



Our Reference: GL/GSBG/LST/ADMIN/COMM/CORR/2019/413

Date: 24 April 2019

Minority Shareholders Watch Group
11th Floor, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: **Devanesan Evanson**
Chief Executive Officer

Dear Sir,

37TH ANNUAL GENERAL MEETING ("AGM") OF PETRONAS DAGANGAN BERHAD ("PDB" or "the Company") ON THURSDAY, 25 APRIL 2019

With reference to your letter dated 17 April 2019, please find below responses to your questions:-

Strategy & Financial Matters

1) As part of the Company's initiative to transform customers experience towards market leadership, PDB launched Setel, 1st petrol e-payment solution in Southeast Asia in 2018. It was disclosed on page 6 of PDB Integrated Report <IR> 2018, that Setel was introduced at more than 100 PETRONAS stations in the Klang Valley by the end of 2018.

a) Please share the plan to introduce Setel across the remaining 1,000 over PETRONAS stations nationwide.

Setel is now available at more than 250 stations in Klang Valley and will be made available nationwide in stages.

b) What is the capex cost of Setel in 2018 and further projected cost to be incurred in 2019?

PDB is expected to spend approximately RM70 million for Setel for 2018 and 2019.

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c) What are the key trends noted since the introduction of Setel and how PDB envisages the impact of Setel on its retail segment?

The total number of Setel subscribers have been on an increasing trend month on month since its inception. As of today, the total number of subscribers has tripled since it was first introduced in November 2018.

Setel has contributed about 3.6% of volume sold at Setel enabled stations for Q1 2019.

Setel will provide a seamless payment solution which will revamp Retail customer experience. In addition, Setel provides a platform for personalisation by capturing and analysing customer data, thus allowing customisation of offerings. This will enable PDB to increase its market share as well as improve its non-fuel income.

2) As stated on page 9 of PDB <IR> 2018, the Company declared a dividend of 70.0 sen per share being the highest dividend payout ratio since 2014 as illustrated below:

Dividend	2014	2015	2016	2017	2018
Declared sen	60	60	70	97*	70.0
Payout ratio (%)	113	79	81	78	86

Extracted from page 46 of PDB <IR> 2018

*Including special dividend of 22.0 sen per share

a) Since the dividend payout ratio has been consistent in the range of 78 – 86% over the past 4 years (2015 - 2018), is the Company considering to change its current dividend policy from 50% of the Company's Profit After Tax ("PAT") to be more reflective; say 70% of Company's PAT?

PDB intends to maintain its current dividend policy of 50% of the Company's PAT because increasing the policy will increase PDB's commitment, which may not be realistic as actual payout will depend on the Company's profitability, affordability and solvency position.

b) Whilst the shareholders are pleased with the increasing trend of the payout percentage, can the Company continue to sustain its dividend payment in the foreseeable future?

PDB is committed towards creating sustainable value to its shareholders. However, future dividend payments to shareholders will depend on various factors such as the Company's profitability, Capex required to sustain operations and future growth as well as the Company's affordability and solvency position.

Nevertheless, we will be guided by PDB's dividend policy, which is a payout ratio of 50% of the Company's Profit After Tax.

3) On page 33 of PDB <IR> 2018, the Company has identified that the Efficient Vehicle ("EV") technology and Transportation system particularly the MRT Line 2 will have enormous implications on the Oil & Gas ("O&G") industry. PDB responded with 2 strategic initiatives (details disclosed on page 66-67 of the <IR>).

- Provided new eco-friendly products and ChargeEV facilities at 60 PETRONAS stations
- Collaborated with ride hailing services in the market

Please elaborate further on how these strategic initiatives will counter the 2 identified implications.

For Energy Efficient Vehicles (EEV), PDB markets cleaner fuels such as PETRONAS PRIMAX 97 and PETRONAS Dynamic Diesel Euro 5 with Pro-Drive. These products have been introduced ahead of the gazetted implementation date. The PETRONAS PRIMAX 97 and the PETRONAS Dynamic Diesel Euro 5 are already available at 745 (71% of station coverage) and 133 stations (12% of station coverage) respectively.

As for Electric Vehicle (EV), PDB is the first retail oil company to install ChargeEV facilities at its stations with the largest network in the industry. This has enabled PDB to strategically position itself as a key player in the Country's electric vehicle ecosystem.

On ride hailing services, to date, PDB has achieved 20 million litres through enhanced collaboration with Grab via "Grab Fuel Savers" Programme and "Grab Pit Stop". We expect this to continue to grow in the coming years. Through this business partnership, we are able to reach out to a wider variety of customer base.

4) In Budget 2019, there were 2 key initiatives that directly impacts the O&G industry; the rationalization of RON95 motor gasoline subsidy programme which is expected to be implemented in Q2 2019 and the aviation departure levy to be imposed effective from 1 June 2019. What is the impact of these initiatives to the retail and commercial segment of PDB in 2019 and thereafter?

- The targeted subsidy programme has yet to be implemented and as such we have yet to ascertain the impact. However, as the targeted subsidy will benefit the B40 income group, PDB is well positioned to serve the targeted group as it has the largest network in the Country.
- The aviation departure levy has yet to be implemented, therefore we are unable to ascertain the impact. However, if the levy discourages people from air travel, this could potentially reduce flight frequency and in turn impact demand for our aviation fuel.

Corporate Governance and Sustainability Matters

1) Based on Corporate Governance ("CG") report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance ("MCCG") 2017, please provide clarification on MSWG's comments.

- a) Practice 4.5 - The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

PDB's response: Departure

MSWG's comment*:

Page 84 of PDB <IR> illustrates that only 26.7% of the Leadership Team (LT) are female. (i.e. 4 of 15 members of the LT are female). Given that the Company operates in the O&G industry which is largely a male dominant industry, is there a challenge to meet the 30% target? How does the Board intend to address this matter both at board and LT level?

The Board takes note of MSWG's comments. PDB will strive to achieve 30% women directors on its Board. As for the members of the LT, the selection is based on merit and suitability of the individual for the position.

- b) 5.1 - The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

PDB's response: Applied

MSWG's comment*:

In 2017, an independent consultant was engaged by the Company to undertake the exercise. For 2018, the Board Effectiveness Evaluation ("BEE") process was internally conducted and the results were objectively analysed by an independent party as disclosed on page 22 of the CG report.

On page 98 and 116 of PDB <IR> 2018, the Company has disclosed that the results of Board Effectiveness Evaluation ("BEE") 2018 were presented to the Board in February 2019 where Board noted the findings and areas that necessitated further improvements.

Kindly disclose the independent party engaged to analyse the BEE results and the relevant findings and outcome. This is in line with the spirit of the Intended Outcome

to enable stakeholders to form an opinion of the overall effectiveness of the board and individual directors.

PDB has engaged an Independent party, Epsilon Advisory Services Sdn Bhd to analyse the BEE results.

Based on the results, the Board was pleased with the dynamics and effectiveness of the current Board structure and composition which encompasses a good mix of knowledge with relevant industry and international perspective. There is good chemistry and an emerging sense of camaraderie as well as respect among the directors including the relationship with the Management. Areas for improvement include for the Board to be given exposure to more business-related trainings and opportunities to go 'on-the ground' and meet with customers and dealers.

- c) **7.2 - The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.**

PDB' s response: Departure

MSWG's comment*:

It would be in best interest of stakeholders to appreciate that senior management's remuneration should be commensurate with their individual and Company's performance and whether the remuneration package is paid with a long-term view of the company's performance (i.e. stock options redeemable in staggered years for reward and retention over time).

This promotes better transparency and benchmarking which provides a standard level of remuneration within industries and curbs excessive pay.

The recommended alternative plan is for the Company to consider disclosing senior management's remuneration in bands of RM50,000 instead of named basis since the Company has cited confidentiality of personal data.

PDB takes note on the requirement to disclose the Senior Management's remuneration in the 2018 Integrated Report and is pleased to inform that Senior Management's remuneration has been benchmarked against the Oil, Gas, Chemical and Petrochemical (OGCP) industry and is aligned with the market. Currently, the remuneration is anchored at 50th percentile against the OGCP industry to remain competitive.

The Board also took note of MSWG's recommended alternative plan. The Senior Management's Remuneration is well within the OGCP industry range.

- d) **12.3 - Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate-**
- **voting in absentia; and**
 - **remote shareholders' participation at General Meetings**

PDB's response: Departure

MSWG's comment*:

To encourage and foster meaningful relationship with shareholders, PDB is encouraged to leverage on technology as a potential enabler of general meetings with shareholder participation in mind i.e. live streaming of meeting proceedings and submission of questions online given the fact that PDB's foreign shareholdings have increased gradually with highest holding being 9.86% as at Feb 2018 as disclosed on page 56 of <IR> 2018.

PDB will assess the benefits and practicality of implementing the system.

As PDB falls under the category of Large Companies as defined under MCCG 2017, the following Step Up practices is applicable to PDB.

- e) **8.4 - The Audit Committee should comprise solely of Independent Directors.**

PDB's response: Not Adopted

MSWG's comment*:

Currently the majority (62.6%) of the Board comprises Independent Directors. PDB should adopt this practice to enable an audit committee which is entirely objective and independent of its management/major shareholder, etc.

PDB's position shall remain unchanged as per last year. PDB will maintain to have a Non-Independent Director on the Board Audit Committee to provide integrated PETRONAS Group insights during deliberations.

- f) **9.3 - The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.**

PDB's response: Not Adopted

MSWG's comment*:

As disclosed on page 90 of PDB <IR> 2018, the Board has decided to set up a Board Risk Management Committee ("BRMC") in 2019.

We welcome this initiative by the Board and since we are currently in the month of April 2019, what is the status of setting up the BRMC?

The BRMC was set up on 26 February 2019 and we have on the same date announced to Bursa Malaysia Securities Berhad the BRMC members as follows:

- 1) Alvin Michael Hew Thai Kheam – Chairman of BRMC
- 2) Vimala a/p V.R. Menon – Member
- 3) Datuk Anuar bin Ahmad – Member
- 4) Shafie Shamsuddin - Member

****Paragraph 3.2A of Practice Note 9 of the Main Market Listing Requirement ("MMLR") of Bursa Securities states that a listed issuer must provide meaningful explanation on how it has applied the MCGG Practice. If the listed issuer has departed from a Practice, it must provide an explanation for the departure and disclose the alternative practice it has adopted and how such alternative practice achieves the Intended Outcome as set out in the MCGG.***

- 2) The PDB <IR> 2018 states that the Company is in its 3rd year of <IR> journey and continues to improve its integrated reporting with the intent of presenting a more comprehensive update of the Company's objectives, strategies and performance for the year in a clear, concise and holistic manner.

In 2018, the introduction of a new section in PDB <IR> "Why Invest in PDB" explains the Company's business and competitive advantage on page 20-21. What are the key challenges and threats by business segments and what are the measures undertaken/to be taken to address these challenges and threats.

The detailed measures being undertaken are in the relevant business section of the <IR> of which some are highlighted below:

Business segments	Challenges/Threats	How We Mitigate
Retail	<ul style="list-style-type: none">• Intense competition in a mature market• Customer experience may be affected if facilities or	<ul style="list-style-type: none">• Elevate customers experience and being the most favoured retailer• Digitalisation to enhance customers experience through Setel and online channels• Defend and grow market position through expansion of station network at strategic locations

	services are not consistently reliable	<ul style="list-style-type: none"> • Increase customer base through targeted marketing campaigns and establishment of strategic alliances
<i>Details on Retail strategic initiatives can be found on page 66 and 67 of the <IR></i>		

Commercial	Intensifying competition and the decline in the demand for Diesel due to the deferment of Major Infrastructure Projects	<ul style="list-style-type: none"> • Strategic Channel Management enabled us to navigate challenges and sustained Diesel performance as a significant contributor to the Commercial Business portfolio
	Penetration of fuel-efficient technologies in the Aviation Industry impacting our aviation fuel sales	<ul style="list-style-type: none"> • Acquired new airlines supply contract and strengthened relationships with existing airlines through differentiated offerings
	International Marine Organisation 2020 regulation which limits sulphur content and the enforcement of Clean Air Regulation Act resulting in users shifting to cleaner fuels	<ul style="list-style-type: none"> • Ensuring and strengthening supply continuity to the remaining market demand which are exempted from both regulations
<i>Details on Commercial strategic initiatives can be found on page 69 of the <IR></i>		

LPG	Intense market competition	<ul style="list-style-type: none"> • Strengthened and expanded dealership network • Implemented competitive pricing strategy • Optimised supply at terminals to support volume growth • Initiated new sales channel and new product offerings
<i>Details on LPG strategic initiatives can be found on page 71 of the <IR></i>		

Lubricant	Competitive environment with many new brands emerging alongside the legacy operators	<ul style="list-style-type: none"> • Offering and demonstrating value through our winning differentiated propositions • Recruitment of new capable partners and upskilling our partners/dealers to compete in the challenging and demanding landscape
	Macro-economic factors affecting demand in the B2B segment	<ul style="list-style-type: none"> • Sharpened our focus to grow in B2B segment
<i>Details on Lubricant strategic initiatives can be found on page 73 of the <IR></i>		

3) PDB's sustainable practices has been commendable as disclosed in <IR> 2018 in regards to its disclosure on performance data (energy consumption, green house, gaseous emissions, air pollutant emission, spill incidents), managing pollutant incident and health & safety initiatives.

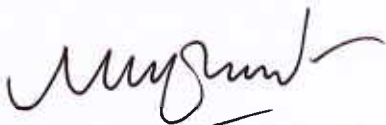
What are the key challenges and plans to further enhance your disclosure to meet the requirements of your varied stakeholders?

- Among the challenges faced include quantifying Scope 2 and 3 GHG emissions from our stations. PDB is currently developing the methodology to govern data collection for emissions from our PETRONAS stations and business travel by employees.
- In addition, collecting and verifying our environmental performance data is challenging due to our extensive network across the country including remote areas.

- Moving forward, PDB plans to set meaningful environmental targets and disclose our progress against those targets, as guided by the disclosure requirements set by FTSE4Good Bursa Malaysia.

Thank you.

Yours faithfully
for **PETRONAS DAGANGAN BERHAD**



NUR NADIA MOHD NORDIN (LS0009231)
Company Secretary

- c.c.
1. **YBhg Datuk Md Arif Mahmood**
Chairman
PETRONAS Dagangan Berhad
 2. **YBhg Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir**
Managing Director/Chief Executive Officer
PETRONAS Dagangan Berhad
 3. **Mr. Yeap Kok Leong**
Joint Company Secretary
PETRONAS Dagangan Berhad