



Our Reference: GL/GSBG/LST/ADMIN/CORR/2020/310

Date: 08 June 2020

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

Attention: **Mr. Devanesan Evanson**
Chief Executive Officer

Dear Sir,

**THIRTY EIGHTH (38th) ANNUAL GENERAL MEETING OF PETRONAS DAGANGAN BERHAD
("PDB" or the "Company") TO BE HELD ON WEDNESDAY, 10 JUNE 2020**

With reference to your letter dated 18 May 2020 on the above, please find below our responses to your questions:-

Financial & Strategy Matters

1. Current Economic Conditions and the Impact of COVID-19

The company stated that it will accelerate the pace of transformation going forward (Page 20, Integrated Annual Report); this is also further described in the Management Discussion and Analysis (Page 54, Integrated Annual Report).

How will the COVID-19 outbreak and the lockdown in Malaysia, aggravated by falling oil prices, impact the company in relation to its transformation program, going forward.

Although COVID-19 has caused slowdown in both global and Malaysian economies, PDB is still committed to continue its transformation program under four (4) Strategic Priorities
- Market Leadership, Safe Reliable & Efficient, Great Place to Work and Digitally Enabled.

PDB will continue to execute its growth plan strategically including enhancing product offerings at Mesra Shop, prioritising expansion of its network of stations, accelerating digitalisation effort, as well as diversifying its revenue streams.

PDB is also committed to ensure its operations are safe, reliable and efficient at all times, including adaptability of its workforce to continually perform day-to-day operations during Movement Control Order (MCO) due to COVID-19.

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2. PDB's Commercial Business

PDB's commercial business secured new supply contracts for both Diesel and Jet A-1 fuel despite strong competition. Demand for diesel declined as a result of major infrastructure projects in Malaysia being deferred. At the same time, the growing use of fuel-efficient technologies in the aviation industry is impacting aviation fuel sales (Page 21, Integrated Annual Report).

In the light of these unfavorable issues, what are the measures taken to address the situation?

For Diesel, PDB continues to position ourselves as an integrated fuel solution partner by offering comprehensive product offering and value-added services to resolve customer's pain points and to provide seamless and frictionless customers experience via provision of equipment and maintenance facilities and SmartPay integration.

In mitigating the lower consumption from fuel-efficient technologies in the Aviation segment, Commercial Business continue to pursue more volume from other airlines including cargo flights, private charter flights, first time customers as well as from locations outside Malaysia to ensure business sustainability.

3. The Introduction of Setel across PETRONAS Stations in the Country

Setel is Malaysia's first mobile application that creates seamless on-the-go refuel and retail experience for PETRONAS customers. In 2019, PDB expanded Setel to more than 300 stations and increased the number of users to more than half a million. The aim for 2020 is to make Setel available nationwide and expand the number of features available through the application. (Page 21, Integrated Annual Report)

(a) What are the Company's plans on introducing Setel across its remaining 700 stations nationwide? How many stations are expected to have Setel in 2020? When is the introduction expected to be completed?

To date, Setel has been deployed to 740 stations. PDB has plans to deploy Setel to the remaining stations by end of 2020.

(b) What is the expected cost, including CAPEX for Setel in 2020?

PDB will continue to allocate resources to reinvent overall customer journey for its customers who desire more convenience, speed and personalisation when fueling, including the use of Setel to extend contactless experience on non-fuel retail offerings.

4. The Introduction of ROVR, the first mobile refueling service in Malaysia

The company expanded ROVR to its commercial customers and it will soon be extended to its retail customers in 2020 (Page 21, Integrated Annual Report).

(a) How successful has it been with commercial customers and what is the revenue contribution from ROVR (in percentage)?

ROVR has contributed positively to the PDB Group's revenue and margin contribution from its first year of full operation in FY2019. To date, there are 9 ROVR trucks serving our commercial customers across Klang Valley area.

(b) What are the plans with regard to introducing it to the retail segment?

ROVR piloted a mobile petrol station in February 2020 at one of the major highways in Klang Valley. ROVR will continue to assess the economic and operational viability of its implementation, before we expand it further.

(c) What is the expenditure allocated for the ROVR project?

PDB will continue to allocate resources to reinvent overall customer journey for its customers who desire more convenience, speed and personalisation when fueling, including the use of ROVR to introduce new mobility models. The expenditure allocated for ROVR relates to investment in trucks and operational costs.

5. "Differentiated Offerings" and "Differentiated Services"

PDB is Malaysia's leading retailer and marketer of downstream petroleum products. It is committed to delivering innovative and differentiated offerings to fuel the nation's growth (Page 6, Integrated Annual Report). Vision 1, Brand of 1st Choice (Page 7, Integrated Annual Report), the Company explains its vision as providing differentiating experiences and differentiated services.

What are the differentiating factors and how is it different from your competitors?

PDB offers unique and distinguished offerings and services that sets us apart from our competitors.

We have the largest network of petrol stations nationwide coupled with over 700 Kedai Mesra, providing our customers with unparalleled world class fuels and convenience. This is complemented with Setel, Malaysia's first mobile application for seamless on-the-go refuel and retail experience that is exclusive for PETRONAS customers. PDB also offers ROVR, which is Malaysia's first mobile refueling services that provides convenience to our corporate customers and to the public in the future. PDB has also enhanced its PETRONAS Mesra Loyalty Programme which now boasts instant redemption from 81 partners.

PDB also offers convenience to our customers by making our LPG be available for purchase at more than 20 PETRONAS Stations nationwide.

We are also collaborating with Malaysian Green Technology Corporation to provide chargEV facilities at 60 PETRONAS Stations, connecting customer's electric journey along major highways.

PDB also offers to the market a full range of high-quality automotive and industrial lubricants products and is represented by our three flagship brands – PETRONAS Syntium, PETRONAS Sprinta and PETRONAS Urانيا. Our products are world renowned for powering the MERCEDES AMG PETRONAS Formula One Team through 6 consecutive World Constructors Championships from 2014. We have also teamed up with local partners to open 9 PETRONAS AutoExpert service centres in 2019, offering PETRONAS top-end lubricant products and high-quality car maintenance services to customers.

6. *Trade creditors and other payables as at 31 December 2019 increased by 14% compared to FYE 31 December 2018, due to higher purchases (Page 27, Integrated Annual Report).*

(a) *What are the major purchases that has caused the increase in trade creditors and other payables?*

PDB sources its products internally mainly from related companies within PETRONAS Group. The increase in trade creditors and other payables by 14% was mainly due to the combined impact of higher purchase price following higher Mean of Platts Singapore prices as well as higher volume purchased during the month of December 2019.

(b) *What is the increase in purchases from related parties?*

During FY2019, the purchases of LPG were from a related company called PETRONAS Energy & Gas Trading Sdn Bhd (PEGT) as compared to directly from PETRONAS (holding company) during FY2018. Accordingly, as per Note 25 of the Annual Financial Statement, the total purchases of petroleum product from holding company has reduced to Nil in FY2019.

7. *Subsidy receivables included in trade debtors and other receivables decreased substantially from RM801million in 2018 to RM237million in 2019 (Note 9, Financial Statements)?*

What is the reason for the decrease?

Subsidy receivables as at 31 December 2019 decreased due to significant improvement on the subsidy collection paid by the Government from average of 4 months outstanding to only 1 month. For clarity, the amount outstanding as at 31 December 2018 was duly received in early 2019.

8. *Dividend Payout Ratio of 104%*

The company declared a dividend payout ratio of 104%, the highest payout since 2014 (Page 22, Integrated Annual Report).

What are the reasons for the high payout ratio given that Profit After Tax ("PAT") of the Group is the lowest since FY2016? (Page 76, Integrated Annual Report).

PDB has declared dividend of 40 sen per share in Quarter 4, 2019. This amount consisted of interim dividend of 25 sen with additional special dividend of 15 sen.

Whilst PDB's dividend policy is minimum payout ratio of 50% of PAT, the actual dividend amount will be paid out based on other factors including the Company's earnings, capital requirements, general financial condition, distributable reserves and other factors considered by the Board.

The reason for the high payout ratio of 104% in FY2019 was contributed by the excess cash of the Company resulting from receipt of GST refund and timely subsidy payment from the Government.

Corporate Governance Matters

1. The Audit Committee to Comprise Solely of Independent Directors

Step Up Practice 8.4 of the Malaysian Code on Corporate Governance 2017 ("MCCG 2017") provides that the audit committee should comprise solely of independent directors. The Company's Corporate Governance Report (page 35) states that the company has not adopted this Practice. MCCG 2017 states that, large companies, should consider the adoption of Step-Ups.

Does the Company plan to adopt Step-Up Practice 8.4?

The Board has agreed to maintain its current practice in having a Non-Independent Director on the Board Audit Committee ("BAC"), in view of the integrated nature of PDB's business with PETRONAS Group. This practice has served the BAC well in providing insight into integrated PETRONAS Group practice during BAC's deliberations.

For your information, we are publishing these answers in the Company's website at <https://www.mymesra.com.my/> for our shareholders' and public viewing. The answers will also be verbalised by the Company's Managing Director/Chief Executive Officer during the 38th AGM proceedings scheduled to be held on Wednesday, 10 June 2020.

Thank you.

Yours faithfully,
for **PETRONAS Dagangan Berhad**


SURIA KAMARUL BAHARIN (LS0010448)
Company Secretary

C.C

1. **YBhg. Datuk Md Arif Mahmood**
Chairman
PETRONAS Dagangan Berhad
2. **Encik Azrul Osman Rani**
Managing Director/Chief Executive Officer
PETRONAS Dagangan Berhad
3. **Puan Farzlina Ahmad Murad**
Chief Financial Officer
PETRONAS Dagangan Berhad
4. **Mr. Yeap Kok Leong**
Joint Company Secretary
PETRONAS Dagangan Berhad