importantly, PDB continues to lead the way in reimagining its products and services to deliver exceptional customer experience. This in turn, solidifies our position as the Brand of 1st Choice.

SHAREHOLDER VALUE

At PDB, we are fully committed to establish ourselves as a leading, responsible and reputable public listed company. As in the previous years, we continue to create long-term shareholder value and deliver good year-on-year dividends for our shareholders. As a result of this, the Company has been awarded with the Most Consistent Dividend Policy for Malaysia in the 3rd Annual Southeast Asia Institutional Investor Corporate Awards 2013.

For the year under review, the Company continue to deliver strong shareholder value with high dividend pay-out of 74.1%. The Company's share price continues to grow steadily to RM31.44 as at 31 December 2013.

On top of that, PDB has also enhanced its investor relations efforts to reach out to the investing community more effectively. This will pave the way for investors to better understand the Company's business operations and financial performance.

ENRICHING CUSTOMER EXPERIENCE

PDB's steady growth over the years is premised on the Company's commitment to leadership, innovation and sustainability of its products and services. Our passion to be an industry trendsetter has made us the clear Brand of 1st Choice. On top of that, the desire to continuously improve and excel has ensured that we continue to deliver innovative products and differentiated services for our customers.

Our long term partnership with the Formula One™ teams has also enabled PETRONAS to showcase its Fluid Technology Solutions™. This is where our collective experience and technical expertise gained from the F1 tracks have been innovatively translated onto the roads for motorists via the synergy in the design, development and delivery of top tier fuels, lubricants, functional fluids and car care solutions.



MARKETPLACE



Fuel

Our flagship fuel, the PETRONAS PRIMAX 95 XTRA continues to satisfy our customers with the cost-saving quality it delivers to motorists. As a testimony, the fuel was awarded the Putra Brand Gold Award under the Automotive Fuel category for the fourth consecutive year, a true recognition by Malaysians of PETRONAS PRIMAX as their Brand of 1st Choice.

Lubricants

Similarly, its range of premium automotive lubricant products, the PETRONAS Syntium was awarded the BrandLaureate's Best Brands in Consumer Category for Car Lubricants, a testament to the Company's quality products. The PETRONAS Syntium brand has evolved to one that is synonymous with the pinnacle of motorsports, the Formula One™ and is today recognised, approved and accredited by major automotive manufacturers including Mercedes-Benz and BMW. Given the efficacy of the product, PETRONAS Syntium is currently being endorsed by the MERCEDES AMG PETRONAS Formula One™ Team driver, Lewis Hamilton.

Car Care Solutions

To further benefit customers with its range of F1 technology-inspired fluids, PDB had pulled together the extensive knowledge and technology gained from the partnership with Formula One™ teams into its new fully-branded automobile workshop, the PETRONAS LubeXperts. Following the launch in April 2013, the premium lubricant workshops carry the PETRONAS corporate identity, providing superior automotive fluid solutions and innovative customer-centric offerings. As of 31 December 2013, the Company has a total of 41 PETRONAS LubeXperts under its stable.

PETRONAS Stations

Along with the range of superior products and services available at our PETRONAS Stations, PDB continues to lead the way in offering motorists the holistic experience all under one roof, encapsulating the true meaning of PETRONAS Gives You More. The PETRONAS Stations' signature one-stop-centre convenience concept has proven to be a popular one as it was voted the Best Petrol Station by Malaysians at the Reader's Digest Most Trusted Brand 2013 Awards.

In 2013, PDB embarked on a career pathing exercise, specifically for technical executives specialising in terminal operation management and general project management, to provide a holistic view of various career opportunities available to them within PDB.

GROWTH AT WORK: HUMAN CAPITAL DEVELOPMENT

Recognising that human capital is an integral part of fuelling PDB's business growth, the Company is fully committed to continue nurturing and growing its talent pool at all levels.

PDB's human capital development programme is anchored in three (3) key areas, namely:

- a) Learning and Capability Building
- b) Succession Management
- c) Leadership Development

a) Learning and Capability Building

PDB invested a total of RM12.0 million in employee learning and development programmes, with external trainings amounting to 35% of the total investment and the remaining 65% for internal trainings.

Career Pathing for Technical Executives

In 2013, PDB embarked on a career pathing exercise, specifically for technical executives specialising in terminal operation management and general project management, to provide a holistic view of various career opportunities available to them within PDB. This aims to encourage a well-planned career progression journey via staff mobility for optimum exposure throughout the breadth and depth of both disciplines.

Accelerated Capability Development for Technical Executives

The Accelerated Capability Development (ACD) provides a platform for technical executives to be assessed on their technical competencies and lays out Individual Coaching Plans to narrow any existing talent gap.



WORKPLACE



BUILD

BAKALAN SAMA SAMA
DARI IDEALISASI
Hingga KEBERHASILAN



OWN

MEMILIKI



LEARN

APA YANG BOLEH SAYA
LAKUKAN UNTUK
BELAJAR (LEARN)?



• Berusaha berusaha untuk
realisasikan idea inovatif
dalam amalan harian.

• Ilmu pengetahuan
pengalaman yang
diakui skop kerja

DELIVER

BAGAIMANA DAPAT SAYA
SAMPAILAH/TUJUKAN (DELIVER)
JANJI KEPADA SYARIAH DAN
PIHAK-PIHAK BERKEPENTINGAN?



• Kukuhkan hubungan yang
menguntungkan kedua-dua
pihak bagi mewujudkan
keuntungan bersama



In 2013, PDB rolled out ACD Art of War for new executives to familiarise themselves with the technical know-how requirements, assessment answering techniques as well as ACD processes and procedures. A common set of Key Performance Indicators (KPIs) was established for all ACD stakeholders to facilitate the tracking and monitoring of their progress.

Capability Framework for International Subsidiaries for Marketing & Sales

To reach out to its international subsidiaries, PDB has aligned its talent development practices across its subsidiaries including PEPI, PVL and PIMTCL with PETRONAS' Capability Development Framework. PDB's current tools and processes were deployed in the regional offices to standardise development of talent across the PETRONAS Group.



ASPIRE!-ing Onboarding Programme

Understanding the need for PDB to provide a proper conditioning programme for its new recruits and transfer-in employees, the ASPIRE!-ing Onboarding Programme was launched in October 2013. This programme aims to welcome and acclimatise new members into PDB family, promote a better understanding of the company and to inculcate the right organisation culture and mindset. Under this programme, participants are treated to an insightful introduction of the key businesses and enabler functions, sharing session on their personal PETRONAS career journey by the top management, introduction to their buddies and our very own BOLD values. To date, a total of 24 employees have attended and benefited from this programme.

Capability Development Initiatives for Non-Executive Technical Employees

PETRONAS Competency-Based Assessment System (PECAS) is a structured assessment system which is used to assess our technicians and operators' capability level to ensure that they are competent to operate and maintain our assets in a safe and efficient manner. In implementing the assessment, upskilling programme was conducted for a total number of 193 current and new PETRONAS Competency-Based Assessment System (PECAS) assessors, verifiers and candidates in order for them to have a common understanding of PECAS and to enhance the quality of the assessment. To propagate PECAS to the stakeholders, regional roadshows were conducted, and the expertise and experience of retired technicians/operators were also leveraged to transfer knowledge, conduct sharing sessions and build capability of the technical non-executives on the ground. Through these intensified efforts to strengthen PECAS implementation, we witnessed a surge in the number of successful candidates which we hope to sustain and improve in the future.

Capability Development Initiatives for Non-Executive Non-Technical Employees

Non-Executive Non-Technical (NENT) employees form the majority of PDB's population and their capability developments were also implemented through the NENT Assessment programme. Through this activity, the employees underwent Computer Literacy Assessment as well as Behavioural Competency Assessment to assess their readiness to assume bigger roles in their careers. The activity was intensified by having three batches of assessments covering 34 NENT employees. Out of these, a total of 27 NENT employees passed their computer literacy tests and behavioural competency assessment in 2013.

b) Succession Management

In 2013, PDB undertook rigorous talent reviews involving 66 potential leaders and 13 senior management candidates. In addition, it also identified succession plans for 39 critical positions to ensure a pipeline of robust and dynamic talents.

This resulted in the ratio of identified "Ready Now" successors to critical positions within PDB to be 2.4:1, a marked improvement over last year's 2:1. Alongside this, PDB also extended succession management efforts across the region into PEPI, PVL and PIMTCL.

c) Leadership Development

PETRONAS Leadership Centre (PLC) in collaboration with global renowned universities, including the Duke Corporate Education, the University of Melbourne and the French Institute of Petroleum, has developed several leadership programmes to identify, cultivate and groom the Company's potential leaders and top talents.

These customised programmes were catered to selected groups of Senior General Managers, General Managers and Managers.

At PDB, we believe that leadership development is not just limited to the senior leaders. In line with this belief, PDB, in collaboration with PLC, launched a six-month programme called Young Leaders Programme targeted at selected executives to harness and develop their leadership skills at an early stage. Throughout the programme, the young leaders were coached by experienced leaders and were actively involved in action-learning projects, individually and by teams.



SAFETY AT WORK: HEALTH, SAFETY & ENVIRONMENT

As part of our strategy to maintain a safe and healthy work environment, we are committed to implement various initiatives to eliminate work-related Health, Safety and Environment (HSE) incidents. Collectively, as a corporate entity alongside our employees and contractors, we share the responsibility to make health, safety and environment a top priority in our day-to-day operations.

In line with this goal, we continue to uphold the HSE performance at our workplace through risk assessments, HSE programmes, Zero Tolerance (ZeTo) safety rules and assurance audits. Our HSE Management System sets the framework for continual improvements through the application of consistent performance standards across the Company's entire operations.

HSE Performance

In 2013, the overall injury rate has reduced despite an increase in the number of activities and risk exposure. Total work-related incidents were reduced following the dip in Total Reportable Cases

Frequency (TRCF) of 0.60 compared to 0.81 in 2012. Lost Time Injuries Frequency (LTIF) declined to 0.12 from 0.23 compared to the corresponding period last year.

A total of 11 reportable transport incidents were recorded in the year under review as compared to 15 incidents in the corresponding period last year.

KEY INITIATIVES, ACTIVITIES AND PROGRAMMES

HSE Leadership Programme

During the year under review, PDB rolled out the HSE Leadership Programme, aimed at creating leadership capabilities amongst participants. This was achieved via identifiable and measurable behavioural traits in an effort to utilise these leadership capabilities to enhance the HSE Management System and in line with the HSE Capability Development Matrix.

The programme is made up of three sessions:

- Face-to-face leadership position
- HSE Leadership: Psycho-emotional characteristic
- HSE Leadership: Realignment

In addition, the sessions provided tools for the leaders to realign and upgrade existing behavioural standards to HSE standards. Towards the end of the session, the leaders understood the need to lead and manage the enhancement of HSE behaviour and utilise specific tools to assess HSE behavioural talent.

HSE Legal Awareness Seminar

On 30 October 2013, the HSE Department organised the HSE Legal Awareness Seminar in which over 60 staff, stakeholders from business lines (Retail, LPG, Lubricants, Commercial and Supply & Distribution) and HSE practitioners within the Company took part. Speakers were invited from various regulatory and expert bodies including the Department of Occupational Safety and Health of Malaysia (DOSH), the Department of Environment, Malaysia (DOE), the Energy Commission, the Fire and Rescue Department of Malaysia and the Ministry of Domestic Trade Co-



operatives and Consumerism. The speakers shared their perspective on the various regulations and emphasised the need for full compliance with the provisions of the laws and regulations related to HSE.

Retail HSE Day

The inaugural Retail HSE Day 2013 was successfully organised on 23 September 2013 in conjunction with the official launch of the 2013 Retail HSSE Safety Manual. Besides instilling safety practices amongst the participants, the event was also a platform to share HSE experiences and to promote HSE leadership within the organisation. More than 300 participants from Retail Operations Department, Retail Engineering, *Rakan Niaga* Task Force members, vendors and suppliers, key government agencies including DOSH, Fire and Rescue Department, Polis DiRaja Malaysia and a private hospital participated in the event.

Healthy Workforce

Work Fitness and Fatigue Management

In the first quarter of the year under review, PDB developed a guideline for employees on work fitness and fatigue management. The guideline was subsequently rolled out in the second and third quarter of 2013.

The objective of the initiative was to provide information and guidance on the requirements of Health Assessments for Fitness to Work within PDB. It is also to ensure that all employees who are working within the facilities are medically fit and able to manage their fatigue levels effectively.

Stress Survey

In the first quarter of 2013, PDB conducted a Stress Survey to gauge the stress level of PDB employees. The survey was based on the internationally recognised questionnaire, the Depression Anxiety Stress Scales (DASS). A total of 630 employees (38.5% of our total employees of 1,636 at the time) took part in the survey.

A second phase of this study was conducted in the third quarter. The Detailed Stress Survey was to identify the prominent factors contributing to stress. A total of 318 employees (51.9%) out of 613 employees from PETRONAS Twin Towers and 126 employees (44.8%) out of 281 employees from Aviation Terminals responded to this survey.

Health Talks

A total of four Health Talks on Office Ergonomics and Stress in The Office were conducted throughout the year at PETRONAS Twin Towers, Prai Regional Office, Kuching Regional Office and Hotel Equatorial Bangi. The health talks were aimed to raise awareness on various health hazards within the workplace as well as to encourage participants to adopt a healthy lifestyle.

Health Screening

A number of Health Screening initiatives were also conducted throughout the year including:

- On 20 March 2013 for PDB employees
- On 15 May 2013 for PDB dealers
- On 29 June 2013 for public
- On 23 September 2013 for PDB employees and dealers

The basic health screening covered key health indicators including BMI, blood pressure, blood glucose, uric acid and cholesterol.

Hazard and Effect Management Process

PDB developed the Hazard and Effect Management Process (HEMP) as part of its effort to introduce a structured methodology for the identification of HSE hazards. The process also allowed for the assessment of associated risks from the identified hazards. With the HEMP in place, the Company is able to develop the control and recovery measures to reduce HSE risks to as low as reasonably practicable (ALARP).

In addition, HEMP studies had also been undertaken and implemented at the operations level where the key information and decisions made are transparent and traceable for future reference. All recommended actions arising from the HEMP studies were recorded and tracked to closure to ensure that any decision to override the recommended action arising from HEMP was assessed and received the relevant approvals to ensure risks are mitigated in a comprehensive manner.

Health Risk Assessment

PDB conducted 20 Health Risk Assessments (HRA) for PDB Terminals between the first and third quarter of 2013. The objective of the HRA was to identify, assess and control health risks arising from work place based on four categories of health hazards namely physical, biological, ergonomics and psychosocial.

Fire Safety Adequacy Review

The HSE Department conducted the Fire Safety Adequacy Review (FSAR) in 11 terminals during the year under review. The FSAR, which is a process to review the fire protection systems against the features and design of our facilities, covered all major hazard installations.

PETRONAS Environment Site Risk Assessment

PDB also conducted the PETRONAS Environment Site Risk Assessment (PESRA) at PETRONAS Stations within the selected pilot region 147 PETRONAS Stations at Central Region. The main objective of PESRA is to screen and rank the possible contaminated site to safeguard PDB's operations. The assessment is also to prepare the Company towards complying with the forthcoming Contaminated Land Management requirement from the Department of Environment (DOE). This programme will be extended to all PETRONAS Stations in the future.

Training and Competency

HSE Training

PDB recognises that the frequency and severity of health, safety and environmental incidents can be significantly reduced when adequate training is provided to employees to raise their level of competency.

In this regard, PDB ensures that its employees and contractors receive the required training to fulfil the HSE requirements of the Company in line with their roles and responsibilities within the organisation. The commitment to provide continuous training is demonstrated by the more than 40 courses made available by PDB within its training and development system.



Permit to Work Training

In July 2013, HSE Department had reviewed the existing PDB Permit to Work (PTW) procedures. The training for PTW is mandatory for PDB employees and contractor personnel. The HSE Department organised eight PTW training sessions between August and December 2013. Over 200 employees including Territory Managers, Superintendents, Maintenance Supervisors, Operation Supervisors, Technicians, Project Engineers and Project Supervisors were trained to implement the PTW system.

RSOD Northern Region HSE Refresher and Technical Product Knowledge

Retail Sales and Operations Department (RSOD) Northern Region organised a HSE Refresher and Technical Product Knowledge for 180 *Rakan Niaga* (RN) and *Krew* PETRONAS (KP) supervisors in the region on 15 May 2013. The objective of the workshop was to equip and enhance participants' knowledge on our products and services as well as safety at our facilities.

Emergency Preparedness

As part of its business continuity plan, PDB continued to conduct various exercises to ensure that the Company is prepared for any emergency.

For the year under review, PDB conducted OPS Rentas, a Tier 3 Crisis Management Exercise in August 2013 at the PETRONAS Twin Towers to test the preparedness level of the Business Continuity Management Team (BCMT) in managing and responding to a crisis situation. In addition, Tier 2 Table Top Exercises were conducted at all regions throughout 2013 to test and train the Regional Emergency Management Team (EMT). In total, four Tier 2 Table Top Exercises have been conducted.

REGIONAL OPERATIONS

In line with the integration of our regional operations, PDB successfully completed the alignment programme for its international subsidiaries in the Philippines, Vietnam and Thailand covering key areas of:

- HSE Management System
- Emergency Management Team
- Incident Notification, Reporting and Investigation Procedure
- Fire Safety Assessment
- Environmental Risk Assessment
- Health Risk Assessment
- HSE Training as per Training Matrix

This grassroots programme was initiated to emphasise the importance of preserving water for the future and to remind the public that sustainable water conservation can only take place if communities and individuals come together and play a role to help save this precious resource.

ENVIRONMENTAL CONSERVATION

The highlight for the year under review was the launch of the inaugural community-based initiative – the ‘Water for Life’ programme.

The Programme, initiated in partnership with the Malaysian Nature Society (MNS), aims to raise awareness amongst the local communities, including students, on the perils of water depletion.

This grassroots programme was initiated to emphasise the importance of preserving water for the future and to remind the public that sustainable water conservation can only take place if communities and individuals come together and play a role to help save this precious resource.

Among the ‘Water for Life’ activities completed include the installation of a rain water harvesting system in SMK Seri Selayang and the creation of activities to educate the students as well as the surrounding communities on the importance of water conservation.

In addition, as part of the Programme, PDB also worked hand-in-hand with the local community in Kampung Jemeri situated in Rompin, Pahang and Kampung Ulu Geroh, Gopeng, Perak to provide uninterrupted water supply to the Orang Asli families residing in the two villages. Towards this cause, close to 60 PDB management and employees joined hands with members of the local community to install a rainwater harvesting system that consists of water tanks, as well as piping and filtering system in the villages.

Prior to this, the Company has installed the rain water harvesting system at its PETRONAS Twin Stations which was launched on 5 December 2012.



ENVIRONMENT



PDB has continued to focus its Corporate Social Responsibility programmes towards the core areas of environmental conservation, road safety and community-based initiatives.

HEALTH, SAFETY AND ENVIRONMENT (HSE) IN THE COMMUNITY

In 2012, PDB established the Mentor-Mentee programme in collaboration with the Department of Occupational Safety and Health, Kuala Lumpur. In a short span of less than two (2) years, PDB has successfully completed this community outreach programme in support of the National Occupational Safety and Health Master Plan 2015. During the year under review, PDB conducted five (5) programmes including First Aid Training during *Minggu Hal Ehwal Murid* (HEM Week), HSE Inspection at SMK Padang Tembak, Scheduled Waste Management Training, Safety at PETRONAS Station Training, as well as Safe Handling of Chemical and its Safe Use.

PDB has continued to focus its Corporate Social Responsibility programmes towards the core areas of environmental conservation, road safety and community-based initiatives. This year has been more meaningful for PDB with the introduction of a number of new strategic initiatives to solidify PDB's commitment to the community.

ROAD SAFETY

As the Brand of 1st Choice for motorists, PDB continues to play its role in advocating road safety through its flagship road safety campaign, the PETRONAS Coffee Break for the 14th consecutive year. The nationwide Coffee Break Campaign aims to educate, equip and encourage motorists to adopt road safety measures while driving back to their hometowns, especially during the festive seasons.

Similar to previous years, PDB offered complimentary snacks and beverages during the campaign period at 33 PETRONAS Stations located along the highways and major trunk roads across Malaysia. The Company also partnered with Petrosains to share practical road safety tips as well as collaborated with PERODUA to offer complimentary vehicle inspection at the selected stations.



THE COMMUNITY



As part of the Campaign, PDB also fuelled 50 St John Ambulance Malaysia's vehicles for their 24-hour highway emergency service during the campaign period, for the 19th consecutive time. A total of RM40,000 has been contributed to fuel the ambulances during the festive seasons in 2013.

Since its inception, the PETRONAS Coffee Break Campaign has reached out and benefited over a million motorists during the Hari Raya and Chinese New Year *balik kampung* exodus.

Within the road safety platform, PDB also conducted the PETRONAS 'Street Smart' programme for more than 1,000 students in the East Coast region. The programme featured workshops which incorporated games and hands-on educational activities to highlight the importance of road safety.

COMMUNITY-BASED INITIATIVES

As a responsible corporate citizen, PDB, along with its customers, also contributed to the well-being of the public workers who were on duty outdoors during the haze that hit the country in July 2013. Recognising the importance of keeping oneself hydrated during this season, PDB gave away

20,000 bottles of Mesra mineral water to the public workers including postmen, police and road cleaners whom the Company recognised as the 'Modern Day Heroes'.

In line with the Company's tradition of sharing joy during the holy month of Ramadhan with the local communities, PDB continued to sponsor the Gas PETRONAS cylinders, aprons and chef hats to the various *Bubur Lambuk* cooking events held across the country in 2013. These events reflect the Company's commitment to reach out and be an active participant in the local communities where PDB operates.

MOVING FORWARD

Since its inception, PDB has enjoyed steady growth in its business and operations. This success is attributable to the responsible and sustainable management it has pursued over the years. PDB is well aware that in its journey ahead, it must continue to embrace policies, practices and procedures that clearly outline its commitment to deliver sustainable and long term value to its stakeholders.



Exclusive for
PETRONAS Mesra
card members!

GET ONE(1)*
COMPLIMENTARY REFRESHMENT
VOUCHER ONLY AT PETROSAINS



**DIALOGUE
IN THE
DARK**

9.00.00.00 00.00.00 00.00.00

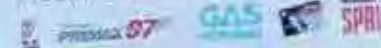
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STATEMENT ON CORPORATE GOVERNANCE

The Board strives to achieve best practices in Corporate Governance as propounded by the Malaysian Code on Corporate Governance 2012 (MCCG 2012) and the Corporate Governance Guide (2nd Edition) in carrying out its duties and responsibilities.

The Board of Directors (“the Board”) of PETRONAS Dagangan Berhad (“the Company”) acknowledges that Corporate Governance is a form of self-regulation which is aimed at maximising shareholders’ value.

The Board strives to achieve best practices in Corporate Governance as propounded by the Malaysian Code on Corporate Governance 2012 (MCCG 2012) and the Corporate Governance Guide (2nd Edition) in carrying out its duties and responsibilities.

EFFECTIVE BOARD OF DIRECTORS

The Company has adopted a number of measures to ensure effectiveness of the Board in discharging its duties and responsibilities.

Composition of Board

The Board comprises members with relevant expertise and experiences drawn from business, financial, technical and public service backgrounds. The wide spectrum of skills and experiences has given them an edge and an added strength in terms of leadership and management, thus ensuring that the Company and its subsidiaries (“the Group”) are steered and guided by an accountable and competent Board.

The Board comprises seven (7) members, one of whom holds an Executive Office, having a dual role as Managing Director as well as Chief Executive Officer. There are three (3) non-executive members and three (3) other non-independent and non-executive members (including the Chairman).

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

| | |
|--|---------------------|
| Executive Director <i>(also the Managing Director/ Chief Executive Officer)</i> | 1 out of 7 (14.28%) |
| Independent Non-Executive Directors | 3 out of 7 (42.86%) |
| Non-Independent Non-Executive Directors <i>(including Chairman)</i> | 3 out of 7 (42.86%) |

The current composition of the Board is in compliance with Paragraph 15.02 of the Bursa Malaysia Main Market Listing Requirements (“Main Market Listing Requirements”) as more than a third (1/3) of its members are independent directors.

The Directors bring to the Board a diversity of knowledge, experience, qualifications and skills in the key areas affecting the business of the Group. The profile of each Director is presented in this Annual Report from pages 48 to 51. The Board is of the opinion that its current composition and size constitute an effective Board to the Company.

Roles and Responsibilities of the Board

The Board practises a clear demarcation of responsibilities whilst maintaining the balance of power and authority. The positions of the Chairman and the Managing Director/Chief Executive Officer are individually held by two (2) persons.

In discharging its fiduciary and leadership functions, the role and responsibilities of the Board are, *inter alia*, as follows:

- to discuss and critically examine strategies proposed by the Management taking into account the long term interest of the shareholders as well as other stakeholders;
- to contribute to the formulation of policies and decision making through the Board's accumulated expertise and experience;
- to identify principal risks and ensure that these risks are managed in a proper and effective manner;
- to review the integrity and capability of the Group's internal control systems as well as its management information system;
- to oversee and critically review the proper management of the Group's businesses;
- to review the Company's plans and budget including cash flow forecast for the forthcoming year and financial projections;
- to review and approve financial statements of the Group;
- to ensure there is an appropriate succession plan for the Directors and Management; and
- to ensure that the Company has in place a policy to enable effective communication with its shareholders and other stakeholders.

The roles and responsibilities of the Directors are documented in the Board Charter which sets out the principles and guidelines that are to be applied by the Board and the Board Committees, as well as identifying their functions in the Company and/or Group. This Board Charter will be periodically reviewed, as and when necessary. The Board Charter is accessible for reference on the Company's website.

The Board further acknowledges its role in establishing a corporate culture comprising ethical conduct within the Group. The Board is guided by the PETRONAS Code of Conduct and Business Ethics which sets out the standards of behaviour and ethical conduct of the Company.

The Chairman is primarily responsible for the effective conduct and workings of the Board. The Chairman leads the Board in the oversight of Management and in setting strategic business plans, goals and key policies for the Group to ensure sustainability and optimisation of long term returns.

The Chairman of the Company is currently a Non-Independent Non-Executive Director. This is premised on the Company's synergetic business and operational integration with the PETRONAS Group of Companies. The Company may consider revising the composition of the Board to progressively comprise a majority of Independent Directors when suitable talent is available and when the time is appropriate.

The Managing Director/Chief Executive Officer is responsible for the day-to-day running of the business, implementation of Board policies, decision making on operational matters, corporate objectives such as the performance targets and the long term goals of the business set by the Board. In managing the business affairs, he is assisted by the Management Committee, which meets at least once a month, and as and when necessary.

The Non-Executive Directors have the necessary calibre to ensure that the strategies proposed by the Management are fully deliberated and examined, taking into account the long term interest of the shareholders and other stakeholders. They contribute to the formulation of policies and decision making through their expertise and experience and are independent of the Management, thereby helping to ensure that no individual or group dominates the Board's decision making process.

The presence of the Independent Non-Executive Directors is essential as it provides unbiased and independent views, advice and judgment as well as to safeguard the interests of other stakeholders such as the minority shareholders and the community. The concept of independence adopted by the Board is in accordance with the definition in Paragraph 1.01 of the Main Market Listing Requirements. For the financial year under review, the Independent Non-Executive Directors have reaffirmed their independence based on the criteria of Independent Directors adopted by the Company.

All the Independent Directors have demonstrated to the Board that they have exercised unbiased and independent judgment, safeguarding the interest of the Group and the minority shareholders. They are recognised for their knowledge, skills, expertise, calibre, probity and integrity.

YBhg. Dato' Dr. R. Thillainathan has been identified and appointed as the Senior Independent Non-Executive Director on 25 June 2012, to whom any concerns pertaining to the Group may be conveyed by shareholders and other stakeholders.

Notwithstanding that YBhg. Dato' Dr. R. Thillainathan having served the Company as Independent Non-Executive Director for more than nine (9) years:

- he has fulfilled the criteria under the definition of Independent Director pursuant to the Main Market Listing Requirements;
- he has ensured effective check and balance in the proceedings of the Board and the Board Committees;
- he has actively participated in the Board's deliberations, provided objectivity in decision making and independent opinion to the Board;
- he has devoted sufficient time and attention to his responsibilities as Independent Non-Executive Director of the Company; and
- he has exercised due care in the interest of the Company and shareholders during his tenure as Independent Non-Executive Director of the Company.

The Board is satisfied with YBhg. Dato' Dr. R. Thillainathan as an Independent Non-Executive Director of the Company based on the reasons enumerated above. However, Dato' Dr. R. Thillainathan who retires in accordance with Article 93 of the Company's Articles of Association has expressed his intention not to seek re-election. Hence, he will retain office until the conclusion of the Thirty-Second (32nd) Annual General Meeting.

The Company believes that individuals on the Board of Directors with diverse backgrounds improve board functioning and decision making process. Harnessing strength from a variety of

backgrounds, experiences and perspectives allows the Board to bring diverse perspectives in its deliberations. Ultimately, board diversity is not only about gender diversity, but is about providing complementary views that lead to better board decisions. Currently, the Board comprises two (2) female Directors, representing 29% of the Board's composition, who have been appointed based on the skills, experience, capabilities and breadth of views they bring to the Board.

The Board has, via the Nomination Committee, implemented a managed Board succession planning approach aimed at encouraging a dynamic and diverse composition of the Board over a period of time to minimise interruptions to the Group's operations and corporate objectives whilst effecting changes recommended by the MCCG 2012.

In accordance with the Main Market Listing Requirements, none of the members of the Board holds more than five (5) directorships in listed companies. Prior to acceptance of any other appointment for directorships in other listed companies, the Directors are required to first notify the Chairman to ensure that such appointments would not unduly affect their time commitments and responsibilities to the Board.

Re-Appointment and Re-election

Pursuant to Section 129(2) of the Companies Act, 1965, Directors who are over the age of seventy (70) years shall retire at every Annual General Meeting ("AGM") and may offer themselves for re-appointment to hold office until the next AGM.

The Company's Articles of Association further provides that at least one-third (1/3) of the Directors are subject to retirement by rotation at each AGM but shall be eligible for re-election in line with the Main Market Listing Requirements. Directors who are appointed by the Board during the financial year before the AGM are subject to election by the shareholders at the first opportunity after their appointments.

Supply of Information to the Board

The Board members are supplied with the required and timely information which allows them to discharge their responsibilities effectively and efficiently. Prior to each Board meeting, each Director is provided with an agenda and a set of Board papers to be deliberated.

Information provided to the Board goes beyond the quantitative performance data as it includes qualitative performance for the Directors to obtain a holistic view on the issues deliberated. All Directors are entitled to call for additional clarification and information to be furnished to them for the purpose of assisting them in their decision making. In addition, in arriving at any decision recommended by the Management, a thorough deliberation and discussion by the Board is a prerequisite.

Access to Board papers and other relevant information are carried out online through a collaboration software which allows the Directors to securely access board documents which facilitates the perusal and review of the documents during Board meetings.

The Board is also regularly updated by the Company Secretaries on new statutory and regulatory requirements concerning their duties and responsibilities as and when necessary. All Directors have access to consultation with the Management, advice and services of the Company Secretaries and where independent professional advice is required, external independent experts are engaged at the Group's expense to facilitate their decision making.

Board Meetings

The Board meets at least quarterly with additional meetings convened as and when necessary. Board meetings for each financial year are scheduled in advance to facilitate the Directors to plan ahead and fit the Board meetings into their respective schedules.

The Board has a formal schedule of matters reserved at Board meetings which includes corporate plans, annual budgets, operational and financial performance reviews, major investments and financial decisions, Management performance assessments, changes to the Management and control structure within the Group, including key policies and procedures and delegated authority limits. The respective Board Committee's reports are also presented and discussed at Board meetings. All proceedings of Board meetings are duly recorded in the minutes of each meeting and signed minutes of each Board meeting are properly kept by the Company Secretaries.

During the financial year under review, the Board met six (6) times. The attendance of the Board members is as follows:

| No | Name of Board Members | Total Meetings Attended by Board Members |
|----|---|--|
| 1 | Datuk Wan Zulkiflee bin Wan Ariffin | 5 out of 6 (83%) |
| 2 | Aminul Rashid bin Mohd Zamzam (<i>MD/CEO</i>) | 6 out of 6 (100%) |
| 3 | Dato' Dr. R. Thillainathan | 5 out of 6 (83%) |
| 4 | Vimala V R Menon | 6 out of 6 (100%) |
| 5 | Lim Beng Choon | 6 out of 6 (100%) |
| 6 | Nuraini binti Ismail | 6 out of 6 (100%) |
| 7 | Mohd. Farid bin Mohd. Adnan (appointed on 1 October 2013) | 1 out of 2 (50%) |
| 8 | Dato' Kamaruddin bin Mohd Jamal (retired on 24 April 2013) | 2 out of 2 (100%) |
| 9 | Dato Mohammad Medan bin Abdullah (resigned on 1 September 2013) | 3 out of 4 (75%) |
| 10 | Amir Hamzah bin Azizan (resigned on 1 October 2013) | 3 out of 4 (75%) |

Directors' Training

In compliance with the Main Market Listing Requirements, all members of the Board for the financial year under review have attended the required mandatory accreditation training programme.

Further, as an integral part of orientation and education programme for new Directors, the Management provides them with a comprehensive understanding of the operations of the Group through briefings on its history, financial performance and site visits to the Group's facilities.

In compliance with the Main Market Listing Requirements, the Directors are mindful that they shall receive appropriate training which may be required from time to time to keep them abreast on the current developments of the industry as well as new statutory and regulatory requirements. A Directors' Training Plan has been formalised by the

Nomination Committee to serve as a guideline for the assessment of the training needs of the Directors based on the areas critical to the Group's businesses.

The Directors are regularly updated on the Group's businesses and the competitive and regulatory environment in which they operate. Site visits for the Directors to the Group's facilities are conducted to provide an insight and better understanding on the Group's businesses and operations at ground level.

During the financial year, the members of the Board have attended relevant training programmes in areas of leadership, corporate governance, finance and competitive strategies to enhance their ability in discharging their duties and responsibilities more effectively.

Particulars of training programmes attended by the Directors as at 31 December 2013 are as follows:

| | |
|-------------------------------|--|
| Corporate Governance | <ul style="list-style-type: none"> • Company Directors' Training • PETRONAS Whistleblowing Policy • PETRONAS Code of Conduct and Business Ethics • The Nomination Programme • Boards & Strategy • Related Party Transactions • The Nomination and Remuneration Committee • Personal Data Protection Act and Competition Act • Corporate Integrity Advocacy Programme • Advocacy Session on Corporate Disclosure • Ethics & Board of Directors • Audit Committee Conference 2013 (Powering for Effectiveness) |
| Oil & Gas Business | <ul style="list-style-type: none"> • 17th Asia Oil & Gas Conference • Petrochemical Industry • New Lens Scenario • PETRONAS Downstream Leadership Workshop • Strategic Insights Forum • 2nd Hazards Asia Pacific Symposium |
| Risk Management | <ul style="list-style-type: none"> • Risk Management & Internal Control Workshop • Enterprise Risk Management • Liquidity Risk Management Training • Market Risk Management Training |

**Economics, Finance,
Capital Market and
Exchange**

- Elective Programme on Corporate Finance for Directors
- Malaysian Economic Association Roundtable Discussion with World Bank Group on China, India & Asia's Growth Challenges
- World Capital Market Symposium: Redefining Markets, Sustaining Growth & Resilience
- Corporate Finance Programme
- Understanding Strategic Planning

Directors' Fees

With the exception of the Managing Director/Chief Executive Officer, all Non-Executive Directors are paid Directors' fees which are subsequently approved by the shareholders at the AGM based on the recommendations of the Board. For the financial year under review, the breakdown of fees received by each Director is as listed below:

| Name of Directors | Directors Fees (RM) | Board Meeting Attendance Fees^ (RM) | Audit Committee Meeting Attendance Fees^ (RM) | Remuneration Committee Meeting Attendance Fees^ (RM) | Nomination Committee Meeting Attendance Fees^ (RM) | AGM (RM) | Others** (RM) | Total (RM) |
|---|---------------------------|---|--|---|---|---------------|------------------|----------------|
| Datuk Wan Zulkiflee bin Wan Ariffin | 108,000 | 20,000 | Nil | Nil | Nil | 4,000 | Nil | 132,000* |
| Aminul Rashid bin Mohd Zamzam | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Dato' Dr. R. Thillainathan | 72,000 | 16,000 | 8,000 | 6,000 | 12,000 | 3,000 | 6,000 | 123,000 |
| Vimala V R Menon | 72,000 | 18,000 | 12,000 | 2,000 | Nil | 3,000 | 6,000 | 113,000 |
| Lim Beng Choon | 72,000 | 18,000 | 8,000 | 5,000 | 6,000 | 3,000 | 3,000 | 115,000 |
| Nuraini binti Ismail | 72,000 | 18,000 | 2,000 | 4,000 | Nil | 3,000 | Nil | 99,000* |
| Mohd. Farid bin Mohd. Adnan (appointed on 1 October 2013) | 18,000 | 3,000 | Nil | 2,000 | 4,000 | Nil | Nil | 27,000* |
| Dato' Kamaruddin bin Mohd Jamal (retired on 24 April 2013) | 24,000 | 6,000 | 2,000 | 6,000 | 2,000 | 3,000 | 6,000 | 49,000 |
| Dato Mohammad Medan bin Abdullah (resigned on 1 September 2013) | 48,000 | 9,000 | Nil | Nil | 4,000 | 3,000 | Nil | 64,000 |
| Amir Hamzah bin Azizan (resigned on 1 October 2013) | 54,000 | 9,000 | 4,000 | Nil | Nil | 3,000 | Nil | 70,000* |
| Total | 540,000 | 117,000 | 36,000 | 25,000 | 28,000 | 25,000 | 21,000 | 792,000 |

* Fees paid and payable to PETRONAS in respect of Directors who are PETRONAS appointees and holding positions of Vice President and above.

** Others include petrol/fleet card.

^ Meeting attendance fees are based on the number of meetings attended by the Directors.

The Managing Director/Chief Executive Officer, an employee of PETRONAS, is seconded to the Company to undertake all responsibilities of an Executive Director who is also the Managing Director/Chief Executive Officer. In consideration for the above service, the Company is required to pay a management fee to cover all payroll related costs and benefits ordinarily incurred by him in the course of his employment. During the financial year, the Company paid RM735,600 as management fee.

Pursuant to Article 84 of the Company's Articles of Association, the Company also reimburses reasonable expenses incurred by Directors, where relevant, in the course of carrying out their duties as Directors.

In addition to the Managing Director/Chief Executive Officer, other Management staff and executives have also been seconded from PETRONAS. Their training and succession planning are aligned to PETRONAS' policies and strategies. The Board ensures that only appropriate personnel with the relevant skills and experiences are appointed to Management positions of the Company.

Shareholders and Investors

The Board values its dialogue with both institutional shareholders and private investors and recognises that timely and equal dissemination of relevant information be provided to them.

The AGM is the principal forum of dialogue with the shareholders and also an avenue for the Chairman and Board members to respond personally to all queries and undertake to provide sufficient clarification on issues and concerns raised by the shareholders. At each AGM, shareholders are encouraged to raise questions on issues arising from the Annual Report, resolutions being proposed and the business of the Group in general.

Other mediums of communication between the Company and shareholders and/or investors are detailed out in the Investor Relations Report from pages 69 to 72.

Disclosures

The Board is fully committed to providing and presenting a true and fair view of the financial performances and future prospects in the industry. This is provided through the quarterly and annual financial statements as well as the Annual Report.

The Board also recognises the need to fully disclose to shareholders all major developments in relation to the Group on a timely basis. In addition to the mandatory disclosure requirements by Bursa Malaysia as well as other corporate disclosures, the Company also maintains a website – www.mymesra.com.my – for access by the public and shareholders.

While the Company endeavours to provide as much information as possible to its shareholders and stakeholders, it must also be wary of the legal and regulatory framework governing the release of material and price sensitive information. All corporate disclosures take into account the prevailing legislative restrictions and requirements as well as the investors need for timely release of price sensitive information such as financial results and financial statements, material acquisitions/disposals, significant corporate proposals as well as other significant corporate events. In all circumstances, the Group is cautious not to provide undisclosed material information about the Group and continually stresses the importance of timely and equal dissemination of information to shareholders and stakeholders.

An internal Corporate Disclosure Guide has been established to facilitate disclosure of information vide Bursa Malaysia. This guide is based on the requirements set out in the Main Market Listing Requirements.

BOARD COMMITTEES

In ensuring its effectiveness and realising its responsibilities to its stakeholders generally and specifically to its shareholders, the Board has formed Committees to efficiently discharge its duties and responsibilities.

Each Committee operates under its respective terms of reference. These Committees have the authority to examine on particular issues and report to the Board their recommendations on the issues. The ultimate responsibility for the final decision made lies with the Board.

Audit Committee

The Audit Committee is formed to operate within the clearly defined terms of reference as stated in pages 143 to 144 of the Annual Report. The Audit Committee comprises three (3) Independent Non-Executive members and one (1) Non-Independent Non-Executive member.

This composition of the Audit Committee will ensure the balance of roles and responsibilities within the Audit Committee in overseeing the financial efficiency and effectiveness of the

Company within the current financial year. The Chairman of the Audit Committee reports the outcome of its meetings to the Board and such reports are incorporated as part of the minutes of the Board meetings.

Further, in accordance with prescribed best practices of Corporate Governance, the Board hereby presents a summary of key activities of the Audit Committee in page 145 of the Annual Report to the shareholders.

Nomination and Remuneration Committees

Pursuant to a Board resolution passed on 16 February 2011, the Nomination Committee and the Remuneration Committee were formed.

Nomination Committee

The Nomination Committee comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. The current Chairman of the Nomination Committee is the Senior Independent Non-Executive Director.

The Nomination Committee is primarily responsible to propose, consider and recommend to the Board, candidates for directorships to be filled in the Board and Committees of the Board.

A skills and experience matrix exercise has been implemented by the Nomination Committee to review the mix of skills, education and experience of the Directors. The Nomination Committee, in recommending candidates for appointment to the Board, assesses the candidates' experience,

background and skills against the required skills and experience which are critical to the Company.

The Nomination Committee is also responsible to assess the performance and effectiveness of the Board as a whole, Board Committees, as well as each individual Director, on an annual basis. The annual performance assessment includes specific assessment of independence of Independent Directors. Each Independent Non-Executive Director is obligated, nevertheless, to ensure his or her independence is in accordance with the Main Market Listing Requirements.

During the financial year under review, the Nomination Committee undertook the following key activities:

- Assessed candidates for recommendation to the Board as part of the Board's succession planning approach;
- Established the Individual Director Self/Peer Evaluation Questionnaire;
- Assisted the Board in establishing the Board Charter and Corporate Disclosure Guide;
- Periodically assessed the Company's observance to the corporate governance standards and practices; and
- Formalised a Directors' Training Plan to facilitate the assessment of Directors' training needs.

In addition, the Nomination Committee is continuously apprised of any changes in the Senior Management of the Company.

The Nomination Committee convened four (4) meetings during the financial year under review and the attendance of the members for the meetings are stated below:

| No. | Name of Nomination Committee Members | Total Meetings Attended |
|-----|---|-------------------------|
| 1 | Dato' Dr. R. Thillainathan (Chairman) | 4 out of 4 (100%) |
| 2 | Dato' Kamaruddin bin Mohd Jamal (retired on 24 April 2013) | 1 out of 1 (100%) |
| 3 | Lim Beng Choon (appointed on 15 May 2013) | 3 out of 3 (100%) |
| 4 | Dato Mohammad Medan bin Abdullah (resigned on 1 September 2013) | 2 out of 2 (100%) |
| 5 | Mohd. Farid bin Mohd. Adnan (appointed on 1 October 2013) | 2 out of 2 (100%) |

Remuneration Committee

The Remuneration Committee comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

The Remuneration Committee is primarily responsible to propose, consider and recommend to the Board the remuneration and talent management strategy for the Management as well as the remuneration of the Directors.

Among the key activities of the Remuneration Committee during the financial year include:

- Recommending to the Board the remuneration policy and framework including Director's remuneration package;
- Endorsing the Group's Performance Scorecard; and
- Periodically assessing the succession planning of the Senior Management.

A Special Remuneration Committee Meeting is held on an annual basis, and attended by all Independent Directors, to review the performance and rewards for the Senior Management.

The remuneration of the Directors is competitive and attractive as it has been benchmarked against the industry and is aligned with PETRONAS' remuneration principles.

For the financial year under review, the Remuneration Committee convened three (3) meetings and the attendance of the members for the meetings are as stated below:

| No. | Name of Remuneration Committee Members | Total Meetings Attended |
|-----|--|-------------------------|
| 1 | Dato' Kamaruddin bin Mohd Jamal (Chairman) (retired as Chairman on 24 April 2013) | 2 out of 2 (100%) |
| 2 | Lim Beng Choon (appointed as Chairman on 13 May 2013) | 1 out of 1 (100%) |
| 3 | Dato' Dr. R. Thillainathan | 3 out of 3 (100%) |
| 4 | Nuraini binti Ismail (resigned on 1 October 2013) | 2 out of 2 (100%) |
| 5 | Mohd. Farid bin Mohd. Adnan (appointed on 1 October 2013) | 1 out of 1 (100%) |

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board aims to present a balanced and meaningful assessment of the Group's financial performance, position and prospects, primarily through the annual report, and quarterly financial reports to the shareholders, as well as Chairman's statement and review of operations in the annual report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

The financial statements of the Group have been prepared in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965. These financial statements also comply with the applicable disclosure provisions of the Main Market Listing Requirements.

The Statement of Directors' Responsibility is enclosed on page 147 of the Annual Report.

2. Risk Management and Internal Control

The Board acknowledges its overall responsibility for continuous maintenance of a sound system of risk management and internal control to safeguard shareholders' investment and the Group's assets. This principle is further elaborated under Statement on Risk Management and Internal Control by the Directors in pages 137 to 141 of the Annual Report.

3. Relationship with the External Auditors

The external auditors from Messrs. KPMG Desa Megat & Co have continued to report to shareholders of the Company on their opinion which are included as part of the Group's financial reports with respect to their audit on each year's statutory financial statements. The auditors are also under the obligation to highlight to the Audit Committee and the Board on matters that require their attention.

The Audit Committee met the external auditors twice during the financial year under review without the presence of the Management to review the scope and adequacy of the Group's audit process, the annual financial statements and their audit findings.

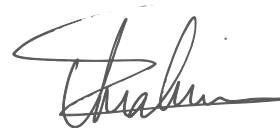
The Company continuously reviews and monitors the suitability and independence of external auditors. As part of the annual audit exercise, the Company also obtains written assurance from the external auditors confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.

A summary of the activities of the Audit Committee during the financial year, including the evaluation of independent audit process, are set out in the Audit Committee Report on pages 142 to 146 of the Annual Report.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 6 February 2014.



Datuk Wan Zulkiflee bin Wan Ariffin
Chairman



Mohd Ibrahimnuddin bin Mohd Yunus
Managing Director/Chief Executive Officer

ADDITIONAL COMPLIANCE INFORMATION

NON-AUDIT FEES

The amount of non-audit fees paid and payable to external auditors by the Company for the financial year ended 31 December 2013 was RM217,000 (RM151,000 for the financial year ended 31 December 2012).

SANCTIONS AND/OR PENALTIES

During the financial year, there were no sanctions and/or material penalties imposed on the Company, Directors or Management by the relevant regulatory bodies.

MATERIAL CONTRACTS

There was no material contract entered into or subsisting between the Company and its Directors or substantial shareholders during the financial year except as disclosed in the audited accounts.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL 137

The Malaysian Code on Corporate Governance 2012 requires public listed companies to maintain sound systems of risk management and internal control to safeguard shareholders' investments and company's assets.

INTRODUCTION

The Malaysian Code on Corporate Governance 2012 requires public listed companies to maintain sound systems of risk management and internal control to safeguard shareholders' investments and company's assets. Under the provisions of the Bursa Malaysia Main Market Listing Requirements ("Main Market Listing Requirements") paragraph 15.26(b), Directors of public listed companies are required to produce a statement on the state of the company's internal control in their Annual Report.

The Board of Directors ("Board") continues with its commitment to maintain sound systems of risk management and internal control throughout PETRONAS Dagangan Berhad ("PDB") and its subsidiaries ("Group"). In compliance with the Main Market Listing Requirements and the Statement on Risk Management and Internal Control (Guidelines for Directors of Listed Issuers), the Board is pleased to provide the following statement which outlines the nature and scope of risk management and internal control of the Group during the financial year under review.

BOARD RESPONSIBILITY

The Board acknowledges the importance of sound risk management and internal control being embedded into the culture, processes and structures of the Group. The systems of internal control cover, inter alia, risk management and financial, organisational, operational, project and compliance controls. The Board reaffirms its overall responsibility for the Group's systems of internal control, and for reviewing the effectiveness and efficiency of those systems to ensure their viability and robustness. It should be noted, however, that such systems are designed to manage, rather than eliminate, risks of failure to achieve corporate objectives. Inherently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has in place an ongoing process for identifying, evaluating, monitoring and managing significant risks that may materially affect the achievement of its corporate objectives and strategies. This process has been in place throughout the financial year under review and up to the date of this report, it has been reviewed by the Board to accord with the Main Market Listing Requirements.

MANAGEMENT ROLE

The Management is accountable to the Board for the implementation of the processes in identifying, evaluating, monitoring and reporting of risks and internal control. Quarterly, the Board has received assurance from the Managing Director/Chief Executive Officer and the Chief Financial Officer that the Group's risk management and internal control systems are operating adequately and effectively in all material aspects. There were no material losses incurred during the financial year as a result of weaknesses of internal control. The Management will continue to take measures to strengthen the Group's control environment.

RISK MANAGEMENT

PDB has established risk management practices to safeguard PDB's business interest from risk events that may impede achievement of business strategy, enable value creation and growth through identification of opportunities and provide assurance to the Group's various stakeholders.

PDB has adopted the PETRONAS Risk Governance Framework and Guidelines which outlines the Risk Policy and Strategy, Risk Organisation and Structure, Risk Measurement and Risk Operations and Systems for the Group. PDB has also implemented the Enterprise Risk Management ("ERM") processes to identify, assess, monitor, report and mitigate risks impacting PDB's business and supporting activities.

The main components of PDB's risk governance and structure consist of the Board, the Audit Committee and the Management. The structure allows for strategic risk conversations to take place between the Board, the Audit Committee and the Management on a quarterly basis.

The Board is responsible for the overall risk oversight for PDB. The Board's role includes approving the principal risks for the company and ensuring that a robust system is in place to manage these risks. The Board also reviews the adequacy and the integrity of the Group's internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board is assisted by the Audit Committee which provides advice to the Board on risk matters. This includes reviewing and endorsing policies and frameworks and other key components of risk management to be implemented within the Group.

The Management, through Risk & Credit Management Department, Finance Division, oversees the effective implementation of risk policy and guidelines, ERM and institutionalisation of risk management culture within the organisation. The Management also reviews and monitors periodically the status of PDB's principal risks and their mitigation actions and update the Audit Committee and the Board accordingly.

There are other risk committees such as Health, Safety and Environment ("HSE") Committee, Credit Control Committee, Tender Committee and Business Information Technology Management of Change Committee to support the Management in specific risk areas and good governance practices. PDB also has in place an appropriate risk operations mechanism covering the areas of systems, processes, reporting of risks, knowledge management and assurance activities.

During the year, PDB has established its risk profile based on the ERM concept consisting of several principal risks. The likelihood and impact of the risks have been assessed and evaluated against the Group's risk appetite and tolerance level while appropriate key risk indicators and mitigation actions have been identified for the risks. The status of the principal risks and mitigation actions are then reported to the Management, the Audit Committee and the Board for their deliberation and guidance on quarterly basis.

In addition, PDB has also implemented the following risk mitigations which are in line with PETRONAS' practices:

- Established Business Continuity Management programme which consists of business impact assessment to identify critical business functions and minimum resource requirements for key worksites and the development and testing of Business Continuity Plan ("BCP") for the specific scenarios identified;

- Collaborated with PETRONAS Finance Risk Management Department to enhance credit risk mitigation through integrated management of customers and also standard use of credit risk rating system to guide credit risk decisions;
- Deployed Mandatory Control Framework as part of effective implementation of Health Safety Environment Management System (“HSEMS”) to measure compliance against PETRONAS mandatory HSE requirements and incorporated gap closure plans within the HSEMS implementation plan;
- Performed Contractor Risk Assessment as part of the procurement process in selection of contractor to ensure systematic identification, assessment and mitigation of contractors’ related risks critical to the contractors’ performance delivery; and
- Participated in Enterprise Risk Management Compliance Assessment exercise which was conducted across PETRONAS Group of Companies and achieved satisfactory status on the adequacy of ERM framework design and compliance implemented within the organisation.

In PDB, Risk Management is conducted through an ongoing process between the Board, the Management and employees of the Group. The Group will continue its focus to institutionalise risk management as a business culture throughout the Group.

INTERNAL AUDIT

Internal audits are undertaken to provide independent assessments on the Group’s internal control systems in the assessment of potential risks exposures in key business processes and in controlling the proper conduct of business within the Group. The Audit Committee has full and direct access to internal auditors and the Audit Committee receives reports on all internal audits performed.

During the financial year, the internal audit function was carried out by PDB Internal Audit Department (“IAD”), which was established on 1 April 2011 with a direct reporting line to the Audit Committee. A key objective of IAD is to assist the Group in accomplishing its goals by bringing a systematic

and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Group.

IAD maintains its impartiality and due professional care by having its plans and reports directly under the purview of the Audit Committee and with continuous training of its staff. IAD has put in relevant procedures to ensure that the staff is competent and adequately equipped in carrying out their duties and responsibilities. IAD’s practices and conduct are governed by its Internal Audit Charter.

IAD reviews the internal controls in selected key activities of the Group’s businesses in accordance with the approved risk-based internal audit plan. IAD continues to independently and objectively monitor compliance with regard to policies and procedures and the effectiveness of internal control systems. Significant findings and recommendations for improvement are highlighted to Management and the Audit Committee, with periodic follow-up of the implementation of action plans. The Management is responsible for ensuring that corrective actions are implemented accordingly.

OTHER KEY ELEMENTS OF INTERNAL CONTROL SYSTEMS

In furtherance to the Board’s commitment to maintain sound systems of risk management and internal control, the Board continues to maintain and implement a strong internal control structure and environment for the proper conduct of the Group’s business operations as follows:

- The Board meets at least quarterly and has set a schedule of matters which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. The Managing Director/Chief Executive Officer leads the presentation of board papers and provides comprehensive explanation of pertinent issues. In arriving at any decision, upon recommendation by the Management, a thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Group’s activities and its operations on a regular basis.

- An organisational structure with formally defined lines of responsibility and delegation of authority is in place. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability.
- A documented delegation of authority with clear lines of accountability and responsibility serves as a tool of reference in identifying the approving authority for various transactions including matters that require Board's approval. This document is periodically reviewed and further strengthened to reflect the growth in business operations of the Group.
- The Group performs annual budgeting and forecasting exercise including development of business strategies for the next five (5) years, and the establishment of key performance indicators against which units within the Group can be evaluated. Variances against budget and prior years are analysed and reported internally on a monthly basis in PDB's Management Committee meetings. On a quarterly basis, the variances are reported to the Board. The Group's strategic direction is also reviewed annually through an assessment process taking into account changes in market conditions and significant business risks.
- The Group implemented a Financial Control Framework to ensure key internal controls are adequate and effective at all times. The framework requires the documentation of key processes and a structured assessment process to identify control gaps and the required mitigation action. Each key process owner is required to provide formal confirmation on level of compliance to key controls for their respective business area on an annual basis.
- The PETRONAS Code of Conduct and Business Ethics ("CoBE") sets out standards of behaviour and ethical conducts within the Group and with external parties aimed at maintaining confidence and reliance on the Group's operations. To complement the objectives of the CoBE, PDB adopted the PETRONAS Whistleblowing Policy to provide an avenue for employees and members of the public to disclose any improper conduct within the Group and the PETRONAS Anti-Corruption and Bribery Manual to instill and propagate a culture of integrity and business ethics throughout the Group.
- The formalisation of the Policies and Procedures on Related Party Transactions ("RPT") and Conflict of Interest detailing the processes for management of RPTs within the Group ensures that the RPTs are conducted on arm's length basis and will not be detrimental to PDB's minority shareholders.
- Information and Communication Technology is utilised within the Group to enhance work processes, access to information and reporting throughout the Group. The Group strives to continuously enhance its information and communication systems in ensuring that it facilitates improvement in business processes, work productivity and decision making throughout the Group.
- PDB's BCP capability is aligned to PETRONAS' BCP to manage emergencies at the operational and PDB level and thus increasing the resilience of the Group's operations. Scheduled drills and exercises are carried out to ensure readiness and minimal interruptions to the Group's operations in the event of an emergency or crisis.
- HSE awareness programmes, regular staff engagements and continuous HSE trainings form part of the HSEMS adopted by the Group to propagate zero tolerance towards HSE risks. The HSE performance of the Group is reported on a regular basis to the Board and communicated to the employees during employees' engagement sessions.
- Tender Committee structure which comprises cross functional representatives has been established to review all major purchases and contracts. The tender committees provide the oversight function on tendering matters prior to approval by the relevant approving authorities.
- The Group has developed Operating Procedures and Guidelines which covers business planning, capital expenditure, financial operations, performance reporting, terminal operations, supply chain management, human resource management, information system and HSE. These define the policies and procedures for day-to-day operations and act as guidelines to the proper measures to be undertaken in a given set of circumstances. The policies and procedures are also reviewed on a regular basis to ensure continuing relevance and effectiveness.

- The PETRONAS Credit Risk Framework and Guidelines facilitates management of credit risk exposures from customers and allows credit exposure to be closely tracked as a monitoring and control tool to guide credit risk decision.
- The PETRONAS Corporate Financial Policy which represents PETRONAS' governing principles and policies in the practice of financial risk management serves as a tool for the Group to manage its finance risks exposure.

REVIEW OF THIS STATEMENT

The external auditors have reviewed this Statement on Risk Management and Internal Control in accordance with the Recommended Practice Guide 5 (Revised) issued by Malaysian Institute of Accountants for inclusion in the annual report of PDB for the financial year under review and reported to the Board that nothing has come to their attention that cause them to believe that the statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and effectiveness of risk management and internal control within the Group.

Recommended Practice Guide 5 (Revised) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

CONCLUSION

Based on reviews of the effectiveness of the internal control and risk management frameworks, information and assurance provided to the Board, the Board is satisfied that the systems of internal control and risk management in place are adequate in safeguarding the shareholders' interests and assets of the Group. The Board also confirms that there is an effective ongoing process for identification, evaluation and management of significant risks in the Group and is committed to ongoing review of the internal control and risk management frameworks to meet the changing operating environment.

This statement is made in accordance with the resolution of the Board of Directors dated 6 February 2014.

AUDIT COMMITTEE REPORT

The Board of Directors of PETRONAS Dagangan Berhad is pleased to present the Audit Committee Report for the financial year ended 31 December 2013.

COMPOSITION AND MEETING

Pursuant to a Board resolution passed on 3 March 1994, the Audit Committee was formed. The members of the Audit Committee during the financial year comprised the following Directors:

| Directors | Designation | Number of Meetings Attended |
|---|-------------|-----------------------------|
| Vimala V R Menon (Independent Non-Executive Director) | Chairman | 4 out of 4 |
| Dato' Dr. R. Thillainathan (Independent Non-Executive Director) | Member | 4 out of 4 |
| Lim Beng Choon (Independent Non-Executive Director) | Member | 4 out of 4 |
| Nuraini binti Ismail (Non-Independent Non-Executive Director) (appointed on 1 October 2013) | Member | 1 out of 1 |
| Dato' Kamaruddin bin Mohd Jamal (Independent Non-Executive Director) (retired on 24 April 2013) | Member | 1 out of 1 |
| Amir Hamzah bin Azizan (Non-Independent Non-Executive Director) (resigned on 1 October 2013) | Member | 2 out of 3 |

During the financial year under review, four (4) Audit Committee Meetings were held.

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Constitution

The Audit Committee was created by the Board pursuant to its resolution on 3 March 1994.

Membership

The members of the Audit Committee shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members. All the Audit Committee members must be non-executive directors with majority of them being independent directors. Independent Directors shall be one who fulfills the requirement as provided in the Bursa Malaysia Market Main Listing Requirements ("Main Market Listing Requirements").

All the Audit Committee members must be financially literate with at least one (1) member of the Audit Committee who:

- (i) must be a member of the Malaysian Institute of Accountants; or
- (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years working experience and:
 - (a) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967; or
 - (b) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act, 1967.
- (iii) fulfills such other requirements as prescribed or approved by the Bursa Malaysia.

The members of the Audit Committee shall elect a Chairman from amongst them who shall be an Independent Director.

If a member of the Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

No alternate director can be appointed as a member of the Audit Committee.

Meeting

A quorum shall be two (2) members, both being Independent Directors and one (1) of whom shall be the Chairman of the Audit Committee. The Audit Committee shall be able to convene meetings with the external auditors, internal auditors or both, excluding the attendance of other directors and employees whenever deemed necessary. The external auditors and internal auditors have the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Committee when required to do so by the Audit Committee.

The Company Secretary or in his/her absence, his/her deputy shall be the Secretary of the Audit Committee. Minutes of the meetings shall be duly entered in the books provided therefor.

Meetings shall be held not less than four (4) times a year. The external auditors may request a meeting if they consider it necessary. The Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matters the external auditors believe should be brought to the attention of the Directors or shareholders.

Authority

The Audit Committee is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

Duties and Functions

The duties and functions of the Audit Committee shall be:

- (a) to consider the suitability and independence of external auditors for their appointment, the audit fee, and any questions of resignation or dismissal of the external auditors before making recommendation to the Board;
- (b) to discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure coordination where more than one (1) audit firm is involved;
- (c) to review with the Management and the external auditors the quarterly results and year-end financial statements prior to the approval by the Board, focusing particularly on:
 - any change in accounting policies and practices
 - significant and unusual events
 - major judgmental areas
 - significant adjustments resulting from the audit
 - the going concern assumption
 - compliance with accounting standards
 - compliance with stock exchange and legal requirements
- (d) to arrange for periodic reports from the Management, the external auditors, and the internal auditors to assess the impact of significant regulatory changes, and accounting or reporting developments proposed by accounting and other bodies, or any significant matters that may have a bearing on the annual examination;
- (e) to discuss problems and reservations arising from the internal or external interim and final audits, and matters the external or internal auditors may wish to discuss (in the absence of Management where necessary);
- (f) to review the internal audit programme, consider the major findings of internal audits and Management's response, and ensure coordination between the internal and external auditors;
- (g) to review the adequacy of the competency of the internal audit function;
- (h) to review the performance of the Head of Internal Audit for the Management's endorsement;
- (i) to approve the appointment or termination of the Head of Internal Audit;
- (j) to review any related party transaction and conflict of interest situation that may arise in the Company including any transaction, procedure or course of conduct that raises questions of the Management's integrity;
- (k) to keep under review the effectiveness of internal control systems, and the internal and/or external auditors' evaluation of these systems and in particular, review the external auditor's Management Letter and Management's Response;
- (l) to review the audit reports;
- (m) to review the risk management framework, processes and responsibilities and assess whether they provide reasonable assurance that risks are managed within tolerable ranges;
- (n) to direct and where appropriate supervise any special project or investigation considered necessary;
- (o) to prepare periodic report to the Board of Directors summarising the work performed in fulfilling the Audit Committee's primary responsibilities; and
- (p) to consider other topics, as defined.

Reporting Procedures

The Secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board.

SUMMARY OF ACTIVITIES OF THE AUDIT COMMITTEE DURING THE FINANCIAL YEAR

The following activities were carried out by the Audit Committee during the financial year ended 31 December 2013:

External Audit

- (1) Met with the external auditors without the presence of Management to discuss on any matters deemed relevant in discharging the Board's duties and functions.
- (2) Reviewed and approved the external auditors' scope of work and audit plans for the financial year. Prior to the audit, representatives from the external auditors presented their audit strategy and plan.
- (3) Reviewed with the external auditors the results of the audit and the audit report.
- (4) Made consideration and recommendation to the Board for approval of the audit fees payable to the external auditors as disclosed in Note 18 to the financial statements.
- (5) Reviewed the independence and objectivity of the external auditors and the services provided.

Internal Audit

- (1) Reviewed annual internal audit plan to ensure adequacy of resources and coverage of entities based on risk assessment.
- (2) Reviewed the internal audit reports, which highlighted the audit issues, recommendations and the Management's response.
- (3) Discussed with the Management on actions taken to improve the systems of internal control based on improvement opportunities identified in the internal audit reports.
- (4) Reviewed the adequacy, effectiveness and status of agreed corrective actions undertaken by Management on internal audit issues.

Financial Results

- (1) Reviewed the audited financial statements of the Group prior to submission to the Board for their consideration and approval. The review was to ensure that the audited financial statements were drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards.
- (2) Reviewed the Company's compliance, in particular, to the quarterly and year end financial statements with the Main Market Listing Requirements, Malaysian Accounting Standards and other relevant legal and regulatory requirements.
- (3) Reviewed the quarterly financial results announcements before recommending them for the Board's approval. The review and discussion were conducted with the Chief Financial Officer.

Corporate Governance

- (1) Reviewed the related party transactions entered into by the Company to ensure that they are undertaken on arm's length basis and are not detrimental to the Company's minority shareholders.
- (2) Reviewed the impact of relevant regulatory changes and ensured compliance by the Company and the Group.
- (3) Reviewed and recommended the Statement on Corporate Governance, Statement on Risk Management and Internal Control and Audit Committee Report to the Board for approval.

Risk Management

- (1) Reviewed and endorsed all policies, frameworks, guidelines and other key components of risk management for implementation within the Company and throughout the Group.
- (2) Reviewed and endorsed corporate risk profile for the Group.
- (3) Reviewed the progress of ongoing risk management activities to identify, evaluate, monitor and manage critical risks.

INTERNAL AUDIT

The internal audit function of the Group is carried out by the Internal Audit Department of the Company.

They maintained at all times their impartiality and due professional care by having their plans and reports directly under the purview of the Audit Committee.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in the assessment of potential risk exposures over key business processes within the Group. The Audit Committee has full and direct access to Internal Auditors and received reports on all internal audit engagements performed.

During the financial year, the Internal Auditors had carried out audits according to the risk-based internal audit plan which had been approved by the Audit Committee. The internal audit provides assurance that adequate and effective internal controls are in place and relevant policies, procedures and guidelines and applicable laws and regulations are adhered to.

The Audit Committee reviews the audit reports and directs the Management for the necessary corrective actions and process improvements. The Management is responsible for ensuring that the recommendations are implemented accordingly.

The total costs incurred for the internal audit function of the Company and the Group for the financial year was RM2,593,000.



Vimala V R Menon

Chairman

Audit Committee

STATEMENT OF DIRECTORS' RESPONSIBILITY

IN RELATION TO THE FINANCIAL STATEMENTS

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The financial statements of the Group and of the Company, as set out on pages 152 to 223, are properly drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and of the results of its operations and cash flows for the financial year ended on that date.

The Directors consider the following in preparing the financial statements of the Group and of the Company:

- appropriate accounting policies have been used and consistently applied;
- reasonable and prudent judgments and estimates were made;
- the Companies Act, 1965 and all applicable Malaysian Financial Reporting Standards have been followed; and
- prepared on a going concern basis.

The Directors are also responsible for ensuring that the accounting and other records and registers required by the Companies Act, 1965 to be kept by the Group and the Company have been properly kept in accordance with the provisions of the said Act.

The Directors also have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Group and of the Company and to prevent and detect fraud and other irregularities.

It is embedded into the Company's organisational culture in ensuring the continuity of critical business functions in the event of prolonged business disruptions, and safeguards the Company's business and stakeholders' interests from exposure to high impact risks.



*PETRONAS Twin Towers Integrated Simulation
BCP Testing on 28 October 2013*



*PDB Product Supply BCP Table-Top
Testing on 1 August 2013*

Business Continuity Management (BCM) is an important aspect of the overall PETRONAS Corporate Governance. It is embedded into the Company's organisational culture in ensuring the continuity of critical business functions in the event of prolonged business disruptions, and safeguards the Company's business and stakeholders' interests from exposure to high impact risks. Most importantly, it enhances the Company's business value and protects its reputation by strengthening its resiliency in the event of potential crisis.

A BCM review was conducted by the Company in March – April 2013 covering three (3) critical aspects namely; (i) Office Building, (ii) ICT Systems, and (iii) Domestic Petroleum Product Supply (DPPS). In the event of any crisis, PDB adopts PETRONAS three-pronged business continuity strategy: (i) Reduce, (ii) Respond, and (iii) Recover, all of which are established to manage business disruptions.

Simulation tests were conducted with the objective of assessing the preparedness of BCM management team members, affected users and most importantly, Critical Business Functions (CBF) employees in handling any potential crisis events. One of the vital objectives in emulating crisis events to actual events is to also test the robustness of PDB Business Continuity Plan (BCP) manuals in ensuring that the manual is exhaustive, comprehensive and updated to act as points of reference during any event of crisis.

Two (2) simulation exercises for office buildings were conducted during the year under review. In May 2013, PDB had participated in a PETRONAS Twin Towers (PETT) simulation exercise as part of the Downstream PETT Simulation Exercise which required staff mobilisation to alternate worksites. Subsequently, the Company also participated in a PETT Integrated Simulation Exercise which involved all tenants of Towers 1 and 2 of the PETT on 28 October 2013.

In another end-to-end BCP simulation exercise, the Company had conducted a table-top exercise on PDB Product Supply Business Continuity Plan on 1 August 2013. This table-top exercise was aimed at enhancing the understanding on BCM in managing any crisis affecting the Company's product supply.

In summary, the series of BCM activities completed was to ensure continuity of CBF in the event of prolonged business disruptions. Furthermore, BCM also safeguards PDB business from high impact risks which could impede its targeted performance while enhancing the Company's business value by protecting its reputation through the strengthening of its business resiliency.

CORPORATE INTEGRITY

Anti-Bribery and Corruption (ABC) Policy and Guidelines elaborates upon these principles, providing stringent guidelines to employees on how to deal with improper solicitation, bribery and other corrupt activities as well as on issues that may arise in the course of business.

INTEGRITY AT WORK: ANTI-BRIBERY AND CORRUPTION POLICY AND GUIDELINES

PDB has adopted PETRONAS' zero tolerance policy towards all forms of bribery and corruption. In line with the PETRONAS Code of Conduct and Business Ethics (CoBE) which was implemented in 2012, the PETRONAS ABC Policy and Guidelines was introduced in 2013 to detail out the core principles of Part II B: Fighting Corruption and Unethical Practices under CoBE.

ABC elaborates upon these principles, providing stringent guidelines to employees on how to deal with improper solicitation, bribery and other corrupt activities as well as on issues that may arise in the course of business. These guidelines were designed to curb bribery and corrupt practices. ABC equips employees with a basic introduction to how the Company combats bribery and corruption in furtherance to its commitment to adopt lawful and ethical behaviour at all times.

As per the CoBE implementation, ABC is applicable to all employees and external parties including contractors, sub-contractors, consultants, agents, representatives and others who offer products or services for and on behalf of PETRONAS Group and its subsidiaries.

FINANCIAL STATEMENTS



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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company in the course of the financial year remained unchanged as domestic marketing of petroleum products.

The principal activities of the subsidiaries, associates and joint ventures are stated in Note 30, Note 31 and Note 32 to the financial statements respectively. There has been no significant change in the nature of these activities during the financial year.

RESULTS

| | Group RM'000 | Company RM'000 |
|-----------------------------|-----------------|-------------------|
| Profit for the year | 818,980 | 825,479 |
| Attributable to: | | |
| Shareholders of the Company | 811,753 | 825,479 |
| Non-controlling interests | 7,227 | — |
| | 818,980 | 825,479 |

DIVIDENDS

The dividends paid by the Company since the end of the previous financial year are as follows:

In respect of the financial year ended 31 December 2012:

- i) An interim dividend of 17.5 sen per ordinary share less 25% tax amounting to RM130,390,837.50 on 9 April 2013; and
- ii) A special dividend of 35.0 sen per ordinary share less 25% tax amounting to RM260,781,675.00 on 27 May 2013.

In respect of the financial year ended 31 December 2013:

- i) An interim dividend of 17.5 sen per ordinary share less 25% tax amounting to RM130,390,837.50 on 9 July 2013;
- ii) An interim dividend of 16.3 sen per ordinary share less 25% tax amounting to RM121,449,751.50 and a single tier interim dividend of 1.2 sen per ordinary share amounting to RM11,921,448.00 on 27 September 2013; and
- iii) A single tier interim dividend of 17.5 sen per ordinary share amounting to RM173,854,450.00 on 6 December 2013.

DIVIDENDS (continued)

The Directors had on 6 February 2014 declared a single tier interim dividend of 17.5 sen per ordinary share amounting to RM173,854,450.00 in respect of the financial year ended 31 December 2013.

The financial statements for the current financial year do not reflect the declared interim dividend. Such dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2014.

RESERVES AND PROVISIONS

There were no material transfers to and from reserves and provisions during the financial year.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Datuk Wan Zulkiflee bin Wan Ariffin – Chairman

Mohd Ibrahimnuddin bin Mohd Yunus – appointed as Managing Director/CEO on 1 February 2014

Dato' Dr. R. Thillainathan

Vimala V R Menon

Lim Beng Choon

Nuraini binti Ismail

Mohd Farid bin Mohd Adnan – appointed on 1 October 2013

Dato' Kamaruddin bin Mohd Jamal – retired on 24 April 2013

Dato Mohammad Medan bin Abdullah – resigned on 1 September 2013

Amir Hamzah bin Azizan – resigned on 1 October 2013

Aminul Rashid bin Mohd Zamzam – resigned on 1 February 2014

Nuraini binti Ismail, the Director retiring pursuant to Article 93 of the Company's Articles of Association and being eligible, offers herself to be re-elected as Directors of the Company.

Dato' Dr. R. Thillainathan who retires in accordance with Article 93 of the Company's Articles of Association has expressed his intention not to seek re-election. Hence, he will retain office until the conclusion of the 32nd Annual General Meeting.

Mohd Farid bin Mohd Adnan and Mohd Ibrahimnuddin bin Mohd Yunus were appointed as Directors on 1 October 2013 and 1 February 2014 respectively and these Directors retiring pursuant to Article 96 of the Company's Articles of Association and being eligible, offer themselves to be re-elected as Directors of the Company.

DIRECTORS' INTERESTS

The Directors in office at the end of the financial year who have interests and deemed interests in the shares of the Company and of its related corporations other than wholly owned subsidiaries (including the interests of the spouse or children of the Director who themselves are not Director of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

| Name | Number of Shares in the Company | | | |
|-----------------------------|---------------------------------|--------|------|--------------------------|
| | Balance at 1.1.2013 | Bought | Sold | Balance at 31.12.2013 |
| Dato' Dr. R. Thillainathan* | 10,000 | — | — | 10,000 |

* Deemed interest by virtue of his spouse's shareholdings pursuant to Section 134(12)(c) of the Companies Act, 1965.

| Name | Number of Shares in PETRONAS Chemicals Group Berhad | | | |
|-------------------------------------|--|--------|------|--------------------------|
| | Balance at 1.1.2013 | Bought | Sold | Balance at 31.12.2013 |
| Datuk Wan Zulkiflee bin Wan Ariffin | 20,000 | — | — | 20,000 |
| Aminul Rashid bin Mohd Zamzam | 6,000 | — | — | 6,000 |
| Dato' Dr. R. Thillainathan* | 17,000 | — | — | 17,000 |
| Vimala V R Menon | 20,000 | — | — | 20,000 |
| Nuraini binti Ismail | 10,000 | — | — | 10,000 |

| Name | Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad | | | |
|---------------------------|--|--------|------|--------------------------|
| | Balance at 1.10.2013 | Bought | Sold | Balance at 31.12.2013 |
| Mohd Farid bin Mohd Adnan | 15,000 | — | — | 15,000 |

* Deemed interest by virtue of his immediate family member's shareholdings pursuant to Section 134(12)(c) of the Companies Act, 1965.

| Name | Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad | | | |
|-------------------------------------|--|--------|------|--------------------------|
| | Balance at 1.1.2013 | Bought | Sold | Balance at 31.12.2013 |
| Datuk Wan Zulkiflee bin Wan Ariffin | 10,000 | — | — | 10,000 |

| Name | Number of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad | | | |
|---------------------------|--|--------|------|--------------------------|
| | Balance at 1.10.2013 | Bought | Sold | Balance at 31.12.2013 |
| Mohd Farid bin Mohd Adnan | 15,000 | — | — | 15,000 |

DIRECTORS' INTERESTS (continued)

| Name | Number of Shares in KLCC Property Holdings Berhad | | | Balance at 31.12.2013 |
|----------------|--|--------|----------|--------------------------|
| | Balance at 1.1.2013 | Bought | Sold | |
| Lim Beng Choon | 11,000 | — | (11,000) | — |

| Name | Number of Shares in PETRONAS Gas Berhad | | | Balance at 31.12.2013 |
|-------------------------------|---|--------|------|--------------------------|
| | Balance at 1.1.2013 | Bought | Sold | |
| Aminul Rashid bin Mohd Zamzam | 2,000 | — | — | 2,000 |
| Nuraini binti Ismail | 5,000 | — | — | 5,000 |

| Name | Number of Shares in MISC Berhad | | | Balance at 31.12.2013 |
|---------------------------|---------------------------------|--------|------|--------------------------|
| | Balance at 1.10.2013 | Bought | Sold | |
| Mohd Farid bin Mohd Adnan | 5,000 | — | — | 5,000 |

None of the other Directors holding office at 31 December 2013 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ISSUE OF SHARES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

OTHER STATUTORY INFORMATION

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

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to realise, in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2013 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

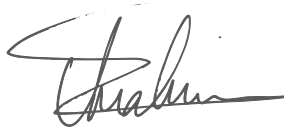
AUDITORS

Messrs KPMG, have indicated their willingness to accept appointment in place of the retiring auditors, Messrs KPMG Desa Megat & Co.

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



DATUK WAN ZULKIFLEE BIN WAN ARIFFIN



MOHD IBRAHIMNUDDIN BIN MOHD YUNUS

Kuala Lumpur,
Date: 6 February 2014

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 160 to 221 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2013 and their financial performance and cash flows for the year ended on that date.

In the opinion of the Directors, the information set out in Note 35 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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



DATUK WAN ZULKIFLEE BIN WAN ARIFFIN



MOHD IBRAHIMNUDDIN BIN MOHD YUNUS

Kuala Lumpur,
Date: 6 February 2014

STATUTORY DECLARATION

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I, PUTERI LIZA ELLI SUKMA, the officer primarily responsible for the financial management of PETRONAS Dagangan Berhad, do solemnly and sincerely declare that the financial statements set out on pages 160 to 221, are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
PUTERI LIZA ELLI SUKMA
at KUALA LUMPUR
in WILAYAH PERSEKUTUAN on 6 February 2014.



BEFORE ME:



COMMISSIONER OF OATHS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|------|-------------------|------------------|
| ASSETS | | | |
| Property, plant and equipment | 3 | 3,891,949 | 3,765,700 |
| Prepaid lease payments | 4 | 488,726 | 433,739 |
| Investment in associates | 6 | 2,538 | 8,302 |
| Investment in joint ventures | 7 | 4,045 | 4,350 |
| Deferred tax assets | 15 | 7,624 | 702 |
| TOTAL NON-CURRENT ASSETS | | 4,394,882 | 4,212,793 |
| Inventories | 8 | 1,193,220 | 1,278,681 |
| Trade and other receivables | 9 | 4,220,558 | 4,180,954 |
| Cash and cash equivalents | 10 | 358,633 | 251,300 |
| TOTAL CURRENT ASSETS | | 5,772,411 | 5,710,935 |
| TOTAL ASSETS | | 10,167,293 | 9,923,728 |
| EQUITY | | | |
| Share capital | 11 | 993,454 | 993,454 |
| Reserves | 12 | 3,796,662 | 3,816,538 |
| Total equity attributable to shareholders of the Company | | 4,790,116 | 4,809,992 |
| Non-controlling interests | 13 | 39,366 | 35,289 |
| TOTAL EQUITY | | 4,829,482 | 4,845,281 |
| LIABILITIES | | | |
| Borrowings | 14 | 139,580 | 139,047 |
| Deferred tax liabilities | 15 | 149,424 | 140,017 |
| Other long term liabilities and provisions | 16 | 30,614 | 19,796 |
| TOTAL NON-CURRENT LIABILITIES | | 319,618 | 298,860 |
| Trade and other payables | 17 | 4,532,134 | 4,301,028 |
| Borrowings | 14 | 443,058 | 324,656 |
| Taxation | | 43,001 | 153,903 |
| TOTAL CURRENT LIABILITIES | | 5,018,193 | 4,779,587 |
| TOTAL LIABILITIES | | 5,337,811 | 5,078,447 |
| TOTAL EQUITY AND LIABILITIES | | 10,167,293 | 9,923,728 |

The notes on pages 168 to 221 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 RM'000 | 2012 RM'000 |
|---|------|------------------|------------------|
| Revenue | | | |
| – sales of petroleum products | | 32,327,325 | 29,498,882 |
| – rendering of services | | 14,597 | 16,081 |
| | | 32,341,922 | 29,514,963 |
| Cost of revenue | | | |
| – cost of petroleum products | | (30,091,089) | (27,283,711) |
| – cost of services | | (15,256) | (13,877) |
| | | (30,106,345) | (27,297,588) |
| Gross profit | | 2,235,577 | 2,217,375 |
| Selling and distribution expenses | | (353,232) | (291,800) |
| Administration expenses | | (947,404) | (934,587) |
| Other income | | 190,052 | 183,177 |
| Operating profit | 18 | 1,124,993 | 1,174,165 |
| Financing costs | 19 | (19,206) | (10,634) |
| Share of profit after tax of equity accounted associates and joint ventures | | 3,654 | 1,640 |
| Profit before taxation | | 1,109,441 | 1,165,171 |
| Tax expense | 20 | (290,461) | (321,903) |
| PROFIT FOR THE YEAR | | 818,980 | 843,268 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Net movements from exchange differences | | (2,840) | 2,020 |
| TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR | | (2,840) | 2,020 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 816,140 | 845,288 |
| Profit attributable to: | | | |
| Shareholders of the Company | | 811,753 | 836,843 |
| Non-controlling interests | | 7,227 | 6,425 |
| PROFIT FOR THE YEAR | | 818,980 | 843,268 |
| Total comprehensive income attributable to: | | | |
| Shareholders of the Company | | 808,913 | 838,863 |
| Non-controlling interests | | 7,227 | 6,425 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 816,140 | 845,288 |
| Earnings per ordinary share | | | |
| Basic | 23 | 81.7 sen | 84.2 sen |

The notes on pages 168 to 221 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

<--Attributable to the shareholders of the Company-->
<-----Non-distributable-----> Distributable

| | Note | Share capital RM'000 | Foreign currency translation reserve RM'000 | Capital reserve RM'000 | Retained profits RM'000 | Total RM'000 | Non- controlling interests RM'000 | Total equity RM'000 |
|---|---------|-------------------------|---|------------------------------|-------------------------------|-----------------|--|---------------------------|
| At 1 January 2012 | | 993,454 | — | — | 3,785,446 | 4,778,900 | 33,064 | 4,811,964 |
| Exchange difference arising from translation of financial statements of foreign operations | | — | 2,020 | — | — | 2,020 | — | 2,020 |
| Profit for the year | | — | — | — | 836,843 | 836,843 | 6,425 | 843,268 |
| Total comprehensive income for the year | | — | 2,020 | — | 836,843 | 838,863 | 6,425 | 845,288 |
| Reserves arising from business combination of entities under common control | 21 | — | — | (44,053) | — | (44,053) | — | (44,053) |
| Dividends paid | | — | — | — | (763,718) | (763,718) | (4,200) | (767,918) |
| At 31 December 2012 | | 993,454 | 2,020 | (44,053) | 3,858,571 | 4,809,992 | 35,289 | 4,845,281 |
| | Note 11 | Note 12 | Note 12 | Note 12 | Note 12 | Note 13 | | |
| At 1 January 2013 | | 993,454 | 2,020 | (44,053) | 3,858,571 | 4,809,992 | 35,289 | 4,845,281 |
| Exchange difference arising from translation of financial statements of foreign operations | | — | (2,840) | — | — | (2,840) | — | (2,840) |
| Profit for the year | | — | — | — | 811,753 | 811,753 | 7,227 | 818,980 |
| Total comprehensive income for the year | | — | (2,840) | — | 811,753 | 808,913 | 7,227 | 816,140 |
| Dividends paid | 21 | — | — | — | (828,789) | (828,789) | (3,150) | (831,939) |
| At 31 December 2013 | | 993,454 | (820) | (44,053) | 3,841,535 | 4,790,116 | 39,366 | 4,829,482 |
| | Note 11 | Note 12 | Note 12 | Note 12 | Note 12 | Note 13 | | |

The notes on pages 168 to 221 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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FOR THE YEAR ENDED 31 DECEMBER 2013

| | 2013 RM'000 | 2012 RM'000 |
|--|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 32,944,292 | 29,345,558 |
| Cash paid to suppliers and employees | (31,193,774) | (27,154,166) |
| | 1,750,518 | 2,191,392 |
| Interest expenses paid | (16,189) | (10,473) |
| Taxation paid | (398,996) | (322,974) |
| Net cash generated from operating activities | 1,335,333 | 1,857,945 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of an associate | (200) | (1,429) |
| Business combination of entities under common control, net of cash acquired (Note 24) | — | (165,099) |
| Dividends received | 1,443 | — |
| Interest income from fund and other investments | 17,738 | 22,174 |
| Purchase of property, plant and equipment | (466,215) | (488,298) |
| Prepayment of leases | (81,885) | (66,947) |
| Proceeds from disposal of property, plant and equipment | 9,225 | 2,891 |
| Proceeds from disposal of an associate | 6,500 | — |
| Net cash used in investing activities | (513,394) | (696,708) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (828,789) | (763,718) |
| Dividends paid to non-controlling interests | (3,150) | (4,200) |
| Drawdown of term loan | 28,945 | 26,809 |
| Net of drawdown/(repayment) of revolving credit | 100,000 | (685,106) |
| Profit margin paid for Islamic financing facility | (4,649) | (2,494) |
| (Repayment)/drawdown of Islamic financing facility | (9,719) | 48,589 |
| Net cash used in financing activities | (717,362) | (1,380,120) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 104,577 | (218,883) |
| NET FOREIGN EXCHANGE DIFFERENCES | 2,756 | — |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 251,300 | 470,183 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 10) | 358,633 | 251,300 |

The notes on pages 168 to 221 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

| | Note | 2013 RM'000 | 2012 RM'000 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Property, plant and equipment | 3 | 3,534,087 | 3,452,952 |
| Prepaid lease payments | 4 | 488,726 | 433,739 |
| Investment in subsidiaries | 5 | 223,998 | 223,998 |
| Investment in associates | 6 | 1,960 | 7,229 |
| Investment in joint ventures | 7 | 25 | 25 |
| TOTAL NON-CURRENT ASSETS | | 4,248,796 | 4,117,943 |
| Inventories | 8 | 1,143,168 | 1,233,495 |
| Trade and other receivables | 9 | 4,154,262 | 4,076,357 |
| Cash and cash equivalents | 10 | 278,574 | 158,479 |
| TOTAL CURRENT ASSETS | | 5,576,004 | 5,468,331 |
| TOTAL ASSETS | | 9,824,800 | 9,586,274 |
| EQUITY | | | |
| Share capital | 11 | 993,454 | 993,454 |
| Reserves | 12 | 3,807,462 | 3,810,772 |
| TOTAL EQUITY | | 4,800,916 | 4,804,226 |
| LIABILITIES | | | |
| Deferred tax liabilities | 15 | 136,722 | 127,848 |
| Other long term liabilities and provisions | 16 | 23,914 | 19,372 |
| TOTAL NON-CURRENT LIABILITIES | | 160,636 | 147,220 |
| Trade and other payables | 17 | 4,423,529 | 4,182,890 |
| Borrowings | 14 | 400,000 | 300,000 |
| Taxation | | 39,719 | 151,938 |
| TOTAL CURRENT LIABILITIES | | 4,863,248 | 4,634,828 |
| TOTAL LIABILITIES | | 5,023,884 | 4,782,048 |
| TOTAL EQUITY AND LIABILITIES | | 9,824,800 | 9,586,274 |

The notes on pages 168 to 221 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | 2013 RM'000 | 2012 RM'000 |
|--|------|------------------|----------------|
| Revenue | | 31,849,812 | 29,389,128 |
| Cost of revenue | | (29,717,923) | (27,227,392) |
| Gross profit | | 2,131,889 | 2,161,736 |
| Selling and distribution expenses | | (329,779) | (286,967) |
| Administration expenses | | (863,595) | (905,180) |
| Other income | | 192,409 | 187,717 |
| Operating profit | 18 | 1,130,924 | 1,157,306 |
| Financing costs | 19 | (17,512) | (10,611) |
| Profit before taxation | | 1,113,412 | 1,146,695 |
| Tax expense | 20 | (287,933) | (314,634) |
| PROFIT FOR THE YEAR | | 825,479 | 832,061 |
| Attributable to: | | | |
| Shareholders of the Company | | 825,479 | 832,061 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 825,479 | 832,061 |

The notes on pages 168 to 221 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

| Attributable to shareholders <div><-----of the Company-----></div> | | | | | |
|---|------|-------------------------|---------------------------|---------------------------|------------------------|
| | | Non-distributable | Distributable | | |
| | Note | Share capital RM'000 | Capital reserve RM'000 | Retained profit RM'000 | Total equity RM'000 |
| 1 January 2012 | | | | | |
| | | 993,454 | — | 3,715,509 | 4,708,963 |
| Profit for the year | | — | — | 832,061 | 832,061 |
| Reserves arising from business combination of entities under common control | | — | 26,920 | — | 26,920 |
| Dividends paid | 21 | — | — | (763,718) | (763,718) |
| At 31 December 2012/1 January 2013 | | | | | |
| | | 993,454 | 26,920 | 3,783,852 | 4,804,226 |
| Profit for the year | | — | — | 825,479 | 825,479 |
| Dividends paid | 21 | — | — | (828,789) | (828,789) |
| At 31 December 2013 | | | | | |
| | | 993,454 | 26,920 | 3,780,542 | 4,800,916 |
| | | Note 11 | Note 12 | Note 12 | |

The notes on pages 168 to 221 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

| | 2013 RM'000 | 2012 RM'000 |
|---|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 32,017,605 | 29,336,477 |
| Cash paid to suppliers and employees | (30,323,393) | (27,261,319) |
| | 1,694,212 | 2,075,158 |
| Interest expenses paid | (13,842) | (10,473) |
| Taxation paid | (391,278) | (310,182) |
| Net cash generated from operating activities | 1,289,092 | 1,754,503 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of an associate | (200) | (1,429) |
| Acquisition of subsidiaries (Note 24) | — | (204,408) |
| Dividends received | 7,293 | 7,800 |
| Interest income from fund and other investments | 15,857 | 21,095 |
| Purchase of property, plant and equipment | (375,066) | (332,740) |
| Prepayment of leases | (81,885) | (66,586) |
| Proceeds from disposal of property, plant and equipment | 9,217 | 2,891 |
| Proceeds from disposal of an associate | 6,500 | — |
| Advances to a subsidiary | (21,924) | — |
| Net cash used in investing activities | (440,208) | (573,377) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (828,789) | (763,718) |
| Net of drawdown/(repayment) of revolving credit | 100,000 | (700,000) |
| Net cash used in financing activities | (728,789) | (1,463,718) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 120,095 | (282,592) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 158,479 | 441,071 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 10) | 278,574 | 158,479 |

The notes on pages 168 to 221 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2013

1. BASIS OF PREPARATION

1.1 Statement of Compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

As of 1 January 2013, the Group and the Company had adopted new, amendments and revised MFRS (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standard Board ("MASB") as described fully in Note 33.

The adoption of these pronouncements is not expected to have any material impact to the financial statements of the Group and the Company.

The MASB has also issued new and revised pronouncements which are not yet effective for the Group and the Company and therefore, have not been implemented in these financial statements. These pronouncements including their impact on the financial statements in the period of initial application are set out in Note 34.

These financial statements were approved and authorised for issue by the Board of Directors on 6 February 2014.

1.2 Basis of Measurement

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

1.3 Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's and the Company's financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

1.4 Use of Estimates and Judgments

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

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

1. BASIS OF PREPARATION (continued)

1.4 Use of Estimates and Judgments (continued)

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

- (i) Note 3 : Property, Plant and Equipment;
- (ii) Note 4 : Prepaid Lease Payments;
- (iii) Note 15 : Deferred Tax;
- (iv) Note 16 : Other Long Term Liabilities and Provisions;
- (v) Note 17 : Deferred Revenue; and
- (vi) Note 27 : Financial Instruments

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

In the previous financial years, control exists when the Group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights are considered when assessing control only when such rights are presently exercisable and the Group did not consider de facto power in its assessment of control.

Since the beginning of the financial year, the Group has adopted MFRS 10, Consolidated Financial Statements, where control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

The adoption of MFRS 10 has no significant impact to the financial statements of the Group.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Consolidation (continued)

Business Combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

For new acquisition, the Group measures goodwill as the excess of the cost of an acquisition as defined above and the fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill arising from business combinations prior to 1 October 2009 is stated at the previous carrying amount less subsequent impairments.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling Interests

Non-controlling interests at the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and other comprehensive income for the year between the non-controlling interests and shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Consolidation (continued)

Loss of Control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

2.2 Associates

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

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses and other comprehensive income of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with the resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transactions costs.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Joint Arrangements

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

In the previous financial years, joint arrangements were classified and accounted for as either joint ventures or jointly controlled assets or jointly controlled operations. The Group accounted for its interest in joint ventures using the equity method. Jointly controlled assets or jointly control operations are accounted for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors.

Upon adoption of MFRS 11, *Joint Arrangements* in the current financial year, joint arrangements are classified as either joint operation or joint venture. A joint arrangement is classified as joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation. A joint arrangement is classified as joint venture when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method.

The change in accounting policy has been made retrospectively and in accordance with the transitional provision of MFRS 11. The adoption of MFRS 11 has no significant impact to the financial statements of the Group.

2.4 Property, Plant and Equipment

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the costs of materials and direct labour. For qualifying asset, 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 cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, Plant and Equipment (continued)

Depreciation for property, plant and equipment other than freehold land and projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Buildings are depreciated over 20 – 30 years or over the remaining land lease year, whichever is shorter.

Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter. Leasehold land is depreciated over the lease term. The leasehold land are categorised into long lease and short lease. Long lease is defined as a lease with an unexpired lease year of fifty years or more. Short lease is defined as a lease with an unexpired lease year of less than fifty years.

The estimated useful lives of the other property, plant and equipment are as follows:

- | | |
|--|--------------|
| • Plant, machinery, tankage and pipeline | 5 – 30 years |
| • Office equipment, furniture and fittings | 3 – 10 years |
| • Motor vehicles | 4 years |
| • Computer hardware and software | 5 years |

Property, plant and equipment individually costing less than RM5,000 are expensed off in the year of purchase.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Leased Assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy stated below. When the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease although the arrangement does not take the legal form of a lease.

(i) *Finance Lease*

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as borrowings.

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

(ii) *Prepaid Lease Payment*

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

The remaining leases of a leasehold land which is not in substance a finance lease, together with prepaid rental for service station sites and depots, are operating leases and recognised as prepaid lease payments.

The payment made on entering into or acquiring such leasehold land and prepaid rental arrangement is amortised over the lease term in accordance with the pattern of benefits provided.

Prepaid lease payments are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease or the year of the agreements.

2.6 Investments

Long term investments in subsidiaries, associates and joint ventures are stated at cost less impairment loss, if any, in the Company's financial statements. The cost of investments includes transaction costs.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial Instruments

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

(i) Financial Assets

Initial Recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

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

Purchases or sales that require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") are recognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

Subsequent Measurement

Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial assets that are specifically designated into this category upon initial recognition.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.21.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method.

The Group and the Company did not have any held-to-maturity investments during the year ended 31 December 2013.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial Instruments (continued)

(i) *Financial Assets (continued)*

Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value with unrealised gains and losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in the profit or loss.

The Group and the Company did not have any available-for-sale investments during the year ended 31 December 2013.

(ii) *Financial Liabilities*

Initial Recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

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

Subsequent Measurement

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

Loans and borrowings

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial Instruments (continued)

(iii) *Derivative financial instruments*

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

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

Any gains and losses arising from changes in fair value on derivatives during the year are taken directly to the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses taken to the profit or loss.

(iv) *Offsetting of Financial Instruments*

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

(v) *Amortised Cost of Financial Instruments*

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

(vi) *Derecognition of Financial Instruments*

Financial Assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On de-recognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial Instruments (continued)

(vi) *Derecognition of Financial Instruments (continued)*

Financial Liabilities

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

2.8 Impairment

(i) **Financial Assets**

All financial assets (except for financial assets categorised as fair value through profit or loss, investment in subsidiaries and investment in associates and investment in joint ventures) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

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

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment (continued)

(ii) *Other Assets*

The carrying amounts of other assets, other than inventories, amount due from contract customers, deferred tax assets and financial assets (financial assets in this context exclude investments in subsidiaries, associates and joint ventures), are reviewed at each reporting date to determine whether there is any indication of impairment.

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

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

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

An impairment loss in respect of goodwill is not reversed in the subsequent year. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the profit or loss, a reversal of that impairment loss is also recognised in the profit or loss.

2.9 Cash and Cash Equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Inventories

Inventories of petroleum products and non-tradeable spare parts are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of petroleum products includes direct costs and transportation charges necessary to bring the inventories to their present locations and condition and is determined on the weighted average basis.

The cost of spare parts is the invoiced value from suppliers.

2.11 Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that has the most significant effect on the amount recognised in the financial statements is described in Note 16.

2.12 Employee Benefits

(i) Short Term Benefits

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

(ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes and certain other independently administered funds which are defined contribution plans.

Such contributions are recognised as an expense in the profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) **Current Tax**

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) **Deferred Tax**

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the future taxable profit will be available against which related tax benefit can be realised.

2.14 Foreign Currency Transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Foreign Currency Transactions (continued)

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in equity.

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia are translated into Ringgit Malaysia at the exchange rates approximating those ruling at reporting date except for goodwill and fair value adjustments arising from business combinations before 1 April 2011 pursuant to the adoption of MFRS framework.

The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the dates of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to the Group's foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are reclassified to other comprehensive income and accumulated under foreign currency translation reserve in equity. Upon disposal of the investment, the cumulative exchange differences previously recorded in equity are recognised in the consolidated profit or loss.

2.15 Borrowing Costs

Borrowing costs shall be recognised as an expense in the year in which they are incurred except borrowing costs incurred on projects-in-progress which are directly attributable to the acquisition, construction or production of the assets which necessarily takes a substantial period of time to be prepared for its intended use, are capitalised as part of the cost of those assets.

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

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific project-in-progress, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowings will be capitalised.

Exchange differences arising from foreign currency borrowings, although regarded as an adjustment to borrowings costs, are not capitalised but instead recognised in the profit or loss in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Revenue

Revenue from sale of petroleum products is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the profit or loss based on the value of services performed and invoiced to customers during the year.

2.17 Financing Costs

Financing costs comprise interest payable on borrowings and profit share margin on Islamic Financing Facilities and unwinding of discount for provision of dismantling, removal and restoration costs.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than that capitalised in accordance with the accounting standard stated in Note 2.15. The financing costs on borrowings are recognised using the effective profit/interest rate method.

2.18 PETRONAS Mesra Loyalty Programme

PETRONAS Mesra Loyalty Programme is an in-house loyalty programme where members are awarded with PETRONAS Mesra points at the point of sale made at PETRONAS Stations and *Kedai Mesra*. The monetary value attributed to the awarded points is treated as deferred revenue and only recognised as revenue in the profit or loss on redemption, cancellation and expiration of the points. Currently, members can redeem the awarded points for purchase of fuel at PETRONAS Stations or items at *Kedai Mesra* and PETRONAS Card Centre.

On an annual basis, fair value of the deferred revenue will be estimated by reference to the monetary value attributable to the awarded points and points redemption profile. This accounting treatment is in line with IC Interpretation 13, *Customer Loyalty Programmes*.

2.19 Earnings Per Ordinary Share

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

Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

2.20 Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results are regularly reviewed by the entity's chief operating decision maker 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Fair value measurements

As of 1 January 2013, the Group adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

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

(ii) Non-financial assets

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.

3. PROPERTY, PLANT AND EQUIPMENT

| Group | At 1.1.2013 RM'000 | Additions RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2013 RM'000 |
|---|--------------------------|---------------------|------------------------------------|---------------------|----------------------------|
| At cost | | | | | |
| Freehold land | 1,021,087 | 20 | (12,926) | 27,951 | 1,036,132 |
| Leasehold land | | | | | |
| – Long lease | 538,545 | 6,841 | (13,641) | 5,266 | 537,011 |
| – Short lease | 12,262 | — | — | — | 12,262 |
| Buildings | 1,937,328 | 2,082 | (7,624) | 89,989 | 2,021,775 |
| Plant, machinery, tankage and pipeline | 1,923,666 | 16,705 | (4,578) | 115,335 | 2,051,128 |
| Office equipment, furniture and fittings | 351,464 | 6,443 | (5,592) | 34,946 | 387,261 |
| Motor vehicles | 61,770 | 1,417 | (1,110) | 1,049 | 63,126 |
| Computer hardware and software | 458,849 | 19,412 | (2,126) | 48,809 | 524,944 |
| Projects-in-progress | 428,472 | 399,145 | — | (323,345) | 504,272 |
| | 6,733,443 | 452,065 | (47,597) | — | 7,137,911 |

3. PROPERTY, PLANT AND EQUIPMENT (continued)

| Group | At 1.1.2013 RM'000 | Depreciation charge for the year RM'000 | Disposals/ Write-offs RM'000 | At 31.12.2013 RM'000 |
|---|--------------------------|--|------------------------------------|----------------------------|
| Accumulated depreciation and impairment losses | | | | |
| Freehold land | 1,202 | — | — | 1,202 |
| Leasehold land | | | | |
| – Long lease | 61,201 | 7,276 | (1,187) | 67,290 |
| – Short lease | 4,280 | 276 | — | 4,556 |
| Buildings | 978,781 | 90,165 | (2,180) | 1,066,766 |
| Plant, machinery, tankage and pipeline | 1,198,904 | 137,687 | (3,529) | 1,333,062 |
| Office equipment, furniture and fittings | 242,646 | 24,013 | (619) | 266,040 |
| Motor vehicles | 55,967 | 3,641 | (605) | 59,003 |
| Computer hardware and software | 424,762 | 25,483 | (2,202) | 448,043 |
| Projects-in-progress | — | — | — | — |
| | 2,967,743 | 288,541 | (10,322) | 3,245,962 |

| Group | At 1.1.2012 RM'000 | Additions RM'000 | Acquisition of subsidiaries RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2012 RM'000 |
|--|--------------------------|---------------------|---|------------------------------------|---------------------|----------------------------|
| At cost | | | | | | |
| Freehold land | 967,420 | 21 | 11 | (13,759) | 67,394 | 1,021,087 |
| Leasehold land | | | | | | |
| – Long lease | 523,524 | 312 | 8,088 | (3,555) | 10,176 | 538,545 |
| – Short lease | 12,262 | — | — | — | — | 12,262 |
| Buildings | 1,865,430 | 37 | 1,151 | (5,509) | 76,219 | 1,937,328 |
| Plant, machinery, tankage and pipeline | 1,684,518 | 17,697 | 154,296 | (5,988) | 73,143 | 1,923,666 |
| Office equipment, furniture and fittings | 312,196 | 3,161 | 645 | (592) | 36,054 | 351,464 |
| Motor vehicles | 57,813 | 1,211 | 2,511 | — | 235 | 61,770 |
| Computer hardware and software | 445,423 | 6,070 | 1,578 | (399) | 6,177 | 458,849 |
| Projects-in-progress | 390,655 | 307,215 | — | — | (269,398) | 428,472 |
| | 6,259,241 | 335,724 | 168,280 | (29,802) | — | 6,733,443 |

3. PROPERTY, PLANT AND EQUIPMENT (continued)

| Group | At 1.1.2012 RM'000 | Depreciation charge for the year RM'000 | Acquisition of subsidiaries RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2012 RM'000 |
|---|--------------------------|--|---|------------------------------------|---------------------|----------------------------|
| Accumulated depreciation and impairment losses | | | | | | |
| Freehold land | 1,202 | — | — | — | — | 1,202 |
| Leasehold land | | | | | | |
| – Long lease | 51,754 | 6,899 | 3,625 | (884) | (193) | 61,201 |
| – Short lease | 3,921 | 166 | — | — | 193 | 4,280 |
| Buildings | 892,968 | 89,564 | 493 | (4,244) | — | 978,781 |
| Plant, machinery, tankage and pipeline | 1,031,187 | 108,645 | 64,064 | (4,992) | — | 1,198,904 |
| Office equipment, furniture and fittings | 210,621 | 32,235 | 349 | (559) | — | 242,646 |
| Motor vehicles | 47,662 | 6,834 | 1,471 | — | — | 55,967 |
| Computer hardware and software | 403,716 | 20,311 | 1,133 | (398) | — | 424,762 |
| Projects-in-progress | — | — | — | — | — | — |
| | 2,643,031 | 264,654 | 71,135 | (11,077) | — | 2,967,743 |

| Group | Carrying amount | |
|--|-----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 |
| Freehold land | 1,034,930 | 1,019,885 |
| Leasehold land | | |
| – Long lease | 469,721 | 477,344 |
| – Short lease | 7,706 | 7,982 |
| Buildings | 955,009 | 958,547 |
| Plant, machinery, tankage and pipeline | 718,066 | 724,762 |
| Office equipment, furniture and fittings | 121,221 | 108,818 |
| Motor vehicles | 4,123 | 5,803 |
| Computer hardware and software | 76,901 | 34,087 |
| Projects-in-progress | 504,272 | 428,472 |
| | 3,891,949 | 3,765,700 |

3. PROPERTY, PLANT AND EQUIPMENT (continued)

| Company | At 1.1.2013 RM'000 | Additions RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2013 RM'000 |
|---|--------------------------|---------------------|------------------------------------|---------------------|----------------------------|
| At cost | | | | | |
| Freehold land | 1,021,076 | 20 | (12,926) | 27,951 | 1,036,121 |
| Leasehold land | | | | | |
| – Long lease | 529,449 | 6,785 | (13,641) | 5,266 | 527,859 |
| – Short lease | 12,262 | — | — | — | 12,262 |
| Buildings | 1,909,085 | 1,962 | (7,622) | 89,989 | 1,993,414 |
| Plant, machinery, tankage and pipeline | 1,595,261 | 7,869 | (4,303) | 115,335 | 1,714,162 |
| Office equipment, furniture and fittings | 346,638 | 6,137 | (617) | 34,947 | 387,105 |
| Motor vehicles | 56,791 | 929 | (690) | 1,048 | 58,078 |
| Computer hardware and software | 447,664 | 19,195 | (2,118) | 48,809 | 513,550 |
| Projects-in-progress | 271,387 | 329,479 | — | (323,345) | 277,521 |
| | 6,189,613 | 372,376 | (41,917) | — | 6,520,072 |

| Company | At 1.1.2013 RM'000 | Depreciation charge for the year RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2013 RM'000 |
|---|--------------------------|--|------------------------------------|---------------------|----------------------------|
| Accumulated depreciation and impairment losses | | | | | |
| Freehold land | 1,202 | — | — | — | 1,202 |
| Leasehold land | | | | | |
| – Long lease | 57,370 | 6,664 | (1,187) | — | 62,847 |
| – Short lease | 4,280 | 276 | — | — | 4,556 |
| Buildings | 959,381 | 88,596 | (2,180) | — | 1,045,797 |
| Plant, machinery, tankage and pipeline | 1,009,169 | 111,384 | (3,429) | — | 1,117,124 |
| Office equipment, furniture and fittings | 238,269 | 23,844 | (537) | — | 261,576 |
| Motor vehicles | 52,170 | 3,176 | (273) | — | 55,073 |
| Computer hardware and software | 414,820 | 25,098 | (2,108) | — | 437,810 |
| Projects-in-progress | — | — | — | — | — |
| | 2,736,661 | 259,038 | (9,714) | — | 2,985,985 |

3. PROPERTY, PLANT AND EQUIPMENT (continued)

| Company | At 1.1.2012 RM'000 | Additions RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2012 RM'000 |
|---|--------------------------|---------------------|------------------------------------|---------------------|----------------------------|
| At cost | | | | | |
| Freehold land | 967,420 | 21 | (13,759) | 67,394 | 1,021,076 |
| Leasehold land | | | | | |
| – Long lease | 522,516 | 312 | (3,555) | 10,176 | 529,449 |
| – Short lease | 12,262 | — | — | — | 12,262 |
| Buildings | 1,838,338 | 37 | (5,509) | 76,219 | 1,909,085 |
| Plant, machinery, tankage and pipeline | 1,511,365 | 16,726 | (5,971) | 73,141 | 1,595,261 |
| Office equipment, furniture and fittings | 308,020 | 3,140 | (576) | 36,054 | 346,638 |
| Motor vehicles | 55,496 | 1,060 | — | 235 | 56,791 |
| Computer hardware and software | 435,955 | 6,070 | (374) | 6,013 | 447,664 |
| Projects-in-progress | 281,197 | 259,422 | — | (269,232) | 271,387 |
| | 5,932,569 | 286,788 | (29,744) | — | 6,189,613 |

| Company | At 1.1.2012 RM'000 | Depreciation charge for the year RM'000 | Disposals/ Write-offs RM'000 | Transfers RM'000 | At 31.12.2012 RM'000 |
|---|--------------------------|--|------------------------------------|---------------------|----------------------------|
| Accumulated depreciation and impairment losses | | | | | |
| Freehold land | 1,202 | — | — | — | 1,202 |
| Leasehold land | | | | | |
| – Long lease | 51,557 | 6,890 | (884) | (193) | 57,370 |
| – Short lease | 3,921 | 166 | — | 193 | 4,280 |
| Buildings | 875,443 | 88,182 | (4,244) | — | 959,381 |
| Plant, machinery, tankage and pipeline | 914,058 | 100,089 | (4,978) | — | 1,009,169 |
| Office equipment, furniture and fittings | 206,668 | 32,144 | (543) | — | 238,269 |
| Motor vehicles | 45,345 | 6,825 | — | — | 52,170 |
| Computer hardware and software | 395,246 | 19,947 | (373) | — | 414,820 |
| Projects-in-progress | — | — | — | — | — |
| | 2,493,440 | 254,243 | (11,022) | — | 2,736,661 |

3. PROPERTY, PLANT AND EQUIPMENT (continued)

| Company | Carrying amount | |
|--|------------------|------------------|
| | 2013 RM'000 | 2012 RM'000 |
| Freehold land | 1,034,919 | 1,019,874 |
| Leasehold land | | |
| – Long lease | 465,012 | 472,079 |
| – Short lease | 7,706 | 7,982 |
| Buildings | 947,617 | 949,704 |
| Plant, machinery, tankage and pipeline | 597,038 | 586,092 |
| Office equipment, furniture and fittings | 125,529 | 108,369 |
| Motor vehicles | 3,005 | 4,621 |
| Computer hardware and software | 75,740 | 32,844 |
| Projects-in-progress | 277,521 | 271,387 |
| | 3,534,087 | 3,452,952 |

Restrictions of land title

The titles to certain freehold and leasehold land are in the process of being registered in the Company's name.

Additions to projects-in-progress

Included in additions to project-in-progress are the following:

- i. Borrowing cost of an Islamic financing facility of the Group amounting to RM4,596,000 (2012: RM3,596,000). The borrowing cost rate on the Islamic financing facility capitalised ranges from 3.85% to 4.15% (2012: 3.83% to 4.15%) per annum.
- ii. Borrowing cost related to the Group's term loan amounting to RM1,160,000 (2012: RM334,000). The interest rate on the borrowing cost is capitalised at 2.42% (2012: 3.16%) per annum.

4. PREPAID LEASE PAYMENTS

| Group and Company | At 1.1.2013 RM'000 | Additions RM'000 | Disposals/ Write offs RM'000 | At 31.12.2013 RM'000 |
|-------------------|--------------------------|---------------------|------------------------------------|----------------------------|
| At cost | | | | |
| Leasehold land | 49,905 | 3,387 | (1,385) | 51,907 |
| Prepaid rental | 625,251 | 88,070 | (28,637) | 684,684 |
| | 675,156 | 91,457 | (30,022) | 736,591 |

4. PREPAID LEASE PAYMENTS (continued)

| Group and Company | At 1.1.2013 RM'000 | Charge for the year RM'000 | Disposals/ Write offs RM'000 | At 31.12.2013 RM'000 |
|---------------------------------|--------------------------|----------------------------------|------------------------------------|----------------------------|
| Accumulated amortisation | | | | |
| Leasehold land | 27,835 | 1,859 | (1,329) | 28,365 |
| Prepaid rental | 213,582 | 26,400 | (20,482) | 219,500 |
| | 241,417 | 28,259 | (21,811) | 247,865 |

| Group and Company | At 1.1.2012 RM'000 | Additions RM'000 | Disposals/ Write offs RM'000 | At 31.12.2012 RM'000 |
|-------------------|--------------------------|---------------------|------------------------------------|----------------------------|
| At cost | | | | |
| Leasehold land | 56,694 | 1,492 | (8,281) | 49,905 |
| Prepaid rental | 561,714 | 63,537 | — | 625,251 |
| | 618,408 | 65,029 | (8,281) | 675,156 |

| Group and Company | At 1.1.2012 RM'000 | Charge for the year RM'000 | Disposals/ Write offs RM'000 | At 31.12.2012 RM'000 |
|---------------------------------|--------------------------|----------------------------------|------------------------------------|----------------------------|
| Accumulated amortisation | | | | |
| Leasehold land | 27,055 | 2,554 | (1,774) | 27,835 |
| Prepaid rental | 187,175 | 26,407 | — | 213,582 |
| | 214,230 | 28,961 | (1,774) | 241,417 |

| Group and Company | 2013 RM'000 | 2012 RM'000 |
|------------------------|----------------|----------------|
| Carrying amount | | |
| Leasehold land | 23,542 | 22,070 |
| Prepaid rental | 465,184 | 411,669 |
| | 488,726 | 433,739 |

Restrictions of land title

The titles to certain leasehold land are in the process of being registered in the Company's name.

5. INVESTMENT IN SUBSIDIARIES

| | Company | |
|-------------------------|----------------|---------------|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| Unquoted shares at cost | 223,998 | 223,998 |

Details of the subsidiaries are stated in Note 30 to the financial statements.

6. INVESTMENT IN ASSOCIATES

| | Group | | Company | |
|--|---------------|---------------|----------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Unquoted shares at cost | 1,959 | 7,229 | 1,960 | 7,229 |
| Share of post-acquisition profits and reserves | 579 | 1,073 | — | — |
| | 2,538 | 8,302 | 1,960 | 7,229 |

Security

Plant and equipment of an associate with the cost of RM40,800,000 (2012: RM41,000,000) have been pledged as security for term loan facilities of a subsidiary as set out in Note 14 to the financial statements.

Summary of financial information on associates:

| | Group | |
|--|---------------|---------------|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| Total assets (100%) | 34,532 | 173,968 |
| Total liabilities (100%) | 26,490 | 137,314 |
| Revenue (100%) | 7,556 | 12,819 |
| Profit/Total comprehensive income (100%) | 604 | 1,473 |

Details of the associates are stated in Note 31 to the financial statements.

7. INVESTMENT IN JOINT VENTURES

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Unquoted shares at cost | 25 | 25 | 25 | 25 |
| Share of post-acquisition profits and reserves | 4,020 | 4,325 | — | — |
| | 4,045 | 4,350 | 25 | 25 |

Summary of financial information on joint ventures:

| | Group | |
|--|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 |
| Total assets (100%) | 16,387 | 22,160 |
| Total liabilities (100%) | 7,917 | 13,080 |
| Revenue (100%) | 38,789 | 40,376 |
| Profit/Total comprehensive income (100%) | 1,216 | 1,172 |

Details of the joint ventures are stated in Note 32 to the financial statements.

8. INVENTORIES

| | Group | | Company | |
|--------------------|------------------|------------------|------------------|------------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Petroleum products | 1,188,877 | 1,277,281 | 1,142,842 | 1,232,962 |
| Others | 4,343 | 1,400 | 326 | 533 |
| | 1,193,220 | 1,278,681 | 1,143,168 | 1,233,495 |

9. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|------------------|----------------|------------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Trade receivables | 2,027,574 | 1,755,137 | 1,858,815 | 1,607,416 |
| Subsidy receivables | 1,946,316 | 2,159,900 | 1,946,316 | 2,159,900 |
| Other receivables, deposits and prepayments | 108,258 | 89,388 | 45,603 | 52,124 |
| Advances to: | | | | |
| Subsidiaries | — | — | 21,924 | — |
| Associates | 19,693 | 19,693 | 19,693 | 19,693 |
| Amounts due from: | | | | |
| Subsidiaries | — | — | 136,971 | 80,363 |
| Related companies | 162,324 | 171,366 | 162,251 | 165,130 |
| | 4,264,165 | 4,195,484 | 4,191,573 | 4,084,626 |
| Less: Impairment losses | | | | |
| Trade and other receivables | (43,607) | (14,530) | (37,311) | (8,269) |
| | 4,220,558 | 4,180,954 | 4,154,262 | 4,076,357 |

The amounts due from subsidiaries, associates and related companies arose in the normal course of business.

Advances to subsidiaries and associates are unsecured, interest free and repayable on demand.

10. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Cash with PETRONAS Integrated Financial | | | | |
| Shared Services Centre | 188,877 | — | 179,219 | — |
| Cash and bank balances | 142,589 | 111,327 | 99,355 | 52,392 |
| Deposits placed with licensed banks | 27,167 | 139,973 | — | 106,087 |
| | 358,633 | 251,300 | 278,574 | 158,479 |

During the financial year, a portion of the Group's and Company's cash and cash equivalents are held in the In-House Account ("IHA") managed by PETRONAS Integrated Financial Shared Services Centre ("IFSSC") to enable cash management for the Group.

Included in cash and cash equivalents of the Group are interest-bearing balances amounting to RM267,207,000 (2012: RM139,973,000).

11. SHARE CAPITAL

| | Number of shares | | Amount | |
|--------------------------------|------------------|--------------|----------------|----------------|
| | 2013 '000 | 2012 '000 | 2013 RM'000 | 2012 RM'000 |
| Group and Company | | | | |
| Authorised: | | | | |
| Ordinary shares of RM1.00 each | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of RM1.00 each | 993,454 | 993,454 | 993,454 | 993,454 |

12. RESERVES

The Finance Act, 2007 introduced a single tier dividend distribution system with effect from year of assessment 2008. Pursuant to Schedule 9, Transitional and Savings Provisions of the Income Tax Act, 1967, the Company can distribute dividends out of its Section 108 balance until the amount is fully utilised but any remaining balance as at 31 December 2013 will be disregarded as at 1 January 2014.

The Company has fully utilised its Section 108 tax credit on 27 September 2013. As such, the Company has moved into the single tier company income tax system.

Capital reserve

Capital reserve arose as a result of business combination of entities under the common control of PETRONAS and comprise merger reserve/(deficit) and capital contribution.

(i) Merger reserve/(deficit)

Merger reserve/(deficit) represents the excess of cost of acquisition over the Group's interest in the net carrying value of identifiable net assets, liabilities and contingent liabilities of the acquiree. Merger reserve/(deficit) is classified as part of non-distributable reserves.

(ii) Capital contribution

Capital contribution represents the excess of amount paid or payable to the Company over the cost of acquisition. Capital contribution is classified as part of non-distributable reserves.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from that of the Company's functional currency as well as foreign currency differences arising from the translation of monetary items that are considered to form part of a net investment in a foreign operation.

13. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of a partly-owned subsidiary.

14. BORROWINGS

| | Group | | Company | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Current | | | | |
| Unsecured | | | | |
| Revolving credits | 429,640 | 314,894 | 400,000 | 300,000 |
| Islamic financing facility | 13,418 | 9,762 | — | — |
| | 443,058 | 324,656 | 400,000 | 300,000 |
| Non-current | | | | |
| Secured | | | | |
| Term loan | 40,755 | 26,809 | — | — |
| Unsecured | | | | |
| Islamic financing facility | 98,825 | 112,238 | — | — |
| | 139,580 | 139,047 | — | — |

Terms and debt repayment schedule

| Group | Total RM'000 | Under 1 year RM'000 | 1 – 2 years RM'000 | 2 – 5 years RM'000 | Over 5 years RM'000 |
|----------------------------|-----------------|---------------------------|--------------------------|--------------------------|---------------------------|
| 2013 | | | | | |
| Secured | | | | | |
| Term loan | 40,755 | — | 19,699 | 21,056 | — |
| Unsecured | | | | | |
| Revolving credits | 429,640 | 429,640 | — | — | — |
| Islamic financing facility | 112,243 | 13,418 | 14,030 | 45,418 | 39,377 |
| | 541,883 | 443,058 | 14,030 | 45,418 | 39,377 |
| 2012 | | | | | |
| Secured | | | | | |
| Term loan | 26,809 | — | 2,234 | 16,085 | 8,490 |
| Unsecured | | | | | |
| Revolving credits | 314,894 | 314,894 | — | — | — |
| Islamic financing facility | 122,000 | 9,762 | 13,460 | 43,615 | 55,163 |
| | 436,894 | 324,656 | 13,460 | 43,615 | 55,163 |

14. BORROWINGS (continued)*Terms and debt repayment schedule (continued)*

| Group | Total RM'000 | Under 1 year RM'000 | 1 – 2 years RM'000 | 2 – 5 years RM'000 | Over 5 years RM'000 |
|-------------------|-----------------|---------------------------|--------------------------|--------------------------|---------------------------|
| Company | | | | | |
| 2013 | | | | | |
| Unsecured | | | | | |
| Revolving credits | 400,000 | 400,000 | — | — | — |
| 2012 | | | | | |
| Unsecured | | | | | |
| Revolving credits | 300,000 | 300,000 | — | — | — |

Unsecured Revolving Credits

The unsecured revolving credits obtained by the Group primarily bear interest at rates ranging from 3.25% to 3.55% (2012: 3.25% to 3.61%) per annum.

Secured Term Loan

The secured term loan obtained by the Group is secured by way of a charge over assets of an associate (see Note 6).

The secured term loan bears interest at a rate equal to 30-day Treasury Security plus 1.15% as determined by the lender bank. This is equivalent to 2.42% (2012: 3.16%) per annum with principal repayment of 60 equal monthly instalments.

Unsecured Islamic Financing Facility

The unsecured Islamic financing facility bears a yield payable ranging from 0.50% (2012: 0.50%) per annum and is fully repayable at its various due dates from June 2013 to March 2021.

15. DEFERRED TAX

The components and movements of deferred tax liabilities and assets during the year are as follows:

| Group | At 1.1.2013 RM'000 | Charged/ (credited) to profit or loss RM'000 | At 31.12.2013 RM'000 |
|---------------------------------|--------------------------|--|----------------------------|
| Deferred tax liabilities | | | |
| Property, plant and equipment | 140,017 | 9,407 | 149,424 |

15. DEFERRED TAX (continued)

| | At 1.1.2013 RM'000 | Credited/ (charged) to profit or loss RM'000 | At 31.12.2013 RM'000 |
|----------------------------|--------------------------|--|----------------------------|
| Deferred tax assets | | | |
| Unutilised tax losses | — | 3,218 | 3,218 |
| Other provisions | 702 | 3,704 | 4,406 |
| | 702 | 6,922 | 7,624 |

| | At 1.1.2012 RM'000 | Charged/ (credited) to profit or loss RM'000 | Acquisition of subsidiaries RM'000 | At 31.12.2012 RM'000 |
|---------------------------------|--------------------------|--|---|----------------------------|
| Group | | | | |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | 160,332 | (20,315) | — | 140,017 |

| | At 1.1.2012 RM'000 | Credited/ (charged) to profit or loss RM'000 | Acquisition of subsidiaries RM'000 | At 31.12.2012 RM'000 |
|----------------------------|--------------------------|--|---|----------------------------|
| Deferred tax assets | | | | |
| Other provisions | — | — | 702 | 702 |

| | At 1.1.2013 RM'000 | Charged/ (credited) to profit or loss RM'000 | At 31.12.2013 RM'000 |
|---------------------------------|--------------------------|--|----------------------------|
| Company | | | |
| Deferred tax liabilities | | | |
| Property, plant and equipment | 127,848 | 8,874 | 136,722 |

15. DEFERRED TAX (continued)

| | At 1.1.2012 RM'000 | Charged/ (credited) to profit or loss RM'000 | At 31.12.2012 RM'000 |
|---------------------------------|--------------------------|--|----------------------------|
| Company | | | |
| Deferred tax liabilities | | | |
| Property, plant and equipment | 146,367 | (18,519) | 127,848 |

16. OTHER LONG TERM LIABILITIES AND PROVISIONS

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Dismantling, removal and restoration costs | 23,914 | 19,372 | 23,914 | 19,372 |
| Other long term liabilities | 6,700 | 424 | — | — |
| | 30,614 | 19,796 | 23,914 | 19,372 |

Dismantling, removal and restoration costs

The movement of provision for dismantling, removal and restoration costs during the financial year is shown below:

| | Group and Company | |
|---------------------------|--------------------------|----------------|
| | 2013 RM'000 | 2012 RM'000 |
| Balance at 1 January | 19,372 | 20,346 |
| Net changes in provisions | 1,962 | 37 |
| Reversal of provisions | — | (3,022) |
| Unwinding of discount | 2,580 | 2,011 |
| Balance at 31 December | 23,914 | 19,372 |

Under provisions of certain land lease agreements, the Company has an obligation to dismantle and remove structures on certain sites and restore those sites at the end of the lease term to an acceptable condition consistent with the lease agreement.

For these affected sites, the liabilities for dismantling, removal and restoration costs are recognised at present value of the compounded future expenditure estimated using existing technology, at current prices and discounted using a real discount rate.

16. OTHER LONG TERM LIABILITIES AND PROVISIONS (continued)

The present value of the estimated costs is capitalised as part of the asset and the related provisions raised on the date when the obligation arises. The capitalised cost is depreciated over the expected life of the asset. The increase in the net present value of the provision for the expected cost is included as finance costs in the profit or loss.

Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision.

While the provision is based on the best estimate of future costs and the economic lives of the affected assets, there is uncertainty regarding both the amount and timing of incurring these costs. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

17. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Trade payables | 69,431 | 76,997 | 4,322 | 1,066 |
| Other payables | 793,287 | 661,572 | 770,943 | 657,716 |
| Deferred revenue | 34,516 | 32,396 | 34,516 | 32,396 |
| Amounts due to: | | | | |
| Holding company | 458,219 | 691,694 | 453,896 | 691,691 |
| Subsidiaries | — | — | — | 2,812 |
| Associates and joint ventures | 6,414 | 8,804 | 6,414 | 8,804 |
| Related companies | 3,170,267 | 2,829,565 | 3,153,438 | 2,788,405 |
| | 4,532,134 | 4,301,028 | 4,423,529 | 4,182,890 |

Deferred revenue is attributable to the monetary value of the awarded Mesra points under PETRONAS Mesra Loyalty Programme. The movement has been recorded in the profit or loss. On an annual basis, the fair value of the deferred revenue will be estimated by reference to the monetary value attributable to the awarded points and the points redemption profile.

While the deferred revenue is based on the best estimate of future redemption profile, there is uncertainty regarding the trend of redemption. All the estimates are reviewed on an annual basis or more frequently, where there is indication of a material change.

The amounts due to holding company, subsidiaries, associates, joint ventures and related companies arose in the normal course of business.

18. OPERATING PROFIT

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| <i>Included in operating profit are the following charges:</i> | | | | |
| Audit fees | | | | |
| – KPMG Malaysia | 517 | 490 | 429 | 404 |
| – Overseas affiliates of KPMG Malaysia | 142 | 18 | — | — |
| Amortisation of prepaid lease payments | 28,259 | 28,961 | 28,259 | 28,961 |
| Bad debt written off | 2,345 | 934 | 2,345 | 934 |
| Contribution to EPF | 39,009 | 33,642 | 36,411 | 32,975 |
| Depreciation of property, plant and equipment | 288,541 | 264,654 | 259,038 | 254,243 |
| Loss on disposal of an associate | 2,111 | — | — | — |
| Impairment losses on trade and other receivables | 34,301 | 15,173 | 34,226 | 10,790 |
| Inventories written off | 5 | 2 | — | — |
| Non-audit fees paid | | | | |
| – KPMG Malaysia | 217 | 151 | 217 | 151 |
| Net loss on foreign exchange | — | 21,881 | — | 22,117 |
| Property, plant and equipment written off | 488 | — | — | — |
| Property, plant and equipment expensed off | 3,201 | 6,209 | 3,032 | 5,999 |
| Rental of land and building | 37,876 | 31,241 | 30,249 | 24,851 |
| Rental of plant and equipment | 10,178 | 7,725 | 9,669 | 7,694 |
| Staff costs | 224,733 | 246,390 | 199,008 | 236,917 |
| <i>and credits:</i> | | | | |
| Gain on disposal of: | | | | |
| Property, plant and equipment | 5,072 | — | 5,063 | — |
| An associate | — | — | 900 | — |
| Dividend income from: | | | | |
| Subsidiaries | — | — | 5,850 | 7,800 |
| Associates and joint ventures | — | — | 1,443 | — |
| Interest income from deposits | 17,711 | 22,182 | 15,833 | 21,147 |
| Income from rental of premises | 1,828 | 1,807 | 1,484 | 1,494 |
| Net gain on foreign exchange | 10,682 | — | 18,220 | — |
| Reversal of impairment losses on trade receivables | 2,879 | 6,994 | 2,839 | 6,936 |

19. FINANCING COSTS

| | Group | | Company | |
|--|--------|--------|---------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Unwinding of discount | | | | |
| – Provision for dismantling, removal and restoration costs | 2,580 | 2,011 | 2,580 | 2,011 |
| Interest on revolving credit | 15,465 | 8,603 | 14,932 | 8,600 |
| Interest on term loan | 1,161 | 20 | — | — |
| | 19,206 | 10,634 | 17,512 | 10,611 |

20. TAX EXPENSE

| | Group | | Company | |
|---|----------|----------|----------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current tax expense | | | | |
| Current year | 306,287 | 342,496 | 297,150 | 333,153 |
| Prior year | (18,311) | (278) | (18,091) | — |
| | 287,976 | 342,218 | 279,059 | 333,153 |
| Deferred tax expense | | | | |
| Origination and reversal of temporary differences | (1,197) | (20,526) | 6,426 | (18,519) |
| Under provision in prior year | 3,682 | 211 | 2,448 | — |
| | 2,485 | (20,315) | 8,874 | (18,519) |
| | 290,461 | 321,903 | 287,933 | 314,634 |

20. TAX EXPENSE (continued)

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

| | % | 2013 RM'000 | % | 2012 RM'000 |
|---|-----|----------------|----|----------------|
| Group | | | | |
| Profit before taxation | | 1,109,441 | | 1,165,171 |
| Taxation at Malaysian statutory tax rate | 25 | 277,360 | 25 | 291,293 |
| Effect of different tax rates in foreign jurisdiction | — | 80 | — | 221 |
| Non assessable income, net of non-deductible expenses | 2 | 26,605 | 3 | 30,456 |
| Effect of net deferred tax benefits not recognised | — | 1,045 | — | — |
| | 27 | 305,090 | 28 | 321,970 |
| (Over)/Under provision in prior year | | | | |
| – tax expense | (1) | (18,311) | — | (278) |
| – deferred tax expense | — | 3,682 | — | 211 |
| Tax expense | 26 | 290,461 | 28 | 321,903 |
| Company | | | | |
| Profit before taxation | | 1,113,412 | | 1,146,695 |
| Taxation at Malaysian statutory tax rate | 25 | 278,353 | 25 | 286,674 |
| Non assessable income, net of non-deductible expenses | 2 | 25,223 | 2 | 27,960 |
| | 27 | 303,576 | 27 | 314,634 |
| (Over)/Under provision in prior year | | | | |
| – tax expense | (1) | (18,091) | — | — |
| – deferred tax expense | — | 2,448 | — | — |
| Tax expense | 26 | 287,933 | 27 | 314,634 |

21. DIVIDENDS

| | Group and Company | |
|---|--------------------------|---------------|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| In respect of financial year ended 31 December 2012: | | |
| Interim dividend of 17.5 sen per ordinary share less tax at 25% (2012: 15.0 sen less tax at 25%) | 130,391 | 111,763 |
| Special dividend of 35.0 sen per ordinary share less tax at 25% (2012: 35.0 sen less tax at 25%) | 260,782 | 260,782 |
| In respect of financial year ended 31 December 2013: | | |
| Interim dividend of 17.5 sen per ordinary share less tax at 25% (2012: 17.5 sen less tax at 25%) | 130,391 | 130,391 |
| Interim dividend of 16.3 sen per ordinary share less tax at 25% and single tier dividend of 1.2 sen per ordinary share (2012: 17.5 sen less tax at 25%) | 133,371 | 130,391 |
| Interim single tier dividend of 17.5 sen per ordinary share (2012: 17.5 sen less tax at 25%) | 173,854 | 130,391 |
| | 828,789 | 763,718 |

The Directors had declared a single tier interim dividend of 17.5 sen per ordinary share amounting to RM173,854,000 in respect of the financial year ended 31 December 2013 which has not been accounted for in the financial statements.

22. RELATED PARTIES DISCLOSURES**Key management personnel compensation**

| | Group and Company | |
|---|--------------------------|---------------|
| | 2013 | 2012 |
| | RM'000 | RM'000 |
| Directors | | |
| Fees | 464 | 534 |
| Other short term benefits (including estimated monetary value of benefits-in-kind) | 21 | 21 |
| | 485 | 555 |

The Company pays management fee to the holding company in relation to services of an Executive Director and also fees for certain Non-Executive Directors of the Company.

22. RELATED PARTIES DISCLOSURES (continued)**Significant transactions with related parties**

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

The Group's and the Company's related parties include subsidiaries, associates, joint ventures as well as the Government of Malaysia and its related entities as the holding company is wholly-owned by the Government of Malaysia.

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

| | Group | | Company | |
|---|-------------------|---------------|-------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sales of petroleum products: | | | | |
| Related companies | 1,920,144 | 2,012,031 | 1,920,144 | 2,012,031 |
| Federal and State Governments of Malaysia | 387,924 | 346,779 | 387,924 | 346,779 |
| Government of Malaysia's related entities | 4,179,125 | 4,025,184 | 4,163,290 | 4,001,909 |
| Purchases of petroleum products: | | | | |
| Related companies | 28,717,673 | 27,622,653 | 28,717,667 | 27,622,261 |
| Holding company | 566,272 | 376,002 | 566,272 | 376,002 |
| Fees for representation in the Board of Directors*: | | | | |
| Holding company | 1,064 | 834 | 1,064 | 834 |

* Fees paid directly to holding company in respect of Directors who are appointees of the holding company.

Information regarding outstanding balances arising from related party transactions as at 31 December 2013 is disclosed in Note 9 and Note 17.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis.

23. EARNINGS PER ORDINARY SHARE**Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share at 31 December 2013 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

| | Group | |
|---|----------------|-------------|
| | 2013 | 2012 |
| Profit for the year attributable to shareholders (RM'000) | 811,753 | 836,843 |
| Number of ordinary shares ('000) | 993,454 | 993,454 |
| Earnings per ordinary share (sen) | 81.7 | 84.2 |

24. BUSINESS COMBINATION OF ENTITIES UNDER COMMON CONTROL

The net effect arising from business combination of entities under common control on the cash flows and the carrying amount of assets and liabilities in the previous year is as follows:

| | 2012 RM'000 |
|--|------------------------|
| Property, plant and equipment | 94,915 |
| Intangible assets | 1,932 |
| Current assets | 230,388 |
| Current liabilities | (193,986) |
| Net identifiable assets and liabilities assumed | 133,249 |
| Add: Merger deficit | 71,159 |
| Purchase consideration | 204,408 |
| Less: Cash and cash equivalents of subsidiaries | (39,309) |
| Group cash flow on business combination, net of cash acquired | 165,099 |

25. COMMITMENTS

Outstanding commitments in respect of capital expenditure at reporting year not provided for in the financial statements are:

| | Group | | Company | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Approved and contracted for | 17,370 | 52,037 | 16,775 | 50,843 |
| Approved but not contracted for | 219,221 | 120,195 | 94,953 | 119,612 |
| | 236,591 | 172,232 | 111,728 | 170,455 |

26. OPERATING SEGMENTS

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

The Group's reportable segments are as follows:

- Retail – consist of sales and purchase of petroleum products to the retail sector
- Commercial – consist of sales and purchase of petroleum products to the commercial sector
- Others – comprise mainly of aviation fuelling services and business activities other than retail and commercial segment

Segment performance is evaluated based on profit or loss before tax and is measured consistently with profit or loss before tax in the consolidated financial statements.

26. OPERATING SEGMENTS (continued)

| In RM'000 | 2013 | | | | | 2012 | | | | |
|--|------------|------------|--------|-------------|------------|------------|------------|--------|-------------|------------|
| Business Segments | Retail | Commercial | Others | Elimination | Group | Retail | Commercial | Others | Elimination | Group |
| Revenue | 14,640,481 | 17,689,500 | 11,941 | — | 32,341,922 | 13,529,498 | 15,941,945 | 43,520 | — | 29,514,963 |
| Operating expenditures: | | | | | | | | | | |
| Depreciation and amortisation | 251,595 | 63,639 | 1,566 | — | 316,800 | 234,049 | 55,906 | 3,660 | — | 293,615 |
| Finance costs | 14,629 | 4,577 | — | — | 19,206 | 8,637 | 1,997 | — | — | 10,634 |
| Operating profit | 478,372 | 411,529 | 26,009 | (175) | 915,735 | 581,578 | 381,826 | 16,950 | — | 980,354 |
| Other income | 171,329 | 19,308 | 6,712 | (7,297) | 190,052 | 119,257 | — | 63,920 | — | 183,177 |
| Share of profit after tax of associates and joint ventures | | | | | 3,654 | | | | | 1,640 |
| Profit before taxation | | | | | 1,109,441 | | | | | 1,165,171 |

Geographical segments

There is no disclosure on geographical segment information as the results of the Group's operations outside of Malaysia are not material during the year under review.

Major customers

No disclosure on major customer information as no customer represents equal or more than 10 percent of Group's revenue.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

- (i) Loans and receivables ("L&R"); and
- (ii) Loans and borrowings ("L&B");

| Group | Note | L&R/ L&B RM'000 | Total carrying amount RM'000 |
|------------------------------|------|-----------------------|---------------------------------------|
| 2013 | | | |
| Financial assets | | | |
| Trade and other receivables | 9 | 4,011,603 | 4,011,603 |
| Cash and cash equivalents | 10 | 358,633 | 358,633 |
| | | 4,370,236 | 4,370,236 |
| Financial liabilities | | | |
| Borrowings | 14 | 582,638 | 582,638 |
| Trade and other payables | 17 | 4,465,124 | 4,465,124 |
| | | 5,047,762 | 5,047,762 |
| 2012 | | | |
| Financial assets | | | |
| Trade and other receivables | 9 | 4,139,395 | 4,139,395 |
| Cash and cash equivalents | 10 | 251,300 | 251,300 |
| | | 4,390,695 | 4,390,695 |
| Financial liabilities | | | |
| Borrowings | 14 | 463,703 | 463,703 |
| Trade and other payables | 17 | 4,271,627 | 4,271,627 |
| | | 4,735,330 | 4,735,330 |

27. FINANCIAL INSTRUMENTS (continued)**Categories of financial instruments (continued)**

| Company | Note | L&R/ L&B RM'000 | Total carrying amount RM'000 |
|------------------------------|-------------|--|---|
| 2013 | | | |
| Financial assets | | | |
| Trade and other receivables | 9 | 3,962,713 | 3,962,713 |
| Cash and cash equivalents | 10 | 278,574 | 278,574 |
| | | 4,241,287 | 4,241,287 |
| Financial liabilities | | | |
| Borrowings | 14 | 400,000 | 400,000 |
| Trade and other payables | 17 | 4,084,196 | 4,084,196 |
| | | 4,484,196 | 4,484,196 |
| 2012 | | | |
| Financial assets | | | |
| Trade and other receivables | 9 | 4,027,785 | 4,027,785 |
| Cash and cash equivalents | 10 | 158,479 | 158,479 |
| | | 4,186,264 | 4,186,264 |
| Financial liabilities | | | |
| Borrowings | 14 | 300,000 | 300,000 |
| Trade and other payables | 17 | 4,143,415 | 4,143,415 |
| | | 4,443,415 | 4,443,415 |

27. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management

Petroleum Nasional Berhad (PETRONAS) has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the PETRONAS Group.

The Group's and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, the Group and the Company adopt appropriate measures to mitigate these risks in accordance with their views of the balance between risk and reward.

The main financial risks faced by the Group and the Company arising from its use of financial instruments in their normal activities are credit risk, liquidity risk, market risk, profit or interest rate risk and foreign currency risk.

Credit Risk

Credit risk is the potential exposure of the Group and the Company to losses in the event of non-performance by counterparties. The Group's and the Company's exposures to credit risk arise principally from receivables from customers and placement in money market.

Trade and Other Receivables

Credit evaluations are performed on an on-going basis where customers' credit worthiness are evaluated using a list of qualitative and quantitative weighted criteria.

The Group uses ageing analysis to monitor the credit quality of the receivables. With respect to the trade and other receivables that are neither impaired nor past due, there is no indication as of reporting date that the debtors will not meet their payment obligations. 98.8% (2012: 97.4%) of gross trade receivables of the Group are within the credit terms.

Collaterals for the trade receivables are in the form of bank guarantee, Amanah Saham Bumiputera (ASB) and cash deposits.

The Group and the Company mitigate their credit risks within a conservative framework by dealing with creditworthy counterparties or setting credit limits on exposures to counterparties where appropriate. These are done on an on-going basis to constantly monitor any developments. The Group and the Company further mitigate and limit credit risks by securing collateral or other credit enhancements such as cash deposits, letter of credit and bank guarantee.

On reporting date, there is a significant concentration of credit risk of the Group arising from an amount owing from a customer constituting 32% (2012: 32%) of the total trade receivables of the Group, of which all outstanding balances are current.

In addition, there is a significant concentration of credit risk of the Group being an amount owing from the Government constituting 95% (2012: 96%) of the total other receivables of the Group relating to subsidies arising from the Automatic Pricing Mechanism governing the sale of petroleum products.

The maximum exposure to credit risk for the Group and the Company is represented by the carrying amount of each financial asset, without taking into account the fair value of any collateral.

27. FINANCIAL INSTRUMENTS (continued)

Fund and Other Investment

The Group and the Company are also exposed to counterparty credit risk from financial institutions through fund and investment activities comprising primarily money market placement and investments in bonds, and trade facilities. These exposures are managed in accordance with existing policies and guidelines that define the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters.

Investments are only made with approved counterparties who met the appropriate rating and other relevant criteria, and within approved credit limits, as stipulated in the policies and guidelines. The treasury function undertakes a credit risk management activities similar to the credit management and monitoring procedures for receivables.

The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

As at the reporting date, the Group and the Company have only interest in short term domestic money market instrument. In view of the fund credit rating of counterparties, the Group and the Company do not expect any counterparties to fail to meet its obligation.

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Group's and Company's business activities may not be available. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through use of stand-by credit facilities. The Company's current credit rating enables it to access banking facilities in excess of current and immediate future requirements of the Group and the Company.

27. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

Maturity Analysis

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

| Group | Carrying amount RM'000 | Effective interest rate % | Contractual cash flows RM'000 | Within 1 year RM'000 | 1 – 2 years RM'000 | 2 – 5 years RM'000 | More than 5 years RM'000 |
|--|---------------------------|------------------------------|----------------------------------|-------------------------|-----------------------|-----------------------|-----------------------------|
| 2013 | | | | | | | |
| Loans and borrowings | | | | | | | |
| Unsecured Islamic Financing Facility | | | | | | | |
| Floating rate | 112,243 | 3.85 | 129,208 | 17,516 | 17,585 | 52,755 | 41,352 |
| Unsecured Revolving Credit Floating rate | 429,640 | 3.53 | 431,049 | 431,049 | — | — | — |
| Secured Term Loan Fixed rate | 40,755 | 2.42 | 45,685 | — | 22,081 | 23,604 | — |
| Trade and other payables | 4,465,124 | | 4,465,124 | 4,465,124 | — | — | — |
| | 5,047,762 | | 5,071,066 | 4,913,689 | 39,666 | 76,359 | 41,352 |
| 2012 | | | | | | | |
| Loans and borrowings | | | | | | | |
| Unsecured Islamic Financing Facility | | | | | | | |
| Floating rate | 122,000 | 3.90 | 143,910 | 14,498 | 17,585 | 52,755 | 59,072 |
| Unsecured Revolving Credit Floating rate | 314,894 | 3.54 | 315,794 | 315,794 | — | — | — |
| Secured Term Loan Fixed rate | 26,809 | 3.16 | 26,880 | — | 2,240 | 16,128 | 8,512 |
| Trade and other payables | 4,271,627 | | 4,271,627 | 4,271,627 | — | — | — |
| | 4,735,330 | | 4,758,211 | 4,601,919 | 19,825 | 68,883 | 67,584 |

27. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

Maturity Analysis (continued)

| Company | Carrying amount RM'000 | Effective profit or interest rate % | Contractual cash flows RM'000 | Within 1 year RM'000 | 1 – 2 years RM'000 | 2 – 5 years RM'000 | More than 5 years RM'000 |
|--|------------------------------|---|-------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------------|
| 2013 | | | | | | | |
| Loans and borrowings | | | | | | | |
| Unsecured Revolving Credit Floating rate | 400,000 | 3.55 | 401,323 | 401,323 | — | — | — |
| Trade and other payables | 4,084,196 | | 4,084,196 | 4,084,196 | — | — | — |
| | 4,484,196 | | 4,485,519 | 4,485,519 | — | — | — |
| 2012 | | | | | | | |
| Loans and borrowings | | | | | | | |
| Unsecured Revolving Credit Floating rate | 300,000 | 3.61 | 300,903 | 300,903 | — | — | — |
| Trade and other payables | 4,143,415 | | 4,143,415 | 4,143,415 | — | — | — |
| | 4,443,415 | | 4,444,318 | 4,444,318 | — | — | — |

27. FINANCIAL INSTRUMENTS (continued)

Market Risk

Market risk is the risk or uncertainty arising from changes in market prices and their impact on the performance of the business. The market price changes that the Group and the Company are exposed to include interest rates and foreign currency exchange rates that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Profit or Interest Rate Risk

Profit or interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates.

The Group's exposure to the risk of changes in market rates relates primarily to the Islamic financing facility of a subsidiary with floating profit margin. Changes in the profit margin may expose the Group to a risk of change in cashflow.

The Group's remaining interest bearing financial asset and financial liability, which consists mainly of fixed rate short term fund placement, short-term revolving credit facilities and fixed rate secured term loan do not have significant exposure to interest rate risk.

All profit or interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines.

As at 31 December 2013, 93.0% (2012: 94.2%) of the interest bearing financial liabilities of the Group are floating rate instruments.

Profit Margin Risk Sensitivity Analysis

As at 31 December 2013, it is estimated that any general increase/decrease of 100 basis points in profit margin of the Islamic financing liability, with all other variables held constant, would not have any significant impact to the Group's cash flows.

Foreign Currency Risk

The Group is exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and/or when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's cash flows are Ringgit Malaysia and US Dollars. The Company mitigates its foreign currency exposure through forward foreign currency contract.

27. FINANCIAL INSTRUMENTS (continued)**Market Risk (continued)****Foreign Currency Risk (continued)**

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

| | 2013 | | 2012 | |
|------------------------------|-----------------|------------------|---------|---------|
| | USD'000 | RM'000 | USD'000 | RM'000 |
| Group | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 15,940 | 52,444 | 11,782 | 36,083 |
| Trade and other receivables | 39,746 | 130,764 | 189,742 | 581,087 |
| | 55,686 | 183,208 | 201,524 | 617,170 |
| Financial liabilities | | | | |
| Trade and other payables | 105,636 | 347,542 | 39,615 | 121,237 |
| Net exposure | (49,950) | (164,334) | 161,909 | 495,933 |
| Company | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 13,681 | 45,010 | 11,676 | 35,756 |
| Trade and other receivables | 28,873 | 94,992 | 189,742 | 581,087 |
| | 42,554 | 140,002 | 201,418 | 616,843 |
| Financial liabilities | | | | |
| Trade and other payables | 58,767 | 193,343 | 12,835 | 39,308 |
| Net exposure | (16,213) | (53,341) | 188,583 | 577,535 |

Currency risk sensitivity analysis

The following table demonstrates the indicative post-tax effects on the profit of applying reasonably foreseeable market movements in the currency exchange rates:

| | 2013 | | 2012 | |
|----------------|---|--|---|--|
| | Appreciation in foreign currency rate % | Effect on profit or loss RM'000 | Appreciation in foreign currency rate % | Effect on profit or loss RM'000 |
| Group | | | | |
| USD | 5 | (6,163) | 5 | 18,598 |
| Company | | | | |
| USD | 5 | (2,000) | 5 | 21,658 |

27. FINANCIAL INSTRUMENTS (continued)

Currency risk sensitivity analysis (continued)

This analysis assumes all other variables, in particular interest rates, remain constant.

A depreciation in USD would have had equal but opposite effect, on the basis that all other variables remain constant.

Fair value information

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables and trade and other payables.

The financial instruments are carried at amortised costs, which are not materially different from their fair values.

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

| Group | Net gain/(loss) | |
|---|-----------------|----------------|
| | 2013 RM'000 | 2012 RM'000 |
| Financial instruments through profit and loss | (4,789) | 1,201 |
| Loans, receivables and payables | (25,114) | 7,723 |
| Total | (29,903) | 8,924 |

28. CAPITAL MANAGEMENT

The Group defines capital as total equity and debt. The objective of the Group's capital management is to maintain an optimal capital structure in order to support its business and maximise shareholders' value. As a subsidiary of Petroliaam Nasional Berhad (PETRONAS), the Group's approach in managing capital is set out in the PETRONAS Group Corporate Financial Policy.

The Group monitors and maintains a prudent level of total debt to total asset ratio to optimise shareholders' value and to ensure compliance with shareholders' agreements and regulatory requirements, if any.

The debt equity ratio of the Group as at 31 December 2013 is 2.9:100 (2012: 2.9:100).

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

Under the requirement of Bursa Malaysia Practice Note No.17/2005, the Group is required to maintain consolidated shareholders' equity equal to or not less than 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

29. HOLDING COMPANY

The holding company is Petroliaam Nasional Berhad (PETRONAS), a company incorporated in Malaysia.

30. SUBSIDIARIES AND ACTIVITIES

| | Effective ownership and voting interest | | |
|---|---|------|---|
| | 2013 | 2012 | Principal Activities |
| Companies incorporated in Malaysia | | | |
| Kuala Lumpur Aviation Fuelling System Sdn. Bhd. | 65% | 65% | Operation of aviation fuelling at Kuala Lumpur International Airport, Sepang. |
| Lub Dagangan Sdn. Bhd. | 100% | 100% | Marketing and distribution of lubricants. |
| PETRONAS Aviation Sdn. Bhd. | 100% | 100% | Sales and marketing of aviation fuel and technical consultancy service. |
| Company incorporated in Netherlands | | | |
| *PDB (Netherlands) B.V. | 100% | 100% | Investment holding company. |
| Company incorporated in Philippines | | | |
| **PETRONAS Energy Philippines, Inc. | 100% | 100% | Buying, selling, storing, distributing and marketing of liquefied petroleum gas (LPG) and other petroleum products. |
| Company incorporated in Thailand | | | |
| **PETRONAS International Marketing (Thailand) Co., Ltd. | 100% | 100% | Marketing and distribution of lubricants. |
| Companies incorporated in Vietnam | | | |
| **PETRONAS (Vietnam) Co., Ltd. | 100% | 100% | Store, process and distribute LPG. |
| **Thang Long LPG Company Limited | 100% | 100% | To liquefy petroleum gas, sell and maintain LPG transmission system and lease jetty. |

* Not audited by member firms of KPMG International

** Audited by member firms of KPMG International

31. ASSOCIATES AND ACTIVITIES

| | Effective ownership and voting interest | | |
|--|---|------|---|
| | 2013 | 2012 | Principal Activities |
| Companies incorporated in Malaysia | | | |
| *IOT Management Sdn. Bhd. | 20% | 20% | To operate and manage a petroleum storage terminal with facilities for receipt, storage and delivery of petroleum products at Senari, Kuching, Sarawak for the users, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd. |
| *Tanjung Manis Oil Terminal Management Sdn. Bhd. | 20% | — | To operate and manage a petroleum storage terminal with facilities for receipt, storage and delivery of petroleum products located at Bandar Baru Tanjung Manis, Mukah, Sarawak for the users, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd. |
| *Assar Chemicals Dua Sdn. Bhd. | — | 20% | To operate and manage a petroleum storage terminal with facilities for receipt, storage and delivery of petroleum products located at Bandar Baru Tanjung Manis, Mukah, Sarawak for the users, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd. |
| Company incorporated in Philippines | | | |
| **Duta, Inc. | 40% | 40% | To buy, invest and sell securities (leasing of its properties to PETRONAS Energy Philippines, Inc.). |

* Not audited by member firms of KPMG International

** Audited by member firms of KPMG International

32. JOINT VENTURES AND ACTIVITIES

| | Effective ownership and voting interest | | Principal Activities |
|---|---|------|--|
| | 2013 | 2012 | |
| Companies incorporated in Malaysia | | | |
| PS Pipeline Sdn. Bhd. | 50% | 50% | To maintain and operate the Multi-Product Pipeline and Klang Valley Distribution Terminal (MPP-KVDT) and the associated facilities for the transportation of the petroleum products on behalf of the MPP-KVDT owners/shareholders. |
| PS Terminal Sdn. Bhd. | 50% | 50% | To operate, manage and maintain the joint facilities – terminal, depot, warehouse etc. in Tawau and Bintulu on behalf of the owners, PETRONAS Dagangan Berhad and Shell Timur Sdn. Bhd. |

33. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS

As of 1 January 2013, the Group and the Company adopted the following pronouncements that have been issued by the MASB as listed below:

Effective for annual periods beginning on or after 1 January 2013

MFRS 10, *Consolidated Financial Statements*

MFRS 11, *Joint Arrangements*

MFRS 12, *Disclosure of Interests in Other Entities*

MFRS 13, *Fair Value Measurement*

MFRS 119, *Employee Benefits (revised)*

MFRS 127, *Separate Financial Statements*

MFRS 128, *Investments in Associates and Joint Ventures*

Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*

Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*

Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*

Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*

33. ADOPTION OF NEW AND REVISED PRONOUNCEMENTS (continued)

The principal changes in accounting policies and their effects are set out below

i. **MFRS 10, Consolidated Financial Statements**

MFRS 10 introduces a new single control model to determine which investees should be consolidated. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. MFRS 10 replaces the guidance on control and consolidation in MFRS 127, *Consolidated and Separate Financial Statements* and IC Interpretation 112, *Consolidation – Special Purpose Entities*.

The adoption of this MFRS does not have material impact to the Group.

ii. **MFRS 11, Joint Arrangements**

MFRS 11 establishes the principles for classification and accounting for joint arrangements and supersedes MFRS 131, *Interests in Joint Ventures*. Under MFRS 11, a joint arrangement may be classified as joint venture or joint operation. A Joint venture arises when the joint venturer has rights to the net assets of the arrangement, while a joint operation arises when a joint operator has rights to the assets and liabilities relating to the arrangement. Interest in joint venture is accounted for using the equity method whilst interest in joint operation is accounted for using the applicable standards relating to the underlying assets, liabilities, income and expense items arising from the joint operation.

Upon adoption of MFRS 11, certain of the Group's previously equity-accounted jointly controlled entities are now classified as joint operations or joint ventures. The adoption of this MFRS does not have material impact to the Group.

iii. **MFRS 12, Disclosure of Interests in Other Entities**

MFRS 12 establishes improvement to the disclosure of a reporting entity's interest in other entities. Upon adoption of MFRS 12, the Group disclosed information about the nature and risks of interests in subsidiaries, associates, joint arrangements and structured entities and the effects of those interests on financial position, performance and cash flows.

The adoption of this MFRS does not have material impact to the Group.

34. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT

The following pronouncements that have been issued by the Malaysian Accounting Standards Board will become effective in future financial reporting periods and have not been adopted by the Group and/or the Company.

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 10, *Consolidated Financial Statements*

Amendments to MFRS 12, *Disclosure of Interests in Other Entities*

Amendments to MFRS 127, *Consolidated and Separate Financial Statements*

Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

Amendments to MFRS 136, *Recoverable Amount Disclosures for Non-financial Assets*

Amendments to MFRS 139, *Novation of Derivatives and Continuation of Hedge Accounting*

IC Interpretation 21, *Levies*

34. NEW AND REVISED PRONOUNCEMENTS YET IN EFFECT (continued)***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015***MFRS 9, *Financial Instruments* (2009)MFRS 9, *Financial Instruments* (2010)Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Group and the Company are expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The Group and the Company is currently assessing the impact of adopting the above pronouncements. Key highlights are as follows:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

35. RETAINED EARNINGS

The breakdown of the retained earnings of the Group and the Company as at 31 December 2013, into realised and unrealised profits, pursuant to the directive by Bursa Malaysia Securities Berhad, is as follows:

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2013 RM'000 | 2012 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Total retained profits | | | | |
| – realised | 4,044,992 | 4,005,357 | 3,923,267 | 3,917,508 |
| – unrealised | (147,392) | (145,016) | (142,725) | (133,656) |
| | 3,897,600 | 3,860,341 | 3,780,542 | 3,783,852 |
| Total retained profits of associates attributable to the Group | | | | |
| – realised | 6,043 | 5,237 | — | — |
| – unrealised | — | (26) | — | — |
| Less: Consolidation adjustments | (62,108) | (6,981) | — | — |
| Total retained profits | 3,841,535 | 3,858,571 | 3,780,542 | 3,783,852 |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of PETRONAS DAGANGAN BERHAD, which comprise the statements of financial position as at 31 December 2013 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 160 to 221.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries, of which we have acted as auditors, have been properly kept in accordance with the provisions of the Act.
- b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in the Note 30 to the financial statements.
- c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 35 on page 221 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirement and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG DESA MEGAT & CO

Firm Number: AF 0759

Chartered Accountants



CHONG DEE SHIANG

Approval Number: 2782/09/14(J)

Chartered Accountant

Petaling Jaya,
Date: 6 February 2014





SHAREHOLDER'S INFORMATION

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ANALYSIS OF SHAREHOLDINGS

AS AT 14 FEBRUARY 2014

Authorised Share Capital : RM1,000,000,000
 Issued and Paid-up Share Capital : RM993,454,000 comprising 993,454,000 ordinary shares of RM1 each
 Class of Shares : Ordinary Shares of RM1 Each
 Voting Rights : One Vote Per Ordinary Share (On A Poll)

ANALYSIS OF SHAREHOLDINGS

as at 14 February 2014

| Size of Holdings | No. of Holders | % of Total Shareholders | No. of Shares | % of Total Shares |
|--|----------------|-------------------------|---------------|-------------------|
| Less than 100 | 122 | 1.69 | 1,022 | 0.00 |
| 100 - 1,000 | 1,501 | 20.82 | 1,113,763 | 0.11 |
| 1,001 - 10,000 | 4,871 | 67.57 | 13,102,411 | 1.32 |
| 10,001 - 100,000 | 500 | 6.94 | 16,159,688 | 1.63 |
| 100,001 to less than 5% of issued shares | 213 | 2.95 | 212,074,516 | 21.35 |
| 5% and above of issued shares | 2 | 0.03 | 751,002,600 | 75.59 |
| | 7,209 | 100.00 | 993,454,000 | 100.00 |

CLASSIFICATION OF SHAREHOLDERS

as at 14 February 2014

| Category | No. of Holders | | No. of Shares | | % of Total Shareholding | |
|---|----------------|---------|---------------|------------|-------------------------|---------|
| | Malaysian | Foreign | Malaysian | Foreign | Malaysian | Foreign |
| • Individual | 5,874 | 67 | 18,811,763 | 384,224 | 1.89 | 0.04 |
| • Corporate Body | | | | | | |
| a. Banks/Finance Companies | 82 | 0 | 111,908,300 | | 11.26 | 0.00 |
| b. Investment Trusts/Foundation/Charities | 2 | 0 | 3,400 | 0 | 0.00 | 0.00 |
| c. Other types of companies | 192 | 6 | 5,098,600 | 930,000 | 0.51 | 0.09 |
| • Government Agencies/Institution | 6 | 0 | 7,544,100 | 0 | 0.76 | 0.00 |
| • Nominees | 581 | 399 | 792,697,940 | 56,075,673 | 79.79 | 5.65 |
| | 6,737 | 472 | 936,064,103 | 57,389,897 | 94.22 | 5.78 |

LIST OF SUBSTANTIAL SHAREHOLDERS

as at 14 February 2014

| | | Direct | | Indirect | |
|----|--|---------------|-------------------|---------------|-------------------|
| | | No. of Shares | % of Total Shares | No. of Shares | % of Total Shares |
| 1. | CIMB Group Nominees (Tempatan) Sdn Bhd (Exempt AN for Petroleum Nasional Berhad) (Exempt AN for Petroleum Nasional Berhad (PRF)) | 694,004,000 | 69.86 | 200,900* | 0.02 |
| 2. | Employees Provident Fund Board | 62,024,000 | 6.24 | | |

* Deemed interest in 200,900 shares of PETRONAS for Petroleum Research Fund held through CIMB Group Nominees (Tempatan) Sdn Bhd pursuant to Section 6A of the Companies Act, 1965.

LIST OF DIRECTORS' SHAREHOLDING

as at 14 February 2014

| Name | No. of Shares in PETRONAS Gas Berhad | % of Shareholding |
|-------------------------|--------------------------------------|-------------------|
| 1. Nuraini binti Ismail | 5,000 | 0.00 |

| Name | No. of Shares in PETRONAS Chemicals Group Berhad | % of Shareholding |
|--|--|-------------------|
| 1. Datuk Wan Zulkiflee bin Wan Ariffin | 20,000 | 0.00 |
| 2. Dato' Dr. R. Thillainathan** | 17,000 | 0.00 |
| 3. Vimala V R Menon | 20,000 | 0.00 |
| 4. Nuraini binti Ismail | 10,000 | 0.00 |
| 5. Mohd. Farid bin Mohd. Adnan | 15,000 | 0.00 |
| 6. Mohd Ibrahimnuddin bin Mohd Yunus | 6,000 | 0.00 |

** Deemed interest by virtue of his immediate family members' shareholdings pursuant to Section 134(12)(c) of the Companies Act, 1965.

| Name | No. of Shares in MISC Berhad | % of Shareholding |
|--------------------------------|------------------------------|-------------------|
| 1. Mohd. Farid bin Mohd. Adnan | 5,000 | 0.00 |

| Name | No. of Shares in Malaysia Marine and Heavy Engineering Holdings Berhad | % of Shareholding |
|--|--|-------------------|
| 1. Datuk Wan Zulkiflee bin Wan Ariffin | 10,000 | 0.00 |
| 2. Mohd. Farid bin Mohd. Adnan | 15,000 | 0.00 |

LIST OF TOP 30 SHAREHOLDERS

LIST OF THIRTY LARGEST SHAREHOLDERS

Registered as at 14 February 2014

| | Name | No. of Shares | % of Total Shares |
|-----|---|---------------|-------------------|
| 1. | CIMB Group Nominees (Tempatan) Sdn Bhd (Exempt AN For Petroleum Nasional Berhad) | 694,004,000 | 69.86 |
| 2. | Citigroup Nominees (Tempatan) Sdn Bhd (Employees Provident Fund Board) | 56,998,600 | 5.74 |
| 3. | Amanahraya Trustees Berhad (Skim Amanah Saham Bumiputera) | 23,314,100 | 2.35 |
| 4. | Amanahraya Trustees Berhad (Amanah Saham Wawasan 2020) | 21,373,100 | 2.15 |
| 5. | Kumpulan Wang Persaraan (Diperbadankan) | 10,781,600 | 1.09 |
| 6. | Amanahraya Trustees Berhad (Amanah Saham Didik) | 10,507,700 | 1.06 |
| 7. | Amanahraya Trustees Berhad (Amanah Saham Malaysia) | 10,165,100 | 1.02 |
| 8. | Malaysia Nominees (Tempatan) Sendirian Berhad (Great Eastern Life Assurance (Malaysia) Berhad (Par 1)) | 8,751,100 | 0.88 |
| 9. | Cartaban Nominees (Asing) Sdn Bhd (Exempt AN for State Street Bank & Trust Company (West CLT OD67)) | 7,841,001 | 0.79 |
| 10. | Amanahraya Trustees Berhad (Public Islamic Dividend Fund) | 6,088,100 | 0.61 |
| 11. | HSBC Nominees (Asing) Sdn Bhd (BBH and Co Boston for Vanguard Emerging Markets Stock Index Fund) | 5,629,000 | 0.57 |
| 12. | Amanahraya Trustees Berhad (AS 1Malaysia) | 4,636,700 | 0.47 |
| 13. | AMSEC Nominees (Tempatan) Sdn Bhd (AmTrustee Berhad for CIMB Islamic Dali Equity Growth Fund (UT-CIMB-DALI)) | 4,529,100 | 0.46 |
| 14. | Permodalan Nasional Berhad | 4,365,800 | 0.44 |
| 15. | Amanahraya Trustees Berhad (Public Islamic Equity Fund) | 2,861,400 | 0.29 |
| 16. | HSBC Nominees (Asing) Sdn Bhd (Exempt AN for JPMorgan Chase Bank, National Association (U.A.E.)) | 2,655,752 | 0.27 |
| 17. | Cartaban Nominees (Tempatan) Sdn Bhd (Exempt AN for Eastspring Investments Berhad) | 2,626,600 | 0.26 |
| 18. | Amanahraya Trustees Berhad (Public Islamic Select Enterprises Fund) | 2,611,200 | 0.26 |

| | Name | No. of Shares | % of Total Shares |
|-----|--|---------------|-------------------|
| 19. | Maybank Nominees (Tempatan) Sdn Bhd (Maybank Trustees Berhad for Public Ittikal Fund (N14011970240)) | 2,500,000 | 0.25 |
| 20. | Pertubuhan Keselamatan Sosial | 2,458,700 | 0.25 |
| 21. | HSBC Nominees (Asing) Sdn Bhd (Exempt AN for JPMorgan Chase Bank, National Association (U.S.A.)) | 2,288,200 | 0.23 |
| 22. | HSBC Nominees (Asing) Sdn Bhd (TNTC for Fidelity Series Emerging Markets Fund (Fid Inv TST)) | 2,090,200 | 0.21 |
| 23. | Citigroup Nominees (Tempatan) Sdn Bhd (Employees Provident Fund Board (CIMB Prin)) | 2,040,000 | 0.21 |
| 24. | Foh Chong & Sons Sdn Bhd | 2,014,000 | 0.20 |
| 25. | Maybank Nominees (Tempatan) Sdn Bhd (Setiausaha Kerajaan Pulau Pinang) | 2,000,000 | 0.20 |
| 26. | State Financial Secretary Sarawak | 2,000,000 | 0.20 |
| 27. | Amanahraya Trustees Berhad (Sekim Amanah Saham Nasional) | 1,997,400 | 0.20 |
| 28. | Cartaban Nominees (Asing) Sdn Bhd (GIC Private Limited for Government of Singapore (C)) | 1,988,100 | 0.20 |
| 29. | State Secretary Kedah Incorporated | 1,930,800 | 0.19 |
| 30. | HSBC Nominees (Asing) Sdn Bhd (Exempt AN for JPMorgan Chase Bank, National Association (Norges BK Lend)) | 1,503,400 | 0.15 |

NET BOOK VALUE OF LAND AND BUILDINGS OF PDB COMPANY

| | Freehold | | | Leasehold | | | Total Land | | | Building |
|--------------------|---------------------------------|-------------|-------------------|---------------------------------|-------------|-------------------|---------------------------------|-------------|-------------------|--------------------------------------|
| | Net Book Value of Land (RM'000) | No. of Lots | Area (sq. ft.) | Net Book Value of Land (RM'000) | No. of Lots | Area (sq. ft.) | Net Book Value of Land (RM'000) | No. of Lots | Area (sq. ft.) | Net Book Value of Buildings (RM'000) |
| Central Region | 382,619 | 112 | 8,915,046 | 265,668 | 84 | 3,664,957 | 648,287 | 196 | 12,580,003 | 329,925 |
| Northern Region | 191,854 | 88 | 3,757,276 | 47,364 | 38 | 3,578,693 | 239,218 | 126 | 7,335,969 | 188,557 |
| Southern Region | 277,938 | 95 | 3,903,321 | 57,659 | 26 | 981,877 | 335,597 | 121 | 4,885,198 | 139,108 |
| East Coast Region | 58,530 | 38 | 1,479,730 | 27,185 | 42 | 1,554,174 | 85,715 | 80 | 3,033,904 | 112,193 |
| Western Region | 90,488 | 51 | 1,885,973 | 20,183 | 19 | 566,362 | 110,671 | 70 | 2,452,335 | 61,559 |
| Sarawak | 2,125 | 3 | 81,302 | 28,573 | 36 | 1,581,176 | 30,698 | 39 | 1,662,478 | 60,166 |
| Sabah | 2,794 | 7 | 185,613 | 26,086 | 24 | 2,216,395 | 28,880 | 31 | 2,402,008 | 52,909 |
| Headquarter | 28,571 | 1 | 36,603,280 | - | - | - | 28,571 | 1 | 36,603,280 | 3,200 |
| Grand Total | 1,034,919 | 395 | 56,811,541 | 472,718 | 269 | 14,143,634 | 1,507,637 | 664 | 70,955,175 | 947,617 |

USAGE OF LAND PROPERTIES*

| | Bulk Depot | Klang Valley Distribution Terminal | LPG Storage & Bottling Plant | Multi Product Pipeline | Service Station** | Shophouse | Training Centre & Service Station | Warehouse | Vacant Land | Grand Total |
|--------------------|------------|------------------------------------|------------------------------|------------------------|-------------------|-----------|-----------------------------------|-----------|-------------|-------------|
| Central Region | - | 2 | - | - | 186 | - | 1 | - | 7 | 196 |
| Northern Region | 3 | - | - | - | 112 | 1 | - | - | 10 | 126 |
| Southern Region | - | - | - | - | 112 | - | - | - | 9 | 121 |
| East Coast Region | - | - | 1 | - | 74 | - | - | 1 | 4 | 80 |
| Western Region | - | - | - | - | 64 | - | - | - | 6 | 70 |
| Sarawak | 3 | - | - | - | 35 | - | - | - | 1 | 39 |
| Sabah | 3 | - | - | - | 27 | - | - | - | 1 | 31 |
| Headquarter | - | - | - | 1 | - | - | - | - | - | 1 |
| Grand Total | 9 | 2 | 1 | 1 | 610 | 1 | 1 | 1 | 38 | 664 |

* Built on Freehold and Leasehold land only

** The remaining stations were built on land on operating and prepaid leases

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the **Thirty-Second (32nd)** Annual General Meeting of PETRONAS Dagangan Berhad (“the Company”) will be held at the **Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur** on **Wednesday, 16 April 2014** at **10.00am** for the following purposes:

AGENDA

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 together with the Reports of the Directors and Auditors thereon. **(Resolution 1)**
2. To re-elect Nuraini binti Ismail who retires in accordance with Article 93 of the Company’s Articles of Association and, being eligible, offers herself for re-election. **(Resolution 2)**

Dato’ Dr. R. Thillainathan who retires in accordance with Article 93 of the Company’s Articles of Association has expressed his intention not to seek re-election. Hence, he will retain office until the conclusion of the Thirty-Second (32nd) Annual General Meeting.
3. To re-elect the following Directors pursuant to Article 96 of the Company’s Articles of Association:-
 (a) Mohd. Farid bin Mohd. Adnan **(Resolution 3)**
 (b) Mohd Ibrahimnuddin bin Mohd Yunus **(Resolution 4)**
4. To approve the payment of Directors’ fees in respect of the financial year ended 31 December 2013. **(Resolution 5)**
5. To appoint Messrs. KPMG, having consented to act, as the Company’s Auditors in place of the retiring Auditors, Messrs. KPMG Desa Megat & Co, who will hold office until the conclusion of the next Annual General Meeting, and to authorise the Directors to fix their remuneration. **(Resolution 6)**
6. To transact any other business for which due notice has been given.

By Order of the Board

NUR ASHIKIN BINTI KHALID (LS 0008025)
YEAP KOK LEONG (MAICSA 0862549)
 Company Secretaries

Kuala Lumpur
 24 March 2014

Notes:

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming Thirty-Second (32nd) Annual General Meeting, the Company shall be requesting the Record of Depositors as at 9 April 2014. Only a depositor whose name appears on the Record of Depositors as at 9 April 2014 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.
2. A member of the Company entitled to attend and vote at the meeting may appoint not more than two (2) proxies to attend and vote on his behalf. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy without limitation and the provision of Section 149(1) (b) of the Companies Act, 1965 shall not apply to the Company. There shall be no restriction as to the qualification of the proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities accounts.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
5. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia, not less than forty-eight (48) hours before the time fixed for holding the meeting.
7. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with this Proxy Form.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

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Pursuant to Paragraph 8.27(2) of the Bursa Malaysia Main Market Listing Requirements, appended hereunder are:-

1. DIRECTORS WHO ARE STANDING FOR RE-ELECTION AT THE THIRTY-SECOND (32ND) ANNUAL GENERAL MEETING OF THE COMPANY

The Director who is standing for re-election pursuant to Article 93 of the Articles of Association of the Company is as follows:-

- Nuraini binti Ismail

Resolution 2

The Directors who are standing for re-election pursuant to Article 96 of the Articles of Association of the Company are as follows:-

- Mohd. Farid bin Mohd. Adnan
- Mohd Ibrahimnuddin bin Mohd Yunus

Resolution 3

Resolution 4

DETAILS OF DIRECTORS STANDING FOR RE-ELECTION AS IN AGENDA 2 AND 3 OF THE NOTICE OF ANNUAL GENERAL MEETING

Nuraini binti Ismail

| | |
|--|--|
| Age | : 51 |
| Nationality | : Malaysian |
| Qualification | : Fellow member of the Association of Certified Chartered Accountants (ACCA) United Kingdom |
| Position in the Company | : Non-Independent Non-Executive Director |
| Date first appointed to the Board | : 18 November 2011 |
| Membership of the Board Committees | : <ul style="list-style-type: none"> • Board of Directors • Audit Committee |
| Number of Board meetings attended during the year under review | : 6 out of 6 |
| Working experience | : She joined PETRONAS in 1992 and has held various senior positions in PETRONAS Group including Senior General Manager, Group Treasury of PETRONAS, General Manager, Finance & Accounts Services and General Manager, Commercial Services of Malaysian International Trading Corporation Sdn Bhd |
| Directorship in other public companies | : PETRONAS Group |
| Securities holdings in the Company | : Nil |
| Family relationships with any directors and/or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past ten (10) years other than traffic offences | : Nil |

Mohd. Farid bin Mohd. Adnan

| | |
|--|--|
| Age | : 51 |
| Nationality | : Malaysian |
| Qualification | : <ul style="list-style-type: none"> • Bachelor of Science Degree (BSc) in Chemical Engineering, University of Tennessee, Knoxville, USA • Master of International Business Studies, University of South Carolina, USA |
| Position in the Company | : Non-Independent Non-Executive Director |
| Date first appointed to the Board | : 1 October 2013 |
| Membership of the Board Committees | : <ul style="list-style-type: none"> • Board of Directors • Nomination Committee • Remuneration Committee |
| Number of Board meetings attended during the year under review | : 1 out of 2 |
| Working experience | : <ul style="list-style-type: none"> • He has been with PETRONAS for more than 25 years. He had spent most of his professional experience in marketing and trading functions, in various positions across the business including Marketing and Trading, (Oil, Petrochemical and LNG), Corporate Planning as well as Retail Business • He had also spent one (1) year attachment in Houston with Conoco Ltd and four (4) years in South Africa with Engen Ltd |
| Directorship in other public companies | : PETRONAS Group |
| Securities holdings in the Company | : Nil |
| Family relationships with any directors and/or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past ten (10) years other than traffic offences | : Nil |

Mohd Ibrahimnuddin bin Mohd Yunus

| | |
|--|--|
| Age | : 50 |
| Nationality | : Malaysian |
| Qualification | : Bachelor's Degree in Economics, York University, Ontario, Canada |
| Position in the Company | : Managing Director/Chief Executive Officer |
| Date first appointed to the Board | : 1 February 2014 |
| Membership of the Board Committees | : • Board of Directors |
| Number of Board meetings attended during the year under review | : None |
| Working experience | : <ul style="list-style-type: none"> • He has been with PETRONAS for 27 years and has held a number of Senior Management positions prior to his current appointment • He was previously the CEO of PETRONAS LNG Sdn Bhd and prior to that he was the Head of Compensation & Benefits, Human Resource Management • He was also assigned as the CEO of PT PETRONAS Niaga Indonesia in 2007 • Prior to that, he was the General Manager of PETRONAS' LPG and Petroleum Products Group |
| Directorship in other public companies | : Nil |
| Securities holdings in the Company | : Nil |
| Family relationships with any directors and/or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past ten (10) years other than traffic offences | : Nil |

The profiles of the above Directors who are standing for re-election are set out from pages 48 to 51 of this Annual Report.

HEAD OFFICE

Level 30-33, Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur
Tel : 03-2051 5000 Fax : 03-2026 5505

AREA OFFICES

Central Region

Level 12, Menara Dayabumi
Jalan Sultan Hishamuddin
P. O. Box 11946
50762, Kuala Lumpur
Tel : 03-2783 6000
Fax : 03-2260 1527

Officer in Charge:
M Ajmi Abdi

Northern Region

Lot No. 93
Prai Industrial Estate
13600, Prai, Pulau Pinang
Tel : 04-390 7291/7201
Fax : 04-399 0211

Manager in Charge:
Mohd Aaznan Darus

Southern Region

1st & 2nd Floor
Bangunan PETRONAS
Bandar Baru UDA
Km 7, Jalan Skudai
81200, Johor Bahru, Johor
Tel : 07-233 6000
Fax : 07-233 6001

Manager in Charge:
Badruldin Isami Ibrahim

Eastern Region

A-39 & A-43, Jalan Haji Abdul Aziz
25000, Kuantan, Pahang
Tel : 09-513 7022/7099
Fax : 09-514 4040

Manager in Charge:
Azri Othman

Sarawak Region

3rd & 4th Floor
Wisma Naim
Lot 2679, Jalan Rock
93200, Kuching, Sarawak
Tel : 082-25 5200
Fax : 082-42 9958

Manager in Charge:
Hamdan Man

Sabah Region

Lot 7a01-7a13, Block A, Level 7
Karamunsing Complex
88300, Kota Kinabalu, Sabah
Tel : 088-525 777
Fax : 088-269 817

Manager in Charge:
Khiril Anuar Abu Bakar

ADMINISTRATIVE DETAILS

PETRONAS DAGANGAN BERHAD 32ND ANNUAL GENERAL MEETING

REGISTRATION

1. Registration will start at 8.15am on 16 April 2014 in front of the Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur.
2. Please produce your original Identity Card ("IC") to the registration staff for verification. Please make sure you collect your IC thereafter.
3. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
4. You will also be given an identification tag. No person will be allowed to enter the meeting room without the identification tag. There will be no replacement in the event that you lose or misplace the identification tag.
5. No person will be allowed to register on behalf of another person even with the original IC of that person.
6. The registration counter will handle only verification of identity and registration.

HELP DESK

7. Please proceed to the Help Desk for any clarification or enquiry.
8. The Help Desk will also handle revocation of proxy's appointment.

PARKING

9. Please take note that PETRONAS Dagangan Berhad ("PDB") will not be giving cash reimbursements for parking this year. Instead, you are advised to park at Levels P1/P2/P3/P4 of Mandarin Oriental Kuala Lumpur. Please bring along your parking ticket for validation at the counter near the Sapphire Ballroom.
10. By validating the parking ticket, you will not be charged for parking when you leave. Please be advised that the ticket would expire by 4pm on 16 April 2014. Any additional costs incurred for parking after 4pm will not be borne by PDB.
11. Please be advised that PDB will not reimburse any parking costs incurred at any other location. As such, please observe the parking areas mentioned in Item 9 above.

ANNUAL REPORT

12. PDB's Annual Report 2013 is available on:

<http://www.bursamalaysia.com>

<http://www.mymesra.com.my>

PROXY FORM

| | |
|--------------------------------|--|
| Number of Ordinary Shares Held | |
| CDS Account No. | |

I/We _____ Tel: _____

of _____

being a member of PETRONAS Dagangan Berhad ("the Company") hereby appoint:

| | | | |
|----------------------|-------------------|-----------------------------|---|
| Full Name (in Block) | NRIC/Passport No. | Proportion of Shareholdings | |
| | | No. of Shares | % |
| Address | | | |

and/or (delete as appropriate)

| | | | |
|----------------------|-------------------|-----------------------------|---|
| Full Name (in Block) | NRIC/Passport No. | Proportion of Shareholdings | |
| | | No. of Shares | % |
| Address | | | |

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Thirty-Second (32nd) Annual General Meeting of the Company to be held at the **Sapphire Ballroom, Level 1, Mandarin Oriental Kuala Lumpur, Kuala Lumpur City Centre, 50088 Kuala Lumpur**, on **Wednesday, 16 April 2014** at **10.00am** and at any adjournment thereof.

| Resolution | *Ordinary Business | For | Against |
|------------|---|-----|---------|
| 1. | To receive Directors' Report and Financial Statements | | |
| 2. | To re-elect Director under Article 93: Nuraini binti Ismail | | |
| 3. | To re-elect Director under Article 96: Mohd. Farid bin Mohd. Adnan | | |
| 4. | To re-elect Director under Article 96: Mohd Ibrahimnuddin bin Mohd Yunus | | |
| 5. | Approval of Payment of Directors' Fees | | |
| 6. | Appointment of Messrs. KPMG as Auditors in place of the retiring Auditors, Messrs. KPMG Desa Megat & Co | | |

* Please refer to the Notice of Annual General Meeting for full details of the proposed Resolutions.

(Please indicate with an "X" in the spaces provided whether you wish your vote to be cast for or against the Resolutions. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit.)

Date: _____

Signature/Common Seal of Shareholder(s)

Notes:

1. For the purposes of determining a member who shall be entitled to attend and vote at the forthcoming Thirty-Second (32nd) Annual General Meeting, the Company shall be requesting the Record of Depositors as at 9 April 2014. Only a depositor whose name appears on the Record of Depositors as at 9 April 2014 shall be entitled to attend and vote at the meeting as well as for appointment of proxy(ies) to attend and vote on his/her stead.
2. A member of the Company entitled to attend and vote at the meeting may appoint not more than two (2) proxies to attend and vote on his behalf. A proxy may but need not be a Member of the Company and a Member may appoint any person to be his proxy without limitation and the provision of Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company. There shall be no restriction as to the qualification of the proxy.
3. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each Securities account it holds with ordinary shares of the Company standing to the credit of the said Securities accounts.
4. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for the omnibus account, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorised nominee refers to an authorised nominee defined under the SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
5. Where a member or the authorised nominee appoints two (2) proxies, or where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.
6. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if the appointer is a corporation either under seal or under the hand of an officer or attorney duly authorised and must be deposited at the Company's Share Registrar, Symphony Share Registrars Sdn Bhd, Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor, Malaysia, not less than forty-eight (48) hours before the time fixed for holding the meeting.
7. If the Proxy Form is signed under the hand of an officer duly authorised, it should be accompanied by a statement reading "signed as authorised officer under Authorisation Document which is still in force, no notice of revocation having been received". If the Proxy Form is signed by an attorney duly appointed under a power of attorney, it should be accompanied by a statement reading "signed under Power of Attorney which is still in force, no notice of revocation having been received". A copy of the Authorisation Document or the Power of Attorney, which should be valid in accordance with the laws of the jurisdiction in which it was created and is exercised, should be enclosed with this Proxy Form.

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AFFIX STAMP
HERE

Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya, Selangor

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PETRONAS Dagangan Berhad (88222-D)

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

Tel: (03) 2051 5000 • Fax: (03) 2026 5505

www.mymesra.com.my