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Operator: Ladies and gentlemen, good day, and welcome to the PETRONAS Chemicals Group Analyst Briefing for Third Quarter 2017 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Alia. Please go ahead, madam.

Zaida Alia Shaari, *Head IR:*

Thank you, Gaylen. Good evening, ladies and gentlemen. This is Alia, Head of Investor Relations. Thank you for joining us today. We're pleased to release our third quarter financial results. And with me today, I'm pleased to introduce our senior management headed by our CEO, Datuk Sazali; Ms. Rashidah, our CFO; Mr. Akbar, Head of Strategy Planning & Ventures; and Mr. Mahadzir, Head of Manufacturing; as well as Mr. Shamsairi, Head of Commercial.

Without further ado, I hand over to Datuk Sazali.

Sazali Bin Hamzah, *CEO*:

Good evening, everyone. Thank you for joining our analyst briefing today. Before we begin, let me start by introducing Mr. Shamsairi, who has taken over into Akbar's position as Head of Commercial. Shamsairi was recently PCG's Head of Olefin and Derivative product segment since 2014. Prior to that, Mr. Shamsairi was part of the commercial team of PCG O&D business, also at various subsidiaries such as PETRONAS Chemical Olefin, Glycol and Derivatives, Mitco Japan and PETRONAS LNG business. Actually, Akbar has taken over the Strategic Planning & Venture division from Mr. Aziz, who has now moved to a different outfit in PETRONAS. On that note, I would like to thank you Mr. Aziz for his contributions to the company and wish him success in his new portfolio.

We will begin with my summary of PCG performance followed by detailed briefing on the financials by Rashidah, operation by Mahadzir and the market by Shamsairi.

I'm pleased to note that the recent quarter has indicated positive development in the market, and our commitment in sustaining our high level of operational and commercial performance has enabled us to better capture the market uptrend.

In the first 9 months of 2017, the overall improvement in the energy industry has led the average price for Brent crude oil to be USD 52 per barrel, 24% higher than the price in the same period last year. We saw more petrochemical demand and favorable product prices arising from the higher crude oil value coupled with tighter supply in the region. Demand for products from both our Olefin and Derivatives as well as Fertilizer and Methanol segments were better, and higher spreads were seen in most products, especially those from the O&D segments.

For the 9 months reporting period, PCG achieved its highest profit since 2011. This was made possible with group plant utilization going strong at 91%, despite undertaking heavy statutory turnaround activities at our ammonia and derivative plant in Kertih, Terengganu. In addition, the steady early operation of SAMUR has contributed to the overall performance. As a result, our production volume was 10% higher year-on-year. Sales volume was also up by 10%, largely supported by stronger demand for all product in both our business segments. The aftermath of Hurricane Harvey in the U.S. in September added to the demand in the region.

PCG's group revenue grew by 28% to MYR 12.7 billion. Our profit after tax jumped 54% to MYR 3.4 billion and EBITDA was 29% higher at MYR 4.9 billion.

Looking at quarter-on-quarter performance, demand and prices continued to improve from the second quarter of 2017. Our plan utilization in quarter 3 was lower than quarter 2, 2017, due to the turnaround of 2 of our plants, i.e., PC Ammonia and PC Derivative as we have highlighted earlier. Therefore, against, the preceding quarter revenue in quarter 3 2017, was comparable at MYR 4 billion. EBITDA, however, fell by 6% and PAT similar to EBITDA was lower by 6%.

Now I would like to hand over to Rashidah to explain more on the financial results. Rashidah?

Rashidah Binti Alias, *CFO*:

Thank you, Datuk. Good evening, again, everyone. As always, we will start with the group performance on Slide 7 before moving on to the segmental performances.

First, looking at the third quarter performance year-on-year. Global economy improved in the third quarter of 2017 when compared to the same quarter last year, with growth seen in the U.S. and China economies as well as other major markets. Crude oil prices rose with improved demand post the shutdown caused by Hurricane Harvey, and petrochemical product prices rose in tandem amidst tighter supply and stronger demand.

Against this improved backdrop, PCG recorded a 13% year-on-year increase in revenue at MYR 4 billion compared to MYR 3.6 billion in the corresponding quarter. This was the result of higher sales volume and improved product prices supported by favorable foreign exchange impact.

EBITDA for the quarter declined 2% at MYR 1.4 billion as the impact of higher volumes and product spreads were negated by higher operating costs, mainly relating to activities undertaken during turnaround. As earlier guided and as mentioned by Datuk Sazali, quarter 3 was a heavy turnaround quarter. This will be discussed further by Mr. Mahadzir a bit later. EBITDA margin declined 5 percentage points to 36% with lower sales of ethane-based products during the quarter. Profit after tax accordingly fell 2% to MYR 961 million.

Moving on to the comparison against the preceding quarter, which is quarter 2, 2017. We saw a slight deceleration in economies in quarter 3 compared to quarter 2 this year as the U.S. was affected by

Hurricanes Harvey and Irma, while China slowed slightly with the government pulling back on growth support policy.

Now crude oil saw a slight improvement compared to the preceding quarter, averaging at $52 per barrel instead of $50 per barrel with steady demand. And petrochemical market followed suit with higher prices for most products. However, when compared to the preceding quarter, PCG recorded comparable revenue at MYR 4 billion as the impact of higher product prices was negated by lower sales volume and the strengthening of the Malaysian ringgit.

EBITDA fell 6% quarter-on-quarter to MYR 1.4 billion as better product spreads were offset by lower volume and unfavorable FX movement. EBITDA margin was also lower by 2 percentage points to 36% on lower sales of ethane-based products, and profit after tax fell 6% to MYR 961 million.

For the cumulative 9 months period, the global economy has improved since 2016, with most major economies registering steady growth. The benchmark crude oil has risen from $42 per barrel average in the same period last year to $52 per barrel this year. Naphtha prices have improved with the firmer crude oil prices and improved petrochemical demand.

Now with this improved market, PCG saw a 28% jump in revenue to MYR 12.7 billion with higher volumes, primarily from the addition of the SAMUR urea production as well as improved product prices.

EBITDA for the 9 months period this year improved by 29% at MYR 4.9 billion on the back of higher volume, better product spreads and favorable FX movement. EBITDA margin, however, saw a 1 percentage point increase to 39%,though profit after tax surged 54% to MYR 3.4 billion with lower effective tax rate and lower operating costs.

Now let's look at the segmental performances. We will start with the Olefins and Derivatives segment on Slide 8, comparing against quarter 3 of 2016. As earlier discussed, during the quarter under review, petrochemical product prices were assessed higher with improved crude oil prices. The O&D segment recorded a 4% revenue increase year-on-year to MYR 2.6 billion despite lower sales volume due to the turnaround shutdown at PC Derivative. However, EBITDA for the segment fell by 20% to MYR 852 million despite better product spreads and favorable FX movement due to the negative impact of lower volume and higher operating expenses. EBITDA margin declined 10 percentage points to 32% on product mix and lower sales due to the turnaround activities, primarily. Similarly, profit after tax was lower by 14% year-on-year at MYR 586 million.

Moving on to the performance against the preceding quarter. O&D product prices were mostly comparable. Segment revenue improved 4% to MYR 2.6 billion, with higher sales volumes. Despite the higher turnaround activities undertaken during the quarter, higher volumes were supported by inventory drawdown of chemicals at PC Derivatives.

EBITDA declined 10 percentage -- sorry, EBITDA declined 10% to MYR 852 million compared to the previous quarter with unfavorable FX impact and higher operating expenditures, mainly again due to the turnaround activities at PC Derivatives. EBITDA margin declined 5 percentage points to 32%, and profit after tax declined 5% to MYR 586 million. For the 9 months cumulative period, the O&D segment performed better than the corresponding period with improved market conditions on the back of higher and firmer crude oil prices.

Revenue saw a significant 21% increase year-on-year at MYR 8.4 billion with higher product prices supported by favorable FX rates. EBITDA improved by 15% on the back of better product spreads and favorable ForEx impact, though EBITDA margin declined slightly to 37%.

Profit after tax showed a marked improvement, rising 47% to MYR 2.1 billion due to lower effective tax rate enjoyed this year while the corresponding period saw a MYR 241 million asset write-off in relation to the cancellation of the elastomers project.

Next let's move on to the performance of the Fertilizer and Methanol segment on Slide 9. We will start with the comparison against the corresponding quarter. For the F&M segment, methanol and urea enjoyed better product prices with higher crude oil price and firmer demand. Ammonia, however, remained weak on global oversupply and weak demand. This segment recorded a revenue of MYR 1.4 billion during the quarter, a significant 33% jump year-on-year with higher sales volume that is mainly contributed by the commercial operation of SAMUR and better product prices as well as favorable FX rates.

EBITDA for the segment grew 52% to MYR 600 million with higher volumes, better product spreads and further supported by the favorable ForEx impact. Consequently, EBITDA margin rose 6 percentage points to 43%. Profit after tax for the segment saw a 44% improvement to MYR 369 million.

Next let's look at the performance against the preceding quarter, which is second quarter of 2017. Similar to the O&D segment, the F&M segment saw comparable market and product prices against the preceding quarter. Revenue for the segment declined 3% quarter-on-quarter at MYR 1.4 billion with lower sales volume and unfavorable ForEx movement. Segment EBITDA, however, improved 4% to MYR 600 million with improved spreads and EBITDA margin was 3 percentage points higher at 43%.

However, with higher depreciation following the commencement of commercial operations at SAMUR, profit after tax was lower by 7% at MYR 369 million.

Next the segment performance for the cumulative 9 months period this year compared to 2016. Within the 9 months period this year, the F&M segment had 1 turnaround shutdown at PC Ammonia, which took place in the third quarter compared to no plant shutdown within the same period last year.

However, given the generally better market condition this year with firmer crude oil prices, this segment performed better than it did in the 9 months period of 2016. Segment revenue rose 41% to MYR 4.4 billion on higher volumes boosted by the additional urea from SAMUR and better product prices, in particular, methanol. EBITDA surged 63% to MYR 1.8 billion on the back of higher volumes, improved product spread and favorable ForEx movement.

EBITDA margin improved 5 percentage points to a strong 41% and profit after tax increased a significant 82% to MYR 1.2 billion.

Next a look at our balance sheet and cash flow on Slides 10 and 11. First, the balance sheet on Slide 10. For the 9 months period ended September 30, 2017, total assets increased by MYR 188 million, mainly from the addition to plant, property and equipment in relation to the RAPID project in Johor and turnaround costs.

Looking at our cash flow, we had higher cash generation for the 9 months period of 2017 compared to the same period in 2016, primarily with higher net cash generated from operations. Our cash balance declined by 21% at the end of the period, with higher dividends paid to shareholders amounting to MYR 1.92 billion as well as expenditures in relation to our growth projects. With MYR 6.5 billion in cash balance, we will continue to practice care and prudence as we focus on our current growth projects and future opportunities.

That is all I have on the financial performance. Over to Mr. Mahadzir for the manufacturing highlights.

Mahadzir Rani, *Head of Manufacturing*:

Thank you, Rashidah. Thank you. Good evening, everyone. Mahadzir is here. Please refer to Slide 13 on operational highlights. I will talk on the operational highlights for the quarter. Overall, plant utilization for the group dropped to 86% in quarter 3 this year compared to 100% in the same quarter last year, following turnarounds and major maintenance activities at Kertih facilities. Even with substantial outage due to the statutory turnaround requirement, our year-to-date 2017 plant utilization remained high at 91% for the group.

With strong focus on operational excellence, practices and increased collaboration across our value chain, we were able to coordinate and plan better to maximize the group productions. This was supported by stable feedstock supply to our facilities. (foreign language) in the third quarter of 2017, Fertilizer Sabah has shown sound and reliable operation contributing a significant volume to our total urea production.

Now we move onto third quarter 2017 segmental operational performance. Please refer to Slide 14. For the group operational performance on Olefins and Derivatives year-to-date 2017, when this segment operated at plant utilization of 93%. The drop in O&D utilization performance was impacted by a few events during the quarter, which were: the first one is statutory turnaround at supplier site, one of the feedstock supply plant went through its major statutory turnaround for more than 30 days during the quarter. Despite supply outage, we had successfully planned and coordinated to keep our crackers running even with slightly lower throughput during this major planned outage. By doing this, we managed to continue production at the downstream facilities, hence, minimizing impact from this outage.

So the second one, the statutory turnaround at PC Derivatives. We execute a major turnaround at PC Derivatives during this quarter. The activity was safely completed with remarkable achievement. More than 800,000 man hours was achieved with no serious safety incident. The impact to the overall value chain was minimized through integrated planning and coordination.

Now we move to segmental operation performance for Fertilizer and Methanol. Please refer to Page 15. As of F&M, the year-to-date 2017 plant utilization performance was at 90% following our planned activities. The first plant activity is statutory turnaround at PC Ammonia. Similarly to the turnaround at PC Derivative, the turnaround at PC Ammonia was successfully completed with more than 500,000 man hours with no serious safety incident.

On Fertilizer Sabah early operation, last quarter, we recorded a great achievement for PC Fertilizer Sabah, seeing the plant running smooth in its early operation. With the large volume produced, PC Fertilizer Sabah is fast becoming another key volume player for PCG. We are expecting greater value to be contributed to the group in coming months.

The third one, reliable Labuan facilities, we have seen sustainable performance of our methanol plant during the quarter. Our focus in the plant reliability and supply availability has resulted in improved utilization. Methanol production has sustained at similar levels to the preceding and corresponding quarter. The production contributed to 35% of overall year-to-date volume for the group.

For the operational highlights on the project updates, please refer to Page 16. Now I'll give a quick update on our growth strategy. The first 2 projects are joint effort with our JV partner, BASF, and our associate company BASF PETRONAS Chemicals Sdn Bhd or BPC. While the third project is key, PETRONAS project, namely RAPID-PETCHEM at Pengerang site. So the first project at BPC is the Aroma project, Aroma Complex. The integrated Aroma ingredients complex in Gebeng is the first plant out of Germany. This complex will produce citral, citronellol, and L-menthol, which are sold to the flavor and fragrance industry. Overall, this complex is in progress of its pre-commissioning stage. Citral plant successfully achieved on-spec production in September 2017, followed by a plan for menthol planned commissioning in quarter 4 of 2017, while citronellol plant will be commissioned after stable operation of menthol plant.

Next is the highly-reactive polyisobutene, HR-PIB project. At the moment, the project achieved its mechanical completion with 2.5 million safe man hours achieved. The team is currently focusing on pre-commissioning activities and expected to start up by beginning of 2018. The plant will produce 50,000 metric tonne per annum of highly-reactive polyisobutene, which is used as intermediate product for high-performance fuel and lubricants.

Now please refer -- sorry, for the RAPID-PETCHEM, as part of growth strategy, several basic and specialty petrochemical plants will be built under refinery and PETCHEM integrated development RAPID project. Among the plants are a range of polymers, LLDPE, HDPE, PP, isononanol, ethylene oxide and ethylene glycol. Currently, the projects are on track in mechanical construction, with startup target at end of 2019.

In general, third quarter of 2017 was heavy with statutory turnaround requirements and maintenance activities, and we had previously prompted the drop in overall utilization. Our key focus during this quarter is to deliver our plan safely. We shall remain focused in safeguarding safety and managing our assets reliably and effectively.

That's all I have for the operational highlights. I would like to hand over to Shamsairi for the market performance and outlook. Over to you Shamsairi.

Shamsairi Ibrahim, *Head of Commercial*:

Thank you, Mahadzir. Good evening, everyone, Shamsairi here from Commercial. Please refer to Slide #18. As you can see, the ethylene prices strengthened in quarter 3 compared to quarter 2, strengthening of ethylene prices mainly due to higher crude price and a strong downstream demand. In the aftermath of Hurricane Harvey, U.S. export to European market had been affected and Middle East producers have redirected cargoes to seize the opportunity on the situation. Therefore, less cargoes from Middle East into S.E.A region.

As mentioned, further helped by strong demand from downstream industries such as styrene monomer, ethylene oxide derivatives and vinyl acetate monomers. This lead to ethylene restocking activities increased during quarter 3.

Firmer outlook is anticipated as we move into Q4 as supply is expected to tighten, tracking several turnarounds in the Middle East and Asia. The statement is reinforced by a possible uplift in demand, as importers attempt to secure spot volumes while renegotiating the following year's terms contracts. Furthermore, firming crude prices will also provide support to the upward price direction.

Moving to polymers. In quarter 3, polymers prices stabilized with decreased availability of lower priced Qatari-origin cargoes in the market as a result of the ongoing diplomatic rift in the Middle East. Qatari flag vessel had been banned from receiving and unloading cargoes, at all Saudi and UAE ports. All marine navigation along Bahrain territorial waters were also closed for ship from Qatar since June 2017. However, demand was lackluster in quarter 3 as buyers opted to buy on as-needed basis. Buyers opted such approach because of the higher prices offered by producers due to the continuous and sharp increase in ethylene prices during the period. Polymer prices are assessed to be firm in quarter 4. Potential regional supply limitation from turnaround in Q4 is expected to cushion bearish sentiment. Furthermore, strengthening ethylene prices will also provide support to the firming polymer price. Despite this, limited buying interest as buyers adopt the wait and see approach and slowdown in restocking towards year-end, this may limit the upward price movement.

Shall we move to MEG? For MEG, in quarter 3, average prices were higher than quarter 2. Market experienced short supply following Hurricane Harvey, which led to operational disruption forcing force majeure declaration by petrochemical facilities in the U.S. Gulf. This disruption, coupled with stronger demand in polyester during a peak season, has helped MEG price to further increase. Similar to the previous quarter, we foresee MEG prices to be on upward trend moving into Q4 2017. This is due to supply shortage in the market, as there are several plant maintenance in North East Asia region. In addition, buyers are also looking to replenish inventories after a long Golden Week holiday enjoyed last October.

Moving towards Aromatics. Aromatic prices inch up amidst slight gain in the naphtha market in tandem with strengthened crude price in quarter 3. Demand for Aromatics was stronger with PTA operation running high after most major shutdowns were completed. This, coupled with stronger demand in quarter 3 for PTA, during polyester the peak season, has helped price to further increase, especially in China. Going into quarter 4, Aromatics prices are predicted to continue to be firm. Higher demand is expected as there are 2 new additional major PTA producers, who will be on-stream in November. Major benzene production will be lost in East China due to turnaround in October, is expected to last for about a month. Demand for benzene derivative is bound to improve in quarter 4, as producers complete their turnaround by October.

Let us proceed with the Fertilizer and Methanol segments, please go to Slide 19. Urea prices strengthened in Q3 compared to Q2. The price uptick is primarily due to resilient demand from the 2 Indian tenders. This consisted of approximately 500,000 under each tender. India plans to tender more frequently and in smaller quantities for urea under a revised sourcing approach. Supply shortage in Indonesia throughout quarter 3 has also supported the price uptrend. Bullish sentiments are expected to continue into Q4. Revised demand from the most recent India tender will consume approximately 400,000 ton of urea from the market and a further tender is anticipated to be announced in the near term. A number of outage by major Middle Eastern producers, coupled with announcement of force majeure in Indonesia, are expected to squeeze global urea supply. Furthermore, production curtailment in China has contributed to near-term tightness of global urea supply. Major nitrogen producers located in Jincheng, Shanxi, were instructed to shut down production for 10 days ahead of the 19th CPC Congress. The measure is to curb pollution in included units with a combined capacity of 5.2 million ton a year of urea.

Moving to ammonia. Unlike other products, ammonia prices fell in quarter 3 compared to quarter 2. The significant plunge in ammonia prices took place in quarter 3 tracking the restart of several major producers in Middle East as well as our own ammonia plant. Besides that, lackluster demand was observed as spring application came to an end in quarter 3. However, a firm price is expected moving towards into Q4. The uplift in ammonia prices is mainly due to shortage of material, particularly in Middle East. Some producers are reported to be sold out until year-end. There is limited quantity available in any spot inquiries, as most cargoes are already tied to their respective term commitments. On the demand front, favourable weather condition in U.S. have further boosted sentiment as temperatures fall for optimal soil condition for winter application, especially for corn and soya.

As for methanol, methanol prices improved in quarter 3 compared to the previous quarter. In quarter 3, the price tightness influenced by outages in Middle East, have pushed the methanol prices upwards. In addition, prices also drew support from stable demand for key derivatives, particularly from the MTO sectors. Higher MTO operating rates were observed in quarter 3 driven by uptrend olefin prices due to global shortage resultant in Hurricane Harvey.

Moving into quarter 4, methanol prices are set to rise, tracking back to back plant turnarounds by major producers in South Asia. Demand is foreseen to be stable due to steady running rates by major methanol derivative producers and steady consumption from bio-diesel and MTBE sectors. New formaldehyde production in Vietnam is expected to further support regional methanol price.

Allow me talk a bit about commercial achievement. In conclusion, we delivered good commercial performance for the quarter through focused execution of our commercial excellence. This effort coupled with stable market brought about our strong commercial performance seen in quarter 3.

Looking forward to Q4, 2017, we will strive to continue and deliver commercial excellence strategic initiatives to sustain our commercial excellence performance. Sales force effectiveness initiative, embarking on empowering sales force, via a combination of levers. For example, optimum sales staff allocation, performance management, first line increase and sustaining; key account management setup and implementation, we completed in 2017; strengthened position in key markets, continue to assess the business need to enhance market presence in the region. Currently, we have 3 sales offices in Thailand, China and recently, we have incorporated our PCM in Indonesia in August 2017, and it will be operationalized in November 2017. Other countries such as Vietnam and Philippines are represented by our representative office. Execution of route-to-market in China and Indonesia for our PIC petrochemical readiness will continue moving forward.

To conclude my session -- this concludes my section on market and our focus moving forward. Back to you, Datuk. Thank you.

Sazali Bin Hamzah, *CEO*:

Okay. Thank you, Shamsairi. Ladies and gentlemen, PCG has one final statutory turnaround at our methanol facility in Labuan before the year-end. With proper planning and execution, we expect to maintain our 2017 group target utilization of above 90%.

PCG is also on track to achieve one more milestone by the end of this year, as the integrated Aroma ingredient complex plant in Gebeng is expected to be commissioned in the fourth quarter of 2017. Another project in Gebeng, the highly-reactive polyisobutene plant is expected to commission in 2018.

All in all, based on current market condition, we are optimistic that we will achieve our 2017 targets. Looking ahead, 2018 promises to be another exciting year for us. Earlier in October, we have announced our decision to enter into a share purchase agreement with a wholly owned subsidiary of Saudi Aramco for the 50% divestment of PRPC Polymers. We are currently working towards meeting the closing date of 15, March, 2018.

Meanwhile, as of 30, September, 2017, the project activities at the Pengerang site is 55% complete on PETCHEM site and is on track for commissioning in 2019.

That's all for today, and let us move to question-and-answer.

+++ q-and-a

Operator: (Operator Instructions) Our first question is coming from Ajay Mirchandani from JP Morgan.

Ajay Mirchandani, JP Morgan:

3 questions from me. Just want to reconfirm, Datuk, you mentioned in 4Q, '17, you will only have the methanol maintenance. Can I just confirm that no other assets that are going to be undergoing maintenance in 4Q, '17? And if you could also very quickly touch upon 2018, the kind of maintenance schedule, you have there?

Sazali Bin Hamzah, *CEO*:

Okay. For 2017, actually, you're right, the remaining is methanol. It's actually -- currently, is -- turnaround is ongoing. We are towards the end actually and (foreign language), we are going to meet whatever the target that we have. Secondly, in 2018, we expect that the turnaround also as heavier as 2017.

Ajay Mirchandani, JP Morgan:

And can I just confirm...

Sazali Bin Hamzah, *CEO*:

I hope I answered your question, Ajay.

Ajay Mirchandani, JP Morgan:

Datuk, so just to clarify for 2018, just to kind of reconfirm, if I recollect correctly, you do have the cracker maintenance targeted in 3Q. So -- and can you walk us through specifically the time line and the number of days you -- we could see, because most of the maintenance this year has been on methanol and on the downstream side for olefin. So you're going to see the cracker being maintained in 2018, is that correct?

Sazali Bin Hamzah, *CEO*:

Okay. Ajay, on quarter 3, 2018, yes, you're right, we have plan -- we will proceed as planned. Our first cracker will be shut down. This is annual -- not, annual, it's a statutory turnaround, and the duration is about the same as what we have done in the past. So -- but, however, the cracker 2 is still running, so I cannot disclose the duration because it is still price sensitive to us.

Ajay Mirchandani, JP Morgan:

Understand. And just 2 more quick clarifications. If you all could also just walk through the SAMUR utilization year-to-date? And, Rashidah, if you can just clarify why was the JV associate so strong this quarter? And should we be expecting that number to materially be higher once we see the new assets kick in, if -- any kind of color or guidance on that would be helpful as well?

Sazali Bin Hamzah, *CEO*:

Okay. Ajay, for SAMUR, as of now, I think we have achieved about 85% utilization, it's very strong in considering the first year operation. Normally, with this kind of complex, our experience is between 70% to 75%. The second question, I would like Rashidah to answer it.

Rashidah Binti Alias, *CFO*:

Ajay, so on the share of profit, I think similarly from past quarter, we have also been saying that in the past, the drop in the share profit is primarily because of the unfavorable market for one of our associate, which is BPC, BASF PETRONAS. This is the – oxo-alcohol product. So now the market has regained, has improved, so the profit performance at BPC level has improved significantly as well, so we should see this trend moving forward.

Sazali Bin Hamzah, *CEO*:

Moving forward, yes.

Rashidah Binti Alias, *CFO*:

Yes.

Ajay Mirchandani, JP Morgan:

And any guidance on the new assets, how we should think about the likely contribution in 2018?

Rashidah Binti Alias, *CFO*:

Okay. So this one, you're referring to the Aroma and HR-PIB. For 2018, because they would still be -- they would just be coming on stream, we mentioned just now for Aroma they will be coming on stream this year, late this year. And for HR-PIB, it's early next year. So 2018, we don't foresee significant contribution because it's just coming up on stream. So it should be contributing more to the results in 2019 forward.

Ajay Mirchandani, JP Morgan:

Just one last clarification on SAMUR. Is the EBITDA contribution in line with the 5% guidance that was given at the start of the year or has that been exceeding the guidance?

Rashidah Binti Alias, *CFO*:

Yes. It's very much consistent. We -- if I'm not wrong, we spoke about, for the entire year, it should be ranging between less than 10%, should be around about 6%, 8% contribution. But for the quarter, of course, it's a higher contribution for the quarter number. Quarter number is inching more towards close to about 10% contribution.

Operator: The next question is coming from Alex Goh from AmBank.

Khir Peng Goh, Aminvestment:

I just want to double check. In your third quarter, how many months was -- or how many days were the ammonia, MTBE and the derivative operation was under -- was not being utilized because of the turnaround activity? And I'm just looking into 2018. Given the cracker turnaround, what would be your expected plant utilization next year?

Sazali Bin Hamzah, *CEO*:

Mahadzir, I think -- can you answer that?

Mahadzir Rani, *Head of Manufacturing*:

All right. I think the exact number for the outage for MTBE and what you call it, fertilizer, I cannot mention it with the exact numbers. I think that the utilization will be for next year above 90%. We are confident with that.

Sazali Bin Hamzah, *CEO*:

Actually, Ajay, the target for 2018 will be above 90% as we mentioned. And then if you look at the first cracker turnaround, which is on quarter 3, as I mentioned, we will be quite similar as we have done in the past. There will not much -- not much different because the number of equipment is about the same. On the third quarter of...

Khir Peng Goh, Aminvestment:

The CapEx...

Sazali Bin Hamzah, *CEO*:

Sorry?

Rashidah Binti Alias, *CFO*:

Sorry, Alex, it's breaking up a bit.

Khir Peng Goh, Aminvestment:

Yes. For the CapEx, that you have spent is roughly about MYR 2.7 billion in the 9 months. I understand this year was supposed to be around MYR 4 billion or did I -- whether I got those numbers correctly? Because it looks like your numbers that you're actually spending now is lower. Or do you expect a big ramp-up in your CapEx in the fourth quarter?

Rashidah Binti Alias, *CFO*:

I suppose you are referring to cash flow, right? The MYR 2.7 billion, is that right, Alex?

Khir Peng Goh, Aminvestment:

Yes.

Rashidah Binti Alias, *CFO*:

Okay. Cash flow, of course, there are some timing differences, so in actual fact, our CapEx spending is roughly about MYR 3.5 billion year-to-date, up to third quarter '17. So this year, we should be on track to spend as per plan. So this year, we were looking at higher spending compared to 2016. 2016 was about MYR 4 billion. For 2017, we should be looking at something about 20%, 22% higher than 2016, and we're on track to -- on schedule to -- for the CapEx spending.

Khir Peng Goh, Aminvestment:

Okay. You mentioned earlier that the -- for the ammonia plant and the other one that's going to come into operation next year it's not going to contribute significantly. But would there -- is there going to be any startup costs when you start operation, let's say into 2019? And are you going to expect it to start contributing profit immediately?

Rashidah Binti Alias, *CFO*:

Right. This is referring to Aroma and HR-PIB, for BPC, right?

Khir Peng Goh, Aminvestment:

Yes.

Rashidah Binti Alias, *CFO*:

For that one -- yes, for that one, the startup costs will start to hit the income statement from this year itself when Aroma starts to come on stream. And we do expect that in the first year operation itself, we'll be making some profit. But like we said, we don't expect it to contribute significantly to the results in the first place because it's newly start up. So the plant will need to ramp up as per the normal.

Sazali Bin Hamzah, *CEO*:

And you also have to understand that for this Aroma plant, comparing the volume, we are very small, yes? So total Aroma, it is about maximum -- 100% capacity, 100,000 metric tons, split into 3 grades, but in actual, when we start normally, we will not run 100%, anyway. So if you look at the volume comparing the whole total 12.7 million that we have now, the contribution will be very low, I think.

Operator: Our next question is coming from Yong Por from BNP.

Yong-Liang Por, BNP Paribas:

Just 2 quick questions. First question is can you give us a rough idea of how much higher the operating expenditure was in third quarter related to the maintenance program? The second question is, again, I'm sorry, to go back to the Aroma plant again, but I think that was an event in Germany recently and I was wondering whether that would help to boost citral process when the plant does start up?

Rashidah Binti Alias, *CFO*:

Okay. For the first question, in terms of operating expenditure, that's not -- okay, range-wise, it's roughly about MYR 100-odd million plus. Those are relating to the maintenance activities that we undertake relating to the turnaround, yes.

Sazali Bin Hamzah, *CEO*:

For the second question, you talk about the event in Germany. Actually, the one that have issue is nothing to do with Aroma. So as far as Aroma market, I don't think have much implication.

Operator: The next question is coming from Abhishek Nigam from Nomura.

Abhishek Nigam, Nomura:

Just one question. I know you touched upon this in the presentation, but do you see the strength in fertilizer and methanol sustaining into 2018?

Shamsairi, *Head of Commercial*:

Yes, we see that will continue to be at least stable towards 2018, especially for methanol. For urea, we -- once the neighboring country plant come back out from the force majeure, then we'll see the impact back into the market.

Abhishek Nigam, Nomura:

Because I look at Q-on-Q, both of them are up almost 20%. So urea could see some correction, but then methanol, you think, is more or less still going to stay here?

Shamsairi, *Head of Commercial*:

Yes.

Sazali Bin Hamzah, *CEO*:

Yes. I think about methanol, I would say that probably it remain firm. That's what we are seeing. However, urea is the new -- the force majeure plant come back into stream, it may have some correction. So let's see how -- where the level of this price.

Akbar bin Md Thayoob, *Head SPV*:

And Akbar here, I think that methanol has an uptick in terms of the level of consumption by China to produce their olefins. In this year, we have seen that they are quite serious in wanting to manage their environment better. And with that, I think it will make, if not firming up, stable methanol price in 2018.

Operator: The next question is coming from Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley:

A couple of questions. First was most related to in terms of when you're looking into 2018, how has been your contracted volumes on both methanol as well as on the O&D side? Are you kind of maintaining the percentages? Or are you raising that numbers up? And the second question was if you can give us a bit more flavor in terms of how are you marketing the Aroma output because it's quite niche here. So if you can you give us some flavor on that or what's happening?

Sazali Bin Hamzah, *CEO*:

Okay. On the contract volume of methanol, in 2018, we are seeing that roughly it's about the same in term of spot between term. We will play around the same region because we feel that the demand is about the same, yes? For Aroma, what we say that, at this moment, we -- since it's a specialty product, we do have to compete with the normal Aroma ingredient in India. Subject to the situation of Aroma industry -- natural Aroma industry in India, that will impact the price of oil-based Aroma, but we feel that it's still that quite strong position there.

Mayank Maheshwari, Morgan Stanley:

So it will be mostly focused on the Indian market right now from your output? Or how you are trying to...

Sazali Bin Hamzah, *CEO*:

No, it's not India market, it's -- I think, it's everywhere, China, worldwide and even to Europe as well. But what I'm saying that the situation is also directly correlated with the natural Aroma industry in India. So there is a lot of natural Aroma industry in India, and production is closely based on the weather situation.

Operator: There is currently no further question over the phone, sir.

Sazali Bin Hamzah, *CEO*:

Okay. All right. Anything else, Rashidah.

Rashidah Binti Alias, *CFO*:

No.

Sazali Bin Hamzah, *CEO*:

If not, thank you. I think -- thank you very much for all that participated in this briefing. I was told there is one more question.

Operator: We have indeed, sir. We have a question from Mohshin Aziz from Maybank.

Mohshin Abd Aziz, Maybank Kim-Eng:

Two questions. The first is assuming the Saudi Aramco deal happens, right, will there be a clawback in your CapEx, because you have already accrued a lot of CapEx for the projects, so will their 50% share means that you'll get a cash back into your balance sheet. So that's the first question. Second question, if I'm not mistaken, one of your supply contracts next year will expire; methane gas, if I remember, correctly. Is there any clarity with regards to the continuity of that feedstock supply and whether there will be price escalations? Those are the 2 questions.

Rashidah Binti Alias, *CFO*:

Mohshin, so on the Saudi Aramco or rather the SPA, yes, we will have some clawback on the CapEx that we have spent. In the Bursa Announcement that we made when we signed the SPA, we were estimating roughly about USD 1 billion, close to about USD 1 billion. That covers all the past costs that we have incurred ourselves, 50% of that portion, yes.

Sazali Bin Hamzah, *CEO*:

Right. On the second question, on the -- yes...

Rashidah Binti Alias, *CFO*:

Yes, sorry.

Sazali Bin Hamzah, *CEO*:

Okay, continue, continue. Sorry.

Mohshin Abd Aziz, Maybank Kim-Eng:

I wanted to do the follow-up. No, I just wanted to double check the $1 billion of CapEx payback, will it come in the form of cash or credits or...

Rashidah Binti Alias, *CFO*:

Yes.

Mohshin Abd Aziz, Maybank Kim-Eng:

Just trying to think how to put it in the balance sheet, that's all.

Rashidah Binti Alias, *CFO*:

Yes, yes, it is in the form of cash. We are looking at cash.

Sazali Bin Hamzah, *CEO*:

Okay, Mohshin, your second question with regards to contract of methane gas, with one of our plants, urea plant next year. Basically, we are in a negotiation with PETRONAS, but I would say that we have done it for our Bintulu fertilizer plant. And I would say that probably is around that region as well. So I don't think there's much impact to our bottom line. Because as you said that...

Mohshin Abd Aziz, Maybank Kim-Eng:

Okay. Thank you very much.

Sazali Bin Hamzah, *CEO*:

Yes, that we used -- okay, sorry. Okay? Okay. All right, next question?

Operator: The next question is coming from Azim Faris from IMB Securities (sic) BIMB Securities.

Azim Faris Bin Ab Rahim, BIMB:

I just have one question -- sorry, have a few questions. The first one is on the guidance on the -- effective tax rate for 2018. The next question is on your SAMUR plant utilization, may I know when -- do you expect to do you our warranty maintenance for SAMUR plant? The third one is regarding...

(technical difficulty)

Sazali Bin Hamzah, *CEO*:

Can you repeat (inaudible)

(technical difficulty)

Azim Faris Bin Ab Rahim, BIMB:

And the third question.

Rashidah Binti Alias, *CFO*:

Sorry.

Azim Faris Bin Ab Rahim, BIMB:

(technical difficulty) I want to know the -- how much the expenditure related to your maintenance for this quarter, how much is it expense and how much is it capital -- to be capitalized? That is all.

Rashidah Binti Alias, *CFO*:

For the effective tax rate, you see that for our year-to-date, currently, we -- our effective tax is round about 14%. That's fairly consistent with our guidance in the past in a sense that we are looking at effective tax rate for the entire group between mid-to-high teens. Similarly, for 2018, barring any unusual expenditure that is not deductible for tax, we should be looking at mid-to-high-teens effective tax rate.

Sazali Bin Hamzah, *CEO*:

On your second question, with regard to 2018 SAMUR performance, we are targeting of utilization above 90%, so that is our plan. On your question about warranty shutdown, actually, we have got our authority approval to run at least for 3 years, so we will decide when is actually the right time to shut down SAMUR for statutory and also some of the warranty item. The third question?

Rashidah Binti Alias, *CFO*:

So in terms of expenditures relating to maintenance activity, now what has been expensed is as mentioned earlier, so that's roughly about MYR 100-odd million. In terms of what's being capitalized and that's really the turnaround portion relating to the CapEx and everything. Specifically, I don't have the figures with me, but roughly anywhere in any one particular year, we are looking at not more -- between MYR 600 million to MYR 800 million in terms of CapEx spend, roughly about that, yes? So we're containing our CapEx spend -- capitalized CapEx spend within that level; that includes the turnaround as well.

Sazali Bin Hamzah, *CEO*:

Okay.

Zaida Alia Shaari, *Head IR:*

Okay, Gaylen, I think we can close.

Operator: Perfect.

Sazali Bin Hamzah, *CEO*:

Okay. There is no more question. Again, I would like to thank to all the participants in this today's analyst meeting. So hope to see you, again, end of the year. Okay. Bye-bye.

Rashidah Binti Alias, *CFO*:

Thank you very much.

Mahadzir Rani, *Head of Manufacturing*:

Thank you.

Operator: Ladies and gentlemen, that concludes today's conference call. Thank you very much for your participation. You may now disconnect.