



A MORE REWARDING JOURNEY

2016 Annual Report & Accounts
Petron Malaysia Refining & Marketing Bhd (3927-V)





Cover Rationale

At Petron, it's all about the work of passionate experts. Our unique understanding of the local market drives us to formulate and innovate on products that meet your needs and fit your lifestyle. Simply, we are developing more efficient fuels that can help us get the most from our energy resources so that you can get a more rewarding journey.

THE PETRON MALAYSIA GROUP

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

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

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

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

As an Asian company with a global mindset, we look forward to becoming an integral part of your lives as we fuel journeys through our network of more than 580

service stations nationwide, including stations that are of our sister companies. We embody what our brand stands for – innovative products, excellent service, successful partnerships built on trust, and caring for our customers.

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

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

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

OUR VISION

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



OUR MISSION

We will achieve this by:

Being an integral part of our customers' lives, exceeding expectations and meeting changing needs, delivering a consistent customer experience through quality products and innovative services;

Developing strategic partnerships in pursuit of growth opportunities;

Fostering an entrepreneurial culture that encourages teamwork, innovation, and excellence;

Acting with professionalism, integrity, and fairness at all times;

Adhering to the strictest safety and environmental standards; and

Promoting the best interests of all our stakeholders, and caring for our community.



YOUR JOURNEY STARTS HERE

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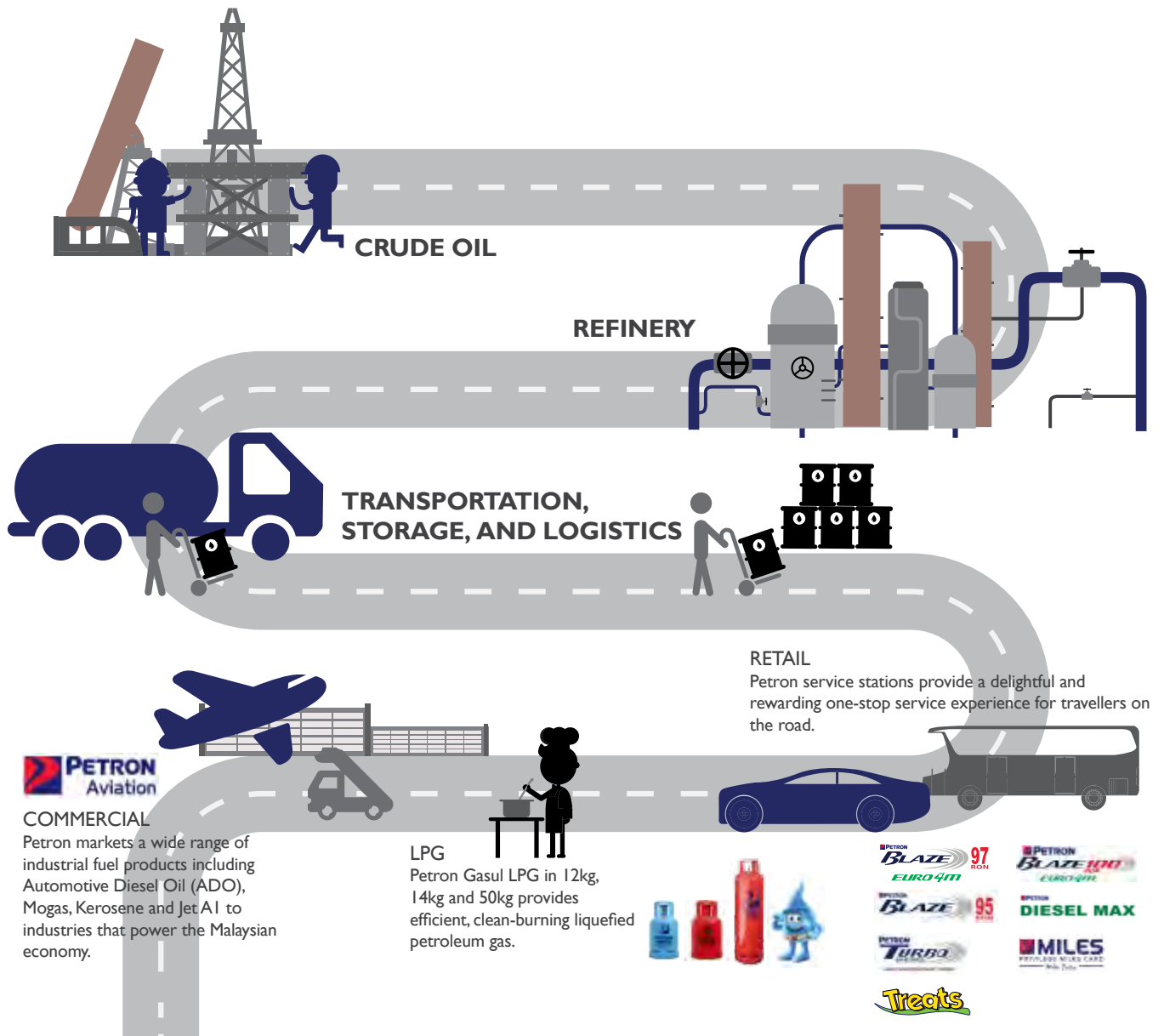
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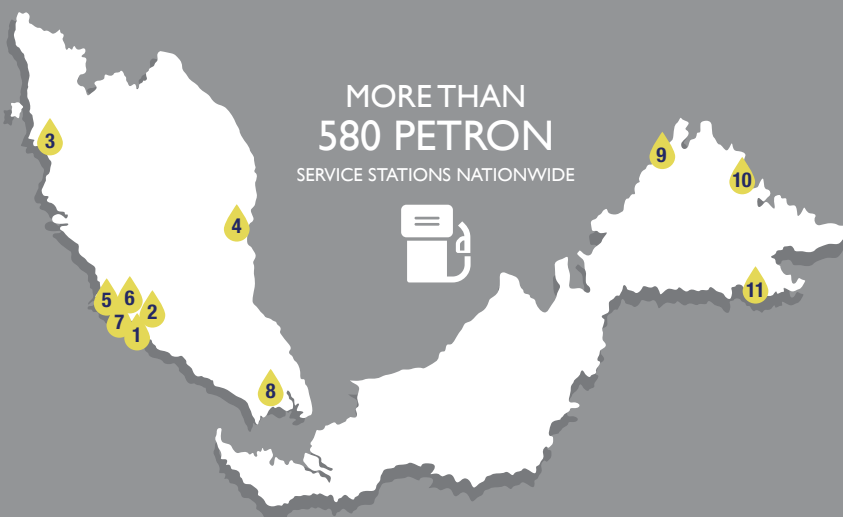
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HOW PETRON REACHES YOU



OUR FACILITIES IN MALAYSIA



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

* PMRMB affiliate terminals

HIGHLIGHTS IN 2016

PETRON

BLAZE 100

launched in January



LPG 50kg

launched in June




PETRON

TURBO DIESEL

launched in September



YEAR 2016



PETRON


580

TOTAL STATIONS*

NET PROFIT

RM 237.6

MILLION



VOLUME SOLD

32.1

MILLION BARRELS

SERVICE STATIONS COMPLETED*

18



PETRON PREPAID FLEET CARD*

launched in October



— WINS —

SILVER

in PUTRA BRAND AWARDS



ISO 9001: 2015

— CERTIFIED —



AWARDED MSOSH AWARDS*

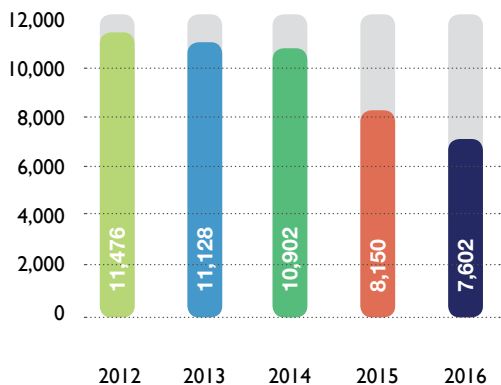


* PMRMB and sister companies, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.

FIVE-YEAR SUMMARY CHARTS

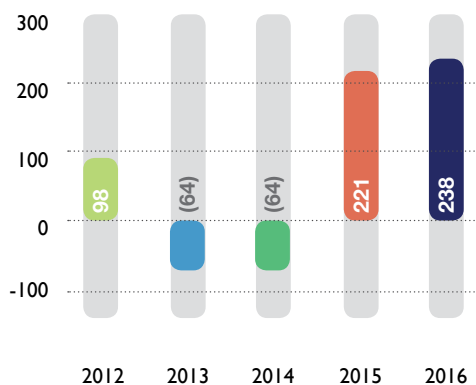
REVENUES

(Net of government duties)
RM MILLION



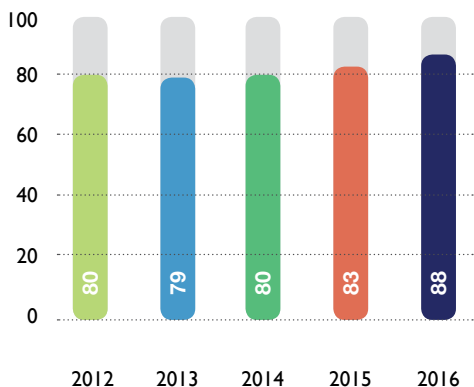
PROFIT/(LOSS) AFTER TAX

RM MILLION



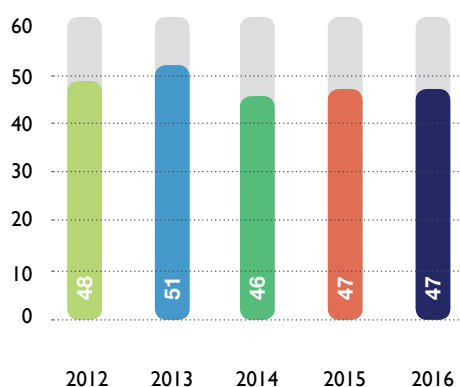
SALES VOLUME

Thousands of barrels
per calendar day



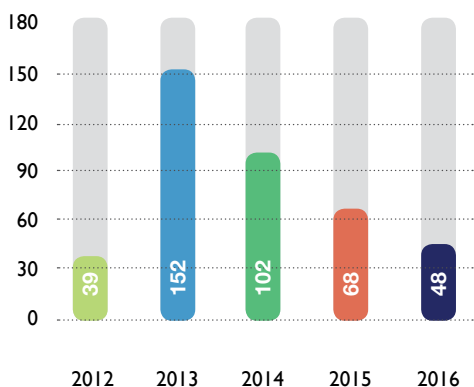
TOTAL THROUGHPUT

Thousands of barrels
per calendar day



CAPITAL EXPENDITURE

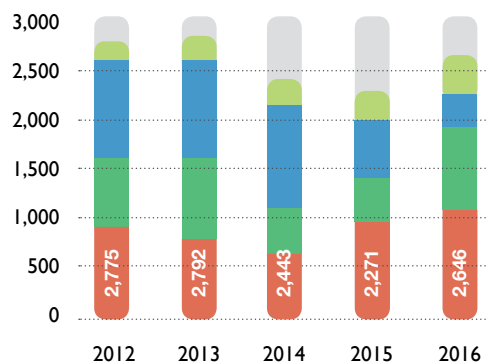
RM MILLION



TOTAL ASSETS EMPLOYED

RM MILLION

Financed by



- Shareholders' funds
- Trade payables
- Notes payable and bank borrowing
- Taxes payable, provisions & others

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS	2016 RM Million	2015 RM Million	% Change
Revenues	7,602	8,150	(7)
Profit after tax	238	221	8
Earnings per ordinary share unit (sen)	88.0	81.7	8
Dividend per ordinary share unit (sen)	22	20	10
Total assets employed	2,646	2,271	17
Total shareholders' funds	1,164	982	19
Sales volume (thousand barrels per calendar day)	88	83	6

SHAREHOLDERS' INFORMATION	2016	2015	2014	2013	2012
Earnings/(Loss) per ordinary share unit (sen)	88.0	81.7	(23.9)	(23.8)	36.4
Gross dividend per ordinary share unit (sen)	22	20	-	14	14
Dividend yield (%)	4.6	6.6	N/A	4.5	4.3
Share price (RM) - Highest	7.31	5.10	3.21	3.60	3.94
- Lowest	3.51	2.51	2.30	2.76	2.71
- Average	4.80	3.02	2.90	3.11	3.26
Number of employees at year-end	315	303	292	293	283

CHAIRMAN'S STATEMENT



DEAR SHAREHOLDERS,

THE YEAR 2016 WAS TOUGH FOR THE OIL AND GAS INDUSTRY AS WE CONTINUED TO FEEL THE IMPACT OF VOLATILE OIL PRICES. FOR THE YEAR IN REVIEW, THE MALAYSIAN ECONOMY CONTINUED ITS MODEST GROWTH AMID A CHALLENGING ENVIRONMENT THAT SAW A PROLONGED SLUMP IN OIL PRICES, A SLOWDOWN IN THE GLOBAL ECONOMY, AND SIGNIFICANT EVENTS SUCH AS BREXIT AND TIGHTER US MONETARY POLICY.



REVENUES
RM7.6
billion



PETRONM 2016
SHARE PRICE AVERAGE
RM4.80
per share

DESPITE THESE HEADWINDS IN OUR JOURNEY TO BE AN INNOVATIVE LEADER IN THE MARKET, WE BUCKLED DOWN TO WORK, FOCUSING ON EXPANDING OUR PRESENCE FURTHER, INTRODUCING INNOVATIVE PRODUCTS AND SERVICES FOR OUR CUSTOMERS, AND STRENGTHENING OUR LOGISTICS CAPABILITIES.

The price of benchmark crude Dated Brent averaged US\$44 per barrel in 2016, 15% lower than the previous year as supply continued to outstrip demand. Product cracks – the price differential between crude oil and finished products – continued to narrow, a marked trend over last year. These have had an impact on our business.

Despite these headwinds in our journey to be an innovative leader in the market, we buckled down to work, focusing on expanding our presence further, introducing innovative products and services for our customers, and strengthening our logistics capabilities. More importantly, we deployed a wide range of programmes to respond to external risks. The success of our programmes speaks for themselves as we thrived despite the challenges and enjoyed another banner year.

Another Banner Year

Your company, Petron Malaysia Refining & Marketing Bhd (“PMRMB”), posted a net profit of RM237.6 million in 2016, 8% higher than 2015 and the highest since the entry of Petron Corporation in 2012. The strong financial performance was fuelled by record sales with total volumes increasing to 32.1 million barrels, a 6% growth compared to the 30.4 million barrels sold in 2015.

Sales in the key Retail and Commercial sectors grew substantially. Retail volumes remained strong with ongoing brand differentiation efforts including introduction of unique and innovative fuels. Increased demand from strategic sectors such as Aviation, Wholesale and Liquefied Petroleum Gas (LPG) helped push our commercial volumes as we remained a preferred partner to drive economic activities and growth.



The increase in our sales volumes helped offset the prolonged climate of softer oil prices, which affected our revenues to drop by 7% to RM7.6 billion from RM8.2 billion in 2015.

Leading the Way Through Innovation

Delivering excellent customer service has always been synonymous with the Petron brand. We continued to blaze new trails by offering innovative products, services, and a more rewarding Petron experience to our customers. Knowing that our success greatly depends on our ability to build lasting relationships, we continuously strive to better understand and cater to our customers’ evolving needs.

We raised the bar in fuels technology when we launched in early 2016 the country’s first and only RON 100 gasoline – the Blaze 100RON Euro 4M – which is the highest grade motor gasoline in Malaysia. We also introduced our new Turbo Diesel Euro 5 in September to provide our customers with better engine performance, better mileage, and a more environment-friendly fuel.

KNOWING THAT OUR SUCCESS GREATLY DEPENDS ON OUR ABILITY TO BUILD LASTING RELATIONSHIPS, WE CONTINUOUSLY STRIVE TO BETTER UNDERSTAND AND CATER TO OUR CUSTOMERS’ EVOLVING NEEDS.

CHAIRMAN'S STATEMENT

To make our world-class fuels more accessible to more motorists, we built more service stations – more than any other oil company – in 2016. Together with PMRMB's sister companies, our retail network expanded to 580 stations by year-end and we have more in various stages of construction, ensuring that there is always a Petron station nearby.

Away from the roads, our Commercial fuels and LPG continue to power essential industries such as manufacturing, power plants, fisheries, and aviation. These are sectors vital to the progress and development of the nation.

We re-introduced the commercial 50KG LPG cylinders for industries and bulk customers, allowing us to gain new markets, while we continue to serve more households with our clean cooking gas, Petron Gasul.

Our commitment to give our customers the very best means we go the extra mile to ensure our operations and facilities are safe, reliable, and environment-friendly. We believe that adhering to international standards is important to make sure that our products and services are of the highest quality, and consistently exceed our customers' expectations. As a testament to this, our Port Dickson Refinery and Port Dickson Terminal received the ISO9001 certifications.

We are also proud to share that Petron, despite being the newest petroleum brand in Malaysia, was recognised anew by local consumers as we took home Silver in the fuel and lubricants category of the prestigious Putra Brand Awards. We also won Gold at the 2015 MSOSH Occupational Safety and Health Awards, underscoring our excellent workplace safety practices, for seven of our terminals in Malaysia – three of which are PMRMB's.

These awards have inspired us further to raise the bar in customer service, innovations, safe and healthy operations. We dedicate these achievements to our loyal customers, our solid and dedicated network of dealers and business partners, and the Petron organisation. By thinking as one and working as one, we have been able to deliver impressive business results.

Building A Better World

As we grow our business, we make sure that we help our communities grow with us in a sustainable manner.

We have been actively participating in the “*Kempen Bumi Hijau*” (Green Earth Campaign) to preserve the environment for future generations.

Our strong partnership with the Royal Malaysia Police has been instrumental in creating safer and more secure communities. Our entire station network is now a safety hub with increased police presence and trained dealers and personnel. We continue to share our strong safety culture, engaging with various universities to raise awareness and contribute to safer roads in the Road Safety Program, which we conducted throughout the year.

We also reached out to our youth in Negeri Sembilan as we recognised future leaders who excelled in several fields such as academics and sports. Recognising that culture plays an important part in progressive nation, we continued our Vision Petron Art & Painting Competition and engaged various universities to discover talented budding student artists.

We measure our success not just in our business results but also through the success of our strategic Corporate Social Responsibility programmes that help build the nation. We seek to further expand our programmes on education and environment in our efforts to have a positive impact on more people.





WITH YOUR COLLECTIVE SUPPORT, WE BELIEVE THAT WE CAN BUILD A STRONGER, MORE RESILIENT, AND MORE CARING COMPANY – ONE THAT MAKES A LASTING DIFFERENCE IN THE LIVES OF MANY.

Strong Governance

I am also pleased to share that we have a Board comprised of individuals who are knowledgeable and experienced in business and governance. They each hold a high level of integrity and strong sense of ethics. The Directors work cohesively in the best interests of the Company.

The high ratings achieved by each Director in the year-end evaluation exercise conducted by the Nominating Committee speak volumes of their calibre. On 18 August 2016, we gladly welcomed a new member of our Board, Mr. Fong Seow Kee, who brings with him a wealth of invaluable knowledge and experience.

Rewarding Journeys

At Petron, we are committed to give our customers a rewarding experience throughout their journeys. At every touch point, we will continue to strive and give them the best products, the best services, and the best partnerships. Our customers expect and deserve no less.

As shown in the past few years, PMRMB is passionate about fuelling more growth and opportunities. We will grow the Petron brand as the brand of choice, preferred by all customers.

Our sincerest appreciation goes out to our customers, shareholders, network of dealers, vendors, business alliance and partners for their cooperation and strong support. On behalf of the Board, I would also like to thank our dynamic and highly motivated Petron Malaysia team for their drive, energy, and commitment that helped the Company achieve several milestones for 2016.

We look forward to being your partner as we fuel your lives through the countless journeys in the years ahead. With your collective support, we believe that we can build a stronger, more resilient, and more caring Company – one that makes a lasting difference in the lives of many.

Thank You!

Ramon S. Ang
Chairman
28 April 2017

MANAGEMENT DISCUSSION AND ANALYSIS



PETRON MALAYSIA REFINING & MARKETING BHD'S ("PMRMB") CORE BUSINESS ACTIVITIES INVOLVE THE REFINING OF WORLD-CLASS PETROLEUM PRODUCTS IN PORT DICKSON AND THE MARKETING OF THESE PRODUCTS THROUGH OUR RETAIL NETWORK AND COMMERCIAL BUSINESSES.

At the heart of our operations is the Port Dickson Refinery (PDR) which has a crude distillation capacity of 88,000 barrels per day. PDR produces a wide range of products including liquefied petroleum gas (LPG), gasoline, aviation fuel, diesel, and low sulphur waxy residue (LSWR). Our production is mainly geared towards fuelling Malaysia's domestic energy demands. From the refinery, our products reach consumers through PMRMB and its affiliates' retail network and authorized distributors via 11 terminals and depots strategically located in Peninsular Malaysia and Sabah.

Together with its sister companies, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. (that together form Petron Malaysia Group), Petron is the third largest fuel retailer in Malaysia, currently operating a network of more than 580 service stations nationwide.

Strategic Objectives

As part of the Petron Malaysia Group, PMRMB aims to significantly grow its business, enhance its financial capability, ensure safe and environment-friendly operations, and provide long-term sustainable returns to

our shareholders. In 2016, we focused on strategic plans to expand and strengthen our foothold in the market while achieving our vision to be the leading provider of total customer solutions in the oil sector and allied businesses. The key strategic objectives of PMRMB are:

 BRAND BUILDING AND MARKET EXPANSION	 SUPPLY CHAIN AND REFINERY IMPROVEMENTS
 <p>Profitable network of service stations</p>	 <p>Efficiency in crude and finished product purchasing and prudent inventory management</p>
 <p>Innovative products and services</p>	 <p>Promoting operational excellence</p>
 <p>Expansion of the commercial business</p>	 <p>Robust risk management</p>



CUSTOMER FIRST

THE NETWORK EXPANSION PROGRAMME ENABLED MORE MALAYSIAN ENTREPRENEURS TO PARTICIPATE IN THE DOWNSTREAM BUSINESS WITH A COMPANY THEY CAN TRUST, AND, IN DOING SO, GENERATE MORE EMPLOYMENT AND ECONOMIC OPPORTUNITIES.



Retail

We continued to enhance our presence in this highly-competitive segment, delivering cutting-edge products and services to give our customers more rewards and the best Petron experience. Strongly supported by our retail network expansion programme, our Retail business grew by 7%.

In 2016, the Petron Malaysia Group completed 18 new stations across the country, growing our network to 580 stations. The network expansion programme enabled more Malaysian entrepreneurs to participate in the downstream business with a company they can trust, and, in doing so, generate more employment and economic opportunities.

But we did not stop there. To make our customers' journeys easier, we significantly increased the number of our Treats convenience stores to 269. We sealed new partnerships with known food and beverage restaurants, banks, and other service providers to give customers more choices.



In keeping with our promise to provide first-of-its-kind products and services, we launched the high performance Blaze 100RON Euro 4M motor gasoline in early 2016. This superior grade fuel is the only 100 RON (Research Octane Number) in the market. From an initial eight (8) stations, we now have over 60 stations supplying Blaze 100RON Euro 4M gasoline in high-demand areas such as Klang Valley and Penang. Customers are enjoying this product since it gives better performance, better mileage, and unmatched driving experience; especially for high performance vehicles.



COMPLETED
18 NEW STATIONS
across the country under
Petron Malaysia Group

MANAGEMENT DISCUSSION AND ANALYSIS

This was followed by the roll-out of our Turbo Diesel Euro 5, which meets the ultra-low sulphur requirements of Euro 5 standards. The diesel fuel is now available in nearly 60 stations. Turbo Diesel Euro 5 also provides better engine performance and fuel efficiency. More importantly, it helps in improving air quality in the country.

The promise of innovation goes hand-in-hand with giving an enjoyable experience at every touch point. Our service station dealers, who we consider our brand ambassadors, constantly engage customers with Fuel Happy programmes by giving rewards and additional services.

The Petron experience would not be complete without our Petron Miles Privilege Card programme. This programme gives our loyal customers more savings, rewards, and unique lifestyle experiences. We have successfully doubled our cardholder base in one year bringing our total membership to four million. Promotions such as “Fuel Happy to London”, “Fuel Happy to Paris”, and the “Hypermarket Sweep”, were big hits.



REWARDING OVER
4 MILLION
PETRON MILES
card members





We revolutionised the corporate fuel card to supplement our Petron Fleet Card by launching a new Petron Prepaid Fleet Card. The prepaid card, which comes with added security features, helps customers manage their fleet by enabling cashless payment. This new innovation is tailor-fit for the Small to Medium Enterprise segment to manage their monthly fuel expenses. As a result, over 3,000 new cards were added to our Fleet Card base.

The continued success of our Retail business affirms that our strategies – focus on innovation and convenience, consistent customer experience, and value-added benefits – are key in making Petron the brand of choice.

None of these achievements would be possible without the trust, respect, and cooperation of our dealers and their respective staff. Our collective hard work and dedication to reach our goals are key to our success.



OVER
3,000
cashless
corporate cards



MARKET VALUE

WITH INCREASING CONFIDENCE AS A TRUSTED PARTNER, OUR COMMERCIAL SALES VOLUMES GREW WITH THE ACQUISITION OF NEW MAJOR ACCOUNTS AND A WIDER REACH OF OUR BRAND ACROSS KEY MARKETS.



PETRON AVIATION
NEW
HYDRANT
DISPENSER



GROWING
PETRON
GASUL
LPG PRODUCTS
AND NETWORK



Commercial

Another important segment of our business is the Commercial sector wherein we partner with key industries to fuel one of the most thriving economies in Southeast Asia. Transportation, manufacturing, construction, mining, agriculture, fisheries, and power-generation are some of the industries that rely on Petron's premium fuels and after-market services. With increasing confidence as a trusted partner, our Commercial sales volumes grew with the acquisition of new major accounts and a wider reach of our brand across key markets.

For Commercial, the business environment continues to be challenging due to competitive pressure, regulatory changes, and technology advancement. These challenges, rather than dampening our plans, inspire us to go the extra mile and showcase our superior product quality and reliable and consistent service to Commercial customers.

Petron Gasul remains the preferred LPG brand for many households. Given the strong demand for Gasul, we expanded our network of distributors and dealers to bring our products closer to our customers. We were also able to serve more households in the northern region of Peninsular Malaysia.

Identifying the needs of industries for a more efficient and cleaner LPG, we re-introduced 50KG LPG cylinders to cater to commercial and industrial markets. This new product allows us to serve new sectors and grow our LPG market share.

Petron Aviation, on the other hand, continues to serve multi-national and regional carriers through our Kuala Lumpur International Airport (KLIA) Aviation Terminal. We remain a major partner of the country's premier carriers and secured new accounts as major international and regional airlines expanded their routes. As aviation continues to be a major market for PMRMB, we commissioned a new hydrant dispenser to improve the refuelling facilities at both KLIA and KLIA2, which enabled us to fulfill higher customer demands and maximise terminal operations.



PRODUCT INNOVATION

PDR PROVED ITS CAPABILITY IN PRODUCT INNOVATION, MARKING A MAJOR MILESTONE, WHEN IT PRODUCED THE COUNTRY'S FIRST AND HIGHEST GRADE GASOLINE, THE BLAZE 100RON EURO 4M. IT IS PRODUCED UNDER STRINGENT CONDITIONS TO MEET LOCAL AND INTERNATIONAL CLEAN AIR STANDARDS.





Refinery, Supply and Delivery

As one of the country’s major suppliers of petroleum products, PDR had undergone several facility upgrades and optimisation programmes resulting in increased efficiency and long-term viability.

PDR proved its capability in product innovation, marking a major milestone, when it produced the country’s first and highest grade gasoline, the Blaze 100RON Euro 4M. It is produced under stringent conditions to meet local and international clean air standards.

PDR’s proven safety and environmental track record has been acknowledged by the industry over the past few years. We have a Loss Prevention System that helps PDR enforce strict compliance with safety protocols and management systems. This is coupled with periodic stewardship to track performance and improvement plans to mitigate operational risks. With these systems in place, we managed to recover and quickly return to full operations after a fire incident at PDR on 24 June 2016. Through its structured safety programme, the fire was safely put out by well-trained Petron firefighters and the local Fire Department as well as personnel from the neighbouring oil company. Fortunately, no injury was recorded and the incident left minimal impact on the environment.

Although PDR underwent a temporary shutdown to facilitate investigations and repair works, there was no significant effect on product supply. The incident required the activation of our business continuity plan to ensure reliable and continuous supply.

Moving towards higher productivity, superior business performance and competitiveness, PDR was conferred the globally-recognised ISO9001 certification. Similarly, our terminal in Port Dickson received the same process quality certification. More of our facilities will be moving towards ISO certification in 2017, ensuring that Petron’s terminals are among the best managed in the industry.

To sustain increasing demand and enable better efficiency in terminal operations, PMRMB completed jetty upgrades at its Bagan Luar Terminal, Penang in 2016.

In recognition of our safety and health-related practices, PMRMB’s terminals in Bagan Luar, KLIA Depot, Port Dickson, as well as Petron Malaysia Group’s terminals in Kuantan and Tawau and the jointly-managed terminal in Westport and Pasir Gudang received the 2015 MSOSH Occupational Safety and Health Awards.



RECEIVED MSOSH
**GOLD
AWARD**
for 7 Terminals under
Petron Malaysia Group



STRONG MANAGEMENT

WE SUCCESSFULLY REACHED OUR STRATEGIC OBJECTIVES FOR 2016 AND THIS WAS MAINLY DUE TO THE SKILLS, DEDICATION AND COMMITMENT TO EXCELLENCE OF THE ENTIRE PETRON ORGANISATION.



Human Resource

We successfully reached our strategic objectives for 2016 and this was mainly due to the skills, dedication and commitment to excellence of the entire Petron organisation. We heavily invested in continuous improvement programmes and trainings to enrich the skills and talents of our workforce, and to bring out the best in our people. All new employees undergo a comprehensive and mandatory induction training programme to familiarise themselves with Petron and understand what is expected of them. Once on the job, employees are then provided with training focused on their personal development, managerial competence, and on work related technical matters based on Training Needs Analysis done by each Department. In addition, all employees must undergo the compulsory training on Petron’s “Standards of Business Conduct”.

The Total Quality Management (TQM) system which we launched last year to further improve competitiveness and reinforce the company’s core values – Excellence, Customer Focus, Innovation, Teamwork, Ethics and Safety (ExCITES) – demonstrated continuing improvements through quality services and customer satisfaction. More importantly, this system helped us achieve the recent ISO quality standard recognitions at our refinery and terminals.

We also continued our “Petron & You” programme for new employees as we recognise the importance of engaging new employees into our business and corporate culture.

Our Petron Recreational Club inspires employees to embrace work-life balance. Employees are encouraged to participate in sports and recreational activities, as well as to support volunteerism through our Corporate Social Responsibility programmes.



REVIEW AND DISCUSSION OF FINANCIAL PERFORMANCE

Economy and Industry Review

In 2016, the Malaysian economy posted a GDP growth of 4.2% (Source: Bank Negara Malaysia) amid a very challenging global environment predominantly affected by the prolonged slump in oil prices, slowdown in global economy, tightening of the US monetary policy, and impacts of Brexit and the US Election. The slowdown was attributed to the rationalisation in Government spending given the said challenges.

The price of the benchmark crude Dated Brent averaged at US\$44 per barrel in 2016 from US\$52 per barrel in 2015 (from an average high of US\$99 in 2014) as supply continued to outstrip demand, while product cracks continued to narrow. Declining oil prices, coupled with the hike in US interest rates affected the Malaysian Ringgit which opened RM4.32 versus the US Dollar at the start of the year and closed 2016 at RM4.49 (Source: Bank Negara Malaysia).



This volatility affected the Company's margins as on average we hold about three to four weeks inventory. Since we account for inventory using the first-in, first-out method, any sharp increase or drop in oil prices could affect margins because we sell finished products produced or bought in previous periods. We are also exposed to foreign currency fluctuations as a significant portion of our inventory purchases are denominated in US Dollar.

The risk management system we implemented in previous years allowed us to better manage external risk factors. We also have hedging initiatives in place to mitigate risks associated with commodities and forex exposure, while ensuring robust inventory management.

Despite a challenging environment, the Company successfully navigated through the challenges and bucked the trend to deliver another year of strong results.

Financial Performance

For the financial year ended 31 December 2016, PMRMB's net profit rose 8% to RM237.6 million from RM220.6 million in the previous year. The 2016 financial performance was a record high since the entry of Petron Corporation in Malaysia.

The Company's total sales volumes reached 32.1 million barrels, posting a 6% growth compared to the 30.4 million barrels sold in 2015 as a result of the healthy growth in Retail and Commercial sales. Despite the volume increase, revenues dropped 7% to RM7.6 billion because of lower selling prices, reflecting international trends.

The strong results can be attributed to the 6% improvement in gross profit. The margin improvement was driven mainly by higher sales volume, better sales mix, as well as operational efficiencies implemented in 2016.

Dividends

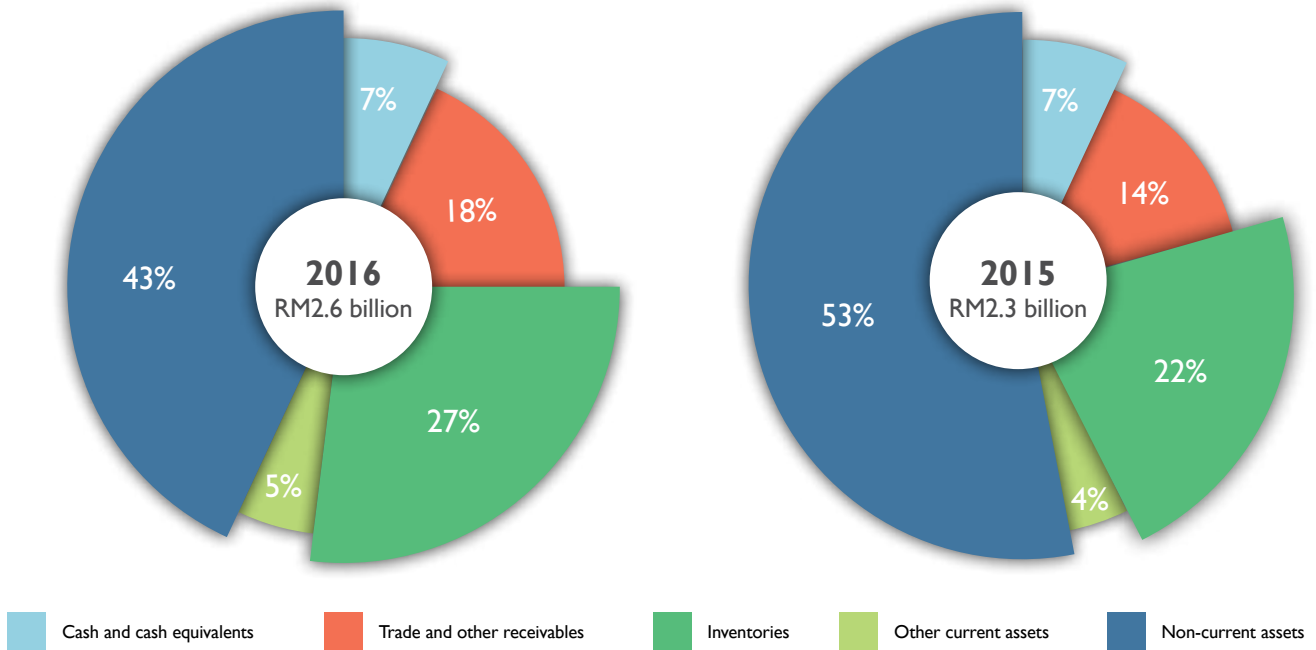
In June 2016, the Company received shareholders' approval for a dividend payment of 20.0 sen per share for financial year ended 2015. For the financial year ended 31 December 2016, the Board of Directors recommended a final single tier dividend of 22.0 sen per share to be approved at the Annual General Meeting. The amount proposed was based on the Company's 2016 performance while taking into account future operational needs.

Gearing Ratio

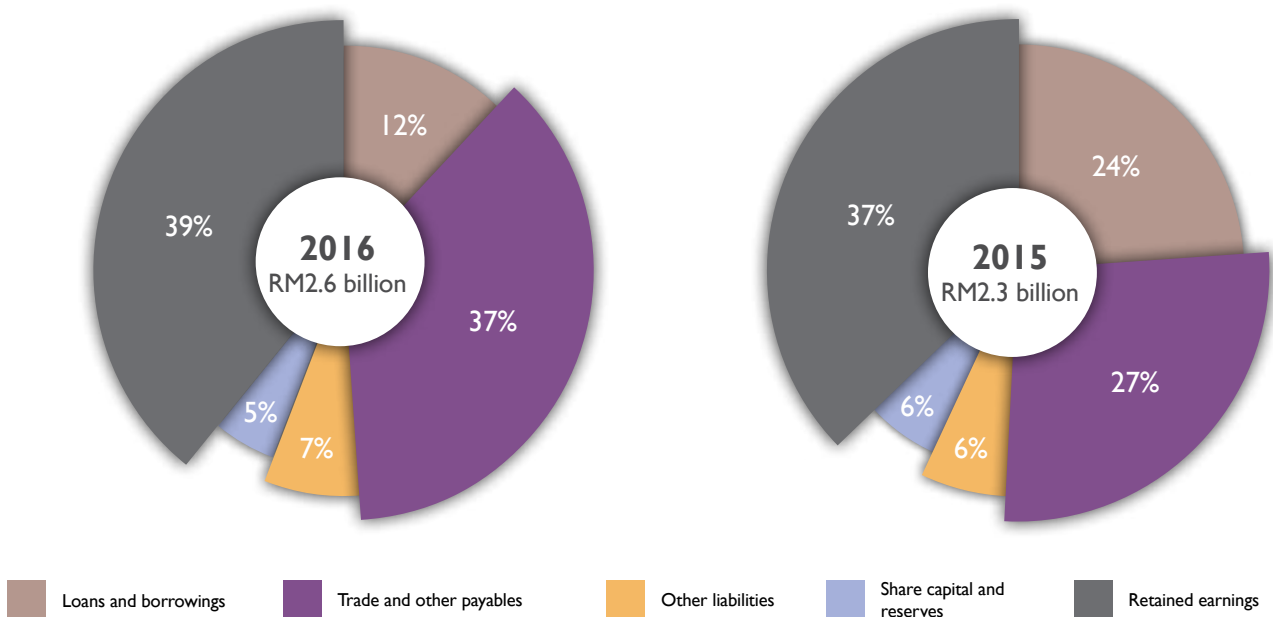
As of 2016, the Company's gearing ratio stood at 0.26 compared to the previous year's 0.55. The improvement was driven by the reduction in loans and borrowings during the year. The average borrowings declined in 2016 as the Company started to partially repay its long-term loans and reduced its short-term borrowings due to healthy cash generation and lower working capital requirements.

Simplified Statement of Financial Position

Total Assets



Total Equity and Liabilities



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Position

PMRMB's total assets stood at RM2.6 billion as at 31 December 2016. Non-current assets consisting mainly of property, plant and equipment and long-term leases, accounted for 43% of total assets. Total assets rose by 17% from end-2015 balance to RM2.6 billion due to increase in receivables and inventories. Receivables increased by more than 50% to RM486 million from the previous year's balance attributable to higher December sales and outstanding subsidies receivables. Inventory balance went up by 42% to RM710 million due to higher price and volume.

Meanwhile, total liabilities at the end of the year increased by 15% to RM1.5 billion from the end December 2015 level due to higher trade payables.

Capital Expenditure

The Company's total capex spending amounted to RM48 million in 2016. The bulk of the 2016 capital expenditure was spent on construction of new stations, major repair works on storage tanks, and systems upgrades at the refinery. The capital expenditure in 2015 was higher at RM68 million due to the major refinery turnaround undertaken for that year.

Capital Structure and Capital Resources

As of 31 December 2016, the loans and borrowings of RM308 million formed 12% of the total liabilities and equity of the Company, while total equity comprised 44%. Loans and borrowings were lower by 43% or RM236 million as the Company repays part of its loans. The borrowing level in 2016 was reduced compared to the preceding year due

to lower working capital requirements following the drop in oil prices. The Company's total share capital remained at RM143 million while retained earnings went up to RM1 billion from RM839 million.

The shares of the Company is publicly traded with more than 20% of shares floating.

FORWARD LOOKING STATEMENT

We acknowledge that internal and external factors will remain a challenge for the oil industry. We are confident, however, with our strategies in place – including expansion of our markets, operational efficiency, higher margin production yields, and focus on customers – will allow us to thrive and deliver more value to our shareholders and customers. We remain committed to our vision of being the leading provider of total customer solutions in the oil sector and its allied businesses.

We will continue to expand our service station network to bring our premium fuels and services closer to our customers. This will be complemented by programmes to elevate our customers' experiences at stations and stay ahead of their evolving needs. We will pursue our service excellence programmes (e.g. Best Customer Service Awards) and continue to innovate and deliver more rewards to our loyal customers via our Cards products.

We are making necessary investments to meet the growing demand for Petron fuels and LPG. These include optimizing our entire value chain and upgrading our products to meet new fuel specification requirements (e.g. Euro 5 fuels) of the Government.

APPROACH TO RISK MANAGEMENT

Our Board and Management recognise that managing a publicly-listed downstream oil and gas company has inherent risks, among them financial, foreign exchange, legal compliance, crude and product supply, distribution, environmental issues, industrial requirements, safety, and managing the human resources of the Company. To this end, the Board and Management have put in place a framework with well-established risk management tools. The existing framework and tools have been aligned and further enhanced, taking into account the excellent risk management systems and processes of the parent company, Petron Corporation, which is also in the downstream oil and gas business. As an added measure, the Company continues to receive technical advice and support from Petron Corporation via its technical advisers based in Malaysia. The Company also receives technical support via formal arrangements with ExxonMobil and other internationally established advisers and consultants.

In 2015, the Company undertook an extensive review of its risks and identified major ones based on the 'likelihood/impact' matrix. In relation to 'impact', the factors considered were not only financial in nature but also concerned the environment, human safety, reputation, and regulatory. The identified 'major risks' undergo periodic review and updating. Apart from this, the Management continues to review and update its business recovery plans for business continuity in the event of any major incident.

The Company's risk management is operationally spearheaded by Management, who also reports to the Board Audit & Risk Management Committee. With their vast knowledge and experience, the members of the Committee are able to assist the Board and Management by providing them with invaluable input and advice.

A summary of the risk management activities can be found on page 61 in the Board Audit & Risk Management Committee Report.

Mr. Lubin B. Nepomuceno
Chief Executive Officer
28 April 2017

SUSTAINABILITY REPORT



SUSTAINABILITY

WE EXERT EVERY EFFORT TO EFFICIENTLY MEET AND SURPASS OUR ECONOMIC GOALS TO BETTER SERVE OUR CUSTOMERS AND COMMUNITIES. WE ALSO ENSURE THAT WE CONTINUOUSLY ACHIEVE GROWTH THROUGH SUSTAINABLE BUSINESS PRACTICES WHICH WE RECOGNISE AS VITAL TO PETRON'S SUCCESS.



Building a Better Nation through Sustainable Practices

As Petron Malaysia continues to grow, so does our commitment to be a vital partner in the country’s development, particularly in achieving Malaysia’s aspiration to be a developed and progressive nation.

We exert every effort to efficiently meet and surpass our economic goals to better serve our customers and communities. We also ensure that we continuously achieve growth through sustainable business practices which we recognise as vital to Petron’s success.

Our commitment to sustainable business practices is anchored on the pillars of Safety & Security, Social Performance and Environment.

Through our strategic Corporate Social Responsibility (CSR) programmes, we are able to build a better nation by helping to address relevant social issues.

Through environmental stewardship, we make sure that our business processes, our facilities, our products and our services contribute to efforts that nurture nature.

All these translate not only in attaining our business goals, but also in shaping a better future for the country.

Cultivating a Habit of Safety and Security

We continue to support the Royal Malaysia Police’s (RMP) “United Against Crime” campaign which promotes personal safety and security. Under RMP’s Go-To-Safety Points (GTSP) Program, we have transformed all 580 Petron stations to ‘safe havens’ for motorists. These stations feature increased police presence, assistance corners at Treats convenience stores, and trained dealers and personnel.



PROVIDED REFRESHER TRAINING TO MORE THAN **120 DEALERS AND 80 RMP OFFICERS**



Under GTSP, we organised teambuilding workshops in Johor Bahru, Muar, Sungai Petani and Ipoh, providing safety refresher training to more than 120 dealers and 80 RMP officers. These activities helped foster stronger and better relationships among our dealers and the RMP.

For 2016, there were 14 GTSP success stories where help was rendered to members of the public by our service station personnel, versus eight (8) success stories in 2015. The usage of the GTSP de-stress corners at Petron Gelang Patah, Johor for a hit and run victim and Petron Jalan Kelab Cinta Sayang, Kedah for a customer who collapsed on the forecourt, underscore the importance of this programme and the passion of our dealers and staff to make journeys safe.



ROAD SAFETY PROGRAM

at 8 universities, 1,600 students

2016 also saw our continued partnership with the Road Safety Department. Nearly 1,600 students from eight universities and institutes of higher learning in Peninsular Malaysia participated in our Petron Road Safety Program, which featured talks and demonstrations on safe riding, road usage ethics, among others. Together with Honda Malaysia and Goodyear, participants were taught defensive driving and understanding tyre safety in various “Ask The Experts” talk which aimed to enhance students’ knowledge and awareness.

Taking road safety a step further, Petron engaged the Universiti Putra Malaysia’s (UPM) Road Safety Research Centre (RSRC) to help improve the road safety habits of motorists, especially motorcyclists. RSRC, a part of UPM’s Faculty of Engineering, is the only research centre that focuses on road safety issues, such as accidents, road modelling and management, and motorcyclists behaviour. RSRC’s research contributes to the efforts of the Road Safety Council of Malaysia in keeping local roads safe. Through this strategic collaboration, a study was conducted on the ability of road users to anticipate and avoid potential dangers on the road. The study was also aimed at helping road safety agencies to identify motorcyclists’ riding habits and improve their

traffic perception skills by providing them with hazard perception training. Petron is the first corporate body to work with RSRC to develop the study.

Apart from the Petron Road Safety Program at universities and institutes of higher learning, we also continued to organise Road Safety Schools Outreach Program at Sekolah Menengah Kebangsaan Kota Masai 2, Johor, as part of our efforts to engage the youth in advocating road safety. Through these partnerships, we impart road safety knowledge on traffic rules and regulations, safe passage, and the correct use of roads.

Among the activities were Road Safety talks to students, exhibitions by government agencies, Road Transport Department, Prison Department and RMP, exchange of helmets and reflective clothes for 200 students, and launching of the Road Safety corner at the school.

Finally, we organised two road safety programmes in conjunction with the festive seasons of Chinese New Year and Hari Raya, where we collaborated with our partner, Honda Malaysia, to conduct safety inspections for 2,500 vehicles at participating Petron service stations.



**VISION
PETRON**

Competition drew
900 entries

Caring for Our Communities

Our host communities are vital to our sustainability efforts and we make sure to include and involve them in our success.

We continued to work closely with the State Education Department and the State Government of Negeri Sembilan to encourage and inspire our future leaders to excel in academics, sports, and arts. Petron co-sponsored the “Majlis Anugerah Insan Terbilang Negeri Sembilan 2016” where we recognised over 600 students, teachers, and schools from the state for their excellence in sports, co-curricular activities, drug prevention, student affairs, and Curriculum Centres.

2016 marked the third year of our Vision Petron Art & Painting Competition. With the theme “Rediscovering Nature & Environment”, the 2016 Vision Petron Art & Painting Competition drew 900 entries from more participating universities compared to 2015. There was also a marked increase in the number of submissions in comparison to the previous year, particularly for the categories of photography and videography. Through this competition, we nurture and promote the artistry of Malaysian youth. At the same time, this serves as a unique platform to promote our national identity and culture through the arts. We had renowned judges for each category of the competition to ensure that the winners are indeed the best of the best.

Our ability to contribute to the betterment of our communities is further driven by the spirit of volunteerism among our colleagues, as well as with our partners. In 2016, we organised two employee engagement programmes through our Volunteerism in Action (VIA) as we tapped the enthusiasm of Petron Malaysia’s employees and partners to make a positive difference in the lives of our stakeholders.

For the first VIA activity for 2016, we visited 30 children at the paediatric ward in Hospital Kuala Lumpur (HKL). Together with more than 20 volunteers from Petron, we brought cheer to the children through songs and skits performance, clown acts and a sumptuous lunch treat for all children and hospital staff.

In November 2016, the VIA committee organised a “Back-to-School” programme at Tesco Extra Cheras and Zoo Negara. Sixty students from 12 schools in and around Seremban and Port Dickson attended the event together with accompanying teachers where they received a set of uniforms, shoes, bags and other school items sponsored by Petron employees. Each employee personally presented the items to their chosen student.



SUSTAINABILITY REPORT



Creating a Better Environment, a Better World

We continue to be vigilant in protecting and preserving the environment through various internal programmes that focus on the reduction of waste, emissions, and energy consumption at our Port Dickson Refinery and other facilities and plants. Conservation efforts by our refinery resulted in the reduction of water consumption by over 30,000 cubic meters.

To further our efforts in protecting the environment, we partnered with the Kuantan Municipal Government for the “*Kempen Bumi Hijau*”, a tree planting project at Taman Tasik Pelindung, Beserah, Kuantan, Pahang. Through this project, we managed to involve the various agencies and departments under the local council, and the local residents’ association of Taman Tasik Pelindung to plant 500 trees ranging from the *Cocus Nucifera* (*Kelapa MRD Oren*, a variety of the coconut tree) and *Callophyllum Inophyllum* (*Bitangor Laut*) varieties.

This “*Kempen Bumi Hijau*” is a continuation of a similar initiative in 2015 where we worked together with Majlis Perbandaran Kuantan and Malaysian Nature Society to help clean up Cherating River; plant 1,000 mangrove pod seedlings, and put up informative and educational signboards. Moving forward, we have plans to continue and expand on the “*Kempen Bumi Hijau*” programme to ensure the continuity and sustainability of our environmental-based CSR programmes.

Through our sustainability initiatives, we aim to be a stronger company; a company whose presence also translates to education, environmental preservation, safety and security, and help for the needy.

CORPORATE INFORMATION

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

DIRECTORS

Mr. Ramon S. Ang

Chairman, Executive Director

Mr. Lubin B. Nepomuceno

Chief Executive Officer, Executive Director

Y. Bhg. Dato' Zainal Abidin Putih

Independent Director

Ms. Chua See Hua

Independent Director

Y. Bhg. Dato' Zuraidah Atan

Independent Director

Mr. Fong Seow Kee

Independent Director

Ms. Aurora T. Calderon

Executive Director

Mr. Ferdinand K. Constantino

Non-Independent Non-Executive Director

COMPANY SECRETARY

Mr. Manoj Devadasan

(LS0006885)

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn. Bhd.

(11324-H)

Office:

Unit 32-01, Level 32, Tower A,

Vertical Business Suite, Avenue 3, Bangsar South,

No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

Tel : +603-2783 9299

Fax : +603-2783 9222

Customer Service Centre:

Unit G-3, Ground Floor, Vertical Podium

Avenue 3, Bangsar South,

No. 8 Jalan Kerinchi,

59200 Kuala Lumpur, Malaysia.

AUDITORS

KPMG PLT (LLP0010081-LCA & AF 0758)

Chartered Accountants

Petaling Jaya

STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia Securities Berhad

Stock Code : 3042

SOLICITORS

Messrs Raja, Darryl & Loh, Kuala Lumpur

Messrs Lee Hishamuddin Allen & Gledhill

Messrs Zain & Co., Kuala Lumpur

REGISTERED OFFICE

Office of the Secretary,

Petron Malaysia Refining & Marketing Bhd

Level 12A, Menara I&P I,

No. 46, Jalan Dungun,

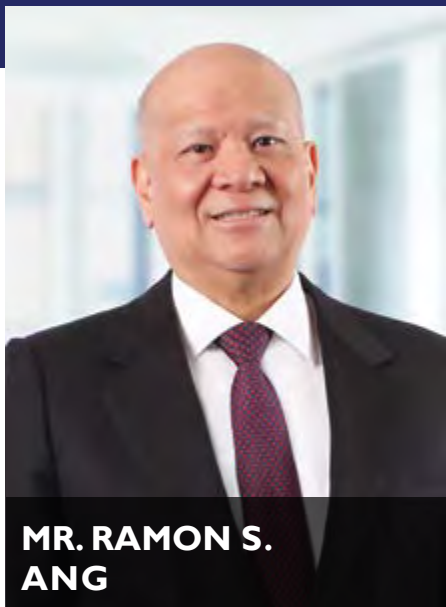
Damansara Heights,

50490 Kuala Lumpur.

Tel : +603-2082 8400

Fax : +603-2082 8578

PROFILE OF BOARD OF DIRECTORS



**MR. RAMON S.
ANG**

**Chairman
Executive Director
Age 63, Filipino, Male**

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



**MR. LUBIN B.
NEPOMUCENO**

**Chief Executive Officer
Executive Director
Age 65, Filipino, Male**

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



**Y. BHG. DATO' ZAINAL
ABIDIN PUTIH**

Independent Director
**Chairman of the Board Audit & Risk
Management Committee**
Member of the Nominating Committee
Age 71, Malaysian, Male

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



MS. CHUA SEE HUA

Independent Director
**Member of the Board Audit & Risk
Management Committee**
Chairman of the Nominating Committee
Age 63, Malaysian, Female

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

PROFILE OF BOARD OF DIRECTORS



**Y. BHG. DATO'
ZURAIDAH ATAN**

Independent Director
**Member of the Board Audit &
Risk Management Committee**
Age 58, Malaysian, Female

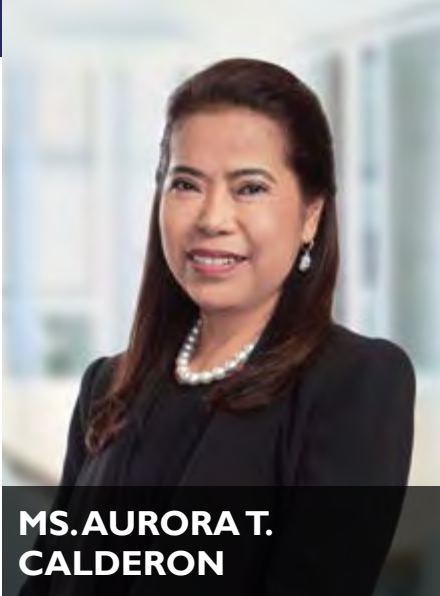
Y. Bhg. Dato' Zuraidah Atan was appointed a Director of the Company on 20 February 2014. She is an advocate and solicitor in her own law firm, Chambers of Zuraidah Atan which was established in 2004. Dato' Zuraidah is also the Chairman of the Students Volunteer Foundation, a foundation developed by the government to foster and cultivate the spirit of volunteerism among the students of higher education institutions. She is also an Honorary Advisor to the oldest non-governmental organisation related to cancer in the country, the National Cancer Society of Malaysia. She has more than 25 years of experience in the banking industry and has been involved in numerous investment projects and corporate advisory. She served for a period as President and CEO of Affin Merchant Bank, a local investment bank, and was also the first female Director of HSBC Bank Malaysia. She is an Independent Director on the Board of Kenanga Islamic Investors Berhad. She is also a Non-Executive Director of S P Setia Berhad. Dato' Zuraidah was a public interest Director on the Board of Bursa Malaysia Berhad Group and she was also a member of the Consultation and Corruption Prevention Panel of the Malaysian Anti-Corruption Commission. Dato' Zuraidah Atan is a holder of Bachelor of Laws (Honours) degree from the University of Buckingham, England and a former student of Tunku Kurshiah College.



MR. FONG SEOW KEE

Independent Director
**Member of the Board Audit &
Risk Management Committee**
Age 60, Malaysian, Male

Mr. Fong Seow Kee was appointed a Director of the Company on 18 August 2016. He has over 37 years of experience in the finance industry, primarily in investment banking and private equity. After qualifying with Ernst & Young, UK in 1983, he worked with several leading investment banks in Malaysia, Hong Kong and Singapore where he advised companies on a variety of corporate finance transactions including M&A, Fund Raising and Corporate Restructuring. In 1992, he joined a US venture capital firm in Singapore where he managed a pan-Asian venture capital fund investing in the US and across Asia. In 2000, he co-founded iSpring Capital Group, a Malaysia based investment management and advisory firm which was selected to manage a Government owned venture capital fund. Since returning to Malaysia in 1996, he has been active in the development of the venture capital and private equity in Malaysia. During that time, he has been involved in the Malaysia Venture Capital & Private Equity Association in various capacities and was Chairman from 2008 to 2010. He has also been invited to sit on various government working committees to provide industry feedback on regulatory policies, including that pertaining to the Capital Market reforms announced in 2009. He continues to work with emerging high growth companies, particularly in the financial technology space. Since 2010, he has been a Non-Executive Independent Director of GHL Systems Bhd where he is currently the Chairman of the Audit and Risk Committee and the Nomination Committee and Remuneration Committee. Mr. Fong graduated with BA (Hons) Economics & Social Studies from University of Manchester, England (1979) and is an Associate, Institute of Chartered Accountants in England & Wales (1983) as well as Chartered Accountant of the Malaysian Institute of Accountants (MIA) (1984).



**MS. AURORA T.
CALDERON**

Executive Director
Age 62, Filipino, Female

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



**MR. FERDINAND K.
CONSTANTINO**

Non-Independent Non-Executive Director
Member of the Nominating Committee
Age 65, Filipino, Male

Mr. Ferdinand K. Constantino was appointed to the Board on 30 August 2013. Mr. Constantino has served as a Director of San Miguel Corporation since 31 May 2010. He is the Chief Finance Officer, Treasurer and Corporate Information Officer of San Miguel Corporation. He is also the President of Anchor Insurance Brokerage Corporation and is a Director of San Miguel Yamamura Packaging Corporation, Top Frontier Investment Holdings Inc., San Miguel Foods Inc., Citra Metro Manila Tollways Corporation and Northern Cement Corporation. He is the Director and Vice Chairman of SMC Global Power Holdings Corp. Mr. Constantino previously served San Miguel Corporation as Director of San Miguel Pure Foods Company Inc. (2008-2009) and San Miguel Properties Inc. (2001-2009) and as Chief Finance Officer of Manila Electric Company (2009). Mr. Constantino obtained a Bachelor of Arts in Economics from University of the Philippines in 1972.

PROFILE OF MANAGEMENT COMMITTEE

MR. LUBIN B. NEPOMUCENO

Chief Executive Officer and Executive Director
Chairman of the Management Committee
B.Sc (Chemical Engineering) – De La Salle University
M.B.A (Hons.) – De La Salle University
Age 65, Male, Filipino

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

The complete profile for Mr. Nepomuceno can be found in the Profile of Directors on page 34.

MR. JAIME O. LU

Operations Manager/Alternate Chairman of the Management Committee
B. Sc (Chemical Engineering) – Pamantasan ng Lungsod ng Maynila, Philippines,
M.B.A (Hons.) – Ateneo de Manila University, Philippines
Age 53, Male, Filipino

- Mr. Jaime O. Lu is the Operations Manager of the Petron Malaysia group and has held the position since the 2012 take-over of ExxonMobil's downstream businesses in Malaysia by Petron Corporation.
- He is a Vice President of Petron Corporation and is also the Executive Director of Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.. Prior to this role; he was Vice President and General Manager of Philippine Polypropylene, Inc. a subsidiary of Petron Corporation.

MS. MYRNA C. GERONIMO

Chief Finance Officer
Bachelor in Accountancy (Magna Cum Laude), Polytechnic University of the Philippines
Certified Public Accountant (Philippines)
Certified Management Accountant (ICMA, Australia)
Age 50, Female, Filipino

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

MR. MANOJ DEVADASAN

General Counsel/Company Secretary
B. Soc. Sc. (Hons.) (Law/Politics), University of Keele, United Kingdom
Barrister-at-Law (Lincoln's Inn, United Kingdom)
Masters in Law (LL.M), University of Malaya, Malaysia
Licensed Company Secretary
Age 53, Male, Malaysian

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

PN. FARIDAH ALI

Head of Retail Business
B.Sc. (Hons.) Accounting, University of East Anglia, United Kingdom
Institute of Chartered Accountant (England & Wales)
Age 52, Female, Malaysian

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

PROFILE OF MANAGEMENT COMMITTEE

MR. CHOONG KUM CHOY

Head of Commercial Business

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

Age 54, Male, Malaysian

- Mr. Choong Kum Choy is the Head of Commercial Business of Petron Malaysia Group and has held the position since 2012.
- He was ExxonMobil's Asia Pacific Wholesale Manager and the Country Lead for Industrial and Wholesale Business.

MS. FADZILAH MOHD TAHIR

Head of Refinery

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

Age 54, Female, Malaysian

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

EN. MOHD NIZAM MANSOR

Head of Supply Department

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

Age 49, Male, Malaysian

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

EN. IBRAHIM ATAN

Head of Distribution & Terminal Operations

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

*Graduate member of Board of Engineers, Malaysia
Registered Competent Person with DOSH - Control of Industrial Major Accident Hazards (CIMA)*

Age 55, Male, Malaysian

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

None of the above Management Committee members have any family relationship with any Director and/or major shareholder of Petron Malaysia Refining & Marketing Bhd, no conflict of interest with Petron Malaysia Refining & Marketing Bhd, not convicted of any offences within the past five (5) years and have not been imposed any penalty by the relevant regulatory bodies during the financial year 2016.

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

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS IS COMMITTED TO ENSURING THAT THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE ARE PRACTICED THROUGHOUT THE COMPANY. THE BOARD VIEWS THIS AS A FUNDAMENTAL PART OF ITS RESPONSIBILITIES TO PROTECT AND ENHANCE SHAREHOLDER VALUE. ACCORDINGLY, THE BOARD FULLY SUPPORTS THE PRINCIPLES LAID OUT IN THE MALAYSIAN CODE ON CORPORATE GOVERNANCE 2012 (“2012 CODE”). THE FOLLOWING IS A REVIEW OF HOW THE COMPANY COMPLIES WITH THE VARIOUS RECOMMENDATIONS OF THE 2012 CODE.

The Corporate Governance Report covers the financial year of 2016. The Company has incorporated best practices from parent company Petron Corporation’s own governance culture and formulated the Company’s own corporate governance policies and guidelines (called the standards of business conduct or ‘Code of Conduct’) based on the Company’s needs. The following is a summary of the Company’s compliance with the 2012 Code.

PRINCIPLE I

Functions of the Board and Delegation to Management

The Board leads and controls the Company. The Board meets at least four (4) times a year, with additional matters resolved by way of circular resolutions as and when required. Special meetings of the Board may be called when necessary. In 2016, the Board had four (4) Independent Directors. Each Independent Director brings invaluable judgment to bear on issues of strategy, performance, resource allocation, risk management, and standards of conduct. The role and authority level of the Chief Executive Officer (“CEO”) is also stated in a Petron Corporation-based ‘General Resolution’ (on company-wide powers and relevant delegation of authority) that spells out the CEO’s day-to-day management responsibilities and decision making powers. For purposes of assisting the CEO in the day-to-day operational matters, the Board

has also set up a Management Committee headed by the CEO and comprises the Heads of key Departments in the Company. The Management Committee meets weekly.

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

Board Leadership and Responsibility in Discharging Fiduciary and Leadership Functions

Except for matters requiring shareholders’ approval, the Board is the ultimate authority in the Company and is tasked with the review and approval of all business plans and strategic initiatives (both short and long term) with specified goals that are to be achieved by the Management in the implementation of these plans and initiatives. Management reviews all such matters with the Board Audit & Risk Management Committee, comprised solely of Independent Directors, and the Board. By engaging the Independent Directors, the Management is able to elicit their views, and benefit from the Independent Directors’ vast experience and expertise in various fields of business including that of the Company. The review with the Independent Directors also enables the Company to manage Minority Shareholders’ expectation that their rights continue to be protected.

The Board recognises that the business of the Company is one that has a moderate to high level of risk in terms of business, financial, economic outlook, environmental,

safety and community or social risks. These are at all times kept in mind in planning and executing any venture that is to be undertaken. The Board nevertheless acknowledges that it is there to manage a business, and risk (as in all businesses) is an inherent part of the business. The Board recognises that identifying and adopting solutions to manage those risks is imperative in business and finding a successful balance between managing risks and promoting the business objectives of the Company is a consideration the Board fully recognises as necessary for its sustainability which the Board (and the Company's Management) prides itself in being able to achieve.

The Company has written guidelines on shareholders communication that are incorporated in the Company's Corporate Communication and Disclosure Guidelines that can be accessed on the Company's website www.petron.com.my. The guidelines also incorporate the parent company's best practices. The Board and Management recognise the need to communicate effectively with shareholders. The Board values and encourages dialogue with the shareholders to establish better understanding of the Company's objectives and performance. To this end, suggestions made by shareholders have been incorporated, where appropriate, including the improvement of financial presentations at general meetings as well as enabling shareholders to visit the office for dialogues or clarification on matters disclosed or pertaining to the Company. The Annual General Meeting provides a suitable forum for the shareholders to hold dialogues with the Board. Additionally, queries from investors and potential investors are dealt with by our Investor Relations. The Company's website has a Management Committee Member as its named contact person with contact details, to ensure that shareholders' queries are promptly addressed. The Company holds open discussions with investors and analysts upon request. Needless to say, material information relating to the Company is disclosed to the public by way of announcements to Bursa Malaysia Securities Berhad ("BMSB"), as required by the Main Market Listing Requirements of BMSB ("MMLR"). There is a clear framework in place for reporting on internal controls and compliance. The Management Committee meets weekly to review all matters in the preceding week

and plan for work for the future. This allows the members of the Management Committee to review all issues pertaining to compliance, not only with laws including MMLR, but also compliance with the Company's policies on expected conduct of the Company and its employees. Any issue of non-compliance is referred to the Company's independent Internal Audit Group for review and investigation and, where recommended, necessary action. The review will also highlight process gaps that have to be corrected to ensure that such non-compliance does not recur. The Company also has an established 'whistle-blower' protection system in its Standards of Business Conduct that is in place to safeguard employees from any recriminations for highlighting any non-compliance by any employee (including by a Director).

Code of Conduct and Management Systems

The Company has a written Code of Conduct in place that can also be accessed on the Company's website www.petron.com.my. The Code of Conduct contains policies and systems designed to create and support a strong system of corporate governance. The Code of Conduct has been communicated to the Company's employees, contractors and vendors, so that they have a clear understanding of the Company's expectations. These include policies on business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships. Periodic training is also carried out for employees, contractors and vendors to ensure understanding of the requirements. Standard contracts of the Company (including employment contracts and contracts with third party vendors or contractors), also incorporate key provisions of the Code of Conduct as standard terms in such contracts thus ensuring the Code of Conduct is at all times adhered to without compromise. As of 2016, all employees of the Company had undergone training on the Standards of Business Conduct and new hires are required to also undergo a comprehensive and compulsory training on the Standards of Business Conduct. Such training for new hires was continued in 2016 from its inception in 2015, and is conducted twice yearly to facilitate training of new employees joining the Company. The management

CORPORATE GOVERNANCE

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

Sustainability

Petron Corporation's investment in the Company (including its sister companies, Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.) when it acquired ExxonMobil's interests in 2012, was a major investment by Petron Corporation in Malaysia. This investment was driven by a belief in the future of the downstream oil and gas business, the Malaysian economic growth prospects and a desire to benefit from regional business opportunities. The Board takes full cognisance that this investment by Petron Corporation is for the long-term. The sustainability and continued sustainability of the business is key to ensuring all shareholders who have put their faith in the Company through their investment, and other stakeholders namely, the community in which we operate and society in general, benefit from the Company's presence and growth. To

this end, the Company is fully committed to ensuring its products meet the highest standards in terms of safety and environment. The Company is also committed to meeting the Government's call to introduce cleaner and environment friendly Euro-5 compliant fuels. The Company also has a policy of 'Malaysians First' when engaging employees. To date, the Company and its sister companies have hired over 500 Malaysian employees to fill job vacancies created since the take-over by Petron in 2012. These Malaysian employees have an opportunity to learn the business and complex processes in the downstream oil and gas industry first hand and in turn contribute to the long-term development of the Company, the economy and society as a whole. The Company has a comprehensive 'Vision/Mission/Values' statement. The Vision/Mission/Values Statement also contains all elements of sustainability that the Company embraces. The Vision and Mission Statement can be viewed on page 2.

The Management has advised the Board of Directors of its plans on complying with the new Sustainability Reporting requirements issued by BMSB. The Company is required to commence reporting in 2018. Management has set up a taskforce to prepare the Sustainability Report.

The Board

The Board has eight (8) members (as of the end of 2016), with four (4) Independent Directors, one (1) Non-Executive Director and three (3) Executive Directors (including the Chairman). Together, the Directors form the mind and management of the Company. Each Independent Director brings invaluable judgment and skills to bear on issues of strategy, performance, resource allocation, risk management and standards of conduct. Balance in the Board is achieved and maintained with the composition of both Executive and Independent Directors. In recognition that the Independent Directors have a primary role in providing unbiased and independent views, the Company has selectively appointed highly qualified individuals of integrity and character, with broad experience and proven business and management expertise. Currently, Y. Bhg. Dato' Zainal Abidin bin Putih is the longest serving

Independent Director of the Company. Shareholders are at liberty to approach Y. Bhg. Dato' Zainal Abidin bin Putih, or any of the other Independent Directors, should there be any concerns relating to the Company and its Management.

Supply of Information to the Board

Information regarding the Company's business and affairs are normally provided to the Board by the Company's Management and staff. Towards meeting this objective, Board meetings are structured with a pre-determined agenda. Board and Committee papers covering the Company's operational and financial performance, strategic plans on any significant matters and developments, together with the minutes of the previous Board and Board Audit & Risk Management Committee meetings, are circulated to the Directors (or Members of the Board Audit & Risk Management Committee, as the case may be) in advance of each meeting. This allows the Directors time to study and deliberate on the issues to be raised and discussed at each meeting.

Access to the Services of a Competent Company Secretary

The Board, in addition, has full access to the service and advice of the Company Secretary. The Company Secretary, who is also the General Counsel of the group of Petron companies in Malaysia and a member of the Management Committee, has over 27 years of experience in legal matters and over 20 years of experience as a Company Secretary including that pertaining to a public listed company. The Company Secretary is responsible for all arrangements in relation to Board and Committee meetings, Annual General Meetings, Annual Reports, as well as ensuring the Company's timely and accurate disclosure to BMSB and ensuring adherence to the Company's Constitution, compliance by the Company with MMLR and other securities and corporate laws and regulatory requirements. The Directors also have full access to such outside advisors, including accountants, legal counsels, and other experts, as they deem appropriate. The fees and expenses of any such advisors will be paid by

the Company. The Company also engages the services of an experienced and competent external Share Registrar to manage all share registration related matters, managing poll voting at general meetings and dividend payment processes.

The Board Charter

Whilst the Board when first formed in 1974 had a formal Charter, with time and changes in the nature of the business, the roles and responsibilities and delegation of authority became more clearly defined by the 'General Resolution' on the delegation of authority today within the Petron Corporation group. This delegation of authority, as adopted by the Board, acts to identify the roles and responsibilities of the Board and Management and the relevant authority levels at Management. This document is reviewed periodically by the Board and updated as necessary. In 2016, as an avenue to communicate the Company's approach to important governance practices, the Company formalized its Board Charter and made it public by providing the access to it on the Company's website at www.petron.com.my. It is also to be noted that the Board recognises (as mentioned in the 2012 Code) that it cannot effectively undertake the day-to-day management of the Company. It thus created the Management Committee, crafting a charter for the said Committee that spells out its roles and responsibilities. Thus, where any act or approval is not stated to be within the purview of the Management Committee, by default it is deemed to be within the purview of the Board. The Charter of the Management Committee can be accessed on the Company's website www.petron.com.my. The Management Committee Charter was last reviewed and amended in April 2012.

PRINCIPLE 2

Establishment of a Nominating Committee

The Nominating Committee was established by the Board of Directors in 2003 with a written Charter that specifies its roles and responsibilities. The Nominating Committee Charter was last reviewed and approved

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by the Board of Directors in November 2013. The Charter can be accessed on the Company's website www.petron.com.my. The Nominating Committee is responsible for the recommendation of candidates for Independent, Non-Executive and Executive Directors and the recommendation of Directors for Committees, for the Board's consideration and decision. The Nominating Committee is also responsible for the review and recommendation of candidates for appointment as Chief Executive Officer, Chief Finance Officer and Company Secretary.

The current members of the Nominating Committee are as follows:

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

The composition of the Nominating Committee complies with the 2012 Code.

Role of the Nominating Committee and Activities in 2016

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

The findings and results of these assessments by the Nominating Committee were reported to the Board on 22 February 2017.

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

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

The Nominating Committee recognises that diversity on the Board in terms of having one-third women directors was a call from the Government, and a noble one at that, which the Nominating Committee will strive to always achieve and maintain. In 2016, the Board had three (3) women directors, out of eight (8) directors; thus complying with the recommendation on gender diversity.

In accordance with the Company's Articles of Association, the Board can appoint any person to be a Director as and when it is deemed necessary. However, consistent with the best practices of the 2012 Code, the Nominating Committee makes recommendations to the Board prior to such appointments. Any person so appointed shall hold office until the next Annual General Meeting at which time the candidate will be subject to election by the shareholders. An election of Directors takes place every year, with each Director retiring from office at least once every three (3) years. Directors retiring by rotation are eligible for re-election by the shareholders at the Annual General Meeting.

In 2016, the Nominating Committee carried out the following activities:

- Conduct and review of the Annual Evaluation of the Directors, Board and Committees for the year ended 2016 and to report the same to the Board in February 2017. A summary of the same was then reported in the Annual Report of 2016;
- Review of candidates proposed for appointment as Independent Director (Mr. Fong Seow Kee);
- Review of candidates to retire by rotation and to recommend their re-election (Mr. Lubin B. Nepomuceno and Y. Bhg. Dato' Zuraidah Atan);
- Review of the Independent Directors having exceeded nine (9) cumulative years in office and making recommendations to the Board on retention for another term (Y. Bhg. Dato' Zainal Abidin Putih);
- Providing orientation and induction programme to new member of the Board, Mr. Fong Seow Kee both in Kuala Lumpur and at the Petron Refinery in Port Dickson in October 2016 covering, amongst others, the Company corporate information, governance framework and management information; and
- Directing Management to provide the Board Audit & Risk Management Committee with an update on the new accounting standards and corresponding MMLR amendments and a briefing on the impact of the new Companies Act 2016 on the Company.

Annual Review of Board/Committees/ Directors Performance

For the Annual Evaluation, the Committee considered amongst others, the roles played by Directors (individually and as a group) during the year. The Committee also considered their role in charting the course for the Company, setting out the strategic plans for the Company, and stewarding the implementation process. The

Committee also reviewed other matters such as trainings attended, attendance record at meetings (including their respective participation) as well as their level of compliance with legal requirements, including the MMLR.

A customized evaluation survey as recommended by the Nominating Committee and approved by the Board in 2014 was implemented for the 2016 annual evaluation. The survey comprises five (5) sets of form of questionnaires required to be completed by the respective Directors evaluating, by self-assessment and/or peer-assessment, in relation to (i) the independence of the Independent Director (ii) the performance of the Board Committees (iii) the performance of the main Board (iv) the Board members' skills set and (v) the Director's performance and contribution to the Board.

The 2016 annual evaluation was completed in January 2017 and the results were presented to the Nominating Committee and the Board on 22 February 2017. A summary of the results are as follows:

- **Independent Director's 'Independence'** - All four (4) Independent Directors meet the necessary criteria for 'independence' and they are in compliance with the 2012 Corporate Governance Code.
- **Board Committee Evaluations** - there were no adverse findings and the average rating of the Audit Committee was 4.88 and the Nominating Committee's average rating was 4.8. The ratings are consistent with the ratings in 2015.
- **Board Evaluation** - the ratings received indicated an overall average of 4.6 indicating 'Consistently Good'. The overall average rating received in 2015 was 4.4; indicating an improvement in 2016.
- **Board Skill Evaluation (Peer Assessment)** - the Directors were rated between 4.72 and 4.83, again indicating that on the average, each Director was ranked as 'Consistently Good'. The ratings received in 2015 were between 4.5 to 4.7; indicating an improvement in 2016.

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- **Performance Evaluation (Self-Assessment and a Peer Assessment by each Director)** - each Director was rated between 4.3 to 5.0, again indicating that on the average, each Director was ranked as 'Consistently Good'. The ratings received in 2015 were between 4.7 and 4.8; indicating consistency with rating in 2016.

The evaluation in relation to the independence of the Independent Directors indicated that all the Independent Directors fulfilled all the necessary requirements, under the MMLR, of independence. One (1) of the Independent Directors namely Y. Bhg. Dato' Zainal Abidin bin Putih has exceeded the recommended nine (9) cumulative years in office but his continued presence on the Board, approved at the preceding Annual General Meeting, also fulfills the necessary requirements as recommended by the 2012 Code.

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

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

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

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

Remuneration Committee

In line with Recommendation 2.3 of the 2012 Code, the Board at its meeting on 22 August 2014, determined to disband the Remuneration Committee. Effective the same day, as provided for in the 2012 Code, the Board of Directors assumed the role of the Remuneration Committee and manages the role by assuming the charter and procedure of the Remuneration Committee.

The Board reviews and makes recommendations on the Independent Directors Fees for approval at the Annual General Meeting. The Independent Directors during deliberations at the Board Meeting may be asked to provide their views but would otherwise abstain from any other discussion or voting regarding such proposal.

PRINCIPLE 3

Independence of Directors

The Independent Directors are not allowed to participate in any executive functions. To ensure their continued independence, the Independent Directors are required to provide a declaration to the Company of the fact. The Directors are also reminded to inform the Company of any new directorships offered to them, to enable the Company to conduct a review of any potential conflict of interest that may impact on their independence. The Independent Directors self-assessment of continued independence is conducted as part of the Annual Evaluation.

Tenure of Independent Directors

Independent Director, Y. Bhg. Dato' Zainal Abidin Putih has exceeded a tenure of nine (9) years on the Board. The Company recognises the rationale for the imposition of a 9-year-tenure limit in the 2012 Code as familiarity with main shareholders, executive directors and senior management may, over a long duration, impinge upon the Independent Directors' ability to objectively and independently discharge their roles and responsibilities. The Company however takes the view that, the guidance of an experienced Independent Director such as Y. Bhg.

Dato' Zainal Abidin bin Putih with his vast knowledge and understanding of the Company's business, will benefit the Company and the Executive Directors. Y. Bhg. Dato' Zainal Abidin bin Putih's presence on the Board will also enable him to assist in the selection and training of his eventual successor as Chairman of the Board Audit & Risk Management Committee.

The Board recognises the need to have a succession plan for the Independent Directors and in this regard, the Board determined that a phased succession plan would be in the best interest of the Company. Induction of new Chairman of the Board Audit & Risk Management Committee, for this purpose is in progress.

Seeking Shareholders' Approval

The Board recognises the recommendation in the 2012 Code and the Company plans to retain one of the Independent Directors, Y. Bhg. Dato' Zainal Abidin Putih despite his Board tenure having exceeded nine (9) years. Following a review by the Nominating Committee and its recommendation, the Board will be recommending to the shareholders at the Annual General Meeting in 2016 for the re-appointment of Y. Bhg. Dato' Zainal Abidin Putih as Independent Director for another year.

Chairman and CEO

In line with the recommendation of the 2012 Code, the office of Chairman of the Board and Office of the Chief Executive Officer is separated, with Mr. Ramon S. Ang as Chairman and Mr. Lubin B. Nepomuceno being the Chief Executive Officer.

The Company is of the view that at this stage of the Company's development under Petron, having a Chairman who is an Executive Director together with a Board, comprised of a majority of Independent Directors and a Non-Executive Director, best serves the Company's needs, both for its continued development and ensuring proper governance.

It is nevertheless to be noted that the four (4) Independent Directors and one (1) Non-Executive Director form a majority on the Board.

PRINCIPLE 4

Time Commitment by Directors

The Nominating Committee in evaluating the candidates for Directorship took into account their other various roles and responsibilities and formed the view that they have the necessary capacity and time to fulfill their obligations and discharge their duties effectively as Directors. The Board Audit & Risk Management Committee too has taken cognizance of the reporting lines, reporting structure, reviews conducted, efficiency of processes and executive function of the Executive Directors, including their interaction with Senior Management and formed the view that the system was sound and effective.

Training

The Board places great emphasis on continuing education for Directors. In this regard, the status of each Director's continuing education was monitored and reviewed by the Board. The Board had in 2006, adopted the 'Principles for Training of Directors of the Company' that sets out the philosophies on and the type and mode of training that the Directors will undertake in each year, to help them serve the Board more effectively. These same Principles continue to be applied by the Board.

All Directors on the Board have received or undergone relevant training in 2016. A summary of the training programs attended by the Directors in 2016 are as set out in pages 53 to 56.

The Company reimburses the Directors for costs incurred in attending continuing education programs.

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The Directors are also briefed on any significant changes in laws and regulations that are relevant to the Company's operations such as amendments to the MMLR and the impact of the new Companies Act 2016. Directors also received training and information about new initiatives by the Company, for example the training and information provided to the Directors on hedging plans, decision-making process, hedging tools, and relevant hedging activities of the Company.

PRINCIPLE 5

Financial Statements

In announcing the quarterly, semi-annual and annual financial statements to the shareholders and the public, the Board endeavours to present a balanced and understandable assessment of the Company's financial position and prospects. The Board Audit & Risk Management Committee assists the Board by ensuring the accuracy and adequacy of the information announced.

The Board recognises the importance of the accuracy of financial statements released to the public and thus, has no tolerance for any compromise on the integrity of the financial statements. The Board Audit & Risk Management Committee is updated every quarter by the Chief Finance Officer and Senior Management on the Company's compliance with financial reporting standards that have been adopted in preparing the financial statements. The review is comprehensive and to aid and enable the Board Audit & Risk Management Committee to track the financial performance of the Company, the presentation to the Board Audit & Risk Management Committee as a general rule follows a set format. The Board Audit & Risk Management Committee also reviews all aspects of the business and each business unit's performance and resulting contribution towards the financial performance of the Company. By such review, the Board Audit & Risk Management Committee is apprised of the factors contributing to the financial statements and is able to gauge the accuracy of the financial statements before endorsement of the same for tabling to the Board.

The Board Audit & Risk Management Committee also meets with the external auditor and the internal auditor privately (without Management's presence) to have the candid views of the external and internal auditors on their findings and to ascertain the level of support received from Management. This entire process of review allows the Board Audit & Risk Management Committee to thoroughly review and confirm the accuracy and integrity of the financial statements of the Company that are prepared and released to the public.

Suitability of External Auditor

Recognizing the importance of the quality of services needed by a subsidiary of Petron Corporation/San Miguel Corporation, a multi-national group, the Company as a matter of principle only appoints top-tier international firm as external auditor for audit and non-audit services. The Board Audit & Risk Management Committee is tasked with an annual review of the external auditor (as part of the Annual Audit Plan review with the external auditor). The key matters for discussion in the Annual Audit Plan include the independence and continued independence of the external auditor. A written assurance of the fact is also obtained from the external auditor. Only when the Board Audit & Risk Management Committee is satisfied will it make the necessary recommendations to the Board for the appointment of the external auditor.

PRINCIPLE 6

Risk Management and Internal Controls

Please refer to the Statement of Risk Management & Internal Controls on pages 57 to 58.

Internal Audit

The internal audit function undertakes independent, regular and systematic audit reviews of the Company's system of internal controls to assess the adequacy and effectiveness of those controls and overall control environment. This is to provide reasonable assurance that such systems are operating effectively. The basic framework

of the Company's system of internal controls is described above. The internal audit process covers the audit of selected units and operations based on risk assessment and the periodic and annual review with the Board Audit & Risk Management Committee of audit results and audit plans for the subsequent year. Where there are any amendments to the audit plan, such amendments to the plan will require approval from the Board Audit & Risk Management Committee.

The Company's internal audit function is undertaken by an internal audit group based in Manila, at Petron Corporation, that also undertakes audit work for all Petron Corporation companies in the region. The internal audit group which reports directly to the Company's Board Audit & Risk Management Committee, also takes functional guidance from Petron Corporation's internal audit function. This structure allows the Company to benefit from the application of Petron Corporation's internal audit best practices and assures the Company of internal audit independence. The cost incurred for internal audit in 2016 was RM109,739.95. The Board Audit & Risk Management Committee had reviewed the Internal Audit findings in 2016 as well as the closing out of recommendations made by Internal Audit. The Board Audit & Risk Management Committee had also been informed of the new Audit Rating System to be implemented in 2017 to be in line with the system adopted by the parent company.

PRINCIPLE 7

Disclosure Policies

The Company has a written disclosure policy that is incorporated in the Company's Corporate Communication and Disclosure Guidelines. The Guidelines augment a robust and tested system to ensure strict adherence with necessary disclosures to the public via BMSB. Considering the business of the Company, the similar nature of business of its sister companies in Malaysia, the nature of Petron Corporation's large downstream oil and gas business activities and the multifaceted and wide-ranging businesses of the ultimate holding company San Miguel Corporation, the Company, as a matter of strict controls

process, requires all transactions involving the Company to be reviewed via a 'filter' process, commencing with weekly Management Meetings and reviews with Law, Financial Controllers and Tax. All implications of the transactions (including the possibility of any related party transactions) are fully explored and reviewed to ensure strict compliance with the provisions of applicable laws (including the MMLR). The Board does not allow for any compromise on this.

The Company also adopts the recommended best practice of voluntary disclosure of information to keep the public fully informed of any matters that may have any impact on the market or share price.

Use of Information Technology

The Company leverages on information technology and shares information about the Company including all disclosures made to BMSB by establishing a dedicated section for corporate governance on its website. The website contains information about the Company including its Corporate Governance, its parent company Petron Corporation, media announcements, stock exchange disclosures, its products range, dealership opportunities and employee recruitment. The website also contains the name and contact details of a Senior Management personnel who will address Investor Relations issues and Shareholders' queries. The website is regularly updated with the latest information. The Corporate Governance portion in the website contains information pertinent to shareholders including the Annual Reports, its Vision/Mission/Values Statement, its Safety/Health/Environment Policies, the Code of Conducts, Sustainability and on Corporate Communication and Disclosure Guidelines.

PRINCIPLE 8

Shareholder Participation

At the Annual General Meeting, the Chairman of the Board apprises the shareholders of the progress and performance of the Company. A question and answer session is also conducted to allow shareholders the

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opportunity to question Management on the Company's business and the proposed resolutions. The Chairman, the Board members, Senior Management, external legal counsel and the external auditors are available at the Annual General Meeting to respond to questions.

The Board values and encourages dialogue with the shareholders to establish better understanding of the Company's objectives and performance. The Annual General Meeting provides an appropriate forum for the shareholders to hold dialogues with the Board on Company-related matters.

The Company generally provides a minimum of one-month notice period for General Meetings (except in exceptional circumstances) and arranges for the General Meetings in a convenient and conducive location to give shareholders ample notice and to encourage their attendance. At the 2017 Annual General Meeting, the Company in collaboration with its share registrar, will be implementing a fully electronic voting system.

Poll Voting

In line with the 2012 Code, the Board implemented poll voting as a general process in all General Meetings of the Company. This ensures that the voting is representative of shareholding in the Company. The use of automation in the poll voting process, will allow for faster tabulation and the results that will be announced to the shareholders

by the returning officer indicating the number of votes and the percentage of vote for and against any proposed resolution.

Proactive Engagement with Shareholders

The Company actively encourages shareholders to engage the Management to hold dialogues on any issues pertaining to the Company and provide them with information that may be disclosed. The Management, on several occasions has invited shareholders, potential shareholders and fund management companies (at their request) to attend private meetings with Management to help clarify Company-related matters including those on disclosed financial results, disclosed corporate actions and business plans. The Company strongly believes that engaging shareholders directly apart from dialogues at general meetings, is an integral part of ensuring sound governance of the Company and helps stakeholders rationalise and appreciate the needs of the Company and balance that against the wants of the stakeholders.

OTHER INFORMATION RELATING TO CORPORATE GOVERNANCE

Directors' Attendance at Meetings

For the year ended 31 December 2016, four (4) Board and five (5) Board Audit & Risk Management Committee meetings were held. Details of the Directors' attendance at these meetings are summarised below:

DIRECTORS	Number of Board Meetings		Number of Board Audit & Risk Management Committee Meetings	
	Held	Attended	Held	Attended
Mr. Ramon S. Ang	4	3	Non-Member	Non-Member
Ms. Aurora T. Calderon	4	4	Non-Member	Non-Member
Mr. Lubin B. Nepomuceno	4	4	Non-Member	Non-Member
Mr. Ferdinand K. Constantino	4	4	Non-Member	Non-Member
Ms. Chua See Hua	4	4	5	5
Y. Bhg. Dato' Zainal Abidin Putih	4	4	5	4
Y. Bhg. Dato' Zuraidah Atan	4	4	5	5
Mr. Fong Seow Kee ⁺	1	1	2	2

⁺ Denotes number of meetings held in the year following appointment to the Board

Directors' Remuneration

An analysis of the aggregate Directors' remuneration incurred by the Company for the year ended 31 December 2016 as prescribed under Appendix 9C Part A Item 11(a) of the MMLR is set out below:

	Fees (RM)	Value of Remuneration and Others (RM)	Total (RM)
Executive Directors	-	-	-
Independent Directors	222,083.30	131,739.82	353,823.12

An analysis of the number of Directors whose remuneration, incurred by the Company, falls in successive bands of RM50,000 as prescribed under Appendix 9C Part A Item 11(b) of the MMLR is set out below:

REMUNERATION (RM)	Number of Executive Directors	Number of Non- Executive Directors
Less than RM50,000	-	1
50,001-100,000	-	3

The Company has opted not to disclose each Director's remuneration as the Board considers the information to be sensitive and proprietary.

Petron Corporation-nominated Executive Directors and Non-Independent Non-Executive Director did not receive any remuneration from the Company.

Statement of Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act, 1965 (and in future, the new Companies Act 2016) and the MMLR to confirm that the financial statements for each financial year have been made out in accordance with the applicable approved accounting standards and that they give a true and fair view of the results of the business and state of affairs of the Company for the financial year.

The Directors have carried out their responsibilities by:

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

CORPORATE GOVERNANCE

The Directors are responsible for ensuring that the Company keeps such accounting and other records which will sufficiently explain the transactions and give a true and fair view of the financial position of the Company, enabling the Directors to ensure that the financial statements comply with the Companies Act 1965 (and in future, the new Companies Act 2016) and to safeguard the assets of the Company.

Relationship with Auditor

The Board has established a formal and transparent relationship with the auditors of the Company. The role of the Board Audit & Risk Management Committee in relation to the internal and external auditor is described on page 62.

Material Contracts

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

Non-Audit Fees

No non-audit fees were paid or are payable to the external auditors, KPMG, by the Company for the financial year ended 31 December 2016.

Other Information

- i. Family relationship
None of the Directors have any family relationship with any other Director and/or major shareholder(s) of the Company.
- ii. Conflicts of interest
None of the Directors have any conflicts of interest with the Company.
- iii. Conviction for offences (excluding traffic offences)
None of the Directors have been convicted for any offences within the past five (5) years.
- iv. Sanctions and/or penalties
No sanction or penalty has been imposed on the Company, or the Directors or the Management, by the relevant regulatory bodies.

This Statement is made in accordance with the Board of Directors' resolution dated 22 February 2017.

Directors/Training	Date in 2016
Mr. Ramon S. Ang	
• SFC Enforcement Cases and Update on Hong Kong Competition Law	Oct 12
• Corporate Governance Seminar (Petron Corporation)	Nov 7
Mr. Lubin B. Nepomuceno	
• 5 Star Organizational Leadership Workshop	Jan 21
• 5 Star Organizational Leadership Workshop	Mar 18
• Leaders Talk	Apr 5
• Corporate Governance Seminar	Aug 9
• Symposium on the Permanent Court of Arbitration Decision on the South China Sea: Implications to the Philippine Oil & Gas Industry	Aug 25
• Pre-Asia Tech	Oct 10-11
Ms. Aurora T. Calderon	
• Institutional Investors Briefing	Feb 17
• Institutional Investors Briefing	Apr 22
• SMC Kapihan/Federalism	Aug 3
• Corporate Governance Seminar (Petron Corporation)	Aug 9
• Philippine Investment Forum	Sept 6
• FINEX Economic Briefing	Oct 7
• BDO Nomura Forum (as Panelist)	Oct 24
Mr. Ferdinand K. Constantino	
• Credit Suisse Asean Conference 2016	Jan 7-8
• JP Morgan Philippine IxI Conference	Jan 25
• Philippine Corporate Day	Jan 28-29
• Leadership Forum	Apr 5
• Financial Times-Nikkei 300 Forum (as panelist)	Apr 25
• League of Corporate Foundations Conference	Jul 15
• Corporate Governance Seminar (San Miguel Pure Foods Company Inc.)	Sep 9

CORPORATE GOVERNANCE

Directors/Training	Date in 2016
Mr. Ferdinand K. Constantino (continued)	
• 48 th FINEX National Conference	Oct 7
• Corporate Governance Seminar (San Miguel Brewery Hong Kong)	Oct 12
• BDO Nomura Forum (as panelist)	Oct 24
• Corporate Governance Seminar (Petron Corporation)	Nov 7
Y. Bhg. Dato' Zainal Abidin Putih	
• Briefing on New Auditors' Report by Ernst & Young	Mar 7
• TNB Board Breakout for Senior Management	Mar 8
• Solar Energy Exhibition & Conference	May 4 & 5
• Energy Systems Conference 21 st Century Challenges	Jun 14 & 15
• TNB Board Development Programme 2016: New Challenge for the Board of Directors: Cyber Risk	Jun 23
• TNB Board Break-out Re-Imaging TNB	Jul 21
• Touch 'n Go Innovation and Strategic Planning Workshop	Aug 19
• Khazanah Megatrends Forum 2016	Sep 26 & 27
• CIMB 2017 Risk Posture Workshop for Board of Directors	Sep 28
• Spoke at the GIOD Pre-Ams Workshop	Oct 4
• CIMB Group Annual Management Summit 2016	Nov 11 & 12
• Amendments to Listing Requirements and Impact of the New Companies Act 2016	Dec 16

Directors/Training	Date in 2016
Ms Chua See Hua	
• Audit Committee Conference 2016 – Setting the Right Tone	Mar 29
• The Sir John Monash Lecture: Trans-Pacific Partnership: Winners and Losers by Professor Dr. Jomo Kwame Sundaram	Mar 31
• Fundamentals, Updates and Outlook for the Oil & Gas Industry by Nazery Khalid	Apr 7
• The Interplay between CG, Non-Financial Information (“NFI”) and Investment Decisions	May 9
• Corporate Governance Breakfast Series: Future of Auditor Reporting – The Game Changer for Boardroom	Jun 27
• Corporate Directors Advanced Programme: Strategy & Risks: “Managing Uncertainty”	Aug 2 & 3
• The Evolving Role of Audit Committee in Governance, Risk & Control	Nov 21
• The Companies Act, 2016	Nov 22
• Amendments to Listing Requirements and Impact of the New Companies Act 2016	Dec 16
Y. Bhg. Dato’ Zuraidah Binti Atan	
• 27 th Annual Palm & Lauric Oils Conference	Mar 7 & 8
• Invest Malaysia Kuala Lumpur	Apr 12 & 13
• 2016 World Federation of Exchanges (WFE)/International Options Market Association (IOMA) Derivatives & Clearing Conference	Apr 18 & 19
• Companies Bill: Changes and Impact on Company Directors	Jun 1
• Presenting a Professional Persona	Jun 25
• Ermegentics: Psychometric Tool & Profiling	Jul 21
• International Conference on Blue Ocean Strategy: Volunteerism as a Key Pillar in Nation Building	Aug 17
• Digital Marketing: Finding & Engaging with your Target Market	Oct 1
• Amendments to Listing Requirements and Impact of the New Companies Act 2016	Dec 16

CORPORATE GOVERNANCE

Directors/Training	Date in 2016
Mr. Fong Seow Kee	
• Market Insight: Banking and Securities Industry Playbook – Six Steps TSPs Must Take Now to Address Fintech	Jun 6
• Public Consultation of Malaysia Code of Corporate Governance 2016	Jun 13
• Driving Value Through Ethics	Jun 14
• Induction session for new Directors	Oct 26
• Fintech Payment Conference – Payment Evolution in Malaysia	Nov 19
• The Evolving Role of Audit Committee in Governance, Risk and Control	Nov 21
• Amendments to Listing Requirements and Impact of the New Companies Act 2016	Dec 16

STATEMENT OF RISK MANAGEMENT & INTERNAL CONTROLS

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

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

1. The alignment or adoption of best practices from Petron Corporation. These not only assist the Company in identifying the principal risks faced by the Company, but also prescribes the appropriate systems to manage these risks that includes the overall control framework, the required control checks and the required assessment on the system's effectiveness;
2. A defined organisational structure with clear lines of accountability and delegation of authority;
3. Reviews of controls including through internal audits have been performed periodically and financial audits are subject to annual review by external auditors. The results are reviewed with various levels of Management and any major concerns are raised to Senior Management and the Board Audit & Risk Management Committee;
4. Key policies covering, among others, business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships are in place in the form of the Code of Conduct. These include requirements to comply with all applicable laws and regulations. The revised Code of Conduct has been communicated to employees, vendors and contractors. Effective from year 2014, trainings are provided periodically to employees, vendors and contractors. Employees will further be required to confirm annually that they have read the Code of Conduct and understand the requirements;
5. A management integrity system based on Petron Corporation's best practices to assess and sustain the effectiveness of the organisation's system of controls; and
6. The effective lines of communications within the Management with regular Management Committee meetings where all matters pertaining to each business unit and function are reviewed. This way any controls related issues are highlighted weekly and the action plans on any identified gaps are dealt with immediately.

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

STATEMENT OF RISK MANAGEMENT & INTERNAL CONTROLS

In 2014, the Company embarked on a program to revisit its risk management by employing Petron Corporation's Enterprise-Wide Risk Management tools. The exercise pointed out that the key risks previously identified continue to be the main risk that must be managed even today. The Company, recognising this is an evolving endeavor, will embark on an exercise to revisit the risk management preparations that are already in place with intent to update the tools and assessment, where necessary. An example of the evolution of this was the removal of an earlier identified main risk in the event of any removal of subsidies (by the Government) on fuel. The removal follows from the removal of the subsidies and introduction of the managed float pricing system by the Government.

As part of the Risk Management review, all Business Continuity Plans of the Company will be periodically reviewed to ensure that the business recovery process in the event of an emergency is sound and effective. In 2016, a fire incident at the Company's Port Dickson Refinery, caused a temporary shutdown of the facilities. The business continuity plan was immediately activated. The areas covered included two critical areas, namely repairs and re-starting operations at the Refinery, and in the interim, management of incoming crude supply and continued supply of petroleum products to customers. Both these critical factors were successfully managed in accordance with the business continuity plans in place.

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

1. Timely reporting of any changes to the prevalent delegation of authority that has been approved by the Board and ensuring that amendments are approved by the Board in a timely manner so as to not cause any disruption to the business;
2. Quarterly notice to all Directors and staff on Insider Trading and risks as well as restrictions on trading in the Company's shares during a 'closed period';
3. Quarterly reporting to the Board Audit & Risk Management Committee of all Trade Accounts Receivables that are written off;
4. Review of any contracts over the value of RM5 million that were not in the ordinary course of business; and
5. Full review with the Board Audit & Risk Management Committee on a quarterly basis of all inter-company transactions to ensure compliance with laws pertaining to Related Party Transactions.

The Board has received assurance from the CEO and CFO that the Company's risk management and internal control systems (for financial year ended 2016 and up to the date of this Report) are operating adequately and effectively, in all material respects.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

The Committee comprises four (4) Independent Directors. The following are the Committee members:

1. Y. Bhg. Dato' Zainal Abidin Putih
- Chairman of the Committee
2. Ms. Chua See Hua
3. Y. Bhg. Dato' Zuraidah Atan; and
4. Mr. Fong Seow Kee

A detailed profile of the Committee members can be found on pages 35 and 36.

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

The Committee's Terms of Reference are as contained in the Company's website.

The Committee had five (5) meetings during the last financial year. The details of attendance of each Committee member have been tabulated under the Corporate Governance Statements section, which can be found on page 50. Executive Directors are encouraged to attend these meetings to provide guidance to the Board Audit & Risk Management Committee. However, Management Committee Members, in particular the Alternate Chairman of the Management Committee, the Chief Finance Officer and the General Counsel/Company Secretary regularly attend the Committee meetings by invitation to present matters for consideration by the Committee and to provide answers to queries. In addition to the Committee meetings, the Committee also met privately with the external auditor and met with the internal auditor. A private meeting was also arranged in 2016 for the internal auditor to brief and update the newly appointed Independent Directors, Mr. Fong Seow Kee, prior to him attending his first Committee meeting.

As part of the new Petron-led Management's corporate governance culture, and to ensure that Independent Directors are kept fully abreast of all matters pertaining to the Company, the Management implemented a process where if an Independent Director is unable to attend a Committee Meeting, an advance private meeting, where possible, will be held with the said Director earlier to fully brief him of all matters to be tabled before the Committee. The views of that Director are then related to the Committee during its Meeting. Similarly, where a Circular Resolution of the Committee is moved (due to difficulty in arranging a Committee meeting), a private meeting will be arranged with each Independent Director, where possible, for a full briefing on the proposal prior to obtaining their consent to the Circular Resolution. In 2016, this was done once each in relation to Y. Bhg. Dato' Zainal Abidin Putih and Ms. Chua See Hua.

SUMMARY OF ACTIVITIES

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

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

INTERNAL AUDIT

To ensure independence from the Company's Management, the Internal Audit function of the Company, is managed by Petron Corporation's Internal Audit Department. The Internal Auditor report directly to the Board Audit & Risk Management Committee of Petron Malaysia Refining & Marketing Bhd on all audits carried out in relation to Petron Malaysia Refining & Marketing Bhd.

The Internal Audit Department of Petron Corporation is highly experienced in auditing downstream oil and gas business and this enables the internal auditor to conduct the audits efficiently with minimal familiarisation and be in a position to provide management with much input process improvements in the Company's systems. Further information about the internal audit function can be viewed under the Corporate Governance Statements on pages 48 and 49.

Meeting with the Internal Audit (25 November 2016)

The Committee reviewed the audits carried out and completed in 2016 as follows:

1. Retail Business: Review of Fixed Assets Acquisition, Installation and 'Pull-out';
2. Service Stations (selected only): Fixed Assets inventory count;
3. Aviation: Audit of KLIA Terminal; and
4. Distribution and Terminal Operations: Audit of the Klang Valley Distribution Terminal.

In all cases, there were no findings that were 'major' that would have an impact on the Company's financials or its business operations. However, some minor improvements were needed and Internal Audit will follow up to ensure implementation of the suggested improvements.

The Committee was also briefed on the following on-going Audits:

1. Commercial Business: Review of Fixed Assets Acquisition, Installation and 'Pull-out,'
2. Port Dickson Refinery: Review of Finished Product management and distribution.

The Committee was also briefed on the new Audit Rating System to be implemented in 2017 for Petron affiliates in Malaysia, that:

1. Applies the 'Value at Risk' principle. The significance and likelihood of risks are measured in terms of asset values of the audit client.
2. Utilises weights and percentage ratings to arrive at overall audit rating.
3. Employs more well defined and specific criteria in evaluating results of audit.
4. Adopts the methodology implemented by the parent company's Internal Audit for the Group.

The Committee also approved the Internal Audit Plan for 2017.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

DUTIES OF THE COMMITTEE

Duties of the Committee

A summary of the Committee's activities carried out by the Committee in discharging its duties in 2016 are as follows:

Review of Risk Management matters:

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

The Committee was informed at the November 2015 Committee Meeting that for 2016, Management had determined that the revised 'Major Risk' would be:

Major Risk	Type of Risk
Price volatility (both crude and petroleum products)	- Financial
Foreign Exchange volatility	- Financial
Major incident rendering facilities inoperable	- Operations/Integrity/Financial
Shipping incident/Oil Spill	- Operations/Environment/Reputation
Supply disruption/over dependence on few suppliers	- Operations
GST Recovery (<i>likely temporary only</i>)	- Financial
Competition	- Market environment
Product Quality	- Operations/Integrity
Regulatory compliance	- Regulatory/Reputation/Operations
IT Systems/Infrastructure outage	- Operations

For each of these identified risks, there are risk management tools and existing business continuity programs in place. In this regard, the Committee was briefed on the effectiveness of the Business Continuity Plan that was successfully activated and deployed to re-commence operations at the Port Dickson Refinery, following the fire incident. The said Business Continuity Plans that were activated and used to successfully manage the disruptions as a result of the fire incident, were that relating to the Refinery Operations and the potential Supply disruption.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

Review with the internal auditor and external auditor

The meeting with Internal Auditor is as described in page 60.

In 2016, external auditor, KPMG PLT (“KPMG”) met privately with the Chairman of the Committee on 19 February 2016 and with the Committee on 25 February 2016 in relation to the 2015 audited Financial Statements and the review of the Statement of Risk Management and Internal Controls (SORMIC) that were then included in the 2015 Annual Report. KPMG also met with the Committee on 16 December 2016 to present and seek approval of the Committee for the 2016 Audit Plan and Strategy. Among matters discussed at this meeting included:

1. The scope of the audit and that the audit would be carried out based on the Malaysian Financial Reporting Standards framework
2. Materiality used in the audit
3. Matters relating to the Audit and the identified focus areas and the approach to be taken
4. Assurance on the independence of KPMG; and
5. A review of the SORMIC.

On the same day – following the Committee meeting - KPMG provided the Committee with a briefing on the new enhanced auditors’ reports, new changes to the Main Market Listing Requirements as well as the new Accounting Standards and the impact these would have on the Company. In addition, the Committee was also provided (as part of a series of briefing to Directors and management), a briefing by the General Counsel of Petron Malaysia, on the impact of the new Companies Act 2016 on the Company and measures being taken to address the changes to the Law.

On 22 February 2017, KPMG presented the audit findings in relation to the audit for the year ended 31 December 2016 as well as the review of SORMIC (to be included in the 2016 Annual Report) to the Audit Committee. A summary of the discussion were as follow:

Key Audit Matters, amongst others are:

- a. In relation to revenue recognition,
- b. Valuation of inventories.

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

Review of the Annual Report:

As required under the auditing standards, KPMG would review the statements contained in the Company’s 2016 Annual Report which was obtained prior to the date of the auditors’ report to identify any inconsistency with material information that KPMG is aware and identify the same for the Management.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

Statement of Risk Management and Internal Controls (SORMIC):

KPMG highlighted to the Committee that the purpose of their engagement was to express an independent limited assurance whether anything has come to their attention that causes KPMG to believe that the SORMIC is not prepared, in all material respects, in accordance with the reporting criteria as set out in paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (“SRMICG”), or is factually inaccurate. In this regard, KPMG informed the Committee that nothing has come to their attention that the SORMIC is not prepared, in all material respect, in accordance with the guidelines.

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

Ensure internal auditor and external auditor receive Management’s co-operation:

The Committee had sought and received confirmation at meetings with internal auditor and external auditor that Management and the Company’s employees had extended the fullest co-operation to the internal auditor and the external auditor. At the Committee’s meeting on 16 December 2016, the Committee also received assurances from KPMG that the internal auditor does share the findings with KPMG.

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

The Committee at its meeting on 25 November 2016 had reviewed the independence, scope and functions of the internal audit and that it had the necessary authority to carry out its tasks. The audit findings, the follow-up action as well as audit plan for 2017 were reviewed and approved. The Committee was assured of the fact that internal audit reported to the Committee.

Reporting of any internal audit issues:

There were no special internal audit program, processes, the results of the internal audit program, or investigation undertaken, or action that had been taken, that were needed to be reported to the Board in 2016.

Endorsement of Financial Statements:

The Committee reviewed and report to the Board the quarterly results in 2016 and year-end financial statements, including the statement of financial position and statement of profit or loss and other comprehensive income, prior to submission of the statements to the Board for approval. The Committee had also paid particular attention to ensuring compliance with changes in existing accounting policies as well as implementation of new accounting policies, significant and unusual events (if any). The Committee also reviewed and ensured compliance with legal requirements including disclosures to the stock exchange and relevant authorities.

BOARD AUDIT & RISK MANAGEMENT COMMITTEE REPORT

Endorsement of major transactions and related party transactions:

The Committee reviewed and endorsed related party transactions in 2016 for the Board to consider and approve. Two recurrent related party transactions were so reviewed on 18 August 2016 by the Committee relating to the LPG Business and the tenancy agreement involving sister company, Petron Fuel International Sdn. Bhd. There were no major (non-related party) transactions that required the Committee's endorsement in 2016.

Review of other significant matters:

Apart from major transactions and related party transactions, the Committee at all quarterly meetings in 2016, reviewed:

- a. all contracts (if any) with a value of over RM5million that are not in the ordinary course of business;
- b. accounts receivables written-off (if any); and
- c. amendment to the List of the Company's Authorised Signatories.

Review of Conflict of Interest

As part of its review of any transactions undertaken by the Company, the Committee ensures that any conflicts of interest or potential conflicts of interests are highlighted. Where there is a conflict of interest, Directors involved abstain from discussion and voting on such matters. As a result, in relation to the above two recurrent related party transactions, Mr. Ramon S. Ang and Mr. Lubin B. Nepomuceno abstained from discussion and voting on the matter as they are also directors of Petron Fuel International Sdn. Bhd. As an additional note, Independent Directors, Y. Bhg. Dato' Zainal Abidin Putih, Ms. Chua See Hua, Y. Bhg. Dato' Zuraidah Atan and Mr. Fong Seow Kee abstained from discussion and voting on the matter of the Independent Directors' Fees at the Board Meeting on 22 February 2017.

Auditor's Re-Appointment/Fees:

The Committee at its meeting on 22 February 2017, reviewed and endorsed the fees proposed to be paid to the external auditor, KPMG. The Committee at the same meeting in 2017 considered and recommended to the Board the re-appointment of KPMG as the Company's external auditor for the ensuing year.

Report to the Stock Exchange on matters pertaining to the Company:

There were no matters in 2016 that was brought to the attention of the Board that was not acted on (and resulted in a breach of the Main Market Listing Requirements of BMSB) that required the Committee to report to the BMSB.

This Statement is made in accordance with the Board of Directors' resolution dated 22 February 2017.



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FINANCIAL STATEMENTS

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2016.

Principal activities

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

Ultimate holding company

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

Results

	RM'000
Profit for the year	237,551

Reserves and provisions

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

Dividends

Since the end of the previous financial year, the Company paid a final ordinary dividend of 20 sen per ordinary share totalling RM54,000,000 in respect of the financial year ended 31 December 2015, declared on 2 June 2016 and paid on 24 June 2016.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2016 is 22 sen per ordinary share totalling RM59,400,000 subject to the shareholders' approval at the forthcoming Annual General Meeting of the Company.

Directors of the Company

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

Y. Bhg. Dato' Zainal Abidin Putih
Y. Bhg. Dato' Zuraidah Atan
Mr. Ramon S. Ang
Ms. Aurora T. Calderon
Mr. Lubin B. Nepomuceno
Ms. Chua See Hua
Mr. Ferdinand K. Constantino
Mr. Fong Seow Kee (appointed with effect from 18 August 2016)

Directors' interests in shares

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

	Number of ordinary shares			
	At 1.1.2016	Acquired	Sold	At 31.12.2016
Common shares of ultimate holding company (San Miguel Corporation)				
Ramon S. Ang	757,873	-	-	757,873
Aurora T. Calderon	22,600	-	-	22,600
Lubin B. Nepomuceno	7	-	-	7
Ferdinand K. Constantino	187,500	66,809	-	254,309
Common shares of intermediate holding company (Petron Corporation)				
Ramon S. Ang	1,000	-	-	1,000
Aurora T. Calderon	1,000	-	-	1,000
Lubin B. Nepomuceno	5,000	-	-	5,000

None of the other Directors holding office as at 31 December 2016 had any interest in the shares of the Company and of its related corporations during the financial year.

Directors' benefits

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

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

Issue of shares and debentures

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

There were no debentures issued during the financial year.

Options granted over unissued shares

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

Indemnity and insurance costs

The indemnity insurance coverage provided for the Directors and officers of the Company is RM15,000,000. During the financial year, no indemnity claim or payment was made.

DIRECTORS' REPORT

Other statutory information

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

- (i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- (ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

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

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

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

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

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors

The auditors, Messrs KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 19 to the financial statements.

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

.....
Ramon S. Ang
Chairman

.....
Lubin B. Nepomuceno
Director

Kuala Lumpur

Date: 22 February 2017

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Assets			
Cash and cash equivalents	3	171,640	159,274
Derivative financial assets	4	2,958	10,991
Trade and other receivables	5	486,023	315,910
Inventories	6	710,081	499,842
Other current assets	7	139,219	93,560
Total current assets		1,509,921	1,079,577
Property, plant and equipment	8	956,007	977,502
Long-term assets	9	179,145	209,877
Intangible assets - software	10	1,194	3,828
Total non-current assets		1,136,346	1,191,207
Total assets		2,646,267	2,270,784
Liabilities			
Loans and borrowings	11	215,946	385,696
Trade and other payables	12	1,001,290	615,477
Derivative financial liabilities	4	21,702	11,495
Retirement benefits obligations	13	6,145	5,809
Taxation		39,014	7,274
Total current liabilities		1,284,097	1,025,751
Loans and borrowings	11	92,014	158,126
Retirement benefits obligations	13	42,431	41,290
Deferred tax liabilities	14	63,828	64,111
Total non-current liabilities		198,273	263,527
Total liabilities		1,482,370	1,289,278
Equity			
Share capital	15	135,000	135,000
Reserves	15	8,000	8,000
Retained earnings		1,020,897	838,506
Total equity		1,163,897	981,506
Total equity and liabilities		2,646,267	2,270,784

The notes on pages 73 to 113 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Revenue	16	7,602,477	8,150,293
Cost of sales		(7,038,504)	(7,616,679)
Gross profit		563,973	533,614
Other operating income		65,498	57,512
Other operating expenses		(230,734)	(214,433)
Administrative expenses		(19,207)	(18,753)
Results from operating activities		379,530	357,940
Other income		9,646	74,296
Other expenses		(35,245)	(78,933)
Finance income	17	1,282	1,042
Finance costs	18	(32,229)	(48,129)
Profit before tax	19	322,984	306,216
Tax expense	21	(85,433)	(85,617)
Profit for the year		237,551	220,599
Other comprehensive (loss)/income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	20	(1,160)	884
Other comprehensive (loss)/income for the year, net of tax		(1,160)	884
Total comprehensive income for the year		236,391	221,483
Basic earnings per ordinary share (sen)	22	88.0	81.7

The notes on pages 73 to 113 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	← Non-Distributable →		Distributable	Total equity RM'000
		Share capital RM'000	Capital redemption reserves RM'000	Retained earnings RM'000	
At 1 January 2015		135,000	8,000	617,023	760,023
Remeasurement of defined benefit liability	20	-	-	884	884
Profit for the year		-	-	220,599	220,599
Total comprehensive income for the year		-	-	221,483	221,483
At 31 December 2015/ 1 January 2016		135,000	8,000	838,506	981,506
Remeasurement of defined benefit liability	20	-	-	(1,160)	(1,160)
Profit for the year		-	-	237,551	237,551
Total comprehensive income for the year		-	-	236,391	236,391
<i>Distributions to owners of the Company</i>					
Dividends paid	23	-	-	(54,000)	(54,000)
At 31 December 2016		135,000	8,000	1,020,897	1,163,897
		Note 15	Note 15		

The notes on pages 73 to 113 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM'000	2015 RM'000
Cash flows from operating activities			
Profit before tax		322,984	306,216
Adjustments for:			
Amortisation of intangible assets	10	2,634	2,655
Amortisation of long-term assets	9	32,307	20,285
Depreciation of property, plant and equipment	8	61,714	60,560
Finance costs	18	32,229	48,129
Finance income	17	(1,282)	(1,042)
Impairment loss on trade receivables		-	3
Gain on disposal of property, plant and equipment		(732)	(383)
Property, plant and equipment write off	8	2,838	8,440
Long-term asset write off	9	75	-
Inventory write down	6	-	4,481
Retirement benefits cost	13	5,054	5,054
Unrealised foreign exchange loss/(gain)		2,391	(581)
Unrealised loss on derivatives		18,744	504
Operating profit before changes in working capital		478,956	454,321
Change in inventories		(210,239)	(61,938)
Change in long-term assets		2,884	213
Change in trade and other payables and other financial liabilities		357,525	(4,050)
Change in trade and other receivables and other financial assets		(203,285)	32,313
Cash from operations		425,841	420,859
Interest paid		(18,248)	(36,893)
Interest received		1,282	1,042
Income tax paid		(53,610)	(20,947)
Retirement benefits paid	13	(5,297)	(3,199)
Net cash from operating activities		349,968	360,862
Cash flows from investing activities			
Acquisition of property, plant and equipment	8	(43,462)	(65,328)
Payment for long-term assets	9	(4,534)	(46,608)
Proceeds from disposal of property, plant and equipment		670	800
Net cash used in investing activities		(47,326)	(111,136)
Cash flows from financing activities			
Repayment of borrowings		(236,417)	(445,000)
Dividends paid	23	(54,000)	-
Net cash used in financing activities		(290,417)	(445,000)
Net increase/(decrease) in cash and cash equivalents		12,225	(195,274)
Effect of exchange rate fluctuations on cash held		141	(120)
Cash and cash equivalents at 1 January		159,274	354,668
Cash and cash equivalents at 31 December	3	171,640	159,274

The notes on pages 73 to 113 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

Registered office/Principal place of business

Level 12A, Menara I & P Tower I
Jalan Dungun, Damansara Heights
50490 Kuala Lumpur

Principal place of business

Port Dickson Refinery
1 ½ mile, Jalan Pantai
71000 Port Dickson, Negeri Sembilan

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

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

The financial statements were authorised for issue by the Board of Directors on 22 February 2017.

I. Basis of preparation

I.1 Statement of compliance

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

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

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarification to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associate and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

NOTES TO THE FINANCIAL STATEMENTS

I. Basis of preparation (continued)

I.1 Statement of compliance (continued)

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

- MFRS 16, *Leases*

MFRSs, interpretations and amendments effective for a date yet to be confirmed

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

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, interpretations or amendments that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 4, and Amendments to MFRS 140 which are not applicable to the Company.
- from the annual period beginning on 1 January 2019 for those amendments that are effective for annual periods beginning on or after 1 January 2019.

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

(i) MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

(iii) MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

1. Basis of preparation (continued)

1.2 Basis of measurement

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

1.3 Functional and presentation currency

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

1.4 Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 13 – remeasurement of retirement benefits obligations.

2. Significant accounting policies

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

2.1 Joint arrangements

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

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as “joint operation” when the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Company accounts for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as “joint venture” when the Company has rights only to the net assets of the arrangements. The Company accounts for its interest in the joint venture using the equity method, less any impairment losses unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.2 Foreign currency transactions

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

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

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

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

2.3 Financial instruments

(i) Initial recognition and measurement

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

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

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

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

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

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

(b) *Loans and receivables*

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(2.9)(i)).

2. Significant accounting policies (continued)

2.3 Financial instruments (continued)

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

Financial liabilities

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

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

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

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

2.4 Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.4 Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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

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

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

2.5 Leased assets

(i) Finance leases

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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

2. Significant accounting policies (continued)

2.5 Leased assets (continued)

(ii) Operating leases

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

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

Leasehold land which in substance is an operating lease is classified as prepaid lease rentals.

2.6 Intangible assets

Software cost

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

2.7 Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.8 Cash and cash equivalents

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

2.9 Impairment

(i) Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.9 Impairment (continued)

(i) Financial assets (continued)

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

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

(ii) Other assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

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

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals were recognised.

2. Significant accounting policies (continued)

2.10 Equity instruments

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

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Distributions of assets to owners of the Company

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

2.11 Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

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

(iii) Defined benefit plans

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Company determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligations at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.11 Employee benefits (continued)

(iii) Defined benefit plans (continued)

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

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

2.12 Provisions

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

2.13 Revenue and other income

(i) Goods sold

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

(ii) Interest income

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

2.14 Borrowing costs

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

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

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

2. Significant accounting policies (continued)

2.15 Income tax

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

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

2.16 Earnings per ordinary share

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

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

2.17 Operating segments

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

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.18 Contingencies

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

2.19 Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

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

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

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

3. Cash and cash equivalents

	2016 RM'000	2015 RM'000
Deposits placed with a licensed bank	100,000	100,000
Cash and bank balances	71,640	59,274
	171,640	159,274

4. Derivative financial assets/(liabilities)

	2016			2015		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Derivatives held for trading at fair value through profit or loss						
- Forward exchange contracts	549,511	2,336	(77)	240,953	269	(539)
- Commodity swaps	108,456	622	(21,625)	58,417	10,722	(10,956)
	657,967	2,958	(21,702)	299,370	10,991	(11,495)

Forward exchange contracts are used to manage the foreign currency exposures arising from the Company's receivables and payables denominated in currencies other than the functional currency of the Company. Most of the forward exchange contracts have maturities of less than 180 days after the end of the reporting period.

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

5. Trade and other receivables

	2016 RM'000	2015 RM'000
Trade		
Trade receivables	191,407	132,081
Less: Individual impairment allowance	(512)	(512)
	190,895	131,569
Amounts due from related companies	100,106	68,029
	291,001	199,598
Non-trade		
Subsidies receivables	170,339	73,146
Other receivables	24,683	43,166
	195,022	116,312
	486,023	315,910

NOTES TO THE FINANCIAL STATEMENTS

5. Trade and other receivables (continued)

Related party balances

The trade balances due from related companies are subject to normal trade terms.

Subsidies receivables

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

6. Inventories

	2016 RM'000	2015 RM'000
Crude oil	373,307	194,629
Petroleum products	326,892	295,528
Materials and supplies	9,882	9,685
	710,081	499,842
Recognised in profit or loss:		
Inventories recognised as cost of sales	6,943,042	7,608,507
Write down to net realisable value, included in cost of sales	-	4,481

7. Other current assets

	2016 RM'000	2015 RM'000
GST input	120,717	72,693
Prepayments	18,502	20,867
	139,219	93,560

8. Property, plant and equipment

	Freehold land RM'000	Leasehold land RM'000	Buildings and improvements RM'000	Plant and equipment RM'000	Capital project in-progress RM'000	Total RM'000
Cost						
At 1 January 2015	199,838	106,863	457,097	1,166,544	120,350	2,050,692
Additions	-	-	2,576	21,259	41,493	65,328
Disposal	-	(417)	-	-	-	(417)
Write off	-	-	(334)	(3,515)	(7,325)	(11,174)
Reclassifications	-	-	4,217	52,638	(56,855)	-
At 31 December 2015/ 1 January 2016	199,838	106,446	463,556	1,236,926	97,663	2,104,429
Additions	-	-	693	18,438	24,331	43,462
Disposal	(353)	(49)	-	(12)	-	(414)
Write off	-	(180)	(4,517)	(6,874)	-	(11,571)
Reclassifications	-	-	5,824	28,259	(34,083)	-
At 31 December 2016	199,485	106,217	465,556	1,276,737	87,911	2,135,906
Accumulated depreciation						
At 1 January 2015	-	19,959	256,317	792,825	-	1,069,101
Depreciation during the year	-	1,183	17,977	41,400	-	60,560
Write off	-	-	(179)	(2,555)	-	(2,734)
At 31 December 2015/ 1 January 2016	-	21,142	274,115	831,670	-	1,126,927
Depreciation during the year	-	1,184	17,525	43,005	-	61,714
Disposal	-	(8)	-	(1)	-	(9)
Write off	-	(147)	(3,071)	(5,515)	-	(8,733)
At 31 December 2016	-	22,171	288,569	869,159	-	1,179,899
Carrying amounts						
At 1 January 2015	199,838	86,904	200,780	373,719	120,350	981,591
At 31 December 2015/ 1 January 2016	199,838	85,304	189,441	405,256	97,663	977,502
At 31 December 2016	199,485	84,046	176,987	407,578	87,911	956,007

NOTES TO THE FINANCIAL STATEMENTS

8. Property, plant and equipment (continued)

Included in the above property, plant and equipment is the net book value for the Company's 20% participating interest in the joint venture assets of Multi-Product Pipeline ("MPP") amounting to RM75,506,000 (2015: RM81,268,000).

During the financial year, closure of service stations resulted in the write off of some properties and equipment amounting to RM2,457,000 (2015: RM7,325,000 Euro 4M diesel expenditure was written off after government changed the diesel compliance to Euro 5M).

Included in the carrying amount of leasehold land is the net book value for leasehold land with unexpired lease period of more than 50 years amounting to RM79,907,000 (2015: RM81,087,000).

9. Long-term assets

	2016 RM'000	2015 RM'000
Prepaid lease rentals	134,729	144,890
Deposits	2,409	2,395
Marketing assistance to dealers	12,775	16,826
Others	29,232	45,766
	179,145	209,877
The movement in the long-term assets is as follows:		
At 1 January	209,877	183,767
Addition	4,534	46,608
Amortisation	(32,307)	(20,285)
Write off	(75)	-
Reclassification (to)/from short-term	(1,389)	82
Others	(1,495)	(295)
At 31 December	179,145	209,877

Prepaid lease rentals

Included in the above prepaid lease rentals is leasehold land amounting to RM1,305,000 (2015: RM1,320,000) for the Company's 20% participating interest in the joint venture assets of MPP.

Marketing assistance to dealer

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

Others

Included in others are deferred charges on major turnaround cost amounting to RM21,557,000 (2015: RM34,680,000) which will be amortised over 3 years.

10. Intangible assets - software

	Total RM'000
Cost	
At 1 January 2015/1 January 2016/31 December 2016	24,294
Accumulated amortisation	
At 1 January 2015	17,811
Amortisation during the year	2,655
At 31 December 2015/1 January 2016	20,466
Amortisation during the year	2,634
At 31 December 2016	23,100
Carrying amounts	
At 1 January 2015	6,483
At 31 December 2015/1 January 2016	3,828
At 31 December 2016	1,194

11. Loans and borrowings

	2016 RM'000	2015 RM'000
Current		
Revolving credit - unsecured	150,000	345,000
Long-term loan - unsecured	65,946	40,696
	215,946	385,696
Non-current		
Long-term loan - unsecured	92,014	158,126
	307,960	543,822

- (a) In April 2012, the Company entered into a 5-year Working Capital Facility Agreement of up to RM900 million with several financial institutions for working capital requirements. This facility was reduced to RM500 million effective October 2016 due to partial cancellation.
- (b) In 2014, the Company entered into two 5-year Term Loan Facility Agreement of RM100 million each with Malayan Banking Berhad and CIMB Bank Berhad. In April 2016, CIMB Bank Berhad transferred the facility to Affin Bank Berhad.

NOTES TO THE FINANCIAL STATEMENTS

12. Trade and other payables

	2016 RM'000	2015 RM'000
Trade		
Trade payables	862,472	482,690
Non-trade		
Other payables	31,545	24,866
Accrued expenses	76,512	42,989
Duties and tax payables	30,761	64,838
Amounts due to related companies	-	94
	1,001,290	615,477

Accrued expenses

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

Related party balances

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

13. Retirement benefits obligations

	2016 RM'000	2015 RM'000
Retirement benefits obligations		
- Current	6,145	5,809
- Non-current	42,431	41,290
	48,576	47,099

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

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

13. Retirement benefits obligations (continued)

Movement in retirement benefits obligations

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

	2016 RM'000	2015 RM'000
At 1 January	47,099	46,756
Included in profit or loss		
Current service cost	2,623	2,612
Interest cost	2,431	2,442
	5,054	5,054
Included in other comprehensive income		
Remeasurement of retirement benefits obligations		
Actuarial loss/(gain) arising from:		
- Experience adjustments	1,526	(1,163)
Others		
Benefits paid	(5,297)	(3,199)
Benefits payable	-	(349)
Transfer from affiliate	194	-
	(5,103)	(3,548)
At 31 December	48,576	47,099

Actuarial assumptions

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

	2016 %	2015 %
Discount rate	5.5	5.5
Future salary growth	6.0	6.0

At 31 December 2016, the weighted average duration of the defined benefit obligation was 7.38 years (2015: 7.42 years).

NOTES TO THE FINANCIAL STATEMENTS

13. Retirement benefits obligations (continued)

Sensitivity analysis

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

	Retirement benefits obligations			
	2016		2015	
	Increase RM'000	Decrease RM'000	Increase RM'000	Decrease RM'000
Discount rate (1% movement)	(3,184)	3,640	(3,097)	3,530
Future salary growth (1% movement)	4,018	(3,582)	4,971	(4,412)

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

14. Deferred tax liabilities

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Property, plant and equipment	-	-	(74,051)	(69,933)	(74,051)	(69,933)
Retirement benefits obligations	5,073	4,704	-	-	5,073	4,704
Other items	5,692	1,257	(542)	(139)	5,150	1,118
Net tax assets/(liabilities)	10,765	5,961	(74,593)	(70,072)	(63,828)	(64,111)

Movement in temporary differences during the year

	At 1.1.2015 RM'000	Recognised in profit or loss (Note 21) RM'000	Recognised directly in equity (Note 21) RM'000	At 31.12.2015/ 1.1.2016 RM'000	Recognised in profit or loss (Note 21) RM'000	Recognised directly in equity (Note 21) RM'000	At 31.12.2016 RM'000
Property, plant and equipment	(50,197)	(19,736)	-	(69,933)	(4,118)	-	(74,051)
Retirement benefits obligations	4,703	280	(279)	4,704	3	366	5,073
Tax losses carry-forward	4,945	(4,945)	-	-	-	-	-
Other items	2,364	(1,246)	-	1,118	4,032	-	5,150
Net tax liabilities	(38,185)	(25,647)	(279)	(64,111)	(83)	366	(63,828)

15. Capital and reserves

Share capital

	Amount 2016 RM'000	Number of shares 2016 '000	Amount 2015 RM'000	Number of shares 2015 '000
Authorised:				
Ordinary shares of RM0.50 each	150,000	300,000	150,000	300,000
Issued and fully paid shares:				
Ordinary shares of RM0.50 each	135,000	270,000	135,000	270,000

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

Capital redemption reserves

The Company's capital redemption reserves arose from redemption of 8,000,000 preference shares in 1986.

16. Revenue

	2016 RM'000	2015 RM'000
Sales to related companies	1,607,466	1,780,594
Third party sales	5,982,198	6,364,473
	7,589,664	8,145,067
Credit card merchandise fees	19	(55)
Other revenues and rebates	12,384	4,976
Allied business rental	410	305
	7,602,477	8,150,293

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

Included in other revenues and rebates are revenues from processing third-party crude amounting to RM7,588,000 (2015: RM Nil).

NOTES TO THE FINANCIAL STATEMENTS

17. Finance income

	2016 RM'000	2015 RM'000
Interest income of financial assets that are not at fair value through profit or loss:		
- Advances to a related company	1,031	631
- Other finance income	251	411
	1,282	1,042

18. Finance costs

	2016 RM'000	2015 RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss:		
- Loans	18,930	36,072
- Other finance costs	13,299	12,057
	32,229	48,129

19. Profit before tax

	2016 RM'000	2015 RM'000 Restated
Profit before tax is arrived at after charging:		
Audit fees	358	341
Foreign exchange		
- Realised loss	4,509	52,387
- Unrealised loss	2,391	-
Hire of plant and machinery	1,058	261
Impairment loss on trade receivables	-	3
Intangible assets		
- Amortisation	2,634	2,655
Long-term assets		
- Amortisation		
- Prepaid lease rentals	13,055	10,634
- Marketing assistance to dealers	4,251	3,587
- Others	15,001	6,064
- Write off	75	-
Loss on derivatives	36,824	-
Personnel expenses (including key management personnel)		
- Contributions to Employees' Provident Fund	6,294	6,115
- Wages, salaries and others	55,298	54,264
- Retirement benefits	5,054	5,054
Property, plant and equipment		
- Depreciation	61,714	60,560
- Write off	2,838	8,440
Property rental	3,543	3,646
Repair and maintenance	40,596	35,866
Trucking cost	43,660	44,982
Write down of inventories	-	4,481
and after crediting:		
Gain on derivatives	-	117,389
Gain on disposal of property, plant and equipment	732	383
Licence fees	39,072	36,331
Unrealised foreign exchange gain	-	581

NOTES TO THE FINANCIAL STATEMENTS

20. Other comprehensive (loss)/income

	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000
2016			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	(1,526)	366	(1,160)
2015			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	1,163	(279)	884

21. Tax expense

Recognised in profit or loss

	2016 RM'000	2015 RM'000
Current tax expense		
- Current year	91,645	59,971
- Prior years	(6,242)	-
Real Property Gains Tax		
- Prior year	(53)	(1)
Total current tax recognised in profit or loss	85,350	59,970
Deferred tax expense		
Origination and reversal of temporary differences	(4,116)	25,472
Under provision in prior years	4,199	175
Total deferred tax recognised in profit or loss	83	25,647
Total income tax expense	85,433	85,617

21. Tax expense (continued)**Reconciliation of tax expense**

	2016 RM'000	2015 RM'000
Profit before tax	322,984	306,216
Income tax calculated using Malaysian tax rate of 24% (2015: 25%)	77,516	76,554
Reduction in tax rate	-	(1,144)
Non-deductible expenses	10,189	10,147
Tax-exempt income	(176)	(114)
(Over)/Under provision in prior years	(2,096)	174
	85,433	85,617
Income tax recognised directly in equity		
Retirement benefits obligations		
- Deferred tax	(366)	279

22. Earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2016 was based on the profit attributable to ordinary shareholders and the number of ordinary shares in issue, calculated as follows:

	2016	2015
Net profit attributable to ordinary shareholders (RM'000)	237,551	220,599
Number of ordinary share units in issue ('000)	270,000	270,000
Basic earnings per ordinary share (sen)	88.0	81.7

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

NOTES TO THE FINANCIAL STATEMENTS

23. Dividends

Dividend recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2016			
Final 2015 ordinary (single tier)	20	54,000	24 June 2016

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

	Sen per share	Total amount RM'000
Final 2016 ordinary (single tier)	22	59,400

24. Operating segment

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

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

	2016 RM'000	2015 RM'000
Foreign	583,620	713,689
Domestic	7,018,857	7,436,604
	7,602,477	8,150,293

Major customers

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

	2016 RM'000	2015 RM'000
Related party		
- Company A	1,607,466	1,780,594

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

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

25. Financial instruments

25.1 Categories of financial instruments

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

- (a) Loans and receivables (“L&R”);
- (b) Fair value through profit or loss (“FVTPL”):
 - Held for trading (“HFT”); and
- (c) Financial liabilities measured at amortised cost (“FL”).

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL- HFT RM'000
2016			
Financial assets			
Trade and other receivables	486,023	486,023	-
Cash and cash equivalents	171,640	171,640	-
Derivative financial assets	2,958	-	2,958
	660,621	657,663	2,958
Financial liabilities			
Loans and borrowings	(307,960)	(307,960)	-
Trade and other payables	(1,001,290)	(1,001,290)	-
Derivative financial liabilities	(21,702)	-	(21,702)
	(1,330,952)	(1,309,250)	(21,702)
2015			
Financial assets			
Trade and other receivables	315,910	315,910	-
Cash and cash equivalents	159,274	159,274	-
Derivative financial assets	10,991	-	10,991
	486,175	475,184	10,991
Financial liabilities			
Loans and borrowings	(543,822)	(543,822)	-
Trade and other payables	(615,477)	(615,477)	-
Derivative financial liabilities	(11,495)	-	(11,495)
	(1,170,794)	(1,159,299)	(11,495)

NOTES TO THE FINANCIAL STATEMENTS

25. Financial instruments (continued)

25.2 Net gains and losses arising from financial instruments

	2016 RM'000	2015 RM'000
Net (losses)/gains on:		
Fair value through profit or loss:		
- Held for trading	(36,824)	117,389
Financial liabilities measured at amortised cost		
- Finance costs	(32,229)	(48,129)
- Unrealised foreign exchange (loss)/gain	(3,561)	514
- Realised foreign exchange loss	(3,870)	(95,036)
	(39,660)	(142,651)
Loans and receivables		
- Finance income	1,282	1,042
- Impairment loss on trade receivables	-	(3)
- Unrealised foreign exchange gain	1,170	67
- Realised foreign exchange (loss)/gain	(639)	42,649
	1,813	43,755
	(74,671)	18,493

25.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

25.4 Credit risk

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

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

25. Financial instruments (continued)

25.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral (continued)

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than its credit term, which are deemed to have higher credit risk, are monitored individually.

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

	2016 RM'000	2015 RM'000
Domestic	83,336	53,809
Foreign	107,559	77,760
	190,895	131,569

Impairment losses

The Company maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2016			
Not past due	190,507	-	190,507
Past due 1 - 90 days	360	-	360
Past due 91 - 180 days	-	-	-
Past due 181 - 365 days	28	-	28
Past due more than 365 days	512	(512)	-
	191,407	(512)	190,895
2015			
Not past due	131,183	-	131,183
Past due 1 - 90 days	181	-	181
Past due 91 - 180 days	196	-	196
Past due 181 - 365 days	-	-	-
Past due more than 365 days	521	(512)	9
	132,081	(512)	131,569

No allowance for impairment losses of trade receivables has been made for the remaining past due receivables as the Company monitors the results and repayments of these customers regularly and is confident of the ability of the customers to repay the balances owing.

NOTES TO THE FINANCIAL STATEMENTS

25. Financial instruments (continued)

25.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

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

	2016 RM'000	2015 RM'000
At 1 January	512	1,585
Allowance made during the year	-	3
Write off	-	(1,076)
At 31 December	512	512

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

Inter-company advances

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

Impairment losses

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

25.5 Liquidity risk

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

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

25. Financial instruments (continued)

25.5 Liquidity risk (continued)

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

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

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

Maturity analysis

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

	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2016						
<i>Non-derivative financial liabilities</i>						
Trade and other payables	1,001,290	-	1,001,290	1,001,290	-	-
Loans and borrowings						
Revolving credit	150,000	6.0%	159,000	159,000	-	-
Term loan	157,960	5.2%	169,675	73,345	69,929	26,401
	1,309,250		1,329,965	1,233,635	69,929	26,401
<i>Derivative financial liabilities</i>						
Forward exchange contracts (gross settled):						
Outflow	-	-	549,511	549,511	-	-
Inflow	(2,259)	-	(551,770)	(551,770)	-	-
Commodity swaps (gross settled):						
Outflow	21,003	-	108,456	108,456	-	-
Inflow	-	-	(87,453)	(87,453)	-	-
	1,327,994		1,348,709	1,252,379	69,929	26,401

NOTES TO THE FINANCIAL STATEMENTS

25. Financial instruments (continued)

25.5 Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM'000	Contractual interest rate/ coupon	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2015						
<i>Non-derivative financial liabilities</i>						
Trade and other payables	615,477	-	615,477	615,477	-	-
Loans and borrowings						
Revolving credit	345,000	6.2%	366,425	366,425	-	-
Term loan	198,822	5.3%	221,311	51,418	73,097	96,796
	1,159,299		1,203,213	1,033,320	73,097	96,796
<i>Derivative financial liabilities</i>						
Forward exchange contracts (gross settled):						
Outflow	270	-	240,953	240,953	-	-
Inflow	-	-	(240,683)	(240,683)	-	-
Commodity swaps (gross settled):						
Outflow	234	-	58,417	58,417	-	-
Inflow	-	-	(58,183)	(58,183)	-	-
	1,159,803		1,203,717	1,033,824	73,097	96,796

25.6 Market risk

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

25.6.1 Currency risk

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

Risk management objectives, policies and processes for managing the risk

The Company uses forward exchange contracts to hedge its foreign currency risk. All of the forward contracts have maturities of less than 180 days after the end of the reporting period.

25. Financial instruments (continued)

25.6 Market risk (continued)

25.6.1 Currency risk (continued)

Exposure to foreign currency risk

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

	Denominated in			
	USD RM'000	JPY RM'000	SGD RM'000	GBP RM'000
2016				
Cash and cash equivalents	45,240	-	-	-
Trade and other receivables	107,559	-	-	-
Trade and other payables	(779,419)	(866)	(231)	(134)
Net exposure	(626,620)	(866)	(231)	(134)
2015				
Cash and cash equivalents	36,393	-	-	-
Trade and other receivables	77,760	-	-	-
Trade and other payables	(361,522)	-	(173)	-
Net exposure	(247,369)	-	(173)	-

Currency risk sensitivity analysis

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

A 10% (2015:10%) strengthening of the RM against USD at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Profit or loss	
	2016 RM'000	2015 RM'000
USD	47,623	18,553

A 10% (2015:10%) weakening of RM against USD at the end of the reporting period would have had equal but opposite effect on the above currency to the amounts shown above, on the basis that all other variables remained constant.

NOTES TO THE FINANCIAL STATEMENTS

25. Financial instruments (continued)

25.6 Market risk (continued)

25.6.2 Interest rate risk

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

Risk management objectives, practice and processes for managing the risk

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

Exposure to interest rate risk

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

	2016 RM'000	2015 RM'000
Floating rate instruments		
Financial liabilities	(307,960)	(543,822)

Interest rate risk sensitivity analysis

Cash flow sensitivity analysis for variable rate instruments

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

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

	Profit or loss			
	2016		2015	
	10 bp increase RM'000	10 bp decrease RM'000	10 bp increase RM'000	10 bp decrease RM'000
Floating rate instruments	(2)	2	(7)	7

25. Financial instruments (continued)

25.7 Fair value information

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

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

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2016										
Financial assets										
Forward exchange contracts	-	2,336	-	2,336	-	-	-	-	2,336	2,336
Commodity swaps	-	622	-	622	-	-	-	-	622	622
	-	2,958	-	2,958	-	-	-	-	2,958	2,958
Financial liabilities										
Forward exchange contracts	-	(77)	-	(77)	-	-	-	-	(77)	(77)
Commodity swaps	-	(21,625)	-	(21,625)	-	-	-	-	(21,625)	(21,625)
Loans and borrowings	-	-	-	-	-	-	(307,960)	(307,960)	(307,960)	(307,960)
	-	(21,702)	-	(21,702)	-	-	(307,960)	(307,960)	(329,662)	(329,662)

NOTES TO THE FINANCIAL STATEMENTS

25. Financial instruments (continued)

25.7 Fair value information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2015										
Financial assets										
Forward exchange contracts	-	269	-	269	-	-	-	-	269	269
Commodity swaps	-	10,722	-	10,722	-	-	-	-	10,722	10,722
	-	10,991	-	10,991	-	-	-	-	10,991	10,991
Financial liabilities										
Forward exchange contracts	-	(539)	-	(539)	-	-	-	-	(539)	(539)
Commodity swaps	-	(10,956)	-	(10,956)	-	-	-	-	(10,956)	(10,956)
Loans and borrowings	-	-	-	-	-	-	(543,822)	(543,822)	(543,822)	(543,822)
	-	(11,495)	-	(11,495)	-	-	(543,822)	(543,822)	(555,317)	(555,317)

25. Financial instruments (continued)

25.7 Fair value information (continued)

Level 2 fair value

Derivatives

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For other borrowings, the market rate of interest is determined by reference to similar borrowing arrangements.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2015: no transfer in either directions).

Level 3 fair value

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

Financial instruments not carried at fair value

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

26. Capital management

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

The debt-to-equity ratios as at 31 December 2016 and at 31 December 2015 were as follows:

	2016 RM'000	2015 RM'000
Total loans and borrowings (Note 11)	307,960	543,822
Total equity	1,163,897	981,506
Debt-to-equity ratios	0.26	0.55

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

NOTES TO THE FINANCIAL STATEMENTS

27. Operating leases

Leases as lessee

	2016 RM'000	2015 RM'000
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	742	763
Between one and five years	1,797	2,312
More than five years	1,930	3,478
	4,469	6,553

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

28. Capital and other commitments

	2016 RM'000	2015 RM'000
Capital expenditure commitments		
Property, plant and equipment		
Authorised but not contracted for	118,251	76,864
Contracted but not provided for	41,781	40,129
	160,032	116,993

Included in the above are non-contracted and contracted for the joint venture assets of the MPP amounting to RM Nil and RM350,000 respectively (2015: non-contracted: RM Nil; contracted: RM3,885,000).

29. Other proceeding

An action was filed against the Company by its former transportation contractor, Konsortium Lord Saberkat Sdn. Bhd. ("KLSSB"), in 2014. The claim against the Company amounted to approximately RM41,091,000. The High Court in Kuala Lumpur, on 30 June 2015, delivered Judgment on the lawsuit and dismissed most of KLSSB's claims but nevertheless ruled that a sum of RM3,387,000 was payable by the Company to KLSSB including interest on the said sum (at the rate of 5% per annum from the date of the filing of the Writ of Summons until the date of full and final settlement) and costs of RM15,000.

On 13 July 2015, in a clarification on the Judgment, the High Court ruled that an additional sum of RM352,000 to be part of the sum payable by the Company to KLSSB.

The Company filed a notice of appeal with the Court of Appeal on 21 July 2015 in relation to parts of the Judgment that were against the Company namely: (1) the sum of RM3,739,000 (inclusive of the RM352,000 per clarification on the Judgment by High Court), (2) interest on the said sum (at the rate of 5% per annum from the date of filing of the Writ of Summons until the date of full and final settlement) payable by the Company to KLSSB; and (3) costs of RM15,000 payable by Company to KLSSB.

29. Other proceeding (continued)

Further, on 24 July 2015, KLSSB filed a notice of appeal with the Court of Appeal in relation to parts of the Judgment where most of KLSSB's claims were dismissed.

On 10 December 2015, the Court of Appeal held that all KLSSB's appeal was dismissed and the Company's appeal on 21 July 2015 was allowed. The Company was also awarded cost of RM30,000. Following the Court of Appeal's decision, KLSSB on 6 January 2016 filed a motion to seek leave to appeal to the Federal Court ("the Motion"). On 8 November 2016, the Federal Court dismissed the Motion by KLSSB, with an order for costs of RM10,000 in favour of the Company.

Subsequently, a notice of motion for a review of the Federal Court decision ("Motion for Review") was then served by KLSSB's solicitors to the Company's solicitors on 13 December 2016. However, the Company has been advised by its solicitors that there are very strong and good grounds to resist the Motion for Review filed by KLSSB. On 15 December 2016, the Company has therefore instructed its solicitors to take all necessary legal action to defend the Company's position.

The hearing of the Motion for Review is fixed on 3 May 2017.

30. Related parties

Identity of related parties

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company, and certain members of senior management of the Company.

The Company has related party relationship with its holding companies, significant investors, related companies and key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

30. Related parties (continued)

Significant related party transactions

In the ordinary course of business, the Company undertakes transactions with these related parties which include the sales and purchases of products, which are carried out on commercial terms and conditions negotiated amongst the related parties, and the sharing of services and facilities at cost apportioned on a mutually agreed basis.

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Company are shown below. The balances related to the below transactions are shown in Note 5 and 12.

	2016 RM'000	2015 RM'000
Purchases of petroleum products from related companies:		
Petron Fuel International Sdn. Bhd.	849,036	1,013,435
Petron Oil (M) Sdn. Bhd.	-	490
Sales of petroleum products to a related company:		
Petron Fuel International Sdn. Bhd.	1,607,466	1,780,594
Central management, shared facilities and services costs with related companies: Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd.		
Charged from:	76,721	72,028
Charged to:	1,175	1,608
Central management, shared facilities and services costs with intermediate holding company: Petron Corporation		
Charged from:	90	50
Key management personnel:		
<i>Non-Executive Directors</i>		
Fees	222	175
Other short-term employee benefits	132	92
	354	267

31. Interest in joint operations

Details of the joint operations are as follows:

Name of joint operation	Other joint operation parties	Principal place of business	Principal activity	Percentage of ownership	
				2016	2015
Joint Venture Agreement for Multi-Product Pipeline and Distribution Terminal	Petronas Dagangan Berhad (“PDB”) and Shell Malaysia Trading Sendirian Berhad (“SMTSB”)	Port Dickson	Construct, own and operate MPP	20%	20%
Joint Facilities Operating Agreement	Shell Refining Company (“Operator”)	Port Dickson	Construction of the part of the facilities relating to the receipt and carriage of crude and feedstocks as common carrier pipeline facilities	50%	50%

NOTES TO THE FINANCIAL STATEMENTS

32. Supplementary financial information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained earnings of the Company at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, is as follows:

	2016 RM'000	2015 RM'000
Total retained earnings of the Company		
- realised	1,084,857	902,036
- unrealised	(63,960)	(63,530)
Total retained earnings	1,020,897	838,506

The determination of realised and unrealised profits is based on 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 on 20 December 2010.

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

In the opinion of the Directors, the financial statements set out on pages 69 to 113 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 Company as of 31 December 2016 and of its financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 32 on page 114 to the financial statements has been compiled in accordance with Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

.....
Ramon S. Ang

.....
Y. Bhg. Dato' Zainal Abidin Putih

Kuala Lumpur

Date: 22 February 2017

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1) (b) OF THE COMPANIES ACT, 2016

I, **Myrna C. Geronimo**, the officer primarily responsible for the financial management of Petron Malaysia Refining & Marketing Bhd, do solemnly and sincerely declare that the financial statements set out on pages 69 to 114 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named at Kuala Lumpur in the Federal Territory on 22 February 2017.

.....
Myrna C. Geronimo

Before me:

.....
Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PETRON MALAYSIA REFINING & MARKETING BHD

(COMPANY NO. 3927-V) (INCORPORATED IN MALAYSIA)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petron Malaysia Refining & Marketing Bhd, which comprise the statement of financial position as at 31 December 2016, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 69 to 113.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(i) Revenue recognition

Refer to accounting policy Note 2.13(i) and Note 16 of the financial statements.

The key audit matter

Revenue is an important measure used to evaluate the performance of the Company. It is accounted for when the sales transactions have been completed, when goods are delivered to the customer and all economic risks for the Company have been transferred. Revenue generated through certain sectors is susceptible to manipulation as the pricing is dependent on contractual terms rather than publicly available pricing. Whilst revenue recognition and measurement is not complex for the Company, voluminous sales transactions and the sales target which forms part of the Company's key performance measure create incentive to record revenue incorrectly.

INDEPENDENT AUDITORS' REPORT

How the matter was addressed in our audit

We performed the following audit procedures, among others, around revenue recognition:

- We tested operating effectiveness of the key controls over revenue recognition.
- We checked on a sampling basis, the sales transactions to the delivery documents for the year.
- We checked on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to the delivery documents to assess these transactions are recorded in the correct financial year.
- We tested journal entries posted to revenue accounts to identify unusual or irregular items.
- We tested credit notes recorded after the financial year to assess whether revenue has been recognised in the appropriate financial year.

(ii) Valuation of inventories

Refer to accounting policy Note 2.7 and Note 6 of the financial statements.

The key audit matter

Inventory is a significant balance and the valuation of the Company's raw materials and finished goods inventories, is subject to price volatility. The volatility of the crude oil price can therefore lead to potential issues over the full recoverability of inventory balances. There was also judgement involved in estimating the cost of conversion for the raw materials, carried at year end in determining the adequacy of the write down of the raw materials to its net realisable value.

How the matter was addressed in our audit

We performed the following audit procedures, among others, around valuation of inventories:

- We obtained the calculation of test of impairment of its raw materials and finished goods based on the net realisable value of the finished goods around year end.
- For raw material, projected production yield for raw material was used to estimate the cost of conversion for the raw materials as of year end. We assessed the projected yield by comparing it to the actual yield achieved from crude oil production runs during the year. We then compared the estimated cost of finished goods to the net realisable value around year end to determine any potential write down.
- For finished goods, we checked the selling price of various products to the sales invoice around year end. Any write down will be computed based on the difference in the pricing based on the year end inventories amount held.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report and Statement on Risk Management and Internal Control (but does not include the financial statements of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements of the Company, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note 32 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Ong Beng Seng
Approval Number: 2981/05/18(j)
Chartered Accountant

Petaling Jaya, Selangor

Date: 22 February 2017

INFORMATION ON SHAREHOLDINGS

As at 17 March 2017

Class of share : Ordinary Share Unit
Voting right : One vote per share unit

Size of Holdings	No. of Shareholders	% of Shareholders	No. of Units Held	% of Issued Capital
Less than 100	347	4.720	12,059	0.004
100 – 1,000	2,471	33.614	2,122,316	0.786
1,001 – 10,000	3,719	50.591	14,621,428	5.415
10,001 – 100,000	705	9.590	20,582,422	7.623
100,001 – 13,499,999	108	1.469	34,482,712	12.771
13,500,000 and above	1	0.013	198,179,063	73.399
	7,351	100.000	270,000,000	100.000

THIRTY LARGEST SHAREHOLDERS

As at 17 March 2017

Name	No. of Units Held	% of Issued Capital
1. MAYBANK NOMINEES (TEMPATAN) SDN BHD PETRON OIL & GAS INTERNATIONAL SDN BHD	198,179,063	73.399
2. PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN HOCK CHENG (E-BMM)	2,568,000	0.951
3. JOHAN ENTERPRISE SDN BHD	1,600,200	0.592
4. GOH CHOON KIM	1,511,700	0.559
5. RHB INVESTMENT BANK BERHAD IVT "SW BOOK 1"	1,219,900	0.451
6. CITIGROUP NOMINEES (TEMPATAN) SDN BHD KUMPULAN WANG PERSARAAN (DIPERBADANKAN) (CRST SM ESG)	1,191,300	0.441
7. ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH LENG PHEOW (MU006)	1,075,500	0.398
8. TAN KAH HOCK	1,050,100	0.388
9. NEOH CHOO EE & COMPANY, SDN. BERHAD	1,000,000	0.370
10. ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH CHOON KIM	900,000	0.333
11. CIMSEC NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR CIMB SECURITIES (SINGAPORE) PTE LTD (RETAIL CLIENTS)	788,848	0.292
12. PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEE LAK CHYE @ LI CHOY HIN (E-IMO)	748,500	0.277

INFORMATION ON SHAREHOLDINGS

	Name	No. of Units Held	% of Issued Capital
13.	DB (MALAYSIA) NOMINEE (TEMPATAN) SENDIRIAN BERHAD EXEMPT AN FOR KUMPULAN SENTIASA CEMERLANG SDN BHD (TSTAC/CLNT)	575,000	0.212
14.	KUMPULAN WANG SIMPANAN GURU-GURU	539,200	0.199
15.	HLB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN HOCK CHENG	518,000	0.191
16.	HSBC NOMINEES (ASING) SDN BHD EXEMPT AN FOR JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (U.S.A)	491,300	0.181
17.	DB (MALAYSIA) NOMINEE (ASING) SDN BHD SSBT FUND SD4N FOR GOVERNMENT OF THE PROVINCE OF ALBERTA	490,000	0.181
18.	UOB KAY HIAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE (A/C CLIENTS)	480,560	0.177
19.	CITIGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DEVA DASSAN SOLOMON (473163)	438,200	0.162
20.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CEKD VENTURE SDN BHD	406,100	0.150
21.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR JOHN DEVARAJ SOLOMON (8103033)	389,700	0.144
22.	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ASHFAK AHMAD BIN ALARAKHA	374,000	0.138
23.	CHIA KUN JUAN	360,000	0.133
24.	GUNUNG SERAYA EQUITIES SDN BHD	350,000	0.129
25.	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR RONIETAN CHOO SENG (8058147)	340,000	0.125
26.	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TAN SIEW LI	336,900	0.124
27.	LIM SOO HIAN	335,000	0.124

INFORMATION ON SHAREHOLDINGS

	Name	No. of Units Held	% of Issued Capital
28.	SOON HOCK TEONG	330,000	0.122
29.	CHOW YOON CHENG	310,500	0.115
30.	RHB NOMINEES (TEMPATAN) SDN BHD ASHFAK AHMAD BIN ALARAKHA	308,000	0.114
	TOTAL	219,205,571	81.187

SUBSTANTIAL SHAREHOLDER

As at 17 March 2017

	Name	No. of Units Held	% of Issued Capital
I.	MAYBANK NOMINEES (TEMPATAN) SDN BHD PETRON OIL & GAS INTERNATIONAL SDN BHD	198,179,063	73.399

TOP 10 PROPERTIES

AS AT 31 DECEMBER 2016

	Tenure	Land Area (sq m)	Description of properties	Acquisition date	Expiry date	Age	Net Book Value
FEDERAL TERRITORY							
PETRON East-West Link (PBL#302815) Lot 39433, Lebuhraya Hubungan Timur-Barat, 56000 Wilayah Persekutuan	F	3,185	Service station	01.01.2004		13	6,357,649
PETRON Sg. Besi West Highway (PBL#101086) Lot 26494, Mile 6.5 Jalan Sg. Besi, 57100 Wilayah Persekutuan	F	5,669	Service station	01.05.1995		22	5,915,036
PETRON MRR2 Melati (PBL#305552) PT8085, SPK. Jalan Taman Melati, 53100 Wilayah Persekutuan	F	2,992	Service station	01.01.2008		9	7,086,061
SELANGOR							
PETRON Puncak Jalil (PBL#304551) Lot PT 62357, Taman Puncak Jalil, 47100 Puncak Jalil, Selangor	L	4,047	Service station	06.01.2004	09.06.2103	13	5,974,193
PETRON Bukit Sentosa (PBL#101464) Lot 4844, Jalan Orkid 2B, Seksyen BS2, Bukit Sentosa, 48300 Rawang, Selangor	F	3,035	Service station	22.07.1997		20	5,294,363
PENANG							
Bagan Luar Terminal Lot 95-125, 128, Lot 2327-2338, Section 4, Butterworth, Seberang Perai Utara, Pulau Pinang	F	44,024	Storage and distribution terminal	Revalued in 1982		57	11,459,538
PETRON Jalan Jelawat (PBL#303054) Lot 5371, Jalan Jelawat, Mukim I, 13700 Seberang Jaya, Pulau Pinang	L	3,693	Service station	01.07.2003	18.08.2073	14	6,196,653
PETRON Jalan Hussein Onn (PBL#101346) Lot 2188 (1445), Jalan Hussein Onn, 13700 Butterworth, Pulau Pinang	F	3,488	Service station	30.09.2001		16	5,252,785
NEGERI SEMBILAN							
Port Dickson Refinery Lot 1222, 1593-1595, 1757, 1803, 1805, 1836, 1838, 1926-1930, 2278, 2645-2648 Mukim Port Dickson	F	1,631,970	Refinery, storage and distribution terminal	Revalued in 1982		57	11,159,825
MPP and KVDT	L	776,700	MPP/KVDT facilities	01.03.2001	01.02.2100	16	19,293,558

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Eighth Annual General Meeting of the Company will be held at the BALLROOM, MANDARIN ORIENTAL KUALA LUMPUR, KUALA LUMPUR CITY CENTRE, 50088 KUALA LUMPUR, on Thursday, 15 June 2017 at 2:00p.m., for the purpose of transacting the following business:

1. To receive the Company's Audited Accounts for the year ended 31 December 2016 and the Directors' and Auditors' Reports thereon.
2. To approve the declaration of final dividend of 22 sen per ordinary share under single tier system for the year ended 31 December 2016. (Resolution 1)
3. (a) To re-elect Mr. Lubin B. Nepomuceno, retiring in accordance to Articles 104 and 105 of the Company's Articles of Association; (Resolution 2)
(b) To re-elect Y. Bhg. Dato' Zuraidah Atan, retiring in accordance to Articles 104 and 105 of the Company's Articles of Association. (Resolution 3)
4. To appoint Y. Bhg. Dato' Zainal Abidin Putih, who has served for more than nine (9) years, as an Independent Director in compliance with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012. (Resolution 4)
5. To elect Mr. Fong Seow Kee retiring pursuant to Article 109 of the Company's Articles of Association. (Resolution 5)
6. To approve the payment of Directors' Fees for the Independent Directors. (Resolution 6)
7. To appoint Messrs KPMG PLT as Auditors of the Company and to authorise the Directors to determine their remuneration. (Resolution 7)
8. To transact any other ordinary business of the Company.

NOTICE OF BOOK CLOSURE

NOTICE IS HEREBY GIVEN that:

For purpose of attendance at the Annual General Meeting: shareholders who are registered in the Register of Members and Record of Depositors as at the close of business on 7 June 2017.

For purposes of dividend entitlement: shareholders who are registered in the Register of Members and Record of Depositors as at the close of business on 20 June 2017, shall be entitled to the final dividend which, if approved by the shareholders at the Annual General Meeting, will be paid on 30 June 2017.

A shareholder shall qualify for entitlement only in respect of:

- (a) Securities transferred to the Depositor's Securities Account before 4:00p.m. on 20 June 2017 in respect of transfers;
- (b) Securities deposited into the Depositor's Securities Account before 12:30p.m. on 16 June 2017 in respect of securities which are exempted from mandatory deposit; and
- (c) Securities bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board,
Manoj Devadasan (LS0006885)
Company Secretary
Kuala Lumpur
28 April 2017

Note:

A Member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the Member. A proxy need not be a member of the Company. Where a member is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, that hold shares for multiple beneficiaries in one securities account ("Omnibus Account"), there is no limit on the number of proxies it may appoint in respect of such Omnibus Account. The instrument appointing a proxy shall be deposited at the Share Registrar's office at Unit 32-01, Level 32, Tower A, Vertical Business Suite Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than 48 hours before the time set for the Annual General Meeting.

On the day of the Annual General Meeting:

1. Registration counters (located outside the Ball Room at Mandarin Oriental Kuala Lumpur) will be opened from 11:30a.m. and will close at 2:15p.m.
2. Refreshments will be served at the same place from 11:30a.m to 2:15p.m (subject to availability).

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

1. Directors standing for election/re-election/appointment

- Mr. Lubin B. Nepomuceno and Y. Bhg. Dato' Zuraidah Atan, retire by rotation and are eligible for re-election pursuant to Articles 104 and 105 of the Company's Articles of Association.
- Independent Director, Mr. Fong Seow Kee, age 60, was appointed to the Board on 18 August 2016, retires pursuant to Article 109 of the Company's Articles of Association and is eligible to be elected to the Board of Directors.
- Y. Bhg. Dato' Zainal Abidin Putih, age 71, is an Independent Director of the Company. As Y. Bhg. Dato' Zainal Abidin Putih has served on the Board for more than nine (9) years, in compliance with Recommendation 3.3 of the Malaysian Code on Corporate Governance, he will retire. The Board is however desirous of appointing Y. Bhg. Dato' Zainal Abidin Putih for another term as an Independent Director. The Board is of the opinion that Y. Bhg. Dato' Zainal Abidin Putih, who is also the Chairman of the Board Audit & Risk Management Committee, has a wealth of experience and knowledge about the Company's business and the oil & gas industry and can greatly contribute to the Board.
- The Nominating Committee following its annual evaluation of the Board's performance, concluded that Mr. Lubin B. Nepomuceno, Y. Bhg. Dato' Zuraidah Atan, Y. Bhg. Dato' Zainal Abidin Putih and Mr. Fong Seow Kee, in performing their duties as Directors, had met and/or exceeded expectations. The Board (based on representations by the Nominating Committee) recommends to the shareholders that Mr. Lubin B. Nepomuceno, Y. Bhg. Dato' Zuraidah Atan, Y. Bhg. Dato' Zainal Abidin Putih and Mr. Fong Seow Kee be re-elected/appointed/elected to the Board.

2. Mode of Voting

In line with the recommendation of the Malaysian Code on Corporate Governance 2012, and for the purpose of providing fair representation of votes based on shareholding, voting at the Annual General Meeting shall be by Poll.

3. Details of Directors standing for election/re-election/appointment

(i) Profiles

The profiles of the Directors standing for election/re-election/appointment are set out in pages 34 to 37 of the Annual Report.

(ii) Statement of shareholdings

None of the Directors standing for election/re-election/appointment holds shares in the Company.

(iii) Family relationship

None of the Directors standing for election/re-election/appointment have any family relationship with any Director and/or major shareholder of the Company.

(iv) Conflicts of Interest

None of the Directors standing for election/re-election/appointment have any conflicts of interest with the Company.

(v) Conviction for offences (excluding traffic offences), sanctions or penalty

None of the Directors standing for election/re-election/appointment has been convicted for offences within the past five (5) years nor were there any directors imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year.



PROXY FORM

I/We _____ (Name of Company/Business/individual's full name
in Block Capitals (as per NRIC)), NRIC/Company No. _____ (new) _____ (old)
of _____ (full address)
being a member/members of the Company, hereby appoint _____ (full name of proxy)
NRIC/Company No. _____ (new) _____ (old)
of _____ (full address)

or failing which the Chairman of the Annual General Meeting as my/our Proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 15 June 2017 at 2:00p.m. and at any adjournment thereof.

My/Our instruction to my/our proxy (on each Agenda Item as per the Notice of Meeting) are as follows:

Agenda Item		For	Against
1.	Receive Company's Audited Accounts	-NIL-	-NIL-
2.	Approve the declaration of dividend		
3.	(a) Re-elect Mr. Lubin B. Nepomuceno		
	(b) Re-elect Y. Bhg. Dato' Zuraidah Atan		
4.	Appointment of Y. Bhg. Dato' Zainal Abidin Putih		
5.	Elect Mr. Fong Seow Kee		
6.	Payment of Independent Directors' Fees for 2017		
7.	Appoint KPMG PLT as Auditors and authorise the Directors to determine their remuneration		
8.	Any other business		

(Please indicate an "X" in the spaces provided on how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his/her discretion)

Signature/Common Seal

Number of shares held : _____

Date : _____

Notes:

A Member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the Member. In the case of a corporation, the Proxy Form must be executed under the corporation's Common Seal or under the hand of an officer or attorney duly authorised. A Member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of the Member. A proxy need not be a member of the Company. Where a member is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991, which hold shares for multiple beneficiaries in one securities account ("Omnibus Account"), there is no limit on the number of proxies it may appoint in respect of such Omnibus Account. The instrument appointing a proxy shall be deposited at the Share Registrar's office at **Unit 32-01, Level 32, Tower A, Vertical Business Suite Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur** or alternatively, the **Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur**, not less than 48 hours before the time set for the meeting.

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AFFIX
STAMP
HERE

The Share Registrar
TRICOR INVESTOR & ISSUING HOUSE SERVICES SDN BHD
Unit 32-01, Level 32, Tower A, Vertical Business Suite,
Avenue 3, Bangsar South,
No. 8, Jalan Kerinchi,
59200 Kuala Lumpur, Malaysia

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PETRON MALAYSIA REFINING & MARKETING BHD

(Company No. 3927-V)

Level 12A, Menara I & P1,

No. 46 Jalan Dungun, Damansara Heights,

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