PETRONAS

Our Reference: GL/GSBG/LST/ADMIN/COMM/CORR/2019/432

Date: 29 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,

36th ANNUAL GENERAL MEETING ("AGM") OF PETRONAS GAS BERHAD ("PGB" or "the Company") ON TUESDAY, 30 APRIL 2019

With reference to your letter dated 24 April 2019, please find below responses to your questions:-

Strategic and Financial Matters

1) In the Chairman's Statement on page 10 of PGB's Annual Report ("AR") 2018, PGB pledges its support of the government's aspiration for a competitive market via the liberation of the gas market with the Third Party Access ("TPA") which took effect since 16 January 2018.

   On page 16 of the AR 2018, the MD/CEO has further shared that the TPA itself does not affect PGB as a new entity established by PETRONAS meets the requirement under TPA. However, tariffs decided by the Energy Commission could affect PGB's revenue due to the newly introduced Incentive Based Regulation ("IBR") mechanism used to determine the tariff.

   a) Please elaborate further on the impact of IBR on PGB's revenue and earnings in 2019 and 2020.

      PGB expects the Group's Gas Transportation and Regasification business segments to continue contributing positively to the Group's earnings, even with the lower tariffs effective 1 January 2019:

      - **Gas Transportation will see the 14% tariff reduction in Peninsular Gas Utilisation (PGU) pipeline to be reflected in the segmental revenue accordingly;**
      - **Regasification could potentially have 5%-10% impact on the segment gross profit, mainly due to the lower final project cost of LNG Regasification Terminal Pengerang (RGTP) while LNG Regasification Terminal Sungai Udang (RGTSU) tariff remains broadly the same.**

Furthermore, any impact will be cushioned via higher tariff for Gas Processing segment by 8% under the second term of the Gas Processing Agreement.

Beyond 2019, we are currently in discussion with the Energy Commission on Gas Transportation and Regasification tariffs for the first regulatory period (RP1) 2020-2022, expected to be finalised later this year.

b) What are the opportunities and challenges (if any) for the Company moving into a more regulated environment?

The incentive-based regulated environment aims to provide a more level-playing field while attracting new players to enter the domestic gas market, which would enhance the security of supply and promote the growth of new industrial hubs within this region. This will create opportunity in providing our integrated solution such as utility business to the industry.

2) Based on Note 21 – Operating Profit on page 247 of the AR 2018, the following was noted:

	2018	2017	Increase (year-on-year)		Item
	RM'000	RM'000	RM'000	%	
Inventory written off	6.015	2,457	3,558	144.8	a
Impairment loss on property, plant & equipment	16,889	-	16,889	>100	b

a) What is the nature of the inventory written-off and what are the reasons for the significant increase in the write-off for 2018?

The Group's inventory comprise mainly spare parts and maintenance material which are critical to sustain our plant operations. The inventory written off in 2018 relates to spare parts and maintenance equipment that are no longer fit for use.

The higher amount was in line with a more extensive inventory assessment conducted during the year, post the completion of various projects under the Group's transformation programme to increase plant reliability.

b) Per Note 3 – Property, plant and equipment (page 217 of AR 2018), the impairment loss is largely due to:

* Plant and pipelines – RM8.265 million
* Other plant & equipment – RM8.719 million

It was stated in the Group CFO's Review on page 26 of the AR 2018 that *"the one-off impairment loss follows the change business at one of our customers and the amount was recognized after all efforts to find alternative use for the facilities were exhausted"*.

i) Please elaborate further on the efforts undertaken by the Company in finding alternative use for the facilities.

The assets impaired were built to deliver specific utility requirements of a customer. The cost of the assets is being recovered from the customer via a settlement agreement signed in 2014.

Since then, PGB has undertaken various efforts in finding alternative use for the facilities including performing various technical assessment for the affected assets to serve as a standby unit to PGB's existing asset and securing new customers with the same requirements.

ii) What are the measures taken by the Company to safeguard itself from similar occurrence going forward? (i.e. change of customer's business which impacts the recoverable amount of the Company's assets)

PGB has long term agreements for supply of utility product and services with each customer which enable us to recover our cost of investments in the event of early termination.

3) In the Group CFO's Review on page 26 of the AR 2018, it was disclosed that the share of losses from a joint venture company, Kimanis Power Sdn Bhd ("KPSB") amounted to RM79.9 million. The losses arose due to de-recognition of deferred tax assets ("DTA") amounting to RM124.3 million (being 60% share of the Company) in relation to certain tax benefits which now have a 7 year utilisation limit under the new Finance Act 2018.

Please elaborate further on the derecognition of these tax benefits and the impact of the new Finance Act 2018 on the Company's other investments.

Under the new Finance Act 2018, there are several tax benefits which are now subject to a 7-year limit in terms of utilisation. Any accumulated unutilised tax benefits starting year of assessment YA2018 can no longer be used after 7 years.

For PGB Group, the only affected tax benefits were Investment Tax Allowance for Service Sector and unutilised business losses at our joint venture company, Kimanis Power Sdn. Bhd. (KPSB).

As KPSB is unable to utilise the tax benefits within the 7-year time limit, it has derecognised deferred tax assets amounting to RM207.2 million in 2018. The impact to PGB Group was RM124.3 million (being 60% share of KPSB).

There was no other impact pertaining to Finance Act 2018.

Corporate Governance Matters

1) Based on the 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 the following:

   a) Practice 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.

      PGB's response: Departure

      On page 27 of CG report, it was disclosed that the Company opted not to disclose the senior management's remuneration components due to confidentiality on personal data.

      The Company has disclosed an alternative practice where it has identified the top 5 senior management by disclosing the names but not the details of the remuneration.

      MSWG's comment:

      The disclosure of the remuneration allows stakeholders to understand the link between senior management remuneration and the company's performance. This will also enable stakeholders to determine whether the remuneration is fair and able to attract and retain talent.

      PGB:

      The 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.

   b) Practice 12.2 – All directors should attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees should provide meaningful response to questions addressed to them.

      PGB's response: Departure

      On page 44 of the CG report, it was disclosed that all the Company's Directors attended the general meetings of the Company except the Chairman of Nomination and Remuneration Committee ("NRC").

      To mitigate the non-attendance, PGB's Board ensured that the meetings for 2019 are scheduled in October 2018 to facilitate the directors in planning ahead and incorporating all meetings into their respective schedules.

MSWG's comment:

General meetings are typically regarded as one of the few available opportunities for shareholders to communicate directly with the board therefore it is paramount for directors to be present during these meetings to attend to shareholders' questions and concerns.

PGB did not disclose in the 2018 CG report as to why the Chairman of NRC, Dato' Ab. Halim Mohyiddin could not attend the last AGM held on 30 April 2018. However, we note from item 5(A)(5) of PGB's Minutes of the 35th AGM held on 30 April 2018 which was available from PGB's website that Dato' Halim who is also Chairman of MISC Berhad was then attending an official engagement with the shippers for new vessel in Korea. It would be meaningful to shareholders if the Company discloses this fact in the 2018 CG report for ease of reference.

PGB:

PGB took note of MSWG's comments and will ensure consistent disclosures to the shareholders in the future.

c) Practice 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

PGB's response: Departure

The Company's general meetings are not held at remote locations and has adopted e-voting for 2018 AGM. As for voting in absentia and remote shareholders' participation, the existing proxy form authorizing proxies or Chairman of meeting is an alternative measure adopted by the Company.

MSWG's comment:

To encourage and foster meaningful relationship with shareholders, PGB 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.

This is to attract a wider base of shareholding including foreign investors as we note that as at 31 December 2018, foreign shareholdings of PGB stands at 9.8% as disclosed on page 77 of AR 2018.

PGB:

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

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

d) Step Up 8.4 - The Audit Committee should comprise solely of Independent Directors.

PGB's response: Not Adopted

MSWG's comment:

Currently the majority – 50% i.e. 4 out of 8 of the Directors are Independent Directors. PGB is in a position to adopt this Practice to enable an audit committee which is entirely comprised of Independent Directors.

PGB:

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

e) Step up 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.

PGB's response: Not Adopted

MSWG's comment:

As disclosed on page 3 of the Board Audit Committee's ("BAC") Terms of Reference, the BAC's duties and functions includes review of the adequacy and effectiveness of risk management practices and procedures as well as conducting risk profiling reviews on the Company, on a quarterly basis.

Ideally the risk management oversight should be undertaken by a separate committee to allow dedicated oversight by the committee to ensure matters of risk are accorded due attention. In combining the audit and risk management oversight, there is a risk that consideration of risk management issues may be compromised due to the dual functions of the BAC. The spirit of Practice 9.3 is to consider risk management important enough to warrant a separate and dedicated committee.

PGB:

PGB is currently evaluating the necessity to establish a Board Risk Committee considering PGB business' risk post TPA. Nonetheless, until the establishment of the Board Risk Committee, the Risk Management oversight function resides with the Board Audit Committee.

Thank you.

Yours faithfully
for PETRONAS GAS BERHAD

Kamal Bahrin Ahmad
Managing Director/Chief Executive Officer

c.c.

1. **Datuk Mohd Anuar Taib**
   Chairman
   PETRONAS Gas Berhad

2. **Puan Syuhaida Ab Rashid**
   Company Secretary
   PETRONAS Gas Berhad

3. **Encik Yeap Kok Leong**
   Joint Company Secretary
   PETRONAS Gas Berhad