PETRONAS GAS BERHAD

Interim Financial Report

For First Quarter Ended 31 March 2018

PETRONAS GAS BERHAD (101671 – H)

INTERIM FINANCIAL REPORT

FOR FIRST QUARTER ENDED 31 MARCH 2018

PETRONAS

Key Financial Highlights *(in RM'000)*	**3 months ended 31 March 2018**	**2017**	**Variance %**
Revenue	1,350,766	1,169,148	+15.5
Profit before taxation (PBT)	636,985	577,047	+10.4
Profit for the period	505,352	463,161	+9.1
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	928,368	816,145	+13.8
Earnings per share (EPS) (sen)	24.42	23.41	+4.3
Declared dividends per share (sen)	16.00	15.00	+6.7

- PETRONAS Gas Berhad Group's **revenue for the quarter ended 31 March 2018 has grew by RM181.6 million or 15.5% to RM1,350.8 million** against the corresponding quarter mainly contributed by the Group's new LNG regasification terminal in Pengerang, Johor which commenced commercial operations in November 2017. This was further supported by higher revenue from all segments.

- **PBT was RM637.0 million, an increase of 10.4% or RM59.9 million** on contribution from regasification business segment. This was partially offset by higher finance costs and lower share of profit from a joint venture company.

- **Profit for the quarter rose by 9.1% or RM42.2 million** in tandem with higher PBT.

- **EBITDA was similarly higher by 13.8% at RM928.4 million** in line with higher PBT.

- **EPS was higher by 1.0 sen** following higher net profit attributable to shareholders of the Company.

- **The Board of Directors has approved a first interim dividend** of 16 sen per ordinary share amounting to RM316.6 million in respect of the financial year ending 31 December 2018.

PETRONAS GAS BERHAD (101671 – H)

INTERIM FINANCIAL REPORT

FOR FIRST QUARTER ENDED 31 MARCH 2018

PETRONAS

The Board of Directors of PETRONAS Gas Berhad (PGB or the Company) is pleased to announce the following unaudited condensed consolidated financial statements of PGB Group for the first quarter ended 31 March 2018 which should be read in conjunction with the Explanatory Notes on pages 5 to 20.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM'000	Note	As at 31 March 2018	As at 31 December 2017
ASSETS			
Property, plant and equipment		12,572,013	12,898,583
Prepaid lease payment		3,922	4,139
Investment in joint ventures		645,024	622,633
Investment in associate		146,598	131,742
Deferred tax assets		346,096	364,789
Long term receivables		260,429	197,799
TOTAL NON-CURRENT ASSETS		13,974,082	14,219,685
Trade and other inventories		66,289	66,663
Trade and other receivables	25	783,640	833,992
Cash and cash equivalents	20	2,819,575	2,500,357
Tax recoverable		32,983	6,839
TOTAL CURRENT ASSETS		3,702,487	3,407,851
TOTAL ASSETS		17,676,569	17,627,536
EQUITY			
Share capital		3,165,204	3,165,204
Reserves		9,485,237	9,349,817
Total equity attributable to the shareholders of the Company		12,650,441	12,515,021
Non-controlling interests		261,732	247,444
TOTAL EQUITY		12,912,173	12,762,465
LIABILITIES			
Borrowings	27	2,941,335	2,978,939
Deferred tax liabilities		1,176,865	1,165,576
Deferred income		4,726	4,962
TOTAL NON-CURRENT LIABILITIES		4,122,926	4,149,477
Trade and other payables		540,214	610,250
Borrowings	27	101,256	105,344
TOTAL CURRENT LIABILITIES		641,470	715,594
TOTAL LIABILITIES		4,764,396	4,865,071
TOTAL EQUITY AND LIABILITIES		17,676,569	17,627,536
Net assets per share attributable to the shareholders of the Company (RM)		6.3932	6.3248

The unaudited interim consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these interim consolidated financial statements.

PETRONAS GAS BERHAD (101671 – H)

INTERIM FINANCIAL REPORT

FOR FIRST QUARTER ENDED 31 MARCH 2018

PETRONAS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	3 months ended 31 March 2018	2017
In RM'000			
Revenue		1,350,766	1,169,148
Cost of revenue		(709,424)	(618,026)
Gross profit		641,342	551,122
Administration expenses		(24,303)	(22,544)
Other expenses		(3,683)	(631)
Other income		45,632	44,928
Operating profit	32	658,988	572,875
Financing costs		(39,025)	(26,316)
Share of profit after tax of equity-accounted joint ventures and associate		17,022	30,488
Profit before taxation		636,985	577,047
Tax expense	21	(131,633)	(113,886)
PROFIT FOR THE PERIOD		505,352	463,161
Other comprehensive income/(expenses)			
Items that may be reclassified subsequently to profit or loss			
Net movement from exchange differences		(43,354)	(9,201)
Cash flow hedge		62,633	15,696
Share of cash flow hedge of an equity-accounted joint venture		(5,979)	(2,735)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		518,652	466,921
Profit attributable to:			
Shareholders of the Company		483,224	463,235
Non-controlling interests		22,128	(74)
PROFIT FOR THE PERIOD		505,352	463,161
Total comprehensive income/(expenses) attributable to:			
Shareholders of the Company		511,698	470,216
Non-controlling interests		6,954	(3,295)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		518,652	466,921
Basic and diluted earnings per ordinary share (sen)		24.42	23.41

The unaudited interim consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company								
	Non-distributable					***Distributable***			
In RM'000	**Share capital (Note a)**	**Share premium**	**Hedging reserve**	**Foreign currency translation reserve**	**Capital reserves**	**Retained profits**	**Total**	**Non-controlling interests**	**Total**
Quarter ended 31 March 2017									
Balance at 1 January 2017	1,978,732	1,186,472	(2,331)	56,354	-	8,747,553	11,966,780	194,469	12,161,249
Net movement from exchange differences	-	-	-	(5,980)	-	-	(5,980)	(3,221)	(9,201)
Cash flow hedge	-	-	15,696	-	-	-	15,696	-	15,696
Share of cash flow hedge of an equity-accounted joint venture	-	-	(2,735)	-	-	-	(2,735)	-	(2,735)
Profit for the period	-	-	-	-	-	463,235	463,235	(74)	463,161
Total comprehensive income/(expenses) for the period	-	-	12,961	(5,980)	-	463,235	470,216	(3,295)	466,921
Transfer of share premium	1,186,472	(1,186,472)	-	-	-	-	-	-	-
Issuance of shares to non-controlling interest	-	-	-	-	-	-	-	4,559	4,559
Interim dividend declared and paid in respect of previous year	-	-	-	-	-	(375,959)	(375,959)	-	(375,959)
Total transactions with shareholders of the Company	1,186,472	(1,186,472)	-	-	-	(375,959)	(375,959)	4,559	(371,400)
Balance at 31 March 2017	3,165,204	-	10,630	50,374	-	8,834,829	12,061,037	195,733	12,256,770
Quarter ended 31 March 2018									
Balance at 1 January 2018									
- As previously reported	3,165,204	-	108,500	7,045	21,400	9,212,872	12,515,021	247,444	12,762,465
- Effect of adoption of MFRS 9 (net of tax)	-	-	-	-	-	(319)	(319)	-	(319)
At 1 January 2018, restated	3,165,204	-	108,500	7,045	21,400	9,212,553	12,514,702	247,444	12,762,146
Net movement from exchange differences	-	-	-	(28,180)	-	-	(28,180)	(15,174)	(43,354)
Cash flow hedge	-	-	62,633	-	-	-	62,633	-	62,633
Share of cash flow hedge of an equity-accounted joint venture	-	-	(5,979)	-	-	-	(5,979)	-	(5,979)
Profit for the period	-	-	-	-	-	483,224	483,224	22,128	505,352
Total comprehensive income/(expenses) for the period	-	-	56,654	(28,180)	-	483,224	511,698	6,954	518,652
Issuance of shares to non-controlling interest	-	-	-	-	-	-	-	7,334	7,334
Redemption of redeemable preference share in subsidiary	-	-	-	-	9,230	(9,230)	-	-	-
Interim dividend declared and paid in respect of previous year	-	-	-	-	-	(375,959)	(375,959)	-	(375,959)
Total transactions with shareholders of the Company	-	-	-	-	9,230	(385,189)	(375,959)	7,334	(368,625)
Balance at 31 March 2018	3,165,204	-	165,154	(21,135)	30,630	9,310,588	12,650,441	261,732	12,912,173

Note a: Pursuant to section 74 of the Companies Act, 2016 ('the Act'), the Company's shares no longer have a par or nominal value with effect from 31 January 2017. In accordance with the transitional provision set out in section 618 of the Act, any amount standing to the credit of the share premium account becomes part of the Company's share capital. Companies have 24 months upon the commencement of the Act to utilise the credit.

There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition. During the financial period, the Company has not utilised any of the credit in the share premium account which are now part of share capital.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		3 months ended 31 March	
	Note	2018	2017
In RM'000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit Before Taxation		636,985	577,047
Adjustments for:			
Depreciation and amortisation		273,364	228,057
Interest expenses		39,025	26,316
Interest income		(21,006)	(15,275)
Share of profit after tax equity-accounted joint ventures and associate		(17,022)	(30,488)
Unrealised gain on foreign exchange		(6,503)	(3,108)
Other non-cash items		(450)	297
Operating profit before changes in working capital		904,393	782,846
Change in trade and other receivables		47,956	4,834
Change in trade inventories		374	2,038
Change in trade and other payables		(73,213)	(153,321)
Cash generated from operations		879,510	636,397
Interest income from fund and other investment		21,006	15,275
Taxation paid		(127,568)	(38,673)
Net cash generated from operating activities		772,948	612,999
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in a joint venture		(26,203)	-
Loans and advances to a joint venture		(54,552)	-
Purchase of property, plant and equipment		(70,524)	(395,449)
Proceeds from disposal of property, plant and equipment		344	-
Net cash used in investing activities		(150,935)	(395,449)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(375,959)	(375,959)
Drawdown of term loan	27	99,990	273,724
Drawdown of loan from corporate shareholder of a subsidiary	27	17,022	105,323
Financing costs paid		(40,927)	(31,897)
Repayment of finance lease liabilities	27	(7,508)	(7,932)
Proceeds from shares issued to a non-controlling interest		7,334	4,559
Net cash used in financing activities		(300,048)	(32,182)
Net increase in cash and cash equivalents		321,965	185,368
Net foreign exchange difference		(2,747)	(87)
Cash and cash equivalents at beginning of the period		2,500,357	1,763,117
Cash and cash equivalents at end of the period		2,819,575	1,948,398

The unaudited interim consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these interim consolidated financial statements.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. BASIS OF PREPARATION

The interim financial statements have been prepared using historical cost basis except for certain financial assets and financial liabilities that are stated at fair value.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of IAS 34, *Interim Financial Reporting,* MFRS 134, *Interim Financial Reporting* and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

They should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 2017. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2017.

Within the context of these financial statements, the Group comprises the Company and its subsidiaries and the Group's interest in an associate and its joint ventures as at and for the quarter ended 31 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for the year ending 31 December 2018 under the Malaysian Financial Reporting Standards (MFRS) framework. These policies do not differ significantly from those used in the audited consolidated financial statements for the year ended 31 December 2017 except as described below.

As of 1 January 2018, the Group has adopted the following new and revised MFRSs, amendments to MFRS and IC interpretation (collectively referred to as "pronouncements") which are effective for annual periods beginning on or after 1 January 2018.

MFRS 9 *Financial Instruments (2014)*
MFRS 15 *Revenue from Contracts with Customers*
Amendments to MFRS 15 *Revenue from Contracts with Customers: Clarifications to MFRS 15*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The effects of initial application of MFRS 9 and 15 to the financial statements of the Group are as follows:

i. MFRS 9 *Financial Instruments*

The Group adopted MFRS 9 *Financial Instruments* on 1 January 2018. MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, impairment of financial assets and on hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new three principal classifications categories for financial assets: measured at ammortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

There was no material impact on the accounting for the Group's financial assets upon initial application of the new classification requirements.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (ECL) model. Under MFRS 9, loss allowances will be measured on either 12 months ECLs or Lifetime ECLs.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. MFRS 9 *Financial Instruments* (continued)

As allowed by the transitional provision of MFRS 9, the Group elected not to restate the comparatives. Adjustment arising from the initial application of the new impairment model has been recognised in the opening balance of the retained earnings and the carrying amount of the financial assets as at 1 January 2018 as disclosed below:

In RM'000	**Impact of adoption of MFRS 9 to opening balance at 1 January 2018**
Decrease in retained earnings	319
Increase in deferred tax asset	101
Decrease in long term receivables	(328)
Decrease in trade and other receivables	(92)

ii. MFRS 15 *Revenue from Contracts with Customers*

The Group adopted MFRS 15 *Revenue from Contracts with Customers* on 1 January 2018. MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts,* MFRS 118 *Revenue,* IC Interpretation 13 *Customer Loyalty Programmes,* IC Interpretation 15 *Agreements for Construction of Real Estate,* IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue-Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The initial application of MFRS 15 did not have significant impact on the Group's consolidated financial statements.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of the Group for the year ended 31 December 2017 were not subject to any audit qualification.

4. SEASONAL OR CYCLICAL FACTORS

The Group's operations are not significantly affected by seasonal or cyclical fluctuations of the business/ industry.

5. EXCEPTIONAL ITEMS

There were no exceptional items during the quarter under review.

6. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of the Group for the year ended 31 December 2017 that may have a material effect on the results of the quarter under review.

7. PROPERTY, PLANT AND EQUIPMENT

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

8. DEBT AND EQUITY SECURITIES

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 31 March 2018.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

9. DIVIDENDS

The following dividends were declared and paid by the Company:

In RM'000	3 months ended 31 March 2018	2017
Ordinary		
Interim paid:		
2016 - Fourth interim dividend of 19 sen per ordinary share	-	375,959
2017 - Fourth interim dividend of 19 sen per ordinary share	375,959	-
	375,959	375,959

On 17 May 2018, the Directors of the Company approved a first interim dividend of 16 sen per ordinary share, amounting to RM316.6 million in respect of the financial year ending 31 December 2018.

The dividends are payable on 12 June 2018 to depositors registered in the Records of Depositors at the close of business on 4 June 2018.

A Depositor shall qualify for entitlement to the dividends only in respect of:

a) Shares transferred into the Depositor's Securities Account before 4.00 pm on 4 June 2018 in respect of ordinary transfers.

b) Shares brought on the Bursa Malaysia Securities Berhad on a cum entitlement basis accordingly to the rules of the Bursa Malaysia Securities Berhad.

The interim financial statements for the current quarter do not reflect this approved interim dividend. The dividend, will be accounted for in equity as an appropriation of retained profits in the financial statements for the financial year ending 31 December 2018.

10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the quarter under review.

11. FAIR VALUE INFORMATION

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short nature of these financial instruments.

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position. The fair value hierarchy in the valuation technique are as follows:

Level 1 - Quoted priced (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are, observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input).

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PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

11. FAIR VALUE INFORMATION (continued)

The Group recognises transfers between levels of fair value hierarchy as at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 2 and 3 of the fair value valuation hierarchy during the financial period.

In RM'000 **31 March 2018**	**Fair value of financial instruments carried at fair value Level 2**	**Fair value of financial instruments not carried at fair value Level 3**	**Total fair value**	**Carrying amounts**
Financial assets				
Long term receivables	-	228,987	228,987	228,987
Derivative assets	34,118	-	34,118	34,118
	34,118	228,987	263,105	263,105
Financial liabilities				
Finance lease liabilities	-	(966,367)	(966,367)	(966,367)
Term loan	-	(1,553,695)	(1,553,695)	(1,553,695)
Loan from corporate shareholder of a subsidiary	-	(522,529)	(522,529)	(522,529)
	-	(3,042,591)	(3,042,591)	(3,042,591)
31 December 2017				
Financial assets				
Long term receivables	-	182,292	182,292	182,292
Derivative assets	18,469	-	18,469	18,469
	18,469	182,292	200,761	200,761
Financial liabilities				
Finance lease liabilities	-	(1,023,535)	(1,023,535)	(1,023,535)
Term loan	-	(1,529,104)	(1,529,104)	(1,529,104)
Loan from corporate shareholder of a subsidiary	-	(531,644)	(531,644)	(531,644)
Derivative liabilities	(64)	-	(64)	(64)
	(64)	(3,084,283)	(3,084,347)	(3,084,347)

The calculation of fair value for financial instruments depends on the type of instruments as follows:

- Fair value of finance lease liabilities are estimated using discounted cash flow method.
- Fair value of forward exchange contracts are estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).
- Fair value of interest rate swap agreements are estimated by discounting expected future cash flows using current market interest rate and yield curve over the remaining term of the instruments.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

12. SEGMENTAL INFORMATION

The Group has four reporting segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because it requires different technology and marketing strategies. The following summary describes the operations in each of the Group's reporting segments:

- Gas Processing – activities include processing of natural gas from gas fields offshore the East Coast of Peninsular Malaysia into salesgas and other by-products such as ethane, propane and butane.
- Gas Transportation – activities include transportation of processed gas to PETRONAS' end customers throughout Malaysia and export to Singapore and provision of operations and maintenance services.
- Utilities – activities include manufacturing, marketing and supplying of industrial utilities to the petrochemical complexes in the Kertih and Gebeng Industrial Area and provision of operations and maintenance services.
- Regasification – activities include regasification of liquefied natural gas (LNG) into the Peninsular Gas Utilisation pipeline network.

Performance is measured based on segment gross profit, as included in the performance reports to the Board of Directors as the Company believes that such information is the most relevant in evaluating the results of the segments.

The segmental information in respect of the associate and joint ventures is not presented as the contribution of the associate and joint ventures and the carrying amount of investment in the associate and joint ventures have been reflected in the statement of profit or loss and other comprehensive income and statement of financial position of the Group respectively.

In RM'000 — 3 months ended 31 March 2018

Business Segment	Gas Processing	Gas Transportation	Utilities	Regasification	Total
Revenue	393,757	333,715	323,667	299,627	1,350,766
Segment results	161,324	260,044	45,902	174,072	641,342
Unallocated income					17,646
Operating profit					658,988
Financing costs					(39,025)
Share of profit after tax of equity-accounted joint ventures and associate					17,022
Profit before taxation					636,985

In RM'000 — 3 months ended 31 March 2017

Business Segment	Gas Processing	Gas Transportation	Utilities	Regasification	Total
Revenue	389,699	323,694	291,482	164,273	1,169,148
Segment results	176,665	253,299	43,524	77,634	551,122
Unallocated income					21,753
Operating profit					572,875
Financing costs					(26,316)
Share of profit after tax of equity-accounted joint ventures and associate					30,488
Profit before taxation					577,047

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

12. SEGMENTAL INFORMATION (Continued)

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated income/(expenses) mainly comprises foreign exchange gain or loss and other corporate income and expenses.

The Group's revenue from contracts with customers which also represents reportable segment revenue are disaggregated as follows:

In RM'000	3 months ended 31 March 2018	3 months ended 31 March 2017
Geographical Locations		
Peninsular Malaysia	1,333,765	1,162,168
Sabah and Sarawak	17,001	6,980
Total	1,350,766	1,169,148
Products and Services		
Gas processing services	393,757	389,699
Gas transportation services	322,106	323,694
Regasification services	299,627	164,273
Utilities		
- Electricity	144,900	132,427
- Steam	100,386	88,137
- Industrial gases	61,084	54,164
- Others*	17,023	16,754
Operations and maintenance services	11,883	-
Total	1,350,766	**1,169,148**

**Others relates to water treatment services and sale of other utilities products.*

13. SUBSEQUENT EVENTS

There were no material events subsequent to the end of the quarter.

14. CONTINGENCIES

In RM'000	**As at 31 March 2018**	**As at 31 December 2017**
Unsecured		
Counter claim by a third party against a joint venture	137,296	137,296

No provision has been made on the above contingencies (i.e. RM137,296,000 being the 60% of the counter claim) in the financial statements up to the reporting date.

Details of the above counter claim are further disclosed in Note 29.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

15. CAPITAL COMMITMENTS

Outstanding commitments in respect of capital expenditure at the end of each reporting period not provided for in the interim financial statements are as follows:

In RM'000	**As at 31 March 2018**	**As at 31 December 2017**
Property, plant and equipment		
Approved and contracted for	274,207	484,924
Approved but not contracted for	4,319,615	4,341,058
	4,593,822	4,825,982
Share of capital expenditure of joint ventures		
Approved and contracted for	54,552	88,534
Approved but not contracted for	48,998	52,505
	103,550	141,039
	4,697,372	4,967,021

16. RELATED PARTY TRANSACTIONS

There were no significant transactions with related parties in addition to the related party transactions disclosed in the audited financial statements for the year ended 31 December 2017.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

17. REVIEW OF GROUP PERFORMANCE

Current quarter against the corresponding quarter

In RM'000	**3 months ended 31 March 2018**	**2017**	**Variance %**
Revenue	1,350,766	1,169,148	+15.5
Operating profit	658,988	572,875	+15.0
Profit before taxation (PBT)	636,985	577,047	+10.4
Profit for the quarter	505,352	463,161	+9.1
EBITDA	928,368	816,145	+13.8

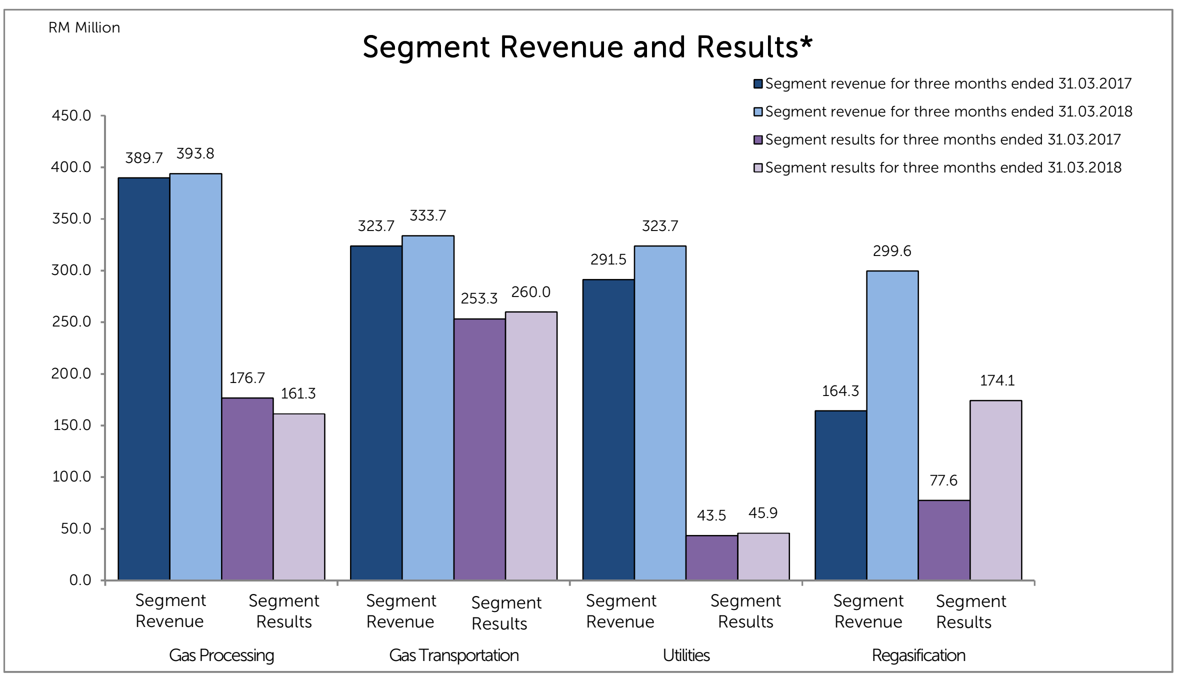
The Group continued to record strong operational performance. Notably, the Gas Processing, Transportation and Regasification plants continued to perform well above 99% reliability. Gas processing's liquid plant extraction performance continued to exceed targets, contributing towards higher performance based structure (PBS) income compared to corresponding quarter. The Utilities segment recorded favourable selling price in line with upward fuel gas price revision.

Group revenue grew by 15.5% or RM181.6 million to RM1.4 billion, mainly contributed by the Group's new LNG regasification terminal in Pengerang, Johor which commenced commercial operations in November 2017. This was further supported by higher revenue from all segments.

Profit for the quarter increased by 9.1% or RM42.2 million to RM505.4 million on the back of higher revenue, negated by lower share of profit from a joint venture company and higher finance cost as a result of discontinued capitalisation of interest expense following operationalisation of the Group's new LNG regasification terminal.

EBITDA was also higher by 13.8% at RM928.4 million.

The following section provides further analysis of the Group performance by operating segments.



**Note: Segment Results refers to Gross Profit*

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

17. REVIEW OF GROUP PERFORMANCE (continued)

Current quarter against the corresponding quarter (continued)

Gas Processing

The Group's gas processing plants achieved 100% reliability, maintaining world class standards. Liquid plant extraction performance consistently exceeded targets throughout the quarter, resulting in higher tranches of PBS income earned compared to corresponding quarter.

As a result, segment revenue registered an increase of RM4.1 million or 1.1%. Segment contribution was, however lower by 8.7% at RM161.3 million as higher revenue was offset by higher depreciation following completion of statutory turnaround activities and higher staff costs.

Gas Transportation

Gas Transportation segment pipeline network reliability was close to 100%, comparable to corresponding quarter. Segment revenue increased by RM10.0 million or 3.1% in relations to operations and maintenance revenue from Sabah Sarawak Gas Pipeline.

The segment contributed RM260.0 million, higher by RM6.7 million or 2.6% on the back of higher revenue, amidst higher depreciation as well as staff costs.

Utilities

Utilities revenue for the quarter rose by RM32.2 million or 11% to RM323.7 million attributable to upward revision of fuel gas price in 1 July 2017 and 1 January 2018 respectively.

Segment contribution was only slightly higher by RM2.4 million or 5.5% due to higher utilities cost of sales and higher depreciation following completion of several capital projects.

Regasification

The Group's regasification facilities in Sungai Udang, Melaka and Pengerang, Johor continued to record high plant reliability at close to 100% during the quarter.

The Regasification segment recorded higher revenue by RM135.3 million or 82% at RM299.6 million compared to the corresponding quarter primarily contributed by the Group's new regasification terminal in Pengerang, Johor which came on-stream in November 2017. Correspondingly, segment results surged from RM77.6 million to RM174.1 million.

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18. COMPARISON AGAINST IMMEDIATE PRECEDING QUARTER RESULTS

	3 months ended		
In RM'000	**31 March 2018**	**31 December 2017**	**Variance %**
Revenue	1,350,766	1,303,755	+3.6
Operating profit	658,988	609,827	+8.1
Profit before taxation (PBT)	636,985	605,893	+5.1
Profit for the quarter	505,352	510,442	-1.0
EBITDA	928,368	888,807	+4.5

The Group sustained its strong performance for plant and facilities reliability across all segments compared to the preceding quarter. Gas Processing's liquid plant extraction exceeded targets, resulting in similar level of PBS income this quarter. For Utilities segment, realised selling price was higher following upward fuel gas price revision effective 1 January 2018.

Group revenue stood at RM1.4 billion, higher by RM47.0 million or 3.6% mainly contributed by new revenue stream from the LNG Regasification Terminal in Pengerang, Johor and higher revenue from Utilities and Gas Transportation segments.

However, profit for the quarter declined slightly by 1.0% or RM5.0 million to RM505.4 million due to higher tax expense and lower share of profit from joint ventures in the current quarter. Lower tax expenses in the preceding quarter was attributable to recognition of RAPID tax incentive for LNG Regasification Terminal in Pengerang.

EBITDA, which excludes tax expense and share of profit was higher by 4.5%.

19. REVIEW OF GROUP FINANCIAL POSITION

In RM'000	**As at 31 March 2018**	**As at 31 December 2017**	**Variance %**
Total assets	17,676,569	17,627,536	+0.3
Total equity attributable to the shareholders of the Company	12,650,441	12,515,021	+1.1
Total liabilities	4,764,396	4,865,071	-2.1
Return on equity (%)	*14	14	-

** Based on rolling annualised PAT attributable to shareholders from 1 April 2017 to 31 March 2018*

The Group's total asset and total equity remained comparable at RM17.7 billion and RM12.7 billion respectively.

Total liabilities reduced by 2.1% or RM100.7 million at RM4.8 billion due to lower payables in line with completed growth and capital projects.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

20. REVIEW OF GROUP CASH FLOWS

In RM'000	2018	3 months ended 31 March 2017	Variance %
Net cash generated from operating activities	772,948	612,999	+26.1
Net cash used in investing activities	(150,935)	(395,449)	-61.8
Net cash used in financing activities	(300,048)	(32,182)	+832.3
Net increase in cash and cash equivalents	321,965	185,368	+73.7

Net cash generated from operating activities was higher by RM159.9 million or 26% in line with the Group's revenue stream from LNG regasification terminal in Pengerang, Johor.

Net cash used in investing activities was lower by RM244.5 million or 62% mainly due to lower spending on capital expenditure as a result of completion of growth and capital projects.

Net cash used in financing activities was higher by RM267.9 million or 832% mainly due to dividend paid during the quarter compensated by lower drawdown of term loan.

21. TAX EXPENSE

Tax expense comprises the following:

In RM'000	2018	3 months ended 31 March 2017
Current tax expenses		
Malaysia		
- current period	101,427	100,590
Total current tax expenses	101,427	100,590
Deferred tax expenses		
- origination and reversal of temporary differences	30,206	13,296
Total deferred tax expenses	30,206	13,296
	131,633	113,886

The effective tax rate (ETR) for the current and corresponding quarter ended March 2018 was lower than the statutory tax rate of 24% mainly due to utilisation of tax incentive granted for Utilities business.

22. COMMENTARY ON PROSPECTS

As announced by the Group on 15 January 2018, the Gas Supply (Amendment) Act 2016 is effective from 16 January 2018 onwards and the Energy Commission has confirmed that the current tariffs for the Group's Gas Transportation and Regasification services will be maintained until end of 2018.

The Group is in continuous discussion with Energy Commission to finalise the tariff guidelines for Gas Transportation and Regasification services beyond 2018.

The Group's performance is therefore expected to remain stable on the back of its strong and sustainable income streams from existing Gas Processing Agreement, Gas Transportation Agreements and Regasification Service Agreement signed with PETRONAS.

The Group's Utilities segment will continue to contribute positively to the Group's results.

The Group's Regasification segment results will benefit from full year contribution of the new LNG Regasification Terminal in Pengerang, Johor.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

23. PROFIT FORECAST

Not applicable as no profit forecast was published.

24. STATUS OF CORPORATE PROPOSAL ANNOUNCED BUT NOT COMPLETED

There was no corporate proposal announced but not completed as at the date of this report.

25. TRADE AND OTHER RECEIVABLES

In RM'000	**As at 31 March 2018**	**As at 31 December 2017**
Trade receivables		
- Third party	53,088	23,500
- Related companies	459,009	525,516
- Joint ventures	-	1,097
- Related parties	-	32,625
	512,097	582,738
Other receivables	271,781	251,607
Less: Impairment loss	(238)	(353)
Trade and other receivables	783,640	833,992

Average credit term for trade receivables granted to related parties and third parties is 30 days.

The ageing of trade receivables as at reporting date are as follows:

In RM'000	**As at 31 March 2018**	**As at 31 December 2017**
Current	509,379	530,795
Past due 1 to 30 days	1,461	51,981
Past due 31 to 60 days	358	-
Past due 61 to 90 days	937	-
Past due more than 90 days	(38)	(38)
Trade receivables	512,097	582,738

With respect to the Group's trade receivables, there are no indications as at reporting date that the debtors will not meet their payment obligations.

Related party trade receivables

Related parties	Nature of transactions
a. **Holding company** Petroliam Nasional Berhad	Provision of gas processing services, gas transportation services and LNG regasification services
b. **Related companies** PETRONAS Chemical Derivatives Sdn Bhd PETRONAS Chemical MTBE Sdn Bhd PETRONAS Chemical Ammonia Sdn Bhd	Sales of industrial utilities

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

26. FOREIGN EXCHANGE EXPOSURE / HEDGING POLICY

The Group operate predominantly in Malaysia and transact mainly in Ringgit Malaysia. Nevertheless, the Group is exposed to varying levels of foreign exchange risk when it enters into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date.

The Group's foreign currency management policy is to minimise economic and significant transactional exposure arising from currency movements. Residual net positions are actively managed and monitored against prescribed policies and control procedures. When deemed necessary and appropriate, the Group will enter into derivative financial instruments to hedge and minimise their exposure to the foreign currency movements.

27. BORROWINGS

Particulars of Group's borrowings are as follows:

In RM'000	**As at 31 March 2018**	**As at 31 December 2017**
Non-Current		
Secured		
Finance lease liabilities	934,846	991,492
Unsecured		
Term loan	1,553,695	1,529,104
Loan from corporate shareholder of a subsidiary	452,794	458,343
	2,941,335	2,978,939
Current		
Secured		
Finance lease liabilities	31,521	32,043
Unsecured		
Loan from corporate shareholder of a subsidiary	69,735	73,301
	101,256	105,344
	3,042,591	3,084,283

In RM'000		
By Currency		
USD	3,042,591	3,084,283
Closing exchange rate (RM/USD)	3.8620	4.0595

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

27. BORROWINGS (continued)

In RM'000	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
Secured					
Finance lease liabilities	966,367	31,521	37,675	134,746	762,425
Unsecured					
Term loan	1,553,695	-	-	1,553,695	-
Loan from corporate shareholder of a subsidiary	522,529	69,735	49,351	188,304	215,139
	3,042,591	101,256	87,026	1,876,745	977,564

[1] *Finance lease liabilities bears interest at rate of 9.1% (2017: 9.1%) per annum.*

[2] *The unsecured term loan bears interest at floating rates ranging from 1.7% to 1.9% (2017: 1.7% to 2.3%) per annum and are due for full payment in February 2021. The Company had entered into a series of Interest Rate Swaps in August 2017 to hedge against variable interest rate exposure arising from the unsecured term loan. As a result of this hedging arrangement, the unsecured term loan has a net fixed interest rate of 1.685% per annum.*

[3] *Loan from corporate shareholder of a subsidiary bears fixed interest at a rate of 6.5% per annum and repayable in tranches at their various due dates from 2018 to 2028.*

Reconciliation of liabilities arising from financing activities:

		Cash flows		Non-cash changes	
In RM'000	At 1 January 2018	Drawdown	Repayment	Foreign exchange movement	At 31 March 2018
Finance lease liabilities	1,023,535	-	(7,508)	(49,660)	966,367
Term loan	1,529,104	99,990	-	(75,399)	1,553,695
Loan from corporate shareholder of a subsidiary	531,644	17,022	-	(26,137)	522,529
	3,084,283	117,012	(7,508)	(151,196)	3,042,591

Drawdown of term loan and loan from a corporate shareholder of a subsidiary was to finance the Group's growth projects.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

28. DERIVATIVES

Outstanding derivatives as at the date of the statement of financial position are as follows:

	Notional/Contract Value		Fair Value	
	As at 31 March 2018 USD'000	**As at 31 December 2017 USD'000**	**As at 31 March 2018 RM'000**	**As at 31 December 2017 RM'000**
Finance lease liability *(designated as hedging instrument)*				
- More than 3 years	250,225	252,133	966,367	1,023,535
Interest rate swap				
- 1 year to 3 years	322,003	322,003	31,442	18,469
Forward exchange contract				
- Less than 1 year	13,224	18,437	2,676	(64)

There were no changes to the requirements and nature of the outstanding derivatives as disclosed since the last audited financial statements for the year ended 31 December 2017.

29. MATERIAL LITIGATION

Kimanis Power Sdn Bhd (KPSB), a 60% joint venture company of the Group, has issued a Notice of Arbitration on 24 March 2017 to Sabah Electricity Sdn Bhd (SESB) in connection to disputes on Power Purchase Agreement entered into between the parties.

Subsequent to the issuance of the Notice of Arbitration, KPSB had on 12 September 2017 filed its Statement of Claim for an estimated sum of RM83,381,000 plus interests. SESB has since filed its Statement of Defence and Counterclaim on 2 November 2017 amounting to a sum of RM228,826,000 plus interests. In pursuing with arbitration matter, both parties are currently at the inspection and discovery of documents stage and tribunal hearing is scheduled to be held in March 2019.

There has been no material litigation since the last audited consolidated financial statements for the year ended 31 December 2017.

30. EARNINGS PER SHARE

Basic earnings per share (EPS) is derived based on the net profit attributable to shareholders of the Company and the number of ordinary shares outstanding during the period.

	3 months ended 31 March	
	2018	**2017**
Net profit for the period attributable to ordinary shareholders of the Company (RM'000)	483,224	463,235
Number of ordinary shares in issue ('000)	1,978,732	1,978,732
EPS (sen)	24.42	23.41

As at the date of the statement of financial position, the Company has not issued any dilutive potential ordinary shares and hence, the diluted EPS is the same as the basic EPS.

PETRONAS

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

31. AUDITOR REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

As disclosed in Note 3.

32. PROFIT FOR THE PERIOD

In RM'000	3 months ended 31 March 2018	2017
Profit for the period is arrived at after charging:		
Depreciation and amortisation	273,364	228,057
Impairment loss	81	-
Loss on realised foreign exchange	34	200
and crediting:		
Gain on unrealised foreign exchange	6,503	3,108
Gain on disposal of property, plant and equipment	380	-
Interest income from fund investments	21,006	15,275

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

33. DIVIDENDS

As disclosed in Note 9.

34. EXCHANGE RATE

	Individual Quarter Ended		
USD/MYR	**31 March 2018**	**31 December 2017**	**31 March 2017**
Average rate	3.9248	4.1590	4.4472
Closing rate	3.8620	4.0595	4.4240

35. AUTHORISED FOR ISSUE

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 17 May 2018.

BY ORDER OF THE BOARD

Intan Shafinas (Tuty) Hussain (LS0009774)
Yeap Kok Leong (MAICSA 0862549)
Company Secretaries
Kuala Lumpur
17 May 2018