



Our Reference : CS-LD-PGB-letter-006-16-SBZ

Date: 22 April 2016

Minority Shareholder Watchdog Group
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
50200 Kuala Lumpur

Attention : Mr Quah Ban Aik
Head, Corporate Monitoring

Dear Sir,

**THIRTY-THIRD (33RD) ANNUAL GENERAL MEETING (“AGM”) OF PETRONAS GAS BERHAD (“PGB”
or “the Company”)**

In reference to your letter dated 20 April 2015 on the above, please find below our response to your questions:-

Strategic & Financial Matters

- 1. Given the continuing gas subsidy rationalisation programme coupled with cautious outlook and slower economic growth, how would the Company address the likely slower demand for gas in its growth strategy going forward since around 90% of its earnings are from gas related activities?**

As a gas infrastructure company, PGB's revenue are largely fixed fee based on capacity reservation under Gas Processing Agreements (GPA), Gas Transportation Agreements (GTA) and Regasification Services Agreement (RSA) signed with PETRONAS. Hence, we are not significantly affected by the slower demand for gas.

Official Sponsor



PETRONAS GAS BERHAD (101671-H)

Tower 1, Level 49-51, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia
T: +(603) 2026 5000, 2051 5000 F: +(603) 2051 6991, 2051 6992, 2051 6993

www.petronasgas.com

- 2. With more new coal-fired plants coming onstream over the next few years and Pengerang re-gas expected to be operational by FY2018, what measures would the Company take to address the challenges and competition from coal related users which would have a likely impact on demand for gas and the Company's future earnings. Please comment.**

Majority of RGTP's capacity is designed to provide primary fuel requirements for PETRONAS' Refinery and Petrochemicals Integrated Development (RAPID) and Pengerang Co-Generation Plant (PCP) projects. Hence, the project is not likely to be affected by the new coal plants and competition from other related users as source of energy.

Similar to the LNG Regasification Terminal Sungai Udang, revenue will be based on capacity booked under new Regasification Services Agreement (RSA) to be entered between Pengerang LNG (Two) Sdn Bhd (PLNG2) and PETRONAS.

- 3. Would the Company expect any increase in its total costs for repair and maintenance for FY2016? What is the total budgeted amount expected for the year? Could the Company brief on how it would managed its operational cost to improve its gross profit margin.**

The repair and maintenance cost for FY2016 is expected to be at same level as FY2015 in line with 3ZERO100 PGB Transformation plan.

In addition, PGB is currently focusing on optimising its cost while improving its assets utilisation, as well as enhancing our HSE and operational excellence.

- 4. As aspects of Health, Safety & Environment ("HSE") are critical issues to the Company's operations, please brief on the tangible improvements in the areas and the results from its 3ZERO100 PGB Transformation programme. Please also brief on the initiatives taken to ensure product delivery reliability and how the Company benchmark in both HSE standards and product services including reliability? Did the Company engage an independent party to review and conduct the exercise?**

To date, our 3ZERO100 PGB Transformation programme is progressing well and are heading on the right track.

In FY2015, we have recorded an improved HSE performance. There were no fatalities, and we recorded reduction in HSE incidents by 52%, as well as improvements in other HSE performance, namely, Lost Time Injury Frequency (LTIF) and Total Recordable Case Frequency (TRCF). Our records are within the Oil & Gas industrial average statistic.

Under "Asset" key strategic thrust, we ensure the plant equipment are in excellent condition through resolution of bad actors (problematic equipment) and enhancing the preventive maintenance programs.

In FY2015, we have made improvements in ethane delivery (Gas Processing), demonstrating good reliability and availability of Utilities facilities and sustaining the world class performance of our Gas Transmission. We are also seeing a significant reliability improvement at our Regasification facility.

We have engaged JURAN (independent party) in FY2014 to benchmark on our operational excellence and the gaps closure plan has been incorporated in our 3ZERO100 PGB Transformation programme. As per industry best practices, the next benchmarking is planned to be conducted in 2017 post completion of the 3ZERO100 PGB Transformation programme.

Please also brief on the Group's business continuity and disaster recovery plan put in place.

The Group has in place Contingency Planning that defines the structure and processes for managing emergencies at operational and company level. There is a three-tier response system in place which provides a clear demarcation of roles and responsibilities between emergency site management, Plant Leadership Team (PLT) and Management Committee (MC). Business Continuity Plan (BCP) is also in place to ensure business continuity in the event of crises, or business disruptions. The BCP implementation is part of the Group's Business Continuity Management.

During the year under review, two emergency exercises were successfully conducted to test the Company's readiness in managing crisis. A Tier-3 emergency exercise was carried out at Gas Transmission pipeline involving local authorities which simulated an emergency situation affecting part of its Peninsular Gas Utilisation System located in Jawi, Seberang Prai, Pulau Pinang.

The Company has also participated in the PETRONAS Twin Towers Integrated Simulation exercise involving building evacuation and work resumption at the Company's alternate worksite to test the continuity of its critical functions in the event of the inaccessibility of PETRONAS Twin Towers.

5. Gas Transportation

a) What is the current capacity utilization of its PGU pipeline network?

For FY2015, capacity utilisation is approximately 75% for PGU pipeline network. Nevertheless, based on the existing Gas Transportation Agreements (GTA) with PETRONAS, PGB will be remunerated based on capacity reserved, regardless of level of utilisation.

b) What would be the expected yearly target set by the Company?

Utilisation will be very much dependent on the demand from PETRONAS' customers of which majority are from power sector.

c) What are the targets for East Malaysia?

PGB operates two short pipelines in East Malaysia serving long-term customers, of which utilisation level is expected to be similar to FY2015.

Similarly, remuneration for Gas Transportation Sabah and Sarawak are also based on fixed fee. It represents only a small percentage over the total Gas Transportation Fees.

In addition, PGB also provides operation and maintenance (O&M) services for Sabah Sarawak Gas Pipeline (SSGP) which is owned by PETRONAS. This also represents a small percentage of Gas Transportation segment's profit.

Utilities

a) What are the measures taken to increase the segment contributions?

b) What measures have been taken to target new customers?

As part of 3ZERO100 PGB Transformation Plan, our focus is to continue maintaining our utilities plants' reliability while at the same time working on initiatives to further optimise costs and improve capacity utilisation.

For utilities business, our expansion is dependent on current or new customers within Gebeng industrial area and Kerteh Integrated Petrochemical Complex.

c) What is the target set for this segment in FY2016?

On the back of demand and long term contracts with Petrochemicals customers, we expect our Utilities segment to remain profitable and continue to add value to PGB.

Although Utilities will have to pay for a higher price for its fuel gas due to its periodic increment, we are able to pass through the increase to customers via utilities price revisions, except for electricity price which is linked to government regulated tariff.

6. On innovation, are there any annual budgets, plans and targets for each business segment in the Group and how are these measured. Please brief.

As an infrastructure company with stable revenue structure, innovation is important for us to maintain cost competitiveness. There has been an on-going efforts throughout the Group to curb increasing spending and improve asset utilisation and efficiency.

Among key innovations realised in 2015 are as follows:

- Elimination of cold box high Differential Pressure (DP) at Gas Processing Santong (GPS)' Low Temperature Separation Unit (LTSU) resulting in improvement of extraction efficiency.
- Resolution of mechanical integrity issues for GPS Amine Pump via innovative engineering approach resulting in higher equipment reliability.

We incorporate an allocation for innovations in our plans and budgets. These innovations are measured based on value created or realised.

7. On sustainability in particular "environment", are there any initiatives taken by the Group to instill the same strong culture in respecting the environment to its business partners, associates and corporate clients.

PGB is committed to take proactive steps to protect the environment and to use natural resources efficiently as clearly prescribed in our HSE Policy. Apart from that, PGB is also certified with ISO 14001 (Environmental Management System), testifying our continuous commitment towards the environment.

As PGB is now listed in FTSE4Good index, Environment Performance Reporting brings value to the Company in a more credible way. PGB needs to report the required and disclosed environment indicators to the body to ensure the rating is satisfied and plans are now under way to further improve PGB's scoring in the bi-annually assessment.

Among activities conducted by PGB in FY2015 are as follows:

- Teaming up with Non-Governmental Organisation (NGO) i.e. Malaysian Nature Society (MNS) on an initiative called "Sayangi Sungai Paka", which intended to conserve the natural heritage of Sungai Paka by conducting research on how to safeguard the river from pollution.
- Reduction in flaring activity which lowered our greenhouse gas emissions by 50%.
- Continue to address Clean Air Regulations, 2014 which came into force in June 2014 by structuring internal commitment and resources to comply with the new requirements.
- Cooperate with Klias Wetland and Mondikot Deer Habitat Centre in safeguarding the delicate natural ecosystem.
- Tracking Schedule Waste and identifying possible avenues for waste minimisation through active recycling and recovery.

For your information, we are publishing these answers in our corporate website (www.petronasgas.com) for our shareholders' and public viewing. The answers will also be made available and displayed on the LED display screen located at the foyer area, Level 1 of Mandarin Oriental Kuala Lumpur on the day of the AGM on Tuesday, 26 April 2016. For the benefit of minority shareholders, we seek MSWG's assistance to also publish the above response in MSWG's website prior to the AGM.

Thank you.

Yours faithfully
for **PETRONAS GAS BERHAD**



INTAN SHAFINAS (TUTY) HUSSAIN
Company Secretary

- c.c.
1. **YBhg Tan Sri Dato' Seri Shamsul Azhar Abbas**
Chairman
PETRONAS Gas Berhad
 2. **Encik Yusa' Hassan**
Managing Director/Chief Executive Officer
PETRONAS Gas Berhad
 3. **Mr. Yeap Kok Leong**
Joint Company Secretary
PETRONAS Gas Berhad