PETRONAS

Our Reference: GSBG/CSDL/PGB/ADMIN/COMM/CORR/2024/46

19 April 2024

Minority Shareholders Watch Group
Level 23, Unit 23-2
Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Attention: Devanesan Evanson
Chief Executive Officer

Dear Sir,

<u>41st Annual General Meeting ("AGM") OF PETRONAS Gas Berhad ("PGB", "PETGAS" or "the Group") to be held on Tuesday, 23 April 2024</u>

With reference to your letter dated 9 April 2024, please find below responses to your questions:-

<u>Operational & Financial Matters</u>

1. The Group's ongoing commitment to embracing innovative digital technologies remains instrumental in supporting cost and labour efficiency amid rising operational expenses while also serving to future-ready its operations and infrastructure. (page 34 of IR 2023)

   What was the estimated total cost savings in FY 2023, and what were the key areas positively impacted? Is it possible to have further significant cost savings going forward?

   The estimated total cost savings in relation to innovative digital technology solutions is approximately RM20 million, and largely contributed by:

   - Deployment of machine learning tools for gas turbine operational improvement and priority of gas supply resulting in optimised internal gas consumption.

   - Establishment of remote operation centres for regasification terminal and utilities plant which has enabled optimisation of operating expenditures.

   - Leveraging on drone technology for gas pipeline Right-of-Way surveillance, replacing previous practice of helicopter surveillance.

   - Predictive data analytics at Gas Processing and Utilities Technical Centre, which helps to sustain high plant reliability, resulting in optimised operation and maintenance costs.

   We believe that we can continue to create value through the deployment of digital initiatives moving forward.

2. **PGB's foray into the renewable energy sector also holds potential for regional expansion. The Malaysian government has lifted the ban on exporting renewable energy in tandem with increased regional energy cooperation and the proposed ASEAN Power Grid development, opening prospects for the export of renewable energy in future. (page 35 of IR 2023)**

Which areas of the renewable energy sector and regions does PGB plan to venture into? What is the current status?

The renewable energy sector in Malaysia including the recently announced energy exchange platform is to allow Malaysia to further strengthen its cross-border integration of electricity framework and pave the way for energy trading between ASEAN countries. However, the ecosystem such as grid availability, grid access and commercial structure are yet to be fully developed.

At the moment, PGB's focus is to meet the growing demand from our existing utilities customers for low-carbon solutions and to meet PGB's decarbonisation target.

PGB will continue to assess opportunities from ASEAN Power Grid and energy market development. This will allow PGB to capitalise on the opportunities once the ecosystem is ready and supportive.

3. **While regulatory uncertainties and economic challenges persist on the horizon, the Group is confident that all segments will contribute positively to a robust performance for the Group in 2024, underpinned by the stability of revenue from its long-term contracts. (page 36 of IR 2023)**

What is the total value of outstanding contracts? What is the tenure of the contracts, spanning from the shortest to the longest duration?

The remaining contract value varies according to the business model, Capital Expenditure (CAPEX) and Operating Expenditure requirement and agreed return with shipper/regulator/customer for different business segments. The expiry of the various contracts are as follows:

- Gas Processing Agreement (GPA) / Gas Transportation Agreement (GTA) / Terminal Use Agreement (TUA) (Regasification Terminal Sungai Udang) : 2033
- TUA (Regasification Terminal Pengerang) : 2042
- Utilities : Between 2040 to 2042

The remaining contract value of the respective contracts are as follows:

- GPA / GTA / TUA : Based on the agreed return on CAPEX which is within the industry benchmark, with OPEX on pass through basis.
- Utilities : Based on revenue generation on electricity sold at an index to Tenaga Nasional Berhad tariff and other products on an agreed formula, with fuel gas on a pass through basis.

In summary, with these long-term contracts set in place, PGB expects a stable income at least for the next 10 years.

4. Group PBT, meanwhile, improved by 5.1% or RM116.65 million on the back of a higher share of profit from joint venture companies, lower financing costs and lower impact from unfavourable foreign exchange movement following early settlement of a USD lease liability. Profit for the period of RM1,901.04 million also increased in tandem with higher PBT, rising by 8.1% or RM142.57 million. (page 63 of IR 2023)

(a) What is the outlook for the joint venture companies in FY 2024? Are they expected to contribute a higher share of profit?

For FY2024 and onwards, joint venture companies are expected to continue to contribute positively to the Group performance subject to demand level and major maintenance activities to be carried out.

Joint venture companies' share of profit in FY2023 was significantly higher compared to the previous year driven by higher product demand as well as once-off tax optimisation impact in one of the joint venture companies.

(b) What was the quantum of positive impact from lower financing costs and lower impact from unfavourable foreign exchange movement following early settlement of a USD lease liability? Is the positive impact expected to prevail in FY 2024?

The favourable impact from lower financing costs and lower unfavourable foreign exchange movement is amounting to approximately RM80 million. The positive impact of lower financing costs is expected to prevail in FY2024.

5. It should be noted that introducing new revenue adjustments in Regulatory Period 2 (RP2) will enable the recovery of certain costs related to asset value adjustments, foreign exchange losses and escalating Internal Gas Consumption prices, which will be reflected in the subsequent financial period. (page 64 of IR 2023)

What will be the estimated quantum of impact to be reflected in the financial statements?

Costs related to asset value adjustments and foreign exchange have been incorporated in the base tariff for RP2 (2023-2025), hence there will not be any adjustment in this regard for FY2024.

For Internal Gas Consumption (IGC) prices, Suruhanjaya Tenaga has approved that any IGC costs higher than the approved amount resulting from price factor will be fully passed through to gas shippers.

There is an aggregated upward adjustment of about 2% on the tariff in FY2024, following the higher fuel gas price in FY2023.

6. Major customers

The following major customers contribute to 10 percent or more of the Group's total revenue:

Group In RM'000	Segment	2023	2022
PETRONAS Energy and Gas Trading Sdn. Bhd.	Gas Transportation and Regasification	2,468,455	2,554,345
PETRONAS	Gas Processing and Gas Transportation	1,773,746	1,711,029
PETRONAS Chemicals Group Berhad	Utilities	1,604,676	1,334,773

Understandably, there is a concentration of customers within the PETRONAS Group. The total revenue generated from the three groups of PETRONAS companies in FY 2023 totalled RM5,846.88 million, which constituted a very significant 90.71% of the Group revenue of RM6,445.42 million.

What measures have been taken to address this high concentration of customers and expand the company's customer base, whether domestically or regionally?

The high concentration of PGB's customers within the PETRONAS Group is due to PGB's business model and its nature. This offers several advantages including stable and predictable revenue streams through long-term contracts, which enable PGB to generate sustainable profit and dividends to shareholders.

Nevertheless, PGB continuously pursuing other Growth projects under our strategic agenda, including step-out opportunities to diversify customer segments beyond PETRONAS Group of companies. Since 2020, we have observed that PETRONAS group concentration has reduced from 95% to 91%.

Corporate Governance Matters

1. While PGB acknowledges the importance of renewable energy projects to support its long-term growth objectives and safeguard its reputation, it remains mindful of potential challenges. Regulatory uncertainties, including aspects such as gas market liberalisation, renewable energy trading and the implementation of carbon taxes in Malaysia, present key factors to take into consideration. (page 7 of SR 2023)

   Please elaborate on the uncertainties and how gas market liberalisation, renewable energy trading and the implementation of carbon taxes in Malaysia will impact PGB's business.

   The impact of the uncertainties are as follows:

   - Gas market liberalisation is expected to increase the overall gas demand and will provide opportunity for PGB to further invest in gas infrastructure.

   - Renewable energy trading supported by access to grid will provide the opportunity for PGB to offer low-carbon solutions to our customers.

   - Implementation of carbon taxes may increase the operating costs of doing business, however, these costs are likely to be passed through to consumers.

2. The Recover, Recycle, Reuse, and Reduce (4R) cost savings are as set out below:

   2023: RM5.9 million
   2022: RM1.9 million
   2021: RM0.7 million
   (page 14 of SR 2023)

   A total of 2,083 MT, equivalent to 74% of its total hazardous waste, was recovered by 4R activities at prescribed premises, thereby exceeding its target of 56% set for 2023. (page 66 of SR 2023)

   It is commendable that in FY 2023, through 4R, PGB managed to have significant cost savings of RM5.9 million, far exceeding its FY 2023 target and the savings in FY 2021 and FY 2022.

   How did PGB manage to attain such commendable achievement, and going forward, is there any possibility of additional significant cost savings?

a) The 4R savings was achieved through two levers:

i. Higher volume of waste generated arising from higher level of maintenance activities in 2023.

ii. Higher volume of waste recycled resulting in an increase of 4R percentage from 64% in 2022 to 74% in 2023

b) It shall be noted that the cost saving is dependent on maintenance activities. Thus, the measure of success for the 4R program shall be on the percentage of the 4R out of total waste generated.

c) We will continue to review our Waste Management Plan on an annual basis while making good strides forward under the 4R principles.

Thank you.

Yours faithfully

for PETRONAS GAS BERHAD

Cik Azizahwati Ishak
Company Secretary

c.c. 1. **Encik Adnan Zainol Abidin**
Chairman
PETRONAS Gas Berhad

2. **Encik Abdul Aziz Othman**
Managing Director/ Chief Executive Officer
PETRONAS Gas Berhad

3. **Puan Mek Yam @ Mariam Hassan**
Company Secretary
PETRONAS Gas Berhad