



**PETRONAS**

Our Reference: CS-LD-PDB-letter-015-17-MAR

Date: 18 April 2017

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

Attention: **Lya Rahman**  
General Manager

Dear Madam,

**35<sup>TH</sup> ANNUAL GENERAL MEETING (“AGM”) OF PETRONAS DAGANGAN BERHAD (“PDB” or “the Company”) TO BE HELD ON 19 APRIL 2017**

With reference to your letter dated 10 April 2017, please find below responses to your questions:-

**Strategic and Financial Matters**

- 1. As noted in the MD/CEO’s Statement, the Group’s commendable record high profit after tax in FY 2016 was achieved via its continued focus on inventory management, supply and distribution efficiency and operating expenditure optimization.**

**Could the Board elaborate on each of these 3 areas and how each has contributed significantly to the bottom line whether via savings or other ways, together with figures, where possible?**

There are 3 key areas of PDB’s strategic initiatives in 2016, namely: Integrated Inventory Management Strategy, Supply and Distribution efficiency and continuous cost reduction efforts.

For the Integrated Inventory Management initiative, we maintained average inventory days of 4 days in 2016 as compared to 6 days in 2015. This has minimised the exposure to price volatility and at the same time, allowed PDB to free-up our working capital by approximately RM200 million.

As for the Supply and Distribution efficiency initiative, we had:

- i) Negotiated with vessel owners to reduce the time charter hire rate at our Primary Distribution phase. The outcome of the negotiations was lower freight cost which have resulted in more competitive product cost.**

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- ii) Re-evaluated our Secondary Distribution system by adding bigger size road tankers to achieve economies of scale and optimising road tanker schedule for efficient product delivery to PETRONAS stations.

As a result of the above supply and distribution efficiencies coupled with other cost optimisation initiatives resulted in savings of RM 7 million.

The 3 key initiatives which are part of PDB's Winning Formula have contributed to an overall margin improvement of RM120 million.

**2. Despite a 2% growth in sales volume, the Group experienced a 13% (or RM3,273.7 million) drop in revenue to RM21,786.5 million, in line with the average drop in selling price by 14%.**

**For FY 2017 and moving forward, does the Board expect continuing growth in sales volume and what is the outlook on the selling price?**

Our strategy will continue to grow selectively, focusing on high value segments. Market growth is expected to be minimal mainly due to the challenging market environment and volume is expected to grow in line with market growth.

Our selling price is based on market petroleum product prices which will be impacted by oil price volatility as well as having its own fundamental supply and demand factors. As such, we are unable to provide the outlook on the selling price.

**3. In the retail and lubricant segment, what are the competitive advantages that PDB has compared to its peers and what are the threats that the Board is most concerned with?**

**What is the market share for each of the segment?**

Both Retail and Lubricant segments have superior products based on F1 technology which elevate customers' confidence in our brand. On top of this, the following are the competitive advantages for Retail and Lubricant segments:

**Retail segment**

The competitive advantages are:

1. Having the largest network with more than 1000 stations allowing extensive reach across the nation.
2. The positioning of our stations especially along the highway and major trunk roads provides better accessibility to the customers.
3. Having more than 760 MESRA outlets which offer various products, services and facilities which match the customers' needs.

**Lubricant segment**

The competitive advantages are:

1. Having diverse range of products to meet various industries requirement and multiple market segments.

2. Having strong OEM partnerships with Perodua, PROTON and other international car manufacturers such as Honda.

One of the major threat for these 2 segments is the rising inflation rate resulting in higher cost of living. Therefore consumers have less disposable income which will result in cautious and selective spending plans. The other threat is the increase use of public transport from new MRT infrastructure.

In the long run, we expect new threat to be coming from the increase in the number of Energy Efficient Vehicles, Hybrid and Electric Vehicles.

Based on our internal assessment, we see an improvement in our market share for both retail and lubricant businesses. However we are not able to substantiate this with any external market data.

4. **It was stated in the Annual Report that PDB had secured new contracts with Jeju Air and Etihad Airways.**

**What are the duration of these contracts and how significant would these contracts be expected to contribute to the revenue of the Commercial Business annually?**

The contracts secured with Jeju Air and Etihad Airways range between one to two years with combined annual revenue contribution to commercial business of approximately RM85 million.

5. **During the year, an impairment on subsidy receivables of RM89.9 million was made with respect to subsidy claims for diesel for the period April 2012 to January 2013 as no decision has been made on its repayment by the Government.**

(i) **Why was the impairment made only after so many years?**

(ii) **What were the issues relating to the non-payment by the Government?**

(iii) **What actions are PDB taking to recover the amount and what is the latest development?**

(iv) **What is the probability of recovering the amount?**

The impairment was only done in 2016 because prior to that PDB was still actively engaging the relevant stakeholders in the effort to recover the amount. PDB is not privy to the reason for non-payment by the Government for this subsidy receivables. Whilst we are unable to determine the probability of recovering the amount, we will still continue to pursue this.

## Corporate Governance and Sustainability Matters

- 1. This is the first year PDB embarked on integrated reporting in presenting its operational and financial performance in a more coherent and comprehensive manner.**

**Could the Board share briefly on the key challenges and how the Group addressed them particularly on setting the non-financial indicators and linking the non-financials to the financial performance?**

Some of the key challenges faced by PDB include the challenging market conditions such as slower economic growth, weak consumer sentiments and volatility in petroleum product prices. PDB also needs to ensure the safety, integrity and operational excellence of its assets and facilities.

To address these challenges, management has put in place non-financial performance measures such as in HSE and Operational Excellence KPIs to ensure no downtime of our facilities, resulting in increased productivity and volume and therefore translated into higher financial performance.

- 2. PDB's efforts in sustainability activities were recognised in 2016 and thus, PDB was included in the FTSE4Good Bursa Malaysia Index.**

- (i) Would the Board be able to share with shareholders on which areas and the results of achievements that have enabled PDB to be included in the index?**

PDB has been included in FTSE4Good since 2015, with an improved rating of 2.2 in 2016 as compared to 2.1 in 2015. Our achievements were contributed by:

- a. Additional disclosure on performance data such as energy consumption, green house, gaseous emissions, air pollutant emissions and spill incident.
- b. Improved disclosure on environmental statement in managing pollution incident.
- c. Improved disclosure of health and safety initiatives.
- d. Increased employee involvement in internal engagement.

- (ii) Going forward, what are PDB's plans in improving on any specific areas?**

PDB plans to improve on spill prevention management to avoid damage to the environment.

- 3. Section 334(3) of the Companies Act 2016 stated that in the case of a poll, the instrument appointing a proxy shall be deposited at the registered office of the Company not less than 24 hours before the time appointed for the taking of the poll. However, we noted that the Notes to the Notice of AGM issued by the Company required the instrument appointing a proxy to be deposited at the Registered Office of the Company not less than 48 hours before the time set for the meeting.**

**Could the Board explain the discrepancy and were the proxy instruments lodged less than 48 hours but not less than 24 hours before the time set for the meeting taken as valid?**

Section 334(3) of the Companies Act 2016 (“CA 2016”) regulates the time period for lodgment of proxy. Article 79 of PDB’s Constitution (the Articles of Association of PDB) provides for a similar rule.

The abovementioned rules provides that for a proxy to be valid, the proxy form must be deposited not less than 48 hours before the time for holding the meeting or adjourned meeting. It further provides that in the case of a poll, the proxy form must be deposited not less than 24 hours before the time appointed for the taking of the poll.

*The time for holding the meeting or adjourned meeting refers to the time as set out in the notice of meeting of when the meeting shall be held, and time appointed for taking of the poll refers to the time to be fixed by the Chairman of the meeting for the purpose of taking the poll. One cannot take the time for the holding of the meeting to be the time appointed for the taking of the poll as they are two different time periods for two different events, of which neither are replaceable nor inter-changeable.*

When the notice of the meeting is given, it will not contain any specific time appointed for the taking of the poll since the time appointed for taking of the poll will only be decided by the Chairman of the meeting during the time when the resolutions are to be put to vote at the meeting, after due dealing with the business of the meeting.

Section 332(2) of CA 2016 sets out the rule relating to when the poll shall be taken i.e. the poll, if is duly demanded, shall be taken:

- forthwith; or
- after an interval or adjournment; or
- otherwise as the Chairman directs.

The decision as to when the poll will be conducted rests with the Chairman of meeting and it is his/her responsibility to fix the time and place if the poll is not taken forthwith.

If the poll is taken forthwith after the discussion of the business, the members and proxies present shall cast the votes and the meeting is concluded after the poll and the result are declared.

However, where the Chairman of the meeting decides to hold a poll at a later time or date, that time fixed for the purpose of taking the poll does not constitute an adjournment of meeting, but is regarded as “mere enlargement” or “a continuation” of the meeting (Shaw v Tati Concessions Ltd [1913] 1 Ch. 292).



The rules requiring proxies to be lodged before the time for holding the meeting or adjourned meeting do not apply to an “enlargement” or “a continuation” for members who wish to change proxies to cast the poll vote at the time appointed for the taking of the poll.

Hence, the words “or deposited... not less than 24 hours before the times appointed for the taking of the poll” per Section 334(4) CA 2016 abrogates the principle as set by the case of *Shaw v Tati Concessions Ltd.* by further providing that in the case of a poll (i.e. in the case where the Chairman has decided to hold the poll at a later time or date), further proxies may be deposited by members not less than 24 hours before the time for taking of the poll.

Having applied the above, we are of the opinion that:

1. The rule relating to the time period for lodgment of valid proxy forms for attendance of the meeting shall be the rule stating that the proxy form shall be deposited not less than 48 hours before the time for holding the meeting or adjourned meeting.
2. The rule regarding “in the case of a poll” is applicable only where *the poll is taken on a later time or date as decided by the Chairman of the meeting*. Where members may wish to lodge further proxy or where members need to change proxy (for example where the originally appointed proxy cannot attend the poll at the appointed time or date), Members will then be able to deposit the proxy form *not less than 24 hours before the time appointed* (by the Chairman) *for taking of the poll*.

For your information, we are publishing these answers in our corporate website ([www.mymesra.com.my](http://www.mymesra.com.my)) for our shareholders’ and public viewing. The answers will also be made available and displayed on the LCD screen located at the foyer area, Level 3 of Kuala Lumpur Convention Centre on the day of the AGM on Wednesday, 19 April 2017. 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 DAGANGAN BERHAD**



**HASNIZAINI MOHD ZAIN (LS 0009780)**  
Company Secretary

- c.c.
1. **Encik Md Arif Mahmood**  
Chairman  
PETRONAS Dagangan Berhad
  2. **Encik Mohd Ibrahimuddin Mohd Yunus**  
Managing Director/Chief Executive Officer  
PETRONAS Dagangan Berhad
  3. **Mr. Yeap Kok Leong**  
Joint Company Secretary  
PETRONAS Dagangan Berhad