CHIEF FINANCIAL OFFICER'S REVIEW

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PRESERVING ROBUST FINANCIAL RESILIENCE IN A DYNAMIC ENERGY SECTOR

SHAHRUL AZHAM SUKAIMAN
Chief Financial Officer

DEAR VALUED SHAREHOLDERS,

Through our steadfast focus on cost efficiency, operational excellence, and effective risk mitigation, PGB has showcased the agility to deliver strong financial results while aligning our business for sustainable growth in an evolving industry."

UPHOLDING RESILIENT FINANCIAL RESULTS

In 2024, Group revenue rose by 1.4% or RM92.8 million to RM6,538.3 million, driven by higher contributions from the Gas Transportation and Processing segments, which offset a decline in Utilities revenue following lower product prices. However, a persistently high-cost environment constrained profitability growth, leading to a marginal 0.4% decline in gross profit to RM2,277.3 million.

Similarly, profit before tax (PBT) declined by 1.1% or RM25.7 million to RM2,360.4 million, impacted by a lower share of profit from joint ventures, though this was partially cushioned by a reduction in financing costs. Nevertheless, profit for the year improved by 1.2% to RM1,923.7 million, supported by lower tax expenses.

Meanwhile, EBITDA increased by 2.7% or RM87.6 million to RM3,354.7 million, albeit lower PBT due to lower share of profit and higher depreciation expenses during the year. Earnings per share grew by 0.9%, reflecting higher profit attributable to shareholders. Total assets are lower by 2.9% or RM564.6 million to RM18.8 billion, reflecting the impact of loan settlements and continued investments in growth projects.

Despite these challenges, the Group remains committed to delivering robust shareholder returns. In 2024, we declared four single-tier interim dividends, totalling 72.0 sen per share and surpassing RM1.4 billion in total payout, representing a 77.6% payout ratio of net earnings for the year.

ADEPTLY NAVIGATING MARKET FORCES

While we operate a stable business model that ensures revenue through the readiness and reliability of our assets and infrastructure, our profitability remains susceptible to external market dynamics. Key factors impacting our business over the past few years have included elevated gas prices and foreign exchange volatility.

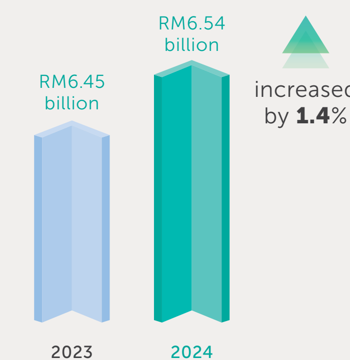
Although gas prices have eased compared to 2023, they remain elevated under the influence of ongoing geopolitical conflicts. Volatile Brent crude prices, which peaked at USD95 per barrel in April, directly affect the Malaysia Reference Price (MRP) we pay for fuel gas, driving up operational costs across the Group.

This environment has underscored the importance of optimising fuel gas utilisation, prompting us to adopt advanced technologies and digitalisation to enhance efficiency. For example, our Utilities segment leverages Artificial Intelligence (AI) predictive modelling to optimise internal gas consumption (IGC), while the Gas Processing segment employs a fit-for-purpose operational approach, dynamically adjusting resource utilisation based on key operating parameters.

These and other fuel optimisation measures have reduced our IGC compared to 2023, contributing to our resilient financial performance in 2024. This has been particularly significant for the Utilities segment, not only due to IGC being a primary operating cost but also because the segment's revenue was impacted by a reduction in the Imbalance Cost Pass-Through tariff from 17 sen to 16 sen in June 2024.

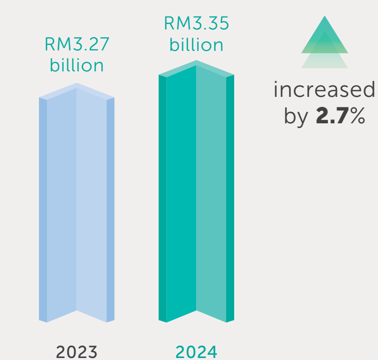
Forex volatility remains a key watchpoint, as ringgit fluctuations affect the costs of imported materials, payments for foreign currency-denominated contracts, and can result in temporary unrealised gains or losses on our balance sheet. However, our early settlement of USD-denominated lease liabilities totalling USD233.6 million last year significantly reduced our exposure to forex movements. Looking ahead, we will remain proactive in monitoring market conditions and taking necessary actions to safeguard our bottom line.

GROUP REVENUE
RM6.5 billion



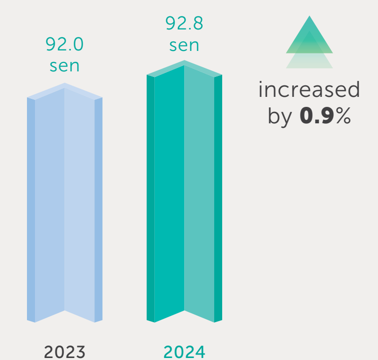
increased by **1.4%**

EBITDA
RM3.4 billion



increased by **2.7%**

EARNINGS PER SHARE
92.8 sen



increased by **0.9%**

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SEGMENTAL PERFORMANCE AND OUTLOOK

GAS TRANSPORTATION SEGMENT

Revenue
RM1,199.6 million

GAS PROCESSING SEGMENT

Revenue
RM1,872.5 million

REGASIFICATION SEGMENT

Revenue
RM1,355.2 million

UTILITIES SEGMENT

Revenue
RM2,110.9 million

Our **Gas Transportation** segment delivered stronger results in 2024, with revenue rising by 4.9% and profit increasing by 5.4% to RM592.7 million. The improved performance was underpinned by maintaining close to 100% reliability and the benefit of upward tariff adjustments implemented under the terms of the Incentive-Based Regulation framework, which enabled the segment to recover the higher gas costs incurred in the previous year.

A key milestone for the year was the completion of a 42 km lateral gas pipeline to Pulau Indah, Selangor, which commenced supplying gas to the Pulau Indah Power Plant in July 2024. Additionally, progress continues on two new gas compressor projects: the Kluang station is set to begin operations in 2025, and a new compressor station at Jeram, Selangor, reached a Final Investment Decision in March 2024, with commissioning planned for February 2026.

These strategic growth projects will support a robust outlook for the segment, with steady demand driven by power generation and industrial use, and long-term growth anticipated in tandem with the role of gas as a transitional fuel.

Meanwhile, our **Regasification segment** maintained its world-class operating standards and marginally increased revenue compared to 2023, but higher operating expenses resulted in a 5.9% decline in profit to RM599.8 million. The segment is on course to complete its third Liquefied Natural Gas (LNG) storage unit at Pengerang, which will be fully underwritten by PETRONAS LNG Ltd. under a 20-year storage service agreement. This third storage is slated to commence operations in the second half of 2025, which is expected to positively impact future earnings.

This additional revenue will help to partly soften the impact of a high-cost environment. Meanwhile, discussions for the Regulatory Period 3 agreement are progressing well, and we are collaborating closely with regulators to secure mutually favourable terms.

The **Gas Processing segment** similarly faced increased operating expenses in 2024 but delivered stable results, supported by enhanced operational efficiency and high plant reliability. Revenue increased by 5.3%, while profit increased by 0.6% to RM801.1 million.

This performance is particularly commendable, as 2024 marked the first year of the third term of our Gas Processing Agreement (GPA), which introduced more challenging targets compared to the previous term. Leveraging digital monitoring technologies and predictive analytics, we ensured uninterrupted operations, achieving exceptional plant reliability and Overall Equipment Effectiveness. This enabled us to maximise the incentives under the GPA framework.

Looking ahead, the segment will prioritise further efficiency improvements to fully realise incentive opportunities, while advancing carbon abatement initiatives at processing facilities to align with internal and external commitments for achieving carbon neutrality.

The **Utilities segment** maintained near-perfect Product Delivery Reliability and achieved higher volumes of electricity, steam, and industrial gases in 2024. However, results were impacted by lower customer offtake and a reduction in product prices. Revenue for the segment decreased by 2.8% in 2024, while profit contracted by 2.4% to RM283.8 million. However, these results should be considered alongside the segment's exceptional profit growth of over 100% in the prior year.

The Utilities growth portfolio currently features three power plant projects and one energy recovery project. These include the ongoing construction of a 52 MW power plant in Sipitang, Sabah, which is scheduled for commissioning in end of 2026. Additionally, we received the Letter of Notification for a 100 MW power plant in Kimanis, Sabah, in August 2024, and have also received the Initial Letter of Notification for a 120 MW power plant in the Federal Territory of Labuan. Meanwhile, the installation of a new Air Separation Unit (ASU) to harness cold energy at Pengerang, Johor, is also progressing as planned and is expected to be commissioned at the end of 2026.

The excellent operational performance of our joint venture companies played a significant role in driving overall profitability, demonstrating the effectiveness of our collaborative growth strategies. Their consistent contributions bolstered our financial position, complementing organic business growth and operational efficiencies.

Looking ahead, all growth investments across our four segments have been strategically aligned with PGB Strategic Agenda, National Energy Policy (NEP) and the National Energy Transition Roadmap (NETR). This alignment enables us to expand and diversify our revenue streams in lockstep with the evolving energy sector, firmly positioning PGB as a key facilitator in the energy transition.

PRESERVING ROBUST FINANCIAL HEALTH

The Group continues to leverage established cost, capital, and cash management strategies to maintain robust financial health, ensuring the flexibility and capacity to achieve our long-term ambitions.

Cost Optimisation

Amidst persistent external headwinds and rising operational costs, we remain steadfast in our commitment to stringent cost optimisation and financial discipline. With regulated pricing limiting revenue flexibility, effective cost management remains our primary lever to improve margins. This is reflected in our Strategic Agenda, where attaining a top performance Unit Cash Cost remains a core target under our Operational Excellence framework.

While many low-hanging cost-saving opportunities have already been implemented, we continue to challenge ourselves to find innovative solutions. This agility is critical in addressing rising fuel gas prices and other operating expenses.

A cornerstone of our approach is ensuring optimal maintenance of our plants and equipment to prevent unplanned shutdowns and costly repairs. Technological advancements have played a pivotal role towards these objectives, with our investments in data collection systems over recent years now enabling us to leverage automation and advanced analytics to enhance monitoring and drive cost efficiencies.

The impact of these advancements is evident in our Gas Processing segment, where a higher volume of fuel gas savings in 2024 enabled us to secure comparable IGC incentives to 2023, despite a lower MRP to which the incentive is tied. Similarly, the Utilities segment has embraced a fit-for-purpose approach, leveraging AI to optimise operations and maximise sales when cost conditions are advantageous.

Through these comprehensive strategies and measures, we are not only driving cost efficiency but also positioning ourselves for sustainable growth in an increasingly challenging environment.

Utilities Kertih

Digitalisation has also enhanced resource utilisation, particularly manpower. Tasks previously requiring manual effort, such as surveillance, are now performed using drones and remote monitoring, improving efficiency and reducing costs. By automating non-value-added tasks, we can redeploy resources towards higher-value work."

Optimising Capital and Cash Management

Operating in a dynamic business landscape where rising costs continue to pressure margins, the Group has upheld a prudent approach to capital and cash management. With a focus on long-term growth opportunities in a rapidly evolving energy sector, we remain committed to preserving headroom for expansion. We consistently evaluate our financial requirements and funding strategies, aiming to optimise capital utilisation while navigating shifting market conditions across both our regulated and unregulated businesses.

As of 31 December 2024, the Group's gearing stood at 11.5%, inclusive of arrangements accounted for as leases under Malaysian Financial Reporting Standards. This marks a reduction from 18.6% at the end of the previous financial year, primarily driven by the full repayment of our RM1.2 billion financing facility with RHB Islamic Bank Berhad in March 2024. We retain ample financial headroom and liquidity for financing future growth via strategic projects that have been rigorously evaluated for financial feasibility and long-term sustainability.

Cash balances declined during the year due to the repayment of the RHB loan and increased capital expenditure but remained robust at RM2.6 billion as of 31 December 2024. These funds, predominantly held in In-House Accounts managed by PETRONAS Integrated Financial Shared Service Centre, are managed to preserve capital and generate optimal returns. Supported by our low gearing ratio, we have increased placements in longer-tenure investments to capture higher profit from fund investment while ensuring we retain a sufficiently robust liquidity position.

The Group's fund investment activities are centrally managed by PETRONAS' Group Treasury and primarily consist of money market placements. These investments are governed by established policies and guidelines that outline the parameters for investment activities, ensuring alignment with the Group's objectives of capital preservation and generating optimal returns within acceptable risk thresholds.

The Group remains committed to its dividend policy of a 50% payout ratio of consolidated profit after tax and non-controlling interests, consistently surpassing this threshold. Over the past five years, our payout ratios have exceeded 70%, reflecting our dedication to rewarding shareholder loyalty. We aim to sustain robust dividend payouts even as we navigate a challenging operating environment.

Looking ahead, our capital management approach will remain prudent, balancing investments to drive business growth, ensuring ongoing financial resilience, and maintaining strong shareholder returns.

PROACTIVELY MANAGING OUR FINANCIAL RISKS

In navigating a challenging operating environment marked by persistent market volatility, we continue to prioritise mitigating financial risks that could adversely impact the Group. Our key prevailing financial risks include rising operational costs, foreign exchange volatility impacting our dependency on imports, and the constraints posed by a regulated pricing structure that limits revenue growth. Additionally, compliance costs related to evolving environmental, cybersecurity, and safety regulations must be taken into consideration.

Regasification Terminal Sungai Udang Melaka

Our focus remains on proactively managing these risks through robust financial governance and strategic adaptation. This includes implementing processes to reduce exposure to currency fluctuations and operational inefficiencies, as well as engaging with regulators to advocate for favourable contractual and regulatory terms that support sustainable growth.

The Group's financial governance framework, guided by the PETRONAS Financial Policy and supported by the PETRONAS Financial Standards, ensures adherence to rigorous principles and requirements for effective financial management, including risk mitigation practices. We continuously monitor, assess, and review our risk profile to ensure our risk management practices remain comprehensive and well-integrated into our operations, which aim to minimise the impact of external factors to our bottom line.

Market Risks

In 2024, the Group took proactive measures to mitigate market risks arising from foreign currency exchange rate volatility and rising costs for internal gas consumption.

To manage foreign exchange risks, we implemented hedging strategies to address transactional exposures. In response to foreign exchange volatility, we promptly deployed a foreign currency hedging strategy to mitigate cost fluctuations. By securing fixed or more predictable pricing through hedging contracts, we effectively shielded the company against sudden currency-driven price increases, ensuring greater financial stability and cost efficiency.

In addressing rising gas costs, the Group intensified efforts to optimise internal gas consumption and reduce operating expenses. By inculcating a cost-conscious culture and leveraging cutting-edge technologies and AI systems, the details of which were covered above, we have admirably managed cost pressures while maintaining reliable operations and delivering resilient results.

These proactive measures reflect the Group's continued commitment to mitigating the financial implications of market risks and ensuring resilience in a volatile global landscape.

Credit Risk

The Group has continued to ensure robust Credit management processes and procedures are in place, including comprehensive customer credit assessments, deliberation on credit limits, and the establishment of collateral requirements to mitigate potential losses.

These measures ensure our readiness to accommodate new customers arising from growth projects.

Gas Processing Santong

Liquidity Risk

The Group's liquidity position remains strong, supported by substantial cash reserves and ample credit headroom. This is being preserved through the rigorous monitoring of receivables and payables, ensuring effective mitigation of potential liquidity risks. Our favourable liquidity position ensures we are well-placed to capitalise on emerging opportunities to strategically expand and diversify our business operations.

RESPONDING TO THE SUSTAINABILITY AND CLIMATE ACTION LANDSCAPE

As sustainability and climate-related regulations become increasingly stringent, PGB recognises the imperative to invest meaningfully in frameworks, people, systems, and solutions to advance climate action and strengthen our Environmental, Social and Governance performance. These efforts not only mitigate the financial and reputational risks associated with non-compliance but also ensure we meet the evolving expectations of investors, financial institutions, and other key stakeholders.

Our proactive approach is evidenced by addressing full Task Force on Climate-related Financial Disclosures (TCFD) recommendations with the TCFD framework a year ahead of Bursa Malaysia's stipulated deadline. This positions us favourably to align with the International Financial Reporting Standard (Standard 1 and 2) requirements, which take effect next year and place more focus on the financial impact of climate change. As these reporting standards come into force, we are committed to bolstering our reporting capabilities and upskilling our teams with the necessary knowledge and skills to meet the demands of these new frameworks.

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Tanjung Sulong Export Terminal

In conjunction with evolving regulations, proactively assessing, disclosing, and addressing our climate-related financial risks will be vital. Leveraging recognised global frameworks for scenario analysis, we have identified key risks to our business operations and assessed their potential financial impacts. These insights inform our decision-making processes and are detailed in the 'Climate Change Management' section of our Sustainability Report 2024.

Carbon abatement remains an area of focus. PGB has long prioritised investments in emissions reduction, even before regulatory pressures intensified. Initial efforts have targeted low-hanging fruits, including the installation of more efficient equipment and engines and the implementation of operational controls to minimise emissions. However, to achieve Net Zero Carbon Emissions by 2050, carbon capture will be essential. Our collaboration with PETRONAS and other key stakeholders on carbon abatement strategies will also support our long-term viability and growth ambitions, enabling us to make our gas energy greener while unlocking potential cost-saving or revenue-generating opportunities from captured carbon.

Further collaboration with external stakeholders will be critical to advancing our carbon abatement ambitions in a financially viable manner. The introduction of frameworks such as the New Industrial Master Plan 2030 2.0, NETR, and NEP, alongside the anticipated carbon tax, reflects Malaysia's evolving support ecosystem for carbon abatement. We are optimistic that these developments will enhance the fiscal feasibility of many abatement strategies we are currently exploring, paving the way for more impactful and cost-effective sustainability efforts.

For PGB, aligning with the energy transition and driving towards Net Zero is not only an environmental imperative but also a critical enabler of long-term sustainability and financial resilience. By taking decisive action to meet evolving regulatory requirements, we ensure our practices stay abreast of this dynamic landscape while protecting the financial health of our business.

MOVING FORWARD

Looking ahead to 2025 and beyond, I remain confident about the outlook and resilience of our business. However, concerns about the high-cost environment persist, with recent regulatory developments likely to introduce additional cost pressures, adding to those already discussed. The Malaysia Budget 2025 announcement has introduced higher minimum wages and expanded the scope of service taxes, both of which will impact our operational costs. Furthermore, reductions in fuel subsidies and the anticipated carbon tax could drive up raw material prices, intensifying the challenges to our cost base.

To navigate these challenges, it is imperative that PGB remains efficient, agile and ready to respond swiftly to market developments. We must continue to innovate and adopt cost-effective strategies to achieve equal or improved outcomes.

While market volatility is likely to persist in the years ahead, we will leverage our experience, expertise, talented workforce, and financial strength to navigate these challenges with agility and resilience. By doing so, we aim to reinforce our leadership in the energy transition while continuing to deliver sustainable returns for our shareholders and positive outcomes for all stakeholders.

SHAHRUL AZHAM SUKAIMAN
Chief Financial Officer

OUR OPERATING ENVIRONMENT

We continuously monitor the evolution of our operating environment to ensure our approach and strategies remain relevant and effective. We also take these external factors into careful consideration when identifying, reviewing, and refining our material matters. By staying attuned to external developments, we gain the knowledge and insights needed to safeguard the health of our business and reinforce PGB's position as a leading gas infrastructure and utilities company.

Below are the key industry trends and market developments identified in 2024, which are anticipated to influence our short- to medium-term performance, alongside our corresponding response and projected outlook.

THE MALAYSIA NATIONAL ENERGY POLICY (NEP) 2022-2040 AND THE NATIONAL ENERGY TRANSITION ROADMAP (NETR)

INSIGHTS

The NEP 2022-2040 and NETR outline Malaysia's strategic direction in advancing decarbonisation, increasing renewable energy adoption to 70% by 2050, and positioning natural gas as a key transition fuel. The policies focus on the following:

- **Gas as a Transition Fuel**: Natural gas remains integral to Malaysia's energy mix, providing a stable and reliable energy source to balance supply and demand.
- **Decarbonisation and Energy Transition**: Policy-driven measures are accelerating carbon intensity reductions and improving energy efficiency.
- **Infrastructure Modernisation**: Encouragement for investments in gas infrastructure, including hydrogen and carbon management.
- **Liberalised and Competitive Market**: Gradual gas market liberalisation aims to enhance competition, optimise pricing, and improve efficiency in gas supply and delivery.
- **Cross-Border Energy Trade**: Strengthened regional energy integration, including the expansion of renewable energy exports to Singapore and potential gas supply partnerships.
- **Power Sector and Data Centre Demand**: The rising electricity demand from data centres necessitates reliable energy sources, driving opportunities in gas-based power generation and grid stability

IMPACT

- The demand for gas infrastructure is increasing as Malaysia transitions towards a lower-carbon energy mix, leading to a rising need for Liquefied Natural Gas regasification and transmission services.
- To maintain operational efficiency and reliability, continuous improvements in pipeline integrity, processing efficiency, and regasification infrastructure are necessary to ensure a stable and secure gas supply.
- The growing energy demand presents power sector opportunities for PGB, as we can play a crucial role in supporting grid stability through flexible gas power solutions.

HOW WE RESPOND

- PGB is actively engaging with regulators and policymakers to obtain detailed supply-demand forecasts and develop comprehensive plans and strategies that leverage our capabilities to provide effective energy solutions.
- We are taking efforts to optimise our gas infrastructure, including by effectively managing aging facilities, rejuvenating and enhancing pipeline integrity, and improving the reliability of gas compression systems to optimise gas delivery at efficient costs while meeting diverse demand requirements.
- PGB is seeking to strengthen regional energy collaboration, exploring opportunities to support Malaysia's export initiatives and cross-border gas infrastructure projects.

OUTLOOK

PGB remains focused on optimising gas infrastructure, improving operational efficiencies, and ensuring a stable gas supply to support national gas demand. Moving forward, we will explore opportunities to evolve into a multi-energy infrastructure player, providing integrated energy solutions and carbon management initiatives to support Malaysia's energy transition.