

CFO's Review

For the year under review, we achieved commendable revenue growth and strong financial performance by strategically positioning PETRONAS Dagangan Berhad (PDB) to capitalise on market demand opportunities and generate value through our business segments. The Group recorded Profit Before Taxation (PBT) of RM1,331.6 million, an increase of 17% against 2022.



FARZLINA AHMAD MURAD

Chief Financial Officer

Financial Performance

Revenue
RM37,549.3
million

Dividend Declared
80
sen

Profit Before Tax
RM1,331.6
million

Dividend Payout Ratio
91%

Total Assets
RM11,487.0
million

EBITDA
RM1,663.6
million

Financial Performance Review

In the financial year 2023 (FY2023), our Retail-Fuel business registered solid profitability, with record-breaking volume performance on the back of strong market demand. The Aviation sector of the Commercial business saw a significant recovery in demand, which surpassed expectations and contributed to our market share expansion. We focused on growing our Non-Fuel business, which enabled us to diversify our sources of revenue to cushion the effects of market volatility.

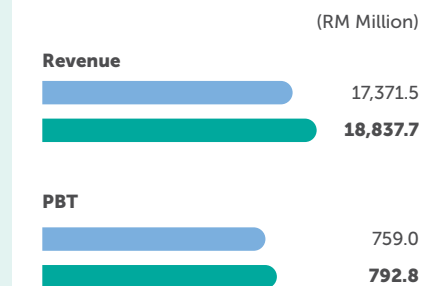
The Group saw its revenue rise by RM800.4 million to RM37,549.3 million, driven by an 8% increase in sales volume but negated by a 6% decline in average selling price. As a result, the Group recorded a Profit Before Taxation (PBT) of RM1,331.6 million, marking an increase of RM196.6 million or 17%. The growth in PBT was primarily due to a higher gross profit, which stemmed from improved margins across all segments and an increase in interest income. These were offset by an increase in operating expenditures.

The rise in operating expenses was largely due to volume-related costs in line with higher volume delivered during the year.

Segmental Review

Our business operates across three key segments, which are Retail, Commercial and Convenience. The Retail segment focuses on the sale and purchase of petroleum products in the retail sector, the Commercial segment caters to the sale and purchase of petroleum products and the provision of services to the commercial sector, while the Convenience segment concentrates on the Non-Fuel business. Our segmental reporting aligns with these three segments to provide clear insights into our business performance.

Retail Segment



● 2022 ● 2023

Retail Segment

Revenue from the Retail segment rose by RM1,466.2 million or 8% to RM18,837.7 million, mainly contributed by an 8% increase in sales volume, reflecting higher demand. PBT recorded for FY2023 stood at RM792.8 million, an increase of RM33.8 million or 4% compared to the previous year. This increase was contributed by higher gross profit from Mogas and Diesel, in line with the increased volume sold during the year. However, this growth was offset by a rise in operating expenditures in line with the higher volume and lower other income, following a one-off gain from the disposal of the LPG business in Sarawak in the prior year.

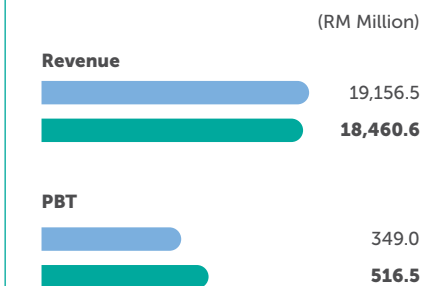
Commercial Segment

The Commercial segment recorded a decrease of RM695.9 million, or 4%, in revenue to RM18,460.6 million. This was mainly attributed to an 11% drop in the average selling price despite a higher sales volume of 9%. A PBT of RM516.5 million was recorded for FY2023, which was an increase of RM167.5 million or 48% compared to the previous year. This was primarily contributed by higher gross profit from Jet A-1 following more stable price trends and increased volume, as well as a rise in interest income. However, this was offset by higher operating expenditures due to increased business activities during the year.

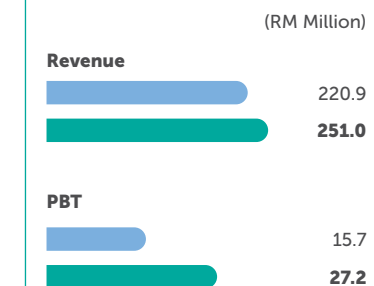
Convenience Segment

The Convenience segment recorded revenue of RM251.0 million for FY2023, an increase of RM30.1 million or 14%, driven by higher demand for *Kedai Mesra* and *Café Mesra* during the year. The PBT for the year under review stood at RM27.2 million, up by RM11.5 million against FY2022, primarily due to higher gross profit from chargeable sales from *Kedai Mesra* and *Café Mesra*. This increase was partially offset by higher operating expenditure in line with Convenience business expansion.

Commercial Segment



Convenience Segment



Group Financial Position

Total Assets

Total assets were recorded at RM11,487.0 million, marking an increase of RM229.4 million or 2%, primarily driven by an increase in trade and other receivables on the back of increased business activities.

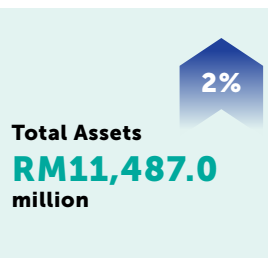
Total Liabilities

Total liabilities rose by RM180.1 million or 3% to RM5,650.2 million, mainly due to an increase in trade and other payables.

Cash Flow

We continued to demonstrate prudent management of operational cash flow, as we effectively controlled costs and optimised efficiency. During the year, net cash used in operating activities was higher by RM2,082.1 million, mainly due to delayed subsidy receipts. Net cash used in investing activities saw an improvement of RM10.5 million as a result of higher interest income earned during the year, which was offset by higher spending on capital expenditures. Net cash used in financing activities was higher by RM288.6 million, attributable to an increase in dividends paid during the year.

In FY2023, PDB had issued RM2.0 million for the Sukuk Wakalah Programmes via Islamic Commercial Papers (ICP) and Islamic Medium Term Notes (IMTN) for working capital purpose.



Shareholder Returns

For the financial year ending on 31 December 2023, we declared total dividends of 80 sen per ordinary share, which translates to a payout ratio of 91%. These dividends reflect our adherence to a dividend policy that commits to distributing 50% of our Profit After Tax (PAT) to our shareholders. Demonstrating our solid performance and strong dedication to shareholder value, we have consistently surpassed this dividend policy target.

Cost Discipline and Spending

PDB steadfastly maintains a rigorous approach to cost discipline, as reflected in our capital expenditure (CAPEX) strategy. Each investment is subjected to stringent evaluation and is closely monitored by the Investment Review Committee to ensure it aligns with our strategic objectives and cost-efficiency principles. We prioritise CAPEX investments essential for health, safety and environmental (HSE) compliance, meet our regulatory obligations or strategically align with PDB's growth objectives while offering sustainable returns. This approach ensures that every ringgit spent is an investment towards our sustainable growth and operational excellence.

In response to the anticipated rise in operating expenses (OPEX), we remained vigilant in monitoring our operational expenditures and prioritised operational efficiency and cost optimisation across all areas. By focusing on our priorities and affordability, we ensured sufficient cash flow to capture market volume following the easing of domestic travel restrictions and targeting high-value clients for healthy margins even amid global market volatility.

Management of Working Capital and Liquidity

PDB diligently oversees its cash flow to maintain a sufficient cash reserve and achieve an optimal working capital position. This strategic financial oversight is essential for establishing a strong safeguard against liquidity risks and ensuring PDB's financial health and operational resilience.

Risk Management

We are committed to maintaining robust risk management as we navigate a landscape of continuous change and uncertainty. In 2023, we focused on strengthening our risk and financial policy frameworks to better anticipate and navigate upcoming challenges.

Enhancing Risk and Financial Policy Frameworks

Our efforts in 2023 were concentrated on improving risk management practices through digitalisation. Key initiatives included the digitalisation of risk reporting by the business lines to enhance efficiency and the timeliness of reporting. We also improved our digital risk framework, including an electronic Business Continuity Plan (e-BCP), to enable real-time updates of critical information by employees to ensure the framework remains current and relevant.

We also introduced FinanceWise, a centralised web portal resource centre. This platform houses all risk-related policies, frameworks and guidelines, providing PDB employees with a user-friendly platform to easily access and identify necessary governing documents.

Management of Financial Risks

Our financial strategy is shaped by identifying key risks, including Market, Strategy, Operation, Financial and Sustainability Risks. These risks drive our strategic planning and risk mitigation efforts to safeguard financial stability and operational resilience.

Credit and liquidity risks stand as our top financial risks. To manage these, we implemented strategies such as assessing the creditworthiness of potential customers,

conducting credit reviews on existing customers, close monitoring and reporting of trade accounts, and ensuring the availability of financing to bridge liquidity gaps caused by late payments from debtors.

PETRONAS Enterprise Risk Management (ERM) Framework

PDB adheres to the PETRONAS Enterprise Risk Management (ERM) framework. We annually review and update our Corporate Risk Profile to capture and register the most pertinent risks facing the company, as well as mitigations to manage these risks effectively.

Our risk profile undergoes a minimum annual review. However, the dynamic operating landscape sometimes necessitates more frequent reviews. A crucial part of the ERM Framework is the focus on continuous improvement, where we regularly review and update our processes and systems to ensure our risk management remains effective. We embarked on climate-related risk assessments, adapting our framework to address the unique characteristics of these risks to ensure that PDB aligns with the disclosures recommended under the Task Force on Climate-related Financial Disclosures (TCFD).



CFO's Review

Building a Culture of Risk Awareness

We are committed to building a culture of risk awareness within PDB. Throughout the year, we collaborated across the business lines to conduct nationwide engagement sessions aimed at elevating risk awareness through workshops and clinics designed to offer a hands-on approach to risk management. We included education on the Three Lines of Defence Model and how key organisational roles can collaborate to advance strong governance and risk management practices towards achieving PDB's Moving Forward Together (MFT) strategy. The Leadership Team demonstrates the tone from the top through their involvement in these sessions.

 For more information on PDB's Risk Management, refer to our Statement on Risk Management and Internal Control (SORMIC) on page 206 and our Key Risks and Mitigation on page 66.

Governance and Compliance

PDB strengthened its governance and compliance in the past year by conducting a comprehensive review of our digital projects. This assessment ensured that our governance and oversight mechanisms on digital projects are adequately established, leading to effective and efficient digital project management. Through the exercise, we have been able to identify gaps and institute improvements to better govern digital project management. We have also enhanced our credit risk monitoring and reporting to tighten controls, which reinforced our financial stability in a volatile economic environment.

We continuously review our Limits of Authority (LOA) across PDB and its subsidiaries to ensure governance and compliance, enhance controls, and align with evolving business needs. This process establishes clear accountability and improves decision-making by ensuring decisions are made where the most relevant knowledge, experience, and perspective exist within the business. These exercises have strengthened controls, aligned with evolving business needs, ensured compliance with governing documents and established clear individual accountability.

We conducted an independent review to ensure our Anti-Corruption Compliance Programme adheres to the T.R.U.S.T. Principles and aligns with ISO 37001: Anti-Bribery Management System standards. As part of PDB's efforts to foster a culture of integrity, we organised a series of Integrity Strengthening and Pledging sessions, which saw the participation of 1,899 employees and 1,788 counterparties. We also actively promoted ethics and integrity awareness through targeted sessions for employees and counterparties. These included organising the annual PDB Integrity Month where all employees collectively embrace the spirit of upholding Ethics and Integrity as well as the completion of the ABC (Anti-Bribery & Corruption) e-Learning Module via PDB Learning Hub on the fundamental principles and application of PETRONAS ABC Manual for PDB counterparties.

Recognising the importance of data privacy, we introduced the Data Protection Impact Assessment (DPIA) and Personal Data Mapping Record processes. These initiatives ensure meticulous management of personal data, aligning with regulatory requirements and mitigating privacy risks. Apart from these, we also completed the adoption of the PDB Data Privacy Manual across our subsidiaries, developed a Privacy Risk Assessment Control Questionnaire for third-party independent review, developed a Data Transfer Agreement that governs the legal obligations in transferring and sharing personal data, and revised PDB's Privacy Notice to ensure a comprehensive notification to the data subject on the processing of their personal data, among others.

In demonstrating the high importance we place on Governance and Compliance, the Data Privacy Officer (DPO) role was established in 2022 under the Compliance Department of the Finance Division. The DPO function will be responsible for ensuring adherence to Group policies, standards and guidelines, as well as compliance with legislative and statutory requirements.

As PDB expands into new business areas beyond fuel, we are ensuring that our governance strategy aligns with the broader financial objectives of the company. We introduced specific Weighted Average Cost of Capital (WACC) calculations for investment appraisal in 2023, which will more accurately account for the different risks and returns these new business ventures present.

 For more information on PDB's Governance and Compliance, refer to our Corporate Governance Overview Statement on page 160, Corporate Integrity and Ethics on page 202, and SORMIC on page 206.

Sustainable practices are fundamental to PDB, helping us comply with regulations, reduce risks and attract financing from institutions valuing EESG considerations.

Driving Sustainability

We integrate sustainability into our business strategy, directly linking it with our financial performance. We allocate budgets specifically for sustainability projects, such as upgrading and solarising facilities for energy efficiency.

Our approach to managing financial risks includes a detailed assessment of environmental, economic, social and governance (EESG) factors to mitigate potential impacts on our business. Sustainable practices are fundamental to PDB, helping us comply with regulations, reduce risks and attract financing from institutions valuing EESG considerations. This focus supports our long-term growth and shareholder value.

To finance our shift towards a more sustainable business model, we have identified sufficient budgets for operational and capital expenditures. Although we have yet to issue green bonds or similar instruments, we proactively manage climate-related financial risks and opportunities, aligning with the TCFD guidelines.

 For more information on PDB's Sustainability efforts, refer to our Sustainability Report on page 87.



Outlook

PDB anticipates several factors to influence our earnings in the coming year. The regulatory changes in fuel retailing, revisions in East Malaysia and diesel quota adjustments are expected to impact our operations. Ensuring optimum asset reliability and safety, especially amid supply chain capacity constraints and during demand surges, remain critical.

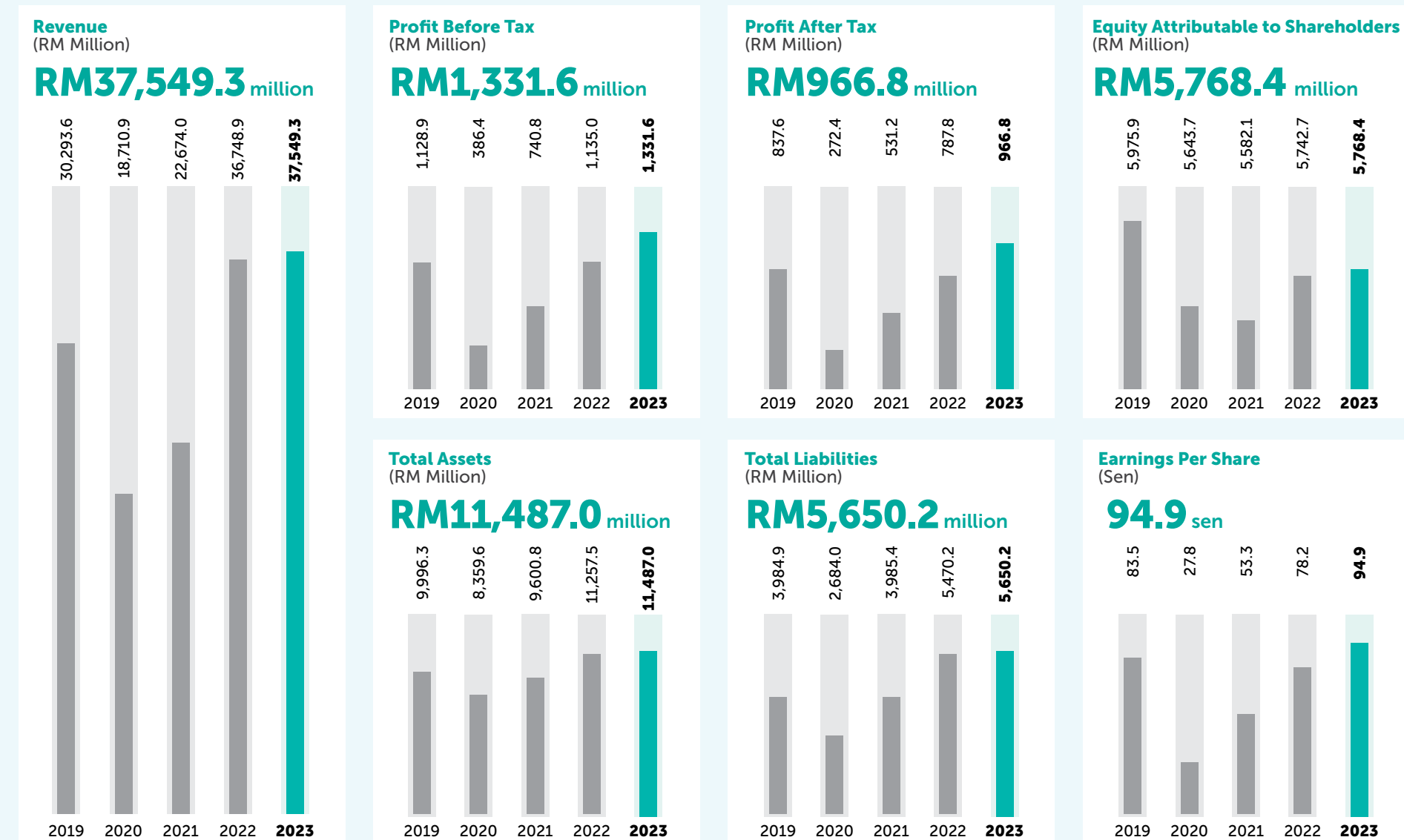
The Budget 2024 announcement, focusing on targeted subsidy rationalisation, allows PDB to align with our MFT strategy. By diversifying and enhancing our service offerings, as well as expanding our Non-Fuel business, we can complement our core business while strategically responding to the evolving operating landscape.

In response, our financial strategies for the upcoming year are aligned to support PDB's growth and operational objectives. We aim to maintain a robust financial outlook by closely monitoring regulatory changes affecting our industry. Our approach emphasises cost discipline in our Core businesses while expanding through Convenience segment and the adoption of cleaner energy solutions. By proactively responding to potential challenges and uncertainties, PDB is committed to sustaining its leadership position and delivering value to our stakeholders.

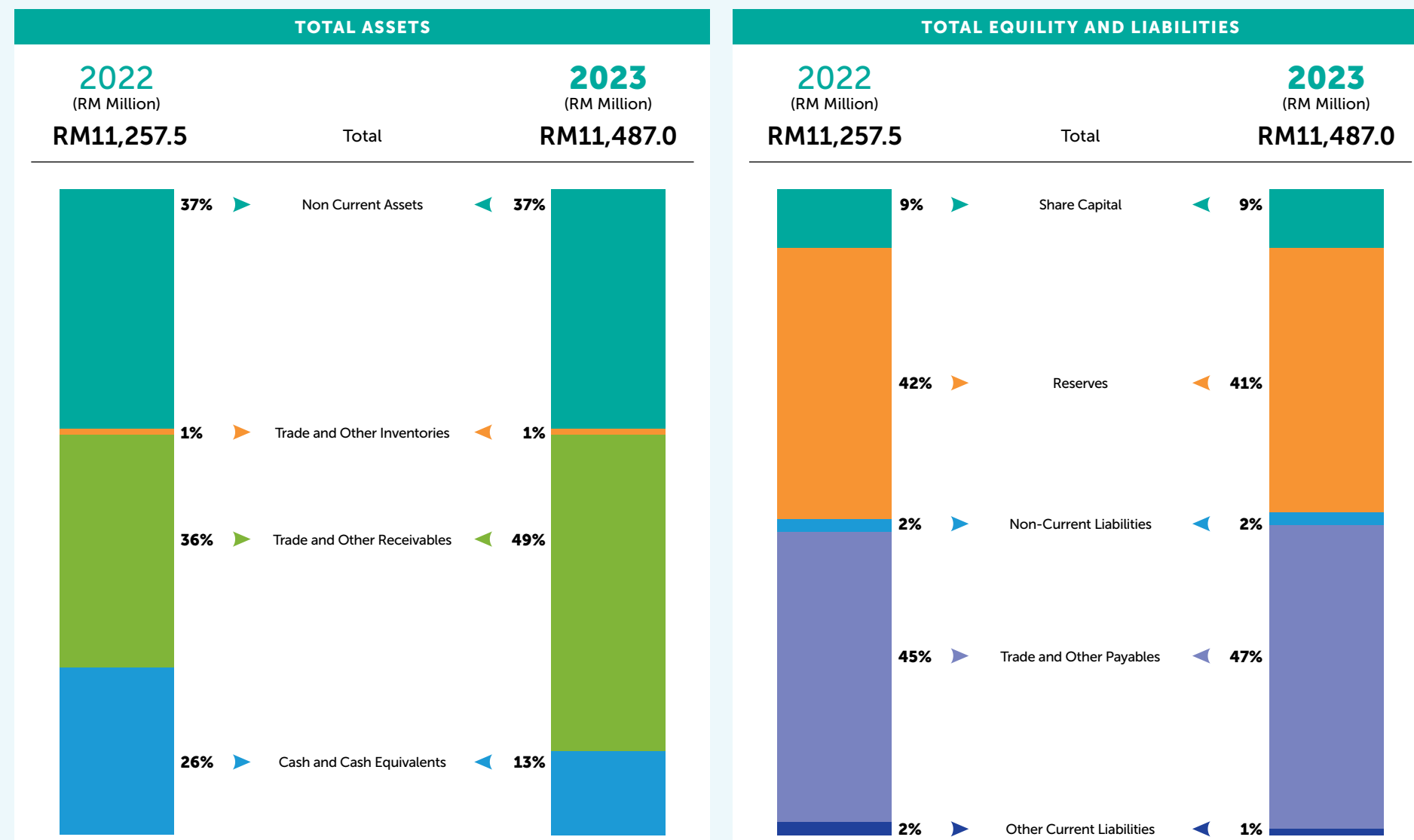
5-YEAR GROUP FINANCIAL HIGHLIGHTS

	FY2019	FY2020	FY2021	FY2022	FY2023
OPERATING RESULTS (RM MILLION)					
Revenue	30,293.6	18,710.9	22,674.0	36,748.9	37,549.3
Operating profit	1,146.8	402.5	751.2	1,148.9	1,351.1
Profit before taxation	1,128.9	386.4	740.8	1,135.0	1,331.6
Net profit attributable to shareholders of the Company	829.5	276.0	529.8	776.6	943.1
Profit after taxation	837.6	272.4	531.2	787.8	966.8
KEY BALANCE SHEET DATA (RM MILLION)					
Property, plant and equipment	4,134.9	4,067.0	4,017.5	4,115.3	4,116.9
Total assets	9,996.3	8,359.6	9,600.8	11,257.5	11,487.0
Total borrowings	334.2	178.2	116.4	184.3	152.2
Total liabilities	3,984.9	2,684.0	3,985.4	5,470.2	5,650.2
Share capital	993.5	993.5	993.5	993.5	993.5
Equity attributable to shareholders	5,975.9	5,643.7	5,582.1	5,742.7	5,768.4
SHARE INFORMATION PER SHARE (SEN)					
Basic earnings	83.5 sen	27.8 sen	53.3 sen	78.2 sen	94.9 sen
Gross dividend	85.0 sen	38.0 sen	70.0 sen	76.0 sen	80.0 sen
Share price as at financial year end (RM)	23.10	21.40	20.60	23.00	21.84
FINANCIAL RATIOS					
Return on revenue	2.8%	1.5%	2.3%	2.1%	2.6%
Return on equity	14.0%	4.8%	9.5%	13.7%	16.8%
Return on total assets	8.4%	3.3%	5.5%	7.0%	8.4%
Debt to equity ratio	5.6%	3.1%	2.1%	3.2%	2.6%
Dividend payout	104.0%	96.0%	102.0%	100.0%	91.0%

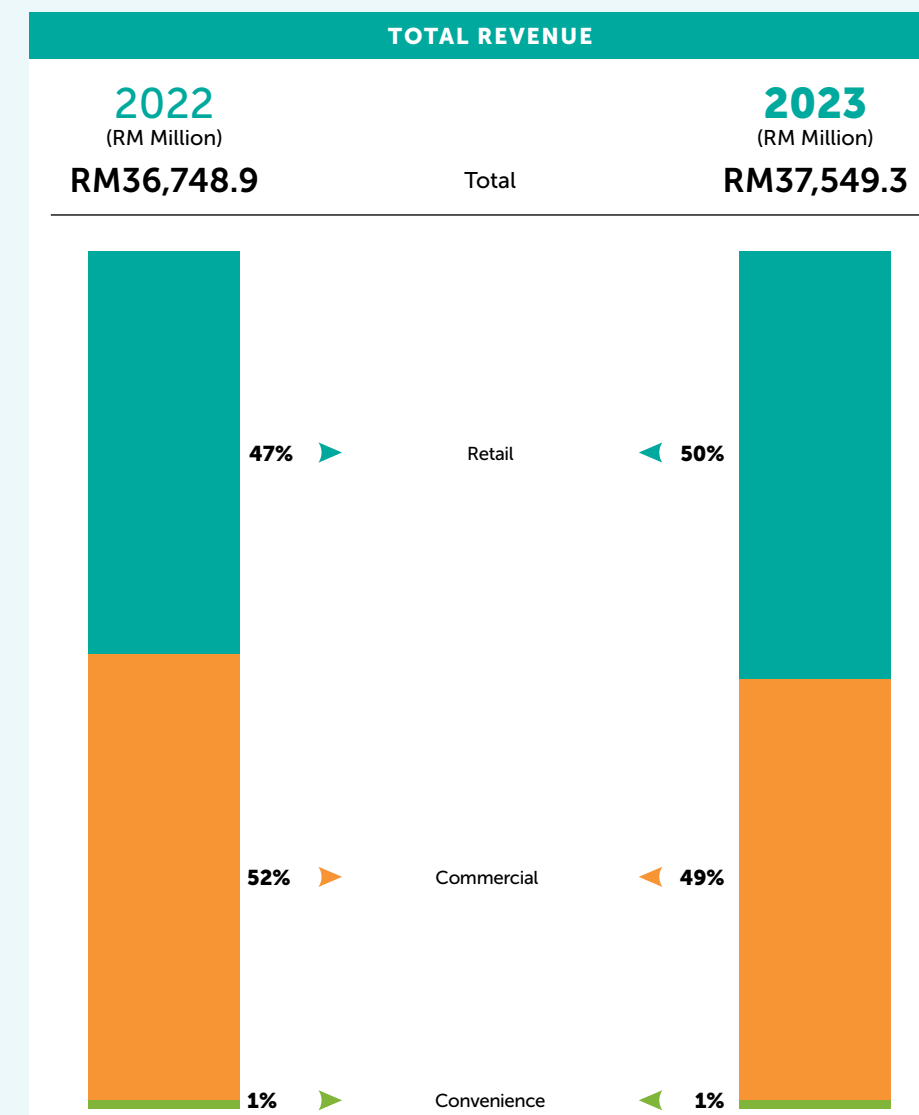
5-YEAR GROUP FINANCIAL SUMMARY



SIMPLIFIED GROUP STATEMENT OF FINANCIAL POSITION



SEGMENTAL ANALYSIS



GROUP QUARTERLY FINANCIAL PERFORMANCE

In RM Million	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2023
Revenue	8,645.5	8,912.5	9,916.0	10,075.3	37,549.3
Operating profit	407.0	378.5	260.9	304.7	1,351.1
Profit before tax	408.8	375.2	261.7	285.9	1,331.6
Profit after tax	306.4	276.7	200.0	183.7	966.8
Earnings per share (sen)	30.4	27.8	18.5	18.2	94.9
Dividend per share (sen)	15.0	18.0	20.0	27.0	80.0

In RM Million	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2022
Revenue	7,618.3	9,501.1	10,130.7	9,498.8	36,748.9
Operating profit	180.7	317.1	403.1	248.0	1,148.9
Profit before tax	178.7	315.5	399.1	241.7	1,135.0
Profit after tax	120.4	239.4	279.4	148.6	787.8
Earnings per share (sen)	11.9	23.9	27.9	14.5	78.2
Dividend per share (sen)	5.0	11.0	20.0	40.0	76.0

KEY INTEREST BEARING ASSETS AND LIABILITIES

	2022			2023		
	As at 31 December (RM million)	Effective Interest Rate (%)	Interest Income/ (Expenses) (RM million)	As at 31 December (RM million)	Effective Interest Rate (%)	Interest Income/ (Expenses) (RM million)
Interest earning assets						
Cash and cash equivalents	2,817.1	1.7-3.0	69.6	1,254.5	2.7-3.0	145.7
Interest bearing liabilities						
Revolving credit	-	2.6-3.4	(10.2)	-	-	-
Lease liabilities	184.3	3.5-8.4	(11.0)	151.2	3.4-8.4	(10.3)
Sukuk facilities	-	-	-	1.0	3.7	-

STATEMENT OF VALUE ADDED/DISTRIBUTION OF VALUE ADDED

Value added is defined as the value created by the activities of a business and its employees, and in the case of PDB, it is determined as revenue less the cost of goods and services. The value added statement reports on the calculation of value added and its application among the stakeholders in the Group. This statement shows the total wealth created and how it was distributed, taking into account the amounts retained and reinvested in the Group for future growth.

Group	2022 RM'000	2023 RM'000
Revenue	36,748,896	37,549,338
Less: Cost of goods and services	(35,034,863)	(35,560,244)
Value added	1,714,033	1,989,094
Other income	291,756	314,552
Financing costs	(25,203)	(14,567)
Share of net profit/(loss) of associates and joint ventures	11,333	(4,902)
Value Created	1,991,919	2,284,177

Group	2022 RM'000	2023 RM'000
Distributed to:		
Employees	392,821	474,847
Providers of equity (net dividends)	615,942	923,913
Providers of debt	25,203	14,567
Government (taxation)	347,197	364,840
Retained for reinvestment and future growth:		
Depreciation and amortisation	438,860	463,144
Unappropriated profit	171,896	42,866
Value Distribution	1,991,919	2,284,177

Value Distributed

