PETRONAS

PETRONAS GAS BERHAD

Interim Financial Report

For Second Quarter Ended 30 June 2018

PETRONAS GAS BERHAD (101671 – H)

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2018

PETRONAS

Key Financial Highlights *(in RM'000)*	**6 months ended 30 June 2018**	**2017**	**Variance %**
Revenue	2,709,026	2,342,660	+15.6
Profit before taxation (PBT)	1,269,823	1,114,178	+14.0
Profit for the period	1,042,428	889,091	+17.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	1,857,323	1,592,558	+16.6
Earnings per share (EPS) (sen)	50.16	44.91	+11.7
Declared dividends per share (sen)	32.00	31.00	+3.2

- PETRONAS Gas Berhad Group's **revenue for the period ended 30 June 2018 was RM2,709.0 million, an increase of 15.6%** compared to the corresponding period 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 RM1,269.8 million, an increase of 14.0% or RM155.6 million and profit for the period was RM1,042.4 million, rose by 17.2% or RM153.3 million** in tandem with higher revenue.

- **EBITDA was similarly higher by 16.6% at RM1,857.3 million** in line with higher PBT.

- **EPS was higher by 5.25 sen** following higher net profit attributable to shareholders of the Company.

- **The Board of Directors has approved a second 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 SECOND QUARTER ENDED 30 JUNE 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 second quarter ended 30 June 2018 which should be read in conjunction with the Explanatory Notes on pages 5 to 22.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM'000	**Note**	**As at 30 June 2018**	**As at 31 December 2017**
ASSETS			
Property, plant and equipment		12,571,360	12,898,583
Prepaid lease payment		4,091	4,139
Investment in joint ventures		663,281	622,633
Investment in associate		142,936	131,742
Deferred tax assets		335,519	364,789
Long term receivables		289,109	197,799
TOTAL NON-CURRENT ASSETS		14,006,296	14,219,685
Trade and other inventories		66,024	66,663
Trade and other receivables	25	873,457	833,992
Cash and cash equivalents	20	3,070,874	2,500,357
Tax recoverable		9,004	6,839
TOTAL CURRENT ASSETS		4,019,359	3,407,851
TOTAL ASSETS		18,025,655	17,627,536
EQUITY			
Share capital		3,165,204	3,165,204
Reserves		9,674,186	9,349,817
Total equity attributable to the shareholders of the Company		12,839,390	12,515,021
Non-controlling interests		308,836	247,444
TOTAL EQUITY		13,148,226	12,762,465
LIABILITIES			
Borrowings	27	3,090,495	2,978,939
Deferred tax liabilities		1,159,378	1,165,576
Deferred income		4,489	4,962
TOTAL NON-CURRENT LIABILITIES		4,254,362	4,149,477
Trade and other payables		490,744	610,250
Borrowings	27	132,323	105,344
TOTAL CURRENT LIABILITIES		623,067	715,594
TOTAL LIABILITIES		4,877,429	4,865,071
TOTAL EQUITY AND LIABILITIES		18,025,655	17,627,536
Net assets per share attributable to the shareholders of the Company (RM)		6.4887	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.

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

		3 months ended 30 June		6 months ended 30 June	
	Note	**2018**	**2017**	**2018**	**2017**
In RM'000					
Revenue		1,358,260	1,173,512	2,709,026	2,342,660
Cost of revenue		(704,105)	(646,360)	(1,413,528)	(1,264,386)
Gross profit		654,155	527,152	1,295,498	1,078,274
Administration expenses		(20,859)	(22,667)	(45,162)	(45,211)
Other expenses		(7,979)	(1,803)	(1,578)	(2,434)
Other income		32,834	55,782	68,382	100,710
Operating profit	32	658,151	558,464	1,317,140	1,131,339
Financing costs		(41,855)	(25,861)	(80,880)	(52,177)
Share of profit after tax of equity-accounted associate and joint ventures		16,541	4,528	33,563	35,016
Profit before taxation		632,837	537,131	1,269,823	1,114,178
Tax expense	21	(95,762)	(111,201)	(227,395)	(225,087)
PROFIT FOR THE PERIOD		537,075	425,930	1,042,428	889,091
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Net movement from exchange differences		44,857	(19,968)	1,502	(29,169)
Cash flow hedge		(38,590)	33,229	24,042	48,925
Share of cash flow hedge of an equity-accounted joint venture		5,655	(4,105)	(324)	(6,840)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		548,997	435,086	1,067,648	902,007
Profit attributable to:					
Shareholders of the Company		509,325	425,325	992,550	888,560
Non-controlling interests		27,750	605	49,878	531
PROFIT FOR THE PERIOD		537,075	425,930	1,042,428	889,091
Total comprehensive income/(expenses) attributable to:					
Shareholders of the Company		505,547	441,470	1,017,243	911,686
Non-controlling interests		43,450	(6,384)	50,405	(9,679)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		548,997	435,086	1,067,648	902,007
Basic and diluted earnings per ordinary share (sen)		25.74	21.49	50.16	44.91

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 30 June 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	-	-	-	(18,959)	-	-	(18,959)	(10,210)	(29,169)
Cash flow hedge	-	-	48,925	-	-	-	48,925	-	48,925
Share of cash flow hedge of an equity-accounted joint venture	-	-	(6,840)	-	-	-	(6,840)	-	(6,840)
Profit for the period	-	-	-	-	-	888,560	888,560	531	889,091
Total comprehensive income/(expenses) for the period	-	-	42,085	(18,959)	-	888,560	911,686	(9,679)	902,007
Transfer of share premium	1,186,472	(1,186,472)	-	-	-	-	-	-	-
Issuance of shares to non-controlling interest	-	-	-	-	-	-	-	12,197	12,197
Interim dividend declared and paid in respect of previous year	-	-	-	-	-	(375,959)	(375,959)	-	(375,959)
Interim dividend declared and paid in respect of current year						(296,810)	(296,810)		(296,810)
Total transactions with shareholders of the Company	1,186,472	(1,186,472)	-	-	-	(672,769)	(672,769)	12,197	(660,572)
Balance at 30 June 2017	3,165,204	-	39,754	37,395	-	8,963,344	12,205,697	196,987	12,402,684
Quarter ended 30 June 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	-	-	-	976	-	-	976	526	1,502
Cash flow hedge	-	-	24,042	-	-	-	24,042	-	24,042
Share of cash flow hedge of an equity-accounted joint venture	-	-	(324)	-	-	-	(324)	-	(324)
Profit for the period	-	-	-	-	-	992,550	992,550	49,878	1,042,428
Total comprehensive income for the period	-	-	23,718	976		992,550	1,017,244	50,404	1,067,648
Issuance of shares to non-controlling interest	-	-	-	-	-	-	-	10,988	10,988
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)
Interim dividend declared and paid in respect of current year	-	-	-	-	-	(316,597)	(316,597)	-	(316,597)
Total transactions with shareholders of the Company	-	-	-	-	9,230	(701,786)	(692,556)	10,988	(681,568)
Balance at 30 June 2018	3,165,204	-	132,218	8,021	30,630	9,503,317	12,839,390	308,836	13,148,226

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.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	6 months ended 30 June 2018	2017
In RM'000			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit Before Taxation		1,269,823	1,114,177
Adjustments for:			
Depreciation and amortisation		552,000	456,798
Interest expenses		80,880	52,177
Interest income		(45,380)	(32,714)
Share of profit after tax equity-accounted joint ventures and associate		(33,563)	(35,016)
Unrealised gain on foreign exchange		280	(9,252)
Other non-cash items		3,612	2,530
Operating profit before changes in working capital		1,827,652	1,548,700
Change in trade and other receivables		(42,475)	20,618
Change in trade inventories		(3,083)	(1,096)
Change in trade and other payables		(184,814)	(227,303)
Cash generated from operations		1,597,280	1,340,919
Interest income from fund and other investment		45,380	32,714
Taxation paid		(207,324)	(68,673)
Net cash generated from operating activities		1,435,336	1,304,960
CASH FLOW FROM INVESTING ACTIVITIES			
Dividend received from associate and joint ventures		7,600	7,600
Investment in a joint venture		(26,203)	-
Loans and advances to a joint venture		(67,543)	(41,364)
Purchase of property, plant and equipment		(156,536)	(752,798)
Proceeds from disposal of property, plant and equipment		392	61
Net cash used in investing activities		(242,290)	(786,501)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(692,556)	(672,769)
Drawdown of term loan	27	135,817	534,186
Drawdown of loan from corporate shareholder of a subsidiary	27	25,620	189,544
Financing costs paid		(86,005)	(52,377)
Repayment of finance lease liabilities	27	(16,198)	(16,735)
Proceeds from shares issued to a non-controlling interest		10,988	12,197
Net cash used in financing activities		(622,334)	(5,954)
Net increase in cash and cash equivalents		570,712	512,505
Net foreign exchange difference		(195)	(273)
Cash and cash equivalents at beginning of the period		2,500,357	1,763,117
Cash and cash equivalents at end of the period		3,070,874	2,275,349

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 period ended 30 June 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 period 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 period ended 30 June 2018, other than as disclosed in the Notes.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

9. DIVIDENDS

The following dividends were declared and paid by the Company:

In RM'000	6 months ended 30 June 2018	2017
Ordinary		
Interim paid:		
2016 - Fourth interim dividend of 19 sen per ordinary share	-	375,959
2017 - First interim dividend of 15 sen per ordinary share	-	296,810
2017 - Fourth interim dividend of 19 sen per ordinary share	375,959	-
2018 - First interim dividend of 16 sen per ordinary share	316,597	-
	692,556	672,769

On 15 August 2018, the Directors of the Company approved a second 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 14 September 2018 to depositors registered in the Records of Depositors at the close of business on 3 September 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 3 September 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).

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	**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**
30 June 2018				
Financial assets				
Long term receivables	-	251,024	251,024	251,024
Derivative asset	38,507	-	38,507	38,507
	38,507	251,024	289,531	289,531
Financial liabilities				
Finance lease liabilities	-	(1,003,332)	(1,003,332)	(1,003,332)
Term loan	-	(1,663,346)	(1,663,346)	(1,663,346)
Loan from corporate shareholder of a subsidiary	-	(556,140)	(556,140)	(556,140)
	-	(3,222,818)	(3,222,818)	(3,222,818)
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.

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					**6 months ended 30 June 2018**
Business Segment	**Gas Processing**	**Gas Transportation**	**Utilities**	**Regasification**	**Total**
Revenue	788,981	677,879	631,936	610,230	2,709,026
Segment results	332,489	525,643	86,337	351,029	1,295,498
Unallocated income					21,642
Operating profit					1,317,140
Financing costs					(80,880)
Share of profit after tax of equity-accounted associate and joint ventures					33,563
Profit before taxation					1,269,823

In RM'000					**6 months ended 30 June 2017**
Business Segment	**Gas Processing**	**Gas Transportation**	**Utilities**	**Regasification**	**Total**
Revenue	777,199	651,071	584,949	329,441	2,342,660
Segment results	337,774	503,231	86,233	151,036	1,078,274
Unallocated income					53,065
Operating profit					1,131,339
Financing costs					(52,177)
Share of profit after tax of equity-accounted associate and joint ventures					35,016
Profit before taxation					1,114,178

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	6 months ended 30 June 2018	2017
Geographical Locations		
Peninsular Malaysia	2,697,286	2,328,536
Sabah and Sarawak	11,740	14,124
Total	2,709,026	2,342,660
Products and Services		
Gas processing services	788,981	777,199
Gas transportation services	648,106	651,071
Regasification services	610,230	329,441
Utilities		
- Electricity	283,264	271,204
- Steam	195,907	175,530
- Industrial gases	118,712	105,297
- Others*	33,507	32,918
Operations and maintenance services	30,319	-
Total	2,709,026	2,342,660

**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 30 June 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 30 June 2018**	**As at 31 December 2017**
Property, plant and equipment		
Approved and contracted for	490,154	484,924
Approved but not contracted for	3,645,363	4,341,058
	4,135,517	4,825,982
Share of capital expenditure of joint ventures		
Approved and contracted for	37,421	88,534
Approved but not contracted for	51,240	52,505
	88,661	141,039
	4,224,178	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

(a) Performance of current quarter against the corresponding quarter

In RM'000	**3 months ended 30 June 2018**	**2017**	**Variance %**
Revenue	1,358,260	1,173,512	+15.7
Operating profit	658,151	558,464	+17.9
Profit before taxation	632,837	537,131	+17.8
Profit for the quarter	537,075	425,930	+26.1
EBITDA	928,954	776,135	+19.7

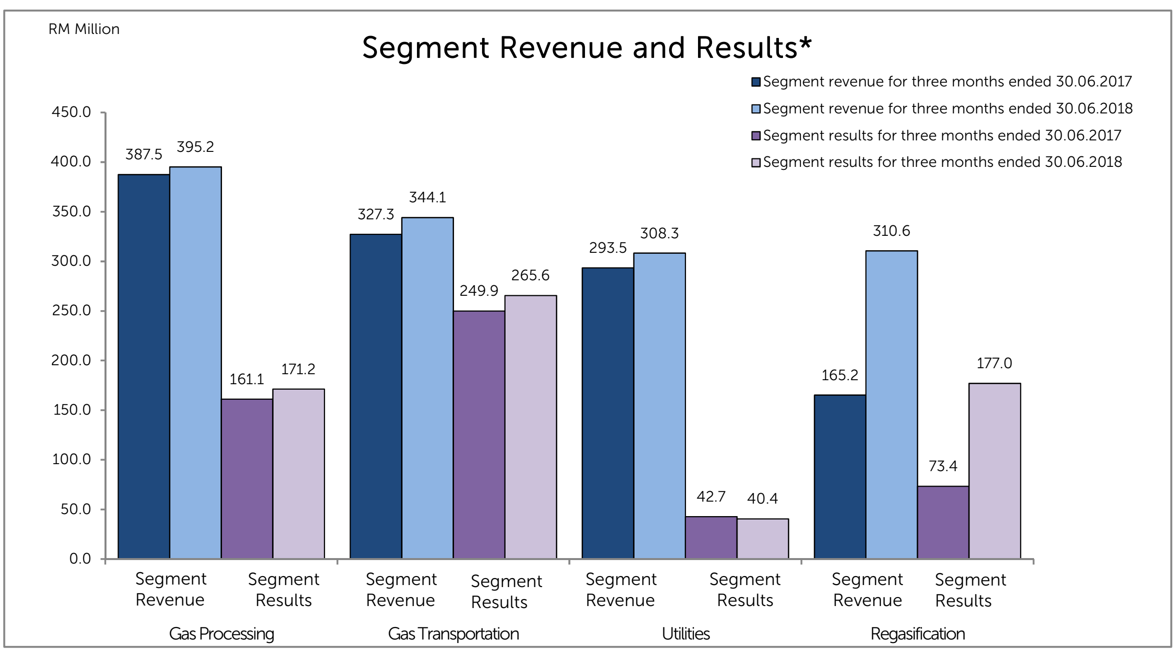
The Group's Gas Processing, Transportation and Regasification plants continued to perform well above 99% reliability. Gas processing's liquid plant extraction performance continued to exceed targets, contributing towards higher performance based structure (PBS) income compared to corresponding quarter.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

Group's revenue grew by 15.7% or RM184.7 million to RM1,358.3 million, 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 26.1% or RM111.2 million to RM537.1 million on the back of higher revenue and lower tax expenses negated by higher finance cost. Lower tax expenses was due to revision of deferred tax estimation to reflect the tax incentives granted to the Group's LNG regasification terminal in Pengerang, Johor. Higher finance cost was attributable to recognition of previously capitalised interest expenses, following completion of the above regasification terminal.

EBITDA was also higher by 19.7% at RM929.0 million.

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



**Note: Segment Results refers to Gross Profit*

17. REVIEW OF GROUP PERFORMANCE (continued)

(a) Performance of 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 RM7.7 million or 2.0%. Accordingly, segment gross profit was higher by RM10.1 million or 6.3%, further supported by lower plant operating expenses.

Gas Transportation

Gas Transportation segment pipeline network reliability was close to 100%, comparable to corresponding quarter. Segment revenue increased by RM16.8 million or 5.1% in relations to operations and maintenance revenue from Sabah Sarawak Gas Pipeline.

The segment contributed gross profit of RM265.6 million, higher by RM15.7 million or 6.3% on the back of higher revenue.

Utilities

Utilities revenue for the quarter rose by RM14.8 million or 5.0% to RM308.3 million following the upward revision of fuel gas price in 1 July 2017 and 1 January 2018 respectively.

Segment gross profit was lower by RM2.3 million or 5.4% mainly due to higher utilities cost of sale 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 100% plant reliability during the quarter.

The Regasification segment recorded higher revenue by RM145.4 million or 88.0% at RM310.6 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 RM73.4 million to RM177.0 million.

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

17. REVIEW OF GROUP PERFORMANCE (continued)

(b) Performance of current year to date period against the corresponding year to date period

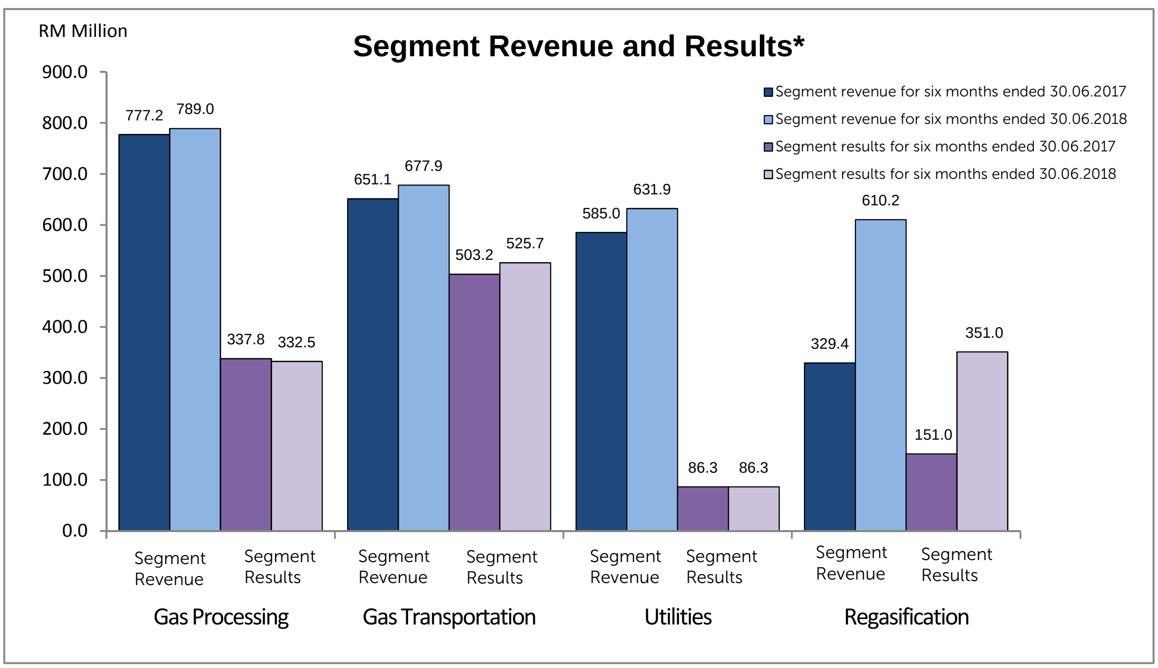
	6 months ended 30 June		Variance
In RM'000	**2018**	**2017**	**%**
Revenue	2,709,026	2,342,660	+15.6
Operating profit	1,317,140	1,131,339	+16.4
Profit before taxation	1,269,823	1,114,178	+14.0
Profit for the period	1,042,428	889,091	+17.2
EBITDA	1,857,323	1,592,558	+16.6

For the 6 months period ended 30 June 2018, the Group sustained high plant and facilities operational performance as compared to the corresponding period mainly attributed to the Group's 3ZERO100 transformation program to improve asset integrity.

The Group's revenue for the six months period under review was RM2,709.0 million, an increase of 15.6% or RM366.3 million compared to the corresponding period primarily driven by the Group's new LNG regasification terminal in Pengerang, Johor which commenced commercial operations in November 2017.

Profit for the period improved by 17.2% or RM153.3 million mainly attributable to higher gross profit from Regasification segment on the back of its new revenue stream and offset by higher finance costs attributable to recognition of previously capitalised interest expenses, following completion of the above regasification terminal.

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



**Note: Segment Results refers to Gross Profit*

17. REVIEW OF GROUP PERFORMANCE (continued)

(b) Performance of current year to date against the corresponding year to date (continued)

Gas Processing

Gas Processing segment continued to record excellent plant reliability performance at 99% for the period, maintaining the same achievement last year. High liquid plant extraction performance for the period has also contributed to stable PBS income.

Gas Processing segment profit of RM332.5 million decreased by 2% or RM5.3 million mainly due to higher depreciation expense in line with completion of major projects in 2017.

Gas Transportation

Gas Transportation segment sustained high gas transmission reliability at 99.98%, at par with the corresponding period. Segment revenue increased by RM26.8 million or 4.1% in relation to operations and maintenance revenue from Sabah Sarawak Gas Pipeline.

Gross profit from Gas Transportation segment increased by 4.5% or RM22.5 million in line with higher revenue coupled with lower repair and maintenance costs as compared to corresponding period.

Utilities

Utilities revenue for the period rose by RM46.9 million or 8.0% to RM631.9 million attributable to upward revision of fuel gas price in 1 July 2017 and 1 January 2018 respectively.

Segment gross profit was comparable to corresponding period at RM86.3 million despite higher revenue recorded during the period, following higher utilities cost of sales and depreciation in line with completion of 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 period.

The Regasification segment recorded higher revenue by RM280.8 million or 85.2% at RM610.2 million compared to the corresponding period primarily contributed by the Group's new regasification terminal in Pengerang, Johor which came on-stream in November 2017. Correspondingly, segment gross profit surged from RM151.0 million to RM351.0 million.

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

18. COMPARISON AGAINST IMMEDIATE PRECEDING QUARTER RESULTS

In RM'000	3 months ended 30 June 2018	3 months ended 31 March 2018	Variance %
Revenue	1,358,260	1,350,766	+0.6
Operating profit	658,151	658,988	-0.1
Profit before taxation (PBT)	632,837	636,985	-0.7
Profit for the quarter	537,075	505,352	+6.3
EBITDA	928,954	928,368	+0.1

The Group sustained its strong performance for plant and facilities reliability across all segments compared to the preceding quarter. The Utilities segment recorded lower volume in line with lower customer demand.

Group revenue was comparable at RM1.358.3 million, as all segments recorded higher revenue with the exception of Utilities business.

While revenue and profit before tax were comparable, profit for the quarter was higher by RM31.7 million or 6.3% to RM537.1 million mainly due to lower tax expenses as a result of revised deferred tax estimation to reflect the tax incentives granted to the Group's LNG regasification terminal in Pengerang, Johor.

EBITDA was comparable with preceding quarter at RM929.0 million.

19. REVIEW OF GROUP FINANCIAL POSITION

In RM'000	As at 30 June 2018	As at 31 December 2017	Variance %
Total assets	18,025,655	17,627,536	+2.3
Total equity attributable to the shareholders of the Company	12,839,390	12,515,021	+2.6
Total liabilities	4,877,429	4,865,071	+0.3
Return on equity (%) [1]	14.8	14.3	+2.2

The Group's marginal increase in total asset by RM398.1 million or 2.3% was mainly contributed by higher cash generated from the Group's new revenue stream from LNG regasification terminal in Pengerang, Johor.

Total equity of RM12.8 billion was slightly higher by RM324.4 million or 2.6% attributable to profit recorded during the period partially offset by dividend payments to shareholders.

Total liabilities increased by 0.3% at RM4.9 billion mainly due to additional Mizuho term loan drawdown during the period.

[1] *Based on rolling PAT attributable to shareholders from 1 July 2017 to 30 June 2018*

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	6 months ended 30 June 2018	6 months ended 30 June 2017	Variance %
Net cash generated from operating activities	1,435,335	1,304,959	+10.0
Net cash used in investing activities	(242,290)	(786,501)	-69.2
Net cash used in financing activities	(622,334)	(5,953)	+10,354.1
Net increase in cash and cash equivalents	570,712	512,505	+11.4

Net cash generated from operating activities was higher by RM130.4 million or 10% in line with the Group's new revenue stream from LNG regasification terminal in Pengerang, Johor.

Net cash used in investing activities was lower by RM544.2 million or 69% mainly due to lower spending on capital expenditure as a result of completion of LNG regasification terminal in Pengerang, Johor.

Net cash used in financing activities was higher by RM616.4 million or 10,354% 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	3 months ended 30 June 2018	3 months ended 30 June 2017	6 months ended 30 June 2018	6 months ended 30 June 2017
Current tax expenses				
Malaysia				
- current period	103,733	89,309	205,160	189,899
Deferred tax expenses				
- origination and reversal of temporary differences	(7,971)	21,892	22,235	35,188
Total tax expenses	95,762	111,201	227,395	225,087

The effective tax rate (ETR) for the quarter and six months period ended 30 June 2018 was lower than the statutory tax rate of 24% mainly due to tax incentives granted for the Utilities business and the LNG regasification terminal in Pengerang, Johor.

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.

PETRONAS

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

23. PROFIT FORECAST

Not applicable as the Group does not publish any profit forecast.

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 30 June 2018**	**As at 31 December 2017**
Trade receivables		
- Third party	28,422	23,500
- Related companies	505,624	525,516
- Joint ventures	1,501	1,097
- Related parties	36,193	32,625
	571,740	582,738
Other receivables	302,593	251,607
Less:		
Impairment losses	(876)	(353)
Trade and other receivables	873,457	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 30 June 2018**	**As at 31 December 2017**
Current	567,954	530,795
Past due 1 to 30 days	-	51,981
Past due 31 to 60 days	3,386	-
Past due 61 to 90 days	-	-
Past due more than 90 days	400	(38)
Trade receivables	571,740	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.

Significant 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	Sales of industrial utilities
PETRONAS Chemical Ammonia Sdn Bhd	

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 30 June 2018**	**As at 31 December 2017**
Non-Current		
Secured		
Finance lease liabilities	969,906	991,492
Unsecured		
Term loan	1,663,346	1,529,104
Loan from corporate shareholder of a subsidiary	457,243	458,343
	3,090,495	2,978,939
Current		
Secured		
Finance lease liabilities	33,426	32,043
Unsecured		
Loan from corporate shareholder of a subsidiary	98,897	73,301
	132,323	105,344
	3,222,818	3,084,283

In RM'000		
By Currency		
USD	3,222,818	3,084,283
Closing exchange rate (RM/USD)	4.0455	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	1,003,332	33,426	40,369	144,381	785,156
Unsecured					
Term loan	1,663,346	-	-	1,663,346	-
Loan from corporate shareholder of a subsidiary	556,140	98,897	52,834	170,277	234,132
	3,222,818	132,323	93,203	1,978,004	1,019,288

[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:

In RM'000	At 1 January 2018	Cash flows		Non-cash changes	At 30 June 2018
		Drawdown	Repayment	Foreign exchange movement	
Finance lease liabilities	1,023,535	-	(16,198)	(4,005)	1,003,332
Term loan	1,529,104	135,817	-	(1,575)	1,663,346
Loan from corporate shareholder of a subsidiary	531,644	25,620	-	(1,124)	556,140
	3,084,283	161,437	(16,198)	(6,704)	3,222,818

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 30 June 2018 USD'000	**As at 31 December 2017 USD'000**	**As at 30 June 2018 RM'000**	**As at 31 December 2017 RM'000**
Finance lease liability *(designated as hedging instrument)*				
- More than 3 years	248,012	252,133	1,003,332	1,023,535
Interest rate swap				
- 1 year to 3 years	322,003	322,003	38,507	18,469
Forward exchange contract				
- Less than 1 year	12,518	18,437	2,073	(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 other 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 30 June		6 months ended 30 June	
	2018	**2017**	**2018**	**2017**
Net profit for the period attributable to ordinary shareholders of the Company (RM'000)	509,325	425,325	992,550	888,560
Number of ordinary shares in issue ('000)	1,978,732	1,978,732	1,978,732	1,978,732
EPS (sen)	25.74	21.49	50.16	44.91

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.

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

	3 months ended 30 June		6 months ended 30 June	
In RM'000	**2018**	**2017**	**2018**	**2017**
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	278,636	228,741	552,000	458,917
Loss on disposal of property, plant and equipment	10	375	10	375
Loss on realised foreign exchange	1,187	669	1,221	888
Loss on unrealised foreign exchange	6,783	-	280	-
and crediting:				
Gain on unrealised foreign exchange	-	6,996	-	10,009
Gain on disposal of property, plant and equipment	-	-	380	-
Interest income from fund investments	24,374	17,439	45,380	32,714

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			Cumulative quarter ended		
USD/MYR	30.06.2018	31.03.2018	30.06.2017	30.06.2018	30.06.2017	31.12.2017
Average rate	3.9487	3.9248	4.3329	3.9368	4.3900	4.3002
Closing rate	4.0455	3.8620	4.2950	4.0455	4.2950	4.0595

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 15 August 2018.

BY ORDER OF THE BOARD

Syuhaida Ab Rashid (MACS 01582)
Yeap Kok Leong (MAICSA 0862549)
Company Secretaries
Kuala Lumpur
15 August 2018