



PETRONAS

PETRONAS GAS BERHAD

Interim Financial Report

for the Second Quarter ended 30 June 2017

INTERIM FINANCIAL REPORT

FOR THE SECOND QUARTER ENDED 30 JUNE 2017



Key Financial Highlights	6 months ended	
	2017	30 June 2016
<i>In RM'000</i>		
Revenue	2,342,660	2,249,538
Profit before taxation (PBT)	1,114,178	1,076,482
Profit for the period	889,091	850,713
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	1,592,558	1,514,164
Earnings per share (EPS) (sen)	44.91	43.00
Declared dividends per share (sen)	34.00	31.00

- **PETRONAS Gas Berhad Group's revenue for the six months period ended 30 June 2017 sustained at RM2.3 billion, an increase of 4%** as compared to the corresponding period primarily driven by higher utilities volume and prices.
- **Profit for the period was higher by 5% or RM38.4 million**, mainly attributable to higher contribution from Gas Transportation and Regasification segments and higher other income and share of profit from joint ventures. These were partially offset by lower contribution from Gas Processing segment due to higher operating costs.
- **EBITDA improved by 5%** in tandem with higher profit for the period.
- **EPS was higher by 1.9 sen attributed to** 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 2017.

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FOR THE SECOND QUARTER ENDED 30 JUNE 2017



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 2017 which should be read in conjunction with the Explanatory Notes on pages 5 to 18.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2017	As at 31 December 2016
<i>In RM'000</i>		
ASSETS		
Property, plant and equipment	12,963,620	12,807,524
Prepaid lease payment	4,414	4,645
Investment in associate	135,746	130,162
Investment in joint ventures	620,983	605,990
Deferred tax assets	382,700	408,042
Long term receivables	87,378	47,905
TOTAL NON-CURRENT ASSETS	14,194,841	14,004,268
Trade and other inventories	68,109	68,468
Trade and other receivables	691,692	711,914
Cash and cash equivalents	2,275,349	1,763,117
Tax recoverable	-	5,865
TOTAL CURRENT ASSETS	3,035,150	2,549,364
TOTAL ASSETS	17,229,991	16,553,632
EQUITY		
Share capital	1,978,732	1,978,732
Reserves	10,226,965	9,988,048
Total equity attributable to the shareholders of the Company	12,205,697	11,966,780
Non-controlling interests	196,987	194,469
TOTAL EQUITY	12,402,684	12,161,249
LIABILITIES		
Borrowings	2,815,830	2,216,869
Deferred tax liabilities	1,140,879	1,131,032
Deferred income	5,435	5,907
TOTAL NON-CURRENT LIABILITIES	3,962,144	3,353,808
Trade and other payables	717,406	1,006,007
Borrowings	32,396	32,568
Tax payable	115,361	-
TOTAL CURRENT LIABILITIES	865,163	1,038,575
TOTAL LIABILITIES	4,827,307	4,392,383
TOTAL EQUITY AND LIABILITIES	17,229,991	16,553,632
Net assets per share attributable to the shareholders of the Company (RM)	6.1684	6.0477

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

	3 months ended		6 months ended	
	2017	30 June 2016	2017	30 June 2016
<i>In RM'000</i>				
Revenue	1,173,512	1,118,942	2,342,660	2,249,538
Cost of revenue	(646,360)	(637,773)	(1,264,386)	(1,188,781)
Gross profit	527,152	481,169	1,078,274	1,060,757
Administration expenses	(22,667)	(29,021)	(45,211)	(45,329)
Other expenses	(1,803)	(94)	(2,434)	(133)
Other income	55,782	50,760	100,710	79,458
Operating profit	558,464	502,814	1,131,339	1,094,753
Financing costs	(25,861)	(22,364)	(52,177)	(46,119)
Share of profit after tax of equity-accounted associate and joint ventures	4,528	17,313	35,016	27,848
Profit before taxation	537,131	497,763	1,114,178	1,076,482
Tax expense	(111,201)	(94,323)	(225,087)	(225,769)
PROFIT FOR THE PERIOD	425,930	403,440	889,091	850,713
Other comprehensive income/(expenses)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movement from exchange differences	(19,968)	11,478	(29,169)	(38,182)
Cash flow hedge	33,229	(20,832)	48,925	67,686
Share of cash flow hedge of an equity-accounted joint venture	(4,105)	1,658	(6,840)	(3,828)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	435,086	395,744	902,007	876,389
Profit attributable to:				
Shareholders of the Company	425,325	403,754	888,560	850,923
Non-controlling interests	605	(314)	531	(210)
PROFIT FOR THE PERIOD	425,930	403,440	889,091	850,713
Total comprehensive income/(expenses) attributable to:				
Shareholders of the Company	441,470	391,901	911,686	889,963
Non-controlling interests	(6,384)	3,843	(9,679)	(13,574)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	435,086	395,744	902,007	876,389
Basic and diluted earnings per ordinary share (sen)	21.49	20.40	44.91	43.00

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							
	Non-Distributable				Distributable		Non-controlling interests	Total
	Share capital	Share premium	Hedging reserve	Foreign currency translation reserve	Retained profits	Total		
<i>In RM'000</i>								
Quarter ended 30 June 2016								
Balance at 1 January 2016	1,978,732	1,186,472	41,485	36,371	8,195,739	11,438,799	156,137	11,594,936
Net movement from exchange differences	-	-	-	(24,818)	-	(24,818)	(13,364)	(38,182)
Cash flow hedge	-	-	67,686	-	-	67,686	-	67,686
Share of cash flow hedge of an equity-accounted joint venture	-	-	(3,828)	-	-	(3,828)	-	(3,828)
Profit for the period	-	-	-	-	850,923	850,923	(210)	850,713
Total comprehensive income for the period	-	-	63,858	(24,818)	850,923	889,963	(13,574)	876,389
Issuance of shares to non-controlling interest	-	-	-	-	-	-	18,120	18,120
Interim dividend declared and paid in respect of previous year	-	-	-	-	(336,384)	(336,384)	-	(336,384)
Interim dividend declared and paid in respect of the current year	-	-	-	-	(277,022)	(277,022)	-	(277,022)
Total transactions with shareholders of the Company	-	-	-	-	(613,406)	(613,406)	18,120	(595,286)
Balance at 30 June 2016	1,978,732	1,186,472	105,343	11,553	8,433,256	11,715,356	160,683	11,876,039
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 for the period	-	-	42,085	(18,959)	888,560	911,686	(9,679)	902,007
Transfer of share premium (Note a)	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 the 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

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 are 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**

	6 months ended	
	2017	30 June 2016
<i>In RM'000</i>		
Cash receipts from customers	2,363,082	2,364,475
Cash paid to suppliers and employees	(1,022,163)	(1,069,597)
	1,340,919	1,294,878
Interest income from fund investments	32,714	28,219
Taxation paid	(68,673)	(58,314)
Net cash generated from operating activities	1,304,960	1,264,783
Dividend received from associate and joint venture	7,600	9,062
Loans and advances to a joint venture	(41,364)	-
Purchase of property, plant and equipment	(752,798)	(876,017)
Proceeds from disposal of property, plant and equipment	61	236
Net cash used in investing activities	(786,501)	(866,719)
Dividends paid	(672,769)	(613,406)
Financing costs paid	(52,377)	(54,393)
Drawdown of term loan	534,186	283,770
Drawdown of loan from corporate shareholder of a subsidiary	189,544	108,911
Repayment of finance lease liabilities	(16,735)	(15,524)
Proceeds from shares issued to a non-controlling interest	12,197	18,120
Net cash used in financing activities	(5,954)	(272,522)
Net increase in cash and cash equivalents	512,505	125,542
Net foreign exchange difference	(273)	116
Cash and cash equivalents at beginning of the period	1,763,117	1,230,815
Cash and cash equivalents at end of the period	2,275,349	1,356,473

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

The interim financial statements are unaudited and should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 2016. 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 2016.

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 30 June 2017.

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 31 December 2017 under the Malaysian Financial Reporting Standards (MFRS) framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2016 except as described below.

As of 1 January 2017, the Group has adopted the following amendments to MFRSs which are effective for annual periods beginning on or after 1 January 2017.

Amendments to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)

Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiative

Amendments to MFRS 112 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The initial application of the above mentioned amendments to MFRSs do not have any material impact to the financial statements of the Group.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

There was no qualified audit report issued by the auditors in the annual financial statements for the year ended 31 December 2016.

4. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the interim financial statements of the Group that may have a material effect for the quarter ended 30 June 2017.

5. SEASONAL OR CYCLICAL FACTORS

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

6. EXCEPTIONAL ITEMS

There were no exceptional items during the quarter under review.

7. PROPERTY, PLANT AND EQUIPMENT

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

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**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134****8. DEBT AND EQUITY SECURITIES**

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities during the quarter ended 30 June 2017.

9. DIVIDENDS

The following dividends were declared and paid by the Company:

	6 months ended	
	2017	30 June 2016
<i>In RM'000</i>		
Ordinary		
Interim paid:		
2015 - Fourth interim dividend of 17 sen per ordinary share	-	336,384
2016 - First interim dividend of 14 sen per ordinary share	-	277,022
2016 - Fourth interim dividend of 19 sen per ordinary share	375,959	-
2017 - First interim dividend of 15 sen per ordinary share	296,810	-
	672,769	613,406

The Board of Directors has approved on 15 August 2017, a second interim dividend of 16 sen per ordinary share amounting to RM316.6 million in respect of the financial year ending 31 December 2017. The interim dividend will be payable on 14 September 2017 to depositors registered in the record of depositors as at 30 August 2017.

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 third quarter ending 30 September 2017.

10. CHANGES IN THE COMPOSITION OF THE GROUP

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

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**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134****11. FAIR VALUE INFORMATION**

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, either directly (i.e. as prices) or indirectly observable for the asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable input).

There were no transfers between Level 2 and 3 of the fair value valuation hierarchy during the financial period.

<i>In RM'000</i>	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 2017				
Financial assets				
Long term receivables	-	87,378	87,378	87,378
Financial liabilities				
Finance lease liabilities	-	(1,100,920)	(1,100,920)	(1,100,920)
Term loan	-	(1,286,749)	(1,286,749)	(1,286,749)
Loan from corporate shareholder of subsidiary	-	(460,557)	(460,557)	(460,557)
	-	(2,848,226)	(2,848,226)	(2,848,226)
31 December 2016				
Financial assets				
Long term receivables	-	47,905	47,905	47,905
Derivative assets	15	-	15	15
	15	47,905	47,920	47,920
Financial liabilities				
Finance lease liabilities	-	(1,166,580)	(1,166,580)	(1,166,580)
Term loan	-	(795,602)	(795,602)	(795,602)
Loan from corporate shareholder of a subsidiary	-	(287,255)	(287,255)	(287,255)
	-	(2,249,437)	(2,249,437)	(2,249,437)

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**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 the processed gas to PETRONAS' end customers throughout Malaysia and export to Singapore.
- Utilities – activities include manufacturing, marketing and supplying of industrial utilities to the petrochemical complexes in the Kertih and Gebeng Industrial Area.
- 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 Group operates in Malaysia and accordingly, information by geographical location is not presented.

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.

<i>In RM'000</i>	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

<i>In RM'000</i>	6 months ended				
	30 June 2016				
Business Segment	Gas Processing	Gas Transportation	Utilities	Regasification	Total
Revenue	778,688	643,044	508,203	319,603	2,249,538
Segment results	358,463	486,314	81,885	134,095	1,060,757
Unallocated income					33,996
Operating profit					1,094,753
Financing costs					(46,119)
Share of profit after tax of equity-accounted associate and joint ventures					27,848
Profit before taxation					1,076,482

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**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.

13. SUBSEQUENT EVENTS

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

14. CONTINGENCIES

	As at 30 June 2017	As at 31 December 2016
<i>In RM'000</i>		
Unsecured		
Counter claim by a third party against a joint venture	<u>74,448</u>	-

Kimanis Power Sdn Bhd (KPSB), a 60% joint venture company of the Group, had issued a Notice of Arbitration on 24 March 2017 to Sabah Electricity Sdn Bhd (SESB) in connection to its disputes on Power Purchase Agreement entered into between the parties. The claim by KPSB is estimated at RM82,851,000.

Subsequent to the issuance of the Notice of Arbitration, SESB had replied on 25 April 2017 over a possible counter claim amounting to approximately RM124,080,000. No provision has been made on the above contingencies (i.e. RM74,448,000 being 60% share of possible counter claim) in the financial statements up to the reporting date.

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:

	As at 30 June 2017	As at 31 December 2016
<i>In RM'000</i>		
Property, plant and equipment		
Approved and contracted for	1,143,316	1,467,297
Approved but not contracted for	<u>2,624,001</u>	<u>2,542,181</u>
	<u>3,767,317</u>	4,009,478
Share of capital expenditure of joint ventures		
Approved and contracted for	201,782	261,917
Approved but not contracted for	<u>52,891</u>	<u>55,089</u>
	<u>254,673</u>	317,006
	<u>4,021,990</u>	<u>4,326,484</u>

16. RELATED PARTY TRANSACTIONS

There were no significant transactions with related party in addition to the related party transactions disclosed in the audited financial statements for the year ended 31 December 2016.

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

17. REVIEW OF GROUP PERFORMANCE

(a) Current quarter against the corresponding quarter

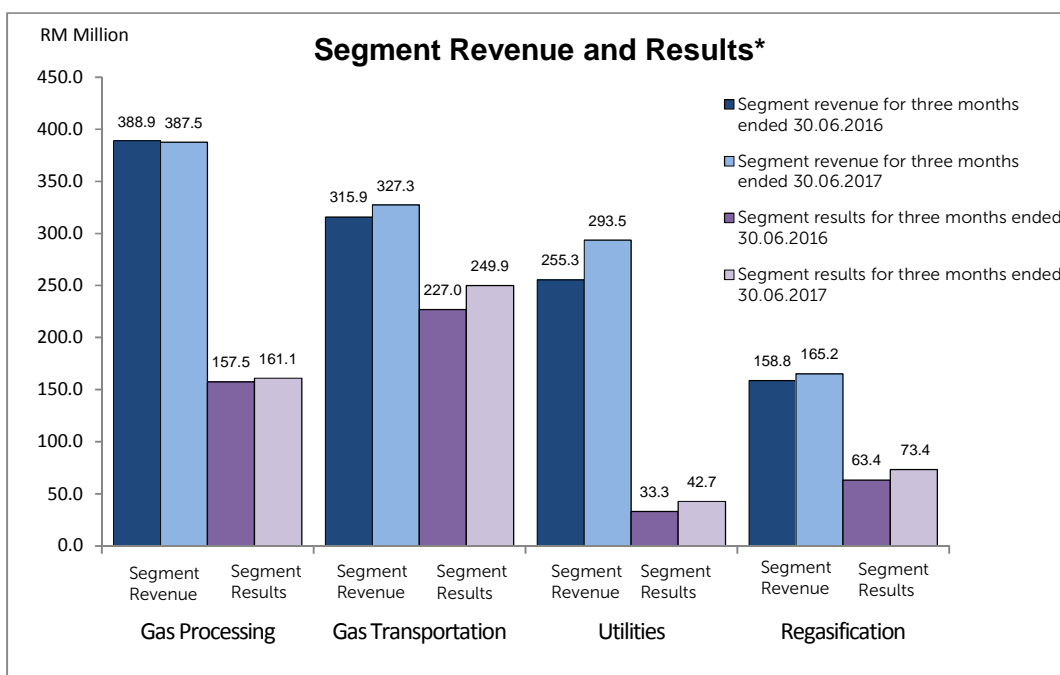
In RM'000	3 months ended	
	2017	30 June 2016
Revenue	1,173,512	1,118,942
Profit before taxation	537,131	497,763
Profit for the quarter	425,930	403,440

The Group continued to record excellent plant and facilities operational performance to meet its commitment to customers, with reliability for Gas Processing, Gas Transportation and Regasification segments well above 95%. Meanwhile, Utilities segment recorded higher production volume in line with better demand from customers and favourable selling price coupled with commendable plant reliability for the quarter under review.

As a result of solid plant and facilities operational performance and higher utilities sales volume and prices, the Group recorded revenue of RM1,173.5 million, an increase by 5% or RM54.6 million as compared to the corresponding quarter. It was further supported by higher gas transportation revenue resulted from downwards revision of Gas Transportation Sabah tariff in corresponding quarter and higher regasification revenue due to foreign exchange impact.

Profit for the quarter was higher by RM22.5 million mainly contributed by higher gross profit and margin across all segments, on account of higher revenue, but marginally offset by higher Utilities segment operating costs, as well as lower share of profit from joint ventures.

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



*Note: Segment Results refers to Gross Profit

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

17. REVIEW OF GROUP PERFORMANCE (continued)

(a) Current quarter against the corresponding quarter (continued)

Gas Processing

Gas processing plant continued to perform at 99% plant reliability, testament to our focus on operational excellence. Liquid plant extraction performance remained at high level which has also contributed to sustenance of Performance Based Structure (PBS) income.

Accordingly, contribution from Gas Processing segment of RM161.1 million was slightly higher by 2% or RM3.6 million in line with lower repair and maintenance activities principally due to progressive completion of the Group's transformation program to improve its asset integrity in 2016 despite comparable revenue against corresponding quarter.

Gas Transportation

Gas Transportation segment sustained performance in gas transmission reliability at 99.98%, allowing the segment to register steady revenue for the quarter at RM327.3 million. An increase of RM11.4 million was mainly due to one-off revision of Gas Transportation Sabah tariff in corresponding quarter.

Gas Transportation segment registered a higher profit of RM249.9 million as compared to the corresponding quarter, an increase of RM22.9 million or 10% attributed to higher revenue coupled with lower repair and maintenance cost incurred during the quarter.

Utilities

Utilities segment recorded higher production volume than corresponding quarter mainly from higher electricity and steam production in line with better demand from customers and favourable selling price in line with upward fuel gas price revision effective 1 July 2016 and 1 January 2017 respectively, coupled with commendable plant reliability.

As a result, utilities revenue for the quarter ended 30 June 2017 rose by RM38.2 million to RM293.5 million.

The increase in revenue however, was partially offset by higher utilities cost of sales. Consequently, profits from Utilities segment increased by 28% or RM9.4 million as compared to the corresponding quarter.

Regasification

Regasification facility in Melaka sustained a high plant reliability at 96%, enabling a stable revenue at RM165.2 million, which was marginally higher by 4% or RM6.4 million as compared to the corresponding quarter following weakening of RM against USD for its storage fees.

Regasification segment contribution for the quarter was higher by 16% or RM10.0 million in line with higher revenue and lower repair and maintenance.

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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) Current year to date period against the corresponding year to date period

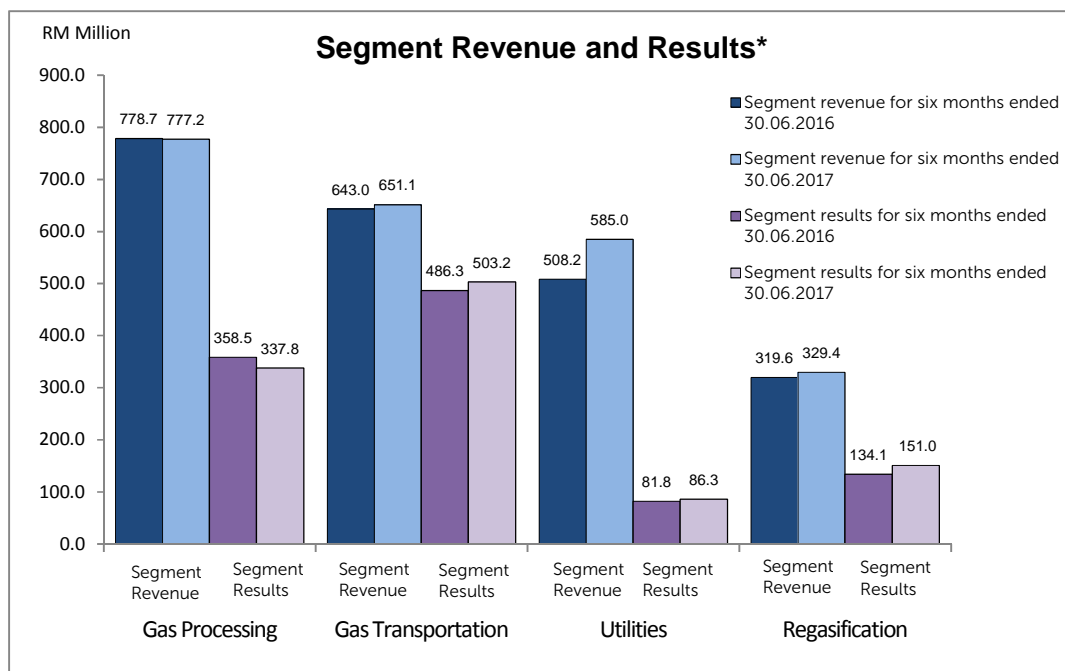
In RM'000	6 months ended	
	2017	30 June 2016
Revenue	2,342,660	2,249,538
Profit before taxation	1,114,178	1,076,482
Profit for the period	889,091	850,713

For the 6 months period ended 30 June 2017, the Group sustained high plant and facilities operational performance as compared to the corresponding period mainly attributed to the continued good progress of the Group's transformation program in 2016 to improve asset integrity. Utilities production volume was driven by higher offtake by customers. Average sales price also improved in line with higher effective price charged to customers.

The Group's revenue for the six months period under review sustained at RM2,342.7 million, an increase by 4% or RM93.2 million as compared to the corresponding period primarily driven by higher utilities volume and prices.

Profit for the period has improved by 5% or RM38.4 million mainly attributable to higher gross profit and margin contribution from Gas Transportation and Regasification segments on the back of lower repair and maintenance costs and higher other income and share of profit from joint ventures. These were partially offset by lower contribution from Gas Processing segment due to higher operating costs.

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



*Note: Segment Results refers to Gross Profit

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FOR THE SECOND QUARTER ENDED 30 JUNE 2017



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) 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 RM337.8 million decreased by 6% or RM20.7 million mainly due to one-off staff costs adjustment as well as higher depreciation expense in line with completion of major projects in corresponding period.

Gas Transportation

Gas Transportation segment sustained high gas transmission reliability at 99.98%, at par with the corresponding period, allowing the segment to record stable revenue at RM651.1 million.

Contribution from Gas Transportation segment increased by 4% or RM16.9 million mainly contributed by lower repair and maintenance costs as compared to the corresponding period despite marginally higher revenue.

Utilities

Utilities plant continued to perform at high reliability, allowing the segment to take advantage of higher demand from customers and favourable selling price in line with upward fuel gas price revision. Accordingly, production volume of electricity and steam increased as compared to the corresponding period.

Utilities revenue for the six months period ended 30 June 2017 rose by RM76.8 million or 15% to RM585.0 million.

The increase in revenue was however offset by higher utilities cost of sales. As a result, profit from Utilities segment only increased by 6% or RM4.5 million as compared to the corresponding period.

Regasification

The reliability of our regasification facility in Melaka was at 98%, an improvement from corresponding period as a result of our effort to improve asset integrity in 2016. This has enabled the segment to register stable revenue at RM329.4 million which was marginally higher by RM9.8 million as compared to the corresponding period attributed to higher storage fees following weakening of RM against USD.

Regasification segment profit for the period was higher by 13% or RM16.9 million in line with higher revenue and lower repair and maintenance costs.

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BURSA MALAYSIA SECURITIES BERHAD**
18. COMPARISON WITH PRECEDING QUARTER RESULTS

<i>In RM'000</i>	3 months ended	
	30 June 2017	31 March 2017
Revenue	1,173,512	1,169,148
Profit before taxation (PBT)	537,131	577,047
Profit for the quarter	425,930	463,161

Against preceding quarter, operational performance of our plant and facilities for all segments were comparable, contributed to stable revenue at RM1,173.5 million.

The Group's profit for the quarter declined by 8% or RM37.3 million as compared to the preceding quarter primarily due to lower share of profit from joint ventures coupled with higher operating costs across all segments.

19. COMMENTARY ON PROSPECTS

The Group performance is expected to remain stable amidst the challenging economic environment 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.

Effective 16 January 2018, the Gas Transportation and Regasification segments activities shall comply with the new requirements of Gas Supply (Amendment) Act 2016. PGB is currently working on ensuring effective implementation of the Act, of which the guidelines have yet to be fully issued by Energy Commission.

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

20. PROFIT FORECAST

Not applicable as no profit forecast was published.

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**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****21. TAXATION**

Taxation comprises the following:

<i>In RM'000</i>	3 months ended		6 months ended	
	2017	30 June 2016	2017	30 June 2016
Current tax expenses				
Malaysia				
- current period	89,309	22,260	189,899	43,534
Deferred tax expenses				
- origination and reversal of temporary differences	21,892	72,063	35,188	182,235
Total tax expenses	111,201	94,323	225,087	225,769

The effective tax rate (ETR) for the quarter and six months ended 30 June 2017 was lower than the statutory tax rate of 24% mainly due to utilisation of tax incentive granted for Utilities business.

22. STATUS OF CORPORATE PROPOSAL ANNOUNCED BUT NOT COMPLETED

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

23. BORROWINGS

Particulars of Group's borrowings are as follows:

<i>In RM'000</i>	As at 30 June 2017	As at 31 December 2016
Non Current		
Finance lease liabilities	1,068,524	1,134,012
Term loan	1,286,749	795,602
Loan from corporate shareholder of a subsidiary	460,557	287,255
	2,815,830	2,216,869
Current		
Finance lease liabilities	32,396	32,568
	2,848,226	2,249,437
<i>In RM'000</i>		
By Currency		
USD	2,848,226	2,249,437

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

23. BORROWINGS (continued)

Terms and debt repayment schedule:

<i>In RM'000</i>	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
Secured					
Finance lease liabilities	1,100,920	32,396	38,801	140,357	889,366
Unsecured					
Term loan	1,286,749	-	-	1,286,749	-
Loan from corporate shareholder of a subsidiary	460,557	-	105,000	174,849	180,708
	2,848,226	32,396	143,801	1,601,955	1,070,074

Finance lease liabilities bears interest at rate of 9.1% (2016:9.1%) per annum. The unsecured term loan bears interest at rates ranging from 1.7% to 1.9% (2016: 1.2% to 2.0%) per annum and are due for full payment in 2021. Loan from corporate shareholder of a subsidiary bears 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:

<i>In RM'000</i>	Cash flows			Non-cash changes	At 30.06.2017
	At 1.01.2017	Drawdown	Repayment	Foreign exchange movement	
Finance lease liabilities	1,166,580	-	(16,735)	(48,925)	1,100,920
Term loan	795,602	534,186	-	(43,039)	1,286,749
Loan from corporate shareholder of a subsidiary	287,255	189,544	-	(16,242)	460,557
	2,249,437	723,730	(16,735)	(108,206)	2,848,226

24. MATERIAL LITIGATION

There has been no material litigation other than as disclosed in this report.

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**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****25. 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	
	2017	2016	2017	2016
Net profit for the period attributable to ordinary shareholders of the Company (RM'000)	425,325	403,754	888,560	850,923
Number of ordinary shares in issue ('000)	1,978,732	1,978,732	1,978,732	1,978,732
EPS (sen)	21.49	20.40	44.91	43.00

Diluted EPS is derived based on the profit attributable to shareholders of the Company after adjustment for the effect of all dilutive potential ordinary shares. As at the date of the statement of financial position, the Company has not issued any dilutive potential ordinary shares, hence, the diluted EPS is the same as the basic EPS.

26. AUDITOR REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

As disclosed in Note 3.

27. PROFIT FOR THE PERIOD

<i>In RM'000</i>	3 months ended 30 June		6 months ended 30 June	
	2017	2016	2017	2016
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	230,582	212,358	458,917	416,650
Loss on disposal of property, plant and equipment	375	-	375	-
Loss on realised foreign exchange	669	2,127	888	-
and crediting:				
Dividend income in Malaysia from				
- associate (quoted)	7,600	9,062	7,600	9,062
Gain on realised foreign exchange	-	6,494	-	8,049
Gain on unrealised foreign exchange	6,996	-	10,009	2,828
Gain on disposal of property, plant and equipment	-	179	-	236
Interest income from fund investments	17,439	18,058	32,714	25,087

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

28. DIVIDENDS

As disclosed in Note 9.

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**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD****29. REALISED AND UNREALISED PROFITS**

The breakdown of retained profits of the Group as at reporting date, into realised and unrealised profits, is as follows:

<i>In RM'000</i>	As at 30 June 2017	As at 31 December 2016
Total retained profits/(accumulated losses) of the Company and its subsidiaries:		
- realised	9,309,530	9,064,518
- unrealised	(749,823)	(706,298)
	<u>8,559,707</u>	<u>8,358,220</u>
Total share of retained profits/(accumulated losses) from an associate:		
- realised	79,320	76,584
- unrealised	(20,040)	(22,887)
	<u>59,280</u>	<u>53,697</u>
Total share of retained profits from joint ventures:		
- realised	190,116	158,812
- unrealised	179,578	184,962
	<u>369,694</u>	<u>343,774</u>
Consolidation adjustments	(25,337)	(8,138)
Total retained profits	<u>8,963,344</u>	<u>8,747,553</u>

30. 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 2017.

BY ORDER OF THE BOARD

Intan Shafinas (Tuty) Hussain (LS0009774)
Yeap Kok Leong (MAICSA0862549)
Company Secretaries
Kuala Lumpur
15 August 2017