



PETRONAS

Our Reference: CS-LD-PDB-letter-015-18-FAR

Date: 24 April 2018

Minority Shareholders Watchdog 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 DAGANGAN BERHAD (“PDB” or “the Company”) TO BE HELD ON 25 APRIL 2018

With reference to your letter dated 16 April 2018, please find below responses to your questions:-

Strategic and Financial Matters

1. The revenue of the Retail Segment grew by 17% to RM13,855.2 million in FY2017 due to higher average selling prices. However, this was offset by lower sales volume. Despite the lower volume, gross profit had grown by 15%.

(i) Given that the Retail Segment continues to be the highest revenue contributor to the Group, what are the strategies put in place to improve the sales volume in FY2018?

For FY2018, Retail will continue to be aggressive and grow our sales volume higher than the Industry via the following key strategies:-

- Offering superior product (PETRONAS Primax97 with Advanced Energy Formula and PETRONAS Dynamic Diesel Euro 5 with Pro-Drive) and increasing its availability at more stations;
- Leveraging on the highest-in-industry customer loyalty programme with 3X point structure;
- Upgrading of petrol stations and Kedai Mesra to reflect a new look and feel;
- Intensifying advertising and promotional activities as well as boosting of sales via online platforms; and
- Expanding stations network at targeted locations.

Open

PETRONAS DAGANGAN BERHAD (88222-D)

Level 30-33, Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre, 50088 Kuala Lumpur, Malaysia

T: +(603) 2051 5000 F: +(603) 2026 5505

www.petronas.com

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(ii) What is the Board's expectation on the performance of this segment for FY2018?

Retail is targeted to grow the volume higher than industry and continue to grow our market share.

(iii) How many new stations would be built in FY2018 and what would be the total capital expenditure involved?

For 2018, Retail Business plans to add 10 to 15 new stations, with an average station cost between RM4.0 million to RM5.0 million (excluding land).

2. It was stated on page 69 of the Annual Report that the Retail Business manages PETRONAS stations via two categories of dealerships, namely Company-Owned, Dealer-Operated ("CODO") and Dealer-Owned, Dealer-Operated ("DODO").

What are the main challenges in managing these dealerships?

For CODO dealerships, there are minimal challenges in this category as PDB has control over the assets and dealers. For DODO dealerships, the key challenges are as follows:

- Maintaining PDB's brand image as the assets and facilities belong to the dealers;
- Ensuring dealers' compliance with the maintenance requirements of assets and facilities at the stations; and
- The potential of the dealers switching to competitor's brand upon expiry of the contract.

3. Under the Review of the Commercial Business Segment on page 75 of the Annual Report, the Company stated that it is expecting competition in the markets to increase, and new regulations to cause a shift towards cleaner fuel.

(i) What are the measures that will be taken in FY2018 to defend its current leadership position in the Commercial Business?

For FY2018, Commercial Business will focus on reinforcing strategic partnerships with existing and potential customers to maximise value, continue to offer competitive price and ensure supply reliability to defend our current leadership.

(ii) How many new airlines customers did the Company secure in FY2017 and how significant would this contribute to the performance of the Commercial Business Segment?

In FY2017, Commercial Business successfully secured supply contracts from 3 new airlines which contributed a margin of 0.4% and a volume of 0.3% to overall Commercial Business performance. Aviation segment contributed more than 40% of the overall Commercial Business performance and grew by approximately 10% as compared to the previous year mainly as a result from incremental volume by existing customers.

(iii) Could the Board comment on the performance of the Petroleum Coke and Sulphur portfolios?

Petroleum Coke and Sulphur contributed a margin of 5% and a volume of 1% to Commercial Business respectively.

PDB is one of the major suppliers for both products and commands market share of more than 70% for Petroleum Coke and 90% for Sulphur in the domestic market.

4. It was stated on page 81 of the Annual Report that Petronas Lubricants Marketing (Malaysia) Sdn Bhd (“PLMMSB”) continued to achieve profitable and sustainable volume growth and increased market share in key segments.

How was the performance of PLMMSB in FY2017 compared to the previous financial year?

PLMMSB recorded revenue of RM456.9 million, an increase of 1% compared to previous financial year. PLMMSB continued to contribute positively to PDB Group’s performance for FY2017.

For FY2017, PLMMSB had registered significant volume growth in its Highstreet segment by 13% and further consolidated its position as a major player in OEM segment by securing Honda After Sales contract as well as continued its long term partnerships with PROTON and PERODUA.

5. We noted that PDB divested its businesses in Vietnam and the Philippines.

(i) What was the reason for the Company to divest its businesses in these countries?

The Divestment is part of PDB’s regular review of our portfolio of businesses and geographies in which we operate. The review entails, among others, if there is still strategic fit and synergy and future growth prospects.

(ii) Are there plans for other regional expansion?

PDB is continuously assessing opportunities both internationally and domestically which can add value to our portfolio, either through synergy with current business or for further expansion.

Corporate Governance Matter

1. Under Practice 11.2 of MCGG, large companies are encouraged to adopt integrated reporting on a globally recognised framework. Based on the Company’s explanation given on the application of Practice 11.2, the Company has not applied the Practice.

We wish to highlight that under Paragraph 3.2C (b), Practice Note 9 of the Main Market Listing Requirements, a Large Company must disclose the timeframe required to achieve the application of the Practice.

PDB has embarked on Integrated Reporting journey since 2016. In 2017, we continued to improve our Integrated Reporting with the introduction of new sections as well as adding further linkages

throughout the report to integrate our narratives. We intend to progress every year and are committed to fully comply with the requirement once it becomes mandatory.

For your information, we are publishing these answers in our corporate website (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 1 of Mandarin Oriental Kuala Lumpur on the day of the AGM on Wednesday, 25 April 2018. 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 (LS0009780)
Company Secretary

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