

Our Reference: GL/GSBG/LST/ADMIN/COMM/CORR/2020/336

Date: 23 June 2020

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 GAS BERHAD (“PGB” or “the Group”) ON THURSDAY, 25 JUNE 2020

With reference to your letter dated 21 May 2020, please find below responses to your questions:-

Strategy & Financial Matters

- 1) Recent gas market liberalisation has opened the energy market to new gas players and this promotes competition in the domestic gas market.

Under the Third Party Access (TPA) mechanism, PGB’s regasification terminals will benefit from increased usage due to higher LNG imports.

Have the benefits of TPA been fully reflected on PGB’s performance? What is PGB’s expectation on the financial benefit arising from the implementation of TPA?

Under IBR, our regasification terminals are fully-booked by our anchor shipper, of which the revenue is guaranteed irrespective of utilisation rate.

TPA has provided PGB the opportunity to develop and promote our ancillary services further, introducing new revenue streams. Two of these services i.e. Gassing Up Cooling Down (GUCD) and LNG reloading were introduced at our LNG Regasification Terminal Pengerang (RGTP), Johor.

Beyond regasification, the TPA may also spur gas demand in the country and provide opportunities for PGB to capture new customers in the Utilities business. This, however, will take a few years to mature before it is fully reflected in PGB's performance.

In FY19, our regasification business has reported slight increase in revenue due to the contribution from ancillary services. Overall financially, TPA would ensure certainty of earnings for PGB with tariff for Regulatory Period 1 determined for 2020 to 2022.

2) With stable operations and earnings from regulated businesses and charges from Gas Processing Agreements with PETRONAS, PGB's further growth area will hinge on the introduction of ancillary (non-regulated) services and expansion of utilities capacity and customer base.

a) PGB started to offer ancillary services such as gassing up cooling down, LNG reloading, and later bunkering and truck loading in 2020 to LNG clients.

How has the ancillary services segment fared? What was the contribution of this new business to the Group in FY19 and its potential in FY20?

For FY19, revenue contribution from ancillary services is relatively small at just under RM6 million as they are still at infancy stage, serving to complement our regasification services at both terminals. It will take a few years for the business to mature.

For FY20, we are targeting to complete our LNG bunkering and LNG truck loading projects which will add on to our ancillary service portfolio. With this, PGB expects to see further incremental improvement to revenue as we progress into 2021 and beyond.

b) In addition, the Company plans to expand its utilities capacity and customer base (page 30 of IR2019). What are the products under the Utilities Division that PGB is keen to expand? Please elaborate plan, and prospect, to expand the product capacity.

Our Utilities portfolio comprises electricity, steam and industrial gases. We plan to expand our Utilities business in a holistic manner.

In 2019, we successfully secured two new buyers for the supply of steam and electricity in addition to retaining our long-term customers.

The expansion of nitrogen plant in Kertih which is currently under construction for operationalisation in 2021 will increase our nitrogen capacity by 25%. The volume from this additional capacity is mainly for our newly secured long-term customers, while serving to complement supply to our existing customer base.

Potential participation in the development of new industrial parks would call the need for cogeneration facility that generates electricity and steam. At the moment, early assessment on several opportunities is ongoing to provide integrated utilities solutions.

We also aim to leverage on the opportunities offered from MESI 2.0 which will allow PGB to expand our electricity market beyond our licensed area.

- 3) How does the COVID-19 pandemic affect market demand towards PGB's products and services? Please comment based on the four key business units.

Our Gas Processing, Gas Transportation and Regasification businesses, which account for over 90% of the Group's gross profit, are underpinned by long-term arrangements. These arrangements fully underwrite our capacity and services, ensuring steady earnings regardless of utilisation.

For Utilities business, there is some minor impact on demand due the Movement Control Order (MCO) restrictions imposed by the Malaysian Government. However, we have seen the situation improving with the gradual lifting of MCO restrictions from April onwards.

Hence the COVID-19 pandemic is not expected to significantly affect the Group.

- 4) Based on the assessment done by PGB, what are the opportunities available from the rollout of Malaysian Electricity Supply Industry (MESI 2.0) masterplan that PGB expects to benefit from?

The implementation of MESI 2.0 may well provide opportunities for PGB to expand its electricity market, for example extending sales beyond our current licensed area to reach additional consumers. Further details will be shared in due course when plans are firm and approved.

- 5) PGB is gradually migrating from depreciated replacement cost to net book value in valuing its assets.

- a) How does the change in asset valuation method determine the tariff for gas transportation business moving forward? How would the tariff for gas transportation be trending in the future, based on the migration of asset valuation method?

The change from depreciated replacement cost (DRC) to net book value (NBV) for Regulated Asset Base (RAB) only affects PGB's Gas Transportation business. This transition will occur progressively over six years, or over two Regulatory Periods of three years each. The transitional provisions as defined by the Suruhanjaya Tenaga is shown in the table below.

Opening Regulated Asset Base		Historical Cost	Optimised Replacement Cost
		(W_t)	$(1 - W_t)$
Regulatory Period 1	Year 1	0%	100%
	Year 2	20%	80%
	Year 3	40%	60%
Regulatory Period 2	Year 1	60%	40%
	Year 2	80%	20%
	Year 3	0%	0%

In deriving the regulated tariff, an annual allowed return is calculated by averaging the total annual allowed revenue over the regulatory period of three (3) years. The annual allowed revenue covers operating and capital expenditure as well as an allowed return as a percentage on the RAB.

As DRC is more than NBV in general, and notwithstanding other elements in the tariff calculation, Gas Transportation tariff applicable to PGU will decrease as a result of the transition in RAB.

b) What is the financial impact of this migration?

The impact for RP1 (2020-2022) can be observed based on the Group's financial results for Q1 FY20 as announced.

While we may see a downward trend in the asset value of our pipelines, this will be partially offset by new pipeline projects which are in the planning stage with target execution dates in the near future.

6) PGB's total trade and other payables increased by 56.4% or RM318.39 million year-on-year to RM882.88 million in FY19 (FY18: RM564.48 million). The increase in payables was largely due to the purchase of property, plant and equipment (PPE) (Note 18, Governance and Financial Report 2019). To which business units do the purchase of PPE relate to?

The purchase of PPE mainly relate to the Gas Processing and Utilities business segments, which undertook heavier level of statutory turnarounds and scheduled maintenance activities in FY19.

In addition, we also undertook plant rejuvenation activities at Gas Processing Santong complex, in Terengganu.

Thank you.

Yours faithfully

for PETRONAS GAS BERHAD



Tengku Mazura Tengku Ismit
Company Secretary

- c.c.
1. **Encik Adif Zulkifli**
Chairman
PETRONAS Gas Berhad
 2. **Encik Kamalbahrin Ahmad**
Managing Director/ Chief Executive Officer
PETRONAS Gas Berhad
 3. **Encik Yeap Kok Leong**
Joint Company Secretary
PETRONAS Gas Berhad