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Operator: Ladies and gentlemen, welcome to PETRONAS Chemicals Group Analyst Briefing for Fourth Quarter 2017. Alia, please begin.

Zaida Alia Shaari, Head IR:

Good afternoon, and Happy New Year to everyone. Welcome to our very first briefing and conference call for 2018. We're pleased to have with us today, our senior management led by our CEO, Datuk Sazali; our CFO, Madam Rashidah; our Head of Strategic Planning & Ventures, Mr. Akbar; our Head of Manufacturing, Mr. Mahadzir; and our Head of Commercial, Mr. Shamsairi.

To begin our briefing on the fourth quarter performance, I shall now hand you over to Datuk Sazali.

Sazali Bin Hamzah, CEO:

Okay. Thank you, Alia. Good afternoon, everyone. Thank you for joining our analyst briefing today. I hope it is not too late to wish our callers who are celebrating Happy Lunar New Year.

The year in review began with positive market sentiment as oil producers began cutting production in order to boost oil prices. As a result, Brent remained above \$50 per barrel throughout most of the year, and even managed to surpass the \$60 mark in late October 2017.

For the year, crude oil price averaged at \$54 per barrel, 23% higher than \$44 per barrel in 2016. At the same time, there was a global economic recovery led by the U.S., Eurozone as well as China.

The global PMI strengthened compared to 2016 has improved production and output growth match increased book order. The higher oil price together with improving economy have pushed

up the prices of raw materials and finished goods. Overall, I would say 2017 was better than 2016. We have hit our bottom level in [2016] and start recovering slightly.

While market may be in recovery, we saw limited upside on the product prices, as crude oil price remain relatively low. Nevertheless, PCG saw encouraging demand for petrochemical across all of our products. Product spread for both our segment also improved compared to the corresponding year.

I move on to my second slide. It was a record year for PCG. I'm happy to share with you, we achieved sustainable operation at 91% despite undertaking heavy statutory turnaround activities at several facilities this year. The successful commercial operation at PC Fertiliser Sabah, previously known as SAMUR, have contribute to a high group utilization. In the commercial front, market was getting more favorable and with the higher volume available, we were able to close more sales at better prices for all products.

In 2017, PCG achieved major milestone in our pursuit for growth. We increased our production capacity with SAMUR, and we are adding new specialty product to our portfolio. HR-PIB has come on-stream and startup of the new Integrated Aroma Ingredient Complex has been initiated step-wisely.

Financially, compared to the corresponding year 2016, our revenue improved by 26% to MYR 17.4 billion, and EBITDA rose by 35% to MYR 6.6 billion. Our profit after tax jumped 37% to MYR 4.4 billion, and our EBITDA margin remained strong at 38%. This is the best ever result achieved since PCG inception in 2010.

For more details on the full year results, I would like to pass the session over to Puan Rashidah. Rashidah?

Rashidah Binti Alias, CFO:

Thank you, Datuk Sazali. Good evening, everyone. We will start with the group's performance on Slide 5 before moving onto the segmental performances.

First, looking at the fourth quarter performance year-on-year. Now global economy continued to improve in the fourth quarter of 2017 when compared to the same quarter last year. Major economy showed expansion, especially U.S. and the U.K. with increased new orders due to the higher foreign demand. Crude oil prices continued to increase steadily averaging at \$61 per barrel for the quarter. Against this improved the backdrop, PCG recorded a 20% year-on-year increase in revenue at MYR 4.7 billion compared to MYR 3.9 billion in the corresponding quarter. This was the result of higher sales volume as well as improved product prices. EBITDA for the quarter rose 16% at MYR 1.7 billion from higher volumes as well as product spread. EBITDA margin, however, declined slightly by 1.2 percentage points to 36.4% from 37.6% on the back of lower plant utilization from maintenance activity as well as turnaround activity. Profit after tax improved 2% to MYR 1.05 billion compared to the corresponding quarter.

Now moving on to the comparison against the preceding quarter, which is quarter 3 2017. GDP saw a slight deceleration in the fourth quarter when compared to the third quarter of the year. However, most global PMI continued to expand with improved market condition and increased export orders. China, however, showed marginal slowdown as the government pulled back on growth policy, thus causing slower growth in new orders as well as falling employment.

Crude oil continued to improve during the quarter on improving supply and demand balances as well as positive future outlook and chemical product prices followed suit. Compared to the previous quarter, PCG recorded an 18% growth in revenue with higher sales volume as well as improved product pricing.

EBITDA surged 21% quarter-on-quarter to MYR 1.7 billion as a result of higher spreads and volumes though partially negated by unfavorable foreign exchange. EBITDA margin was unchanged at 36%, and profit after tax improved 9% to MYR 1.05 billion.

Now for the full year, the global economy continued to improve with major economies showing expansion. The benchmark crude oil has risen from \$44 per barrel average in 2016 to \$54 per barrel in 2017. Naphtha price has improved with the firmer crude oil price and improved petrochemical demand.

The improvement has certainly benefited PCG as we saw a 26% jump in revenue to MYR 17.4 billion with higher volume after the addition of the SAMUR's urea production coupled with improved product prices and favorable ForEx impact.

EBITDA for the year improved by 25% at MYR 6.6 billion on the back of higher volume, better product spread and favorable forex movement. EBITDA margin was unchanged at 38%, while profit after tax is at 37% to MYR 4.4 billion with lower effective tax rate.

Next let's look at the segmental performances. We will start with the Olefins and Derivatives segment on Slide 6. Comparing again, quarter 4 of 2016. As mentioned before, during the quarter-end review, chemical product prices were higher with improved crude oil prices. The O&D segment recorded a 5% improvement in revenue to MYR 3 billion on higher product prices albeit lower sales volume. EBITDA for the segment fell to MYR 963 million following this lower sales volume. Similarly, EBITDA margin declined 6 percentage points to 32%. Profit after tax was lower by 10% compared to the corresponding quarter at MYR 637 million compared to MYR 706 million.

Moving on to the performance against the preceding quarter, third quarter 2017. Now comparing the performance against third quarter 2017, O&D product prices showed marked improvement. Segment revenue rose 13% to MYR 3 billion with higher sales volume and better product prices. EBITDA improved by the same 13% to MYR 963 million, mainly due to higher volume and improved spreads. EBITDA margin was unchanged at 32%, whereas profit after tax improved 9% to MYR 637 million.

For the whole year of 2017, the O&D segment performed better than the corresponding year with improved market conditions on the back of firmer crude oil prices. Revenue improved 16% year-on-year at MYR 11.4 billion with higher product prices, supported by favorable foreign exchange rate. EBITDA improved by 8% to MYR 4.1 billion on the back of better product spread and favorable ForEx impact, though EBITDA margin declined slightly to 36%.

Profit after tax showed marked improvement, rising 28% to MYR 2.8 billion, due primarily to lower effective tax rate this year, and the MYR 244 million asset write-off in relation to the cancellation of elastomer project recorded in 2016.

Next let's move on to the performance of the Fertiliser and Methanol segment or F&M. We will start with the comparison against the corresponding quarter, which is fourth quarter of 2016. For the F&M segment, methanol and urea enjoyed better product prices with higher crude oil price and firmer demand. The segment recorded a significant 58% increase in revenue at MYR 1.8 billion

with higher sales volume that is mainly contributed by the commercial operation of SAMUR and better product prices supported by favorable foreign exchange rate. EBITDA for the segment surged by 82% to MYR 774 million compared to fourth quarter 2016, with higher volume, better product spread and further supported by the favorable ForEx impact. Consequently, EBITDA margin rose 6 percentage points to 43%. Profit after tax for this segment saw an 18% improvement to MYR 391 million compared to the same quarter last year.

Next let's look at the performance against the preceding quarter, which is third quarter of 2017. Similar to the O&D segment, the F&M segment saw improved market and product prices against the preceding quarter. Revenue for the segment rose 29% quarter-on-quarter at MYR 1.8 billion with higher sales volume and better product prices. Segment EBITDA also improved 29% from MYR 600 million to MYR 774 million, with improved spread and higher volume, though partially negated by the unfavorable ForEx impact. EBITDA margin was unchanged at 43%.

PAT or profit after tax improved by 6% to MYR 391 million with higher PBT, partially offset by the recognition of higher deferred tax liability and depreciation at PC Fertiliser Sabah or SAMUR upon capitalization of assets.

Next the segment's performance for the whole 12 months of 2017 compared to 2016. During the year, the F&M segment had 2 turnaround shutdowns at PC ammonia, which took place in the third quarter; and PC Methanol plant 1 in quarter 4 compared to only ABF shutdown within the same period last year. However, given the overall better market condition this year with higher crude oil prices, the segment performed better than it did in 2016.

Segment revenue jumped 46% to MYR 6.2 billion on higher volumes boosted by the additional urea from PC Fertiliser Sabah and better product prices, in particular methanol. EBITDA surged 68% to MYR 2.6 billion on the back of higher volumes, improved product spread and favorable ForEx movement.

EBITDA margin improved 6 percentage points to a strong 42%, and profit after tax increased a significant 61% to MYR 1.6 billion on improved spreads.

Next a look at our balance sheet and cash flow on Slides 8 and 9. Now first the balance sheet on Slide 8. During the 12-month period, total assets increased by MYR 1.3 billion, mainly from the addition to plant, property and equipment in relation to the Pengerang Integrated Complex project in Johor and turnaround costs. Looking at our cash flow, we had higher cash generation in the year 2017 compared to 2016 with higher net cash generated from operations.

Our cash balance declined by 10% at the end of the year with higher dividends paid to shareholders amounting to MYR 1.92 billion in relation to the 2016 second interim dividend as well as the first interim dividend for 2017 as well as expenditures in relation to our growth projects.

With MYR 6.7 billion in cash balance, we will continue to practice care and prudence as we focus on our current growth projects and future opportunities. On that note, we have also announced a second interim dividend for 2017 of MYR 0.15 per share bringing the total payout for 2017 at MYR 0.27 per share, which is our highest payout since listing.

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

Mahadzir Rani, Head of Manufacturing:

Thank you, Rashidah. Good evening, everyone. Mahadzir here.

I would like to refer to Slide #10. I will talk on the operational highlights for the quarter. (foreign language) Plant utilization for the group was at 93% in quarter 4 of 2017, slightly lower than the same quarter last year, mainly due to turnarounds and major maintenance activities at Labuan facilities.

At end of 2017, plant utilization sustained high at 91% for the group, following our plant activities in 2017. We strive to sustain commendable utilization rate through rigorous operational excellent practices and stable fixed cost supply.

We also have seen product realization from our growth project. This is a testament of our good project delivery and commercialization.

Now I would like to go into segmental operational performance. Please refer to Slide 11 for Olefins and Derivatives. O&D segment operated at plant utilization of 94% in 2017 as planned during the year. In quarter 4 2017, we have seen total ethylene produced was 4.5% better than average of the first half 2017. This was a result of sustainable crackers operation and stable ethane supply. (foreign language) downstream of ethylene plant was smooth as well.

Now can -- we go to the segmental operation performance for Fertiliser and Methanol. Please refer to Slide 12. As for F&M, 2017 plant utilization performance was at 90%. There were 2 major highlights for the segment during the quarter, which were: the first one, PC Fertiliser Sabah operationalize above 90% utilization. (foreign language) We managed to sustain smooth operation at PC Fertiliser Sabah in 2017, contributing to more than 40% of total urea volume by the group. In overall, annual urea volume was recorded at 2.219 million metric tonnes, which was 62% higher as compared to 2016.

Second one, the statutory turnaround at PC Methanol Plant 1. In quarter 4 2017, PC Methanol Plant 1 undergone mini turnaround successfully. The activity completed with more than 250,000 safe man hours, achieved without any serious safety incident.

Plant 2 also underwent its corrective maintenance in December 2017 to address the plant threats. It is hoped that the threats will not turn into repetitive or costly reliability incidences. Despite the plant activities, 2017 methanol production was comparable to 2016 with less than 1% drop.

Let's go to operational highlights for project updates. Please refer to Slide 13. Now a quick update on our growth strategy. The first 2 projects, a joint venture effort with our JV partner, BASF -- BASF and our associate company, BASF-PETRONAS Chemicals Sdn Bhd or BPC. While the project was the third project, it's the key -- is key PETRONAS project, namely RAPID PETCHEM at Pengerang site. For Aroma complex, the citral plant was stabilizing in its early operation, and we are happy to see the on-spec product have been supplied to BASF.

While citronellol and menthol plants were following commissioning schedule in phases, expected to come on-stream in phases this year.

Next highly-reactive polyisobutylene, HR-PIB project. The plant has successfully commissioned in December 2017. The first delivery of on-spec HR-PIB reached customer in January 2018, while full commercial production is expected to commence by quarter 2 2018.

For PIC-PETCHEM -- as for PIC petrochemical project, mechanical construction activities was progressing well, reaching 70% overall completion. While for operation and maintenance readiness, we have completed the manpower recruitment phase and grounding program. The deployment of the ready-to-train (RTT) and experienced staff to the facilities stood at 1/3 of the requirement. The other 2/3 will be deployed in phases until quarter 3 2018.

Additionally, readiness of management system focusing on smooth startup program, operation, physical asset and digital solution are on track.

As a conclusion, in general, fourth quarter of 2017 was smooth operation for PCG with good volume recorded from PC Fertiliser Sabah and stable Olefins and Derivatives business segment operation. We will continue to focus in operational excellence in delivering our plan. 2018 will be a year with heavy turnaround and major planned maintenance. But despite that, our plant utilization will be sustained above 90%. As such, we shall remain focus in safeguarding safety and managing our assets and its reliability.

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

Shamsairi Ibrahim, Head of Commercial:

Thank you, Mr. Mahadzir. Good evening, and (inaudible) to everybody. Shamsairi here representing Commercial for today. As mentioned by my colleague, Puan Rashidah, shortly, that the global economy continues to improve. Hence, we can see strengthening of the product prices.

On the ethylene, for example, forecasting for Q1 2018, we anticipate for it to remain firm outlook. Continuous strong crude oil price in quarter 1 is expected to support, ethylene price uptrend. In terms of supply, the market will see supply shortage as there will be several turnarounds in Northeast Asia, Middle East.

From the demands perspective, in line with the economic improvement, we will see that post-Chinese New Year, the demand will continue to be strong.

Moving forward on polymers. Polymer prices are continuing, ... assessed to be firm. Expected strong ethylene price will further canvas the polymer prices. The potential regional polymer supply limitation from turnaround Southeast Asia region in Q1. In terms of demand is forecasted to improve from now onwards after Chinese New Year.

Next we shall move for MEG. We will -- we are forecasting for MEG moving forward. Similar to previous quarter, we foresee MEG prices to be on upward trending. With continued firm forecasted ethylene prices, MEG the price will also be upward direction.

Aromatics. Going into Q1, aromatic prices are predicted to continue to be firm. Forecasted higher naptha prices help to maintain a price trajectory for aromatic in Q1. In terms of supply, it is expected to be limited for the upcoming maintenance activity for several aromatic unit. For demand, it will continue to increase, as there are more expected additional capacity for PTA plant in China, India to be on-stream in this quarter.

Moving forward for fertilizer segment on urea. A stable outlook is expected for urea price in quarter 1, hovering around \$250 to \$260 range. The continued heavy snow and rain in Southern China is expected to impact demand of natural gas for heating, resulting in reduced supply of industrial use for the manufacture of urea. The low production rates for urea, coupled with low inventory levels, pre Lunar holiday suggest there will be less exportable volumes in China. However, the issuance of tenders from Bangladesh in tandem with higher demand have supported prices to linger at current level. On the other hand, urea supply in South Asia and Middle East region is expected to recover as major producers have started -- have restarted after shutdown.

As for ammonia, ammonia prices are said to be stable in Q1 2018, mainly owing to the supply squeeze in Latin America. Additionally, in the Middle East, major ammonia producers are expecting a tight supply situation in the short term, lending support for ammonia prices. However, it is predicted that ammonia prices are bound to soften gradually towards the end of Q1 2018 due to additional capacity in Sulawesi, Indonesia is expected to flood the ammonia market.

On methanol, methanol prices are forecasted to firm in Q1 2018 following supply shortage caused by slow methanol production in China as gas supply is more focus towards boiler fuel, as mentioned earlier, for heating during the cold winter. Most natural gas-based methanol plants in China remain offline due to this gas restriction. Bullish sentiments are echoed as supply from Iran producers is also impacted due to gas restriction during winter while a key Middle East producer is currently offline for maintenance. In Northeast Asia, there is stable demand from the traditional derivatives, such as MTBE, formaldehyde and acetic acid, so most plants are running at maximum rates.

That concludes my session on market outlook for Q1 2018. Back to you Datuk. Thank you.

Sazali Bin Hamzah, CEO:

Okay, thank you, Encik Shamsairi. Ladies and gentlemen, while the external factors remain dynamic, PCG will continue to progress on pursuing our excellence and growth to achieve our target. For 2018, we plan to sustain our group plant utilization level at about 90% despite another heavy statutory turnaround year that we will go through this year.

With the recent market development, product prices are set to recover, supported by stable GDP growth, improving crude oil prices and steady petrochemical demand. We are also looking at innovation in our efforts to increase service efficiency and deliver value for our customers' satisfaction. And moving forward, PCG will also focus on operational and commercial readiness for our PIC and Gebeng projects. Our investment in Pengerang Integrated Complex, PIC, is progressing on schedule at about 70% progress. And our trained operation personnel are being mobilized to site in stages, as what Encik Mahadzir had mentioned.

In commercial side, our route-to-market activities for our products from PIC have been initiated, including product trials and acceptance at customers' facilities. At the same time, we will be pursuing our growth opportunity beyond the existing projects to further expand our core business and improve our product portfolio in the specialized -- in the specialty lines.

Now this concludes our presentation for today. And let's move on to question-and-answer.

+++ q-and-a

Operator: (Operator Instructions) Our first question, Ajay from JPMorgan.

Ajay Mirchandani, JP Morgan:

Two questions from me. The first one was specifically in the fourth quarter of 2017, can you just help us better understand why the losses at the associate line? The second question I had was, I believe, if I'm not wrong that you talked about a 90%-plus utilization target for 2018 as well. I just wanted to kind of clarify, does that take into consideration a third quarter likely shutdown for the ethylene cracker? Or is that again being phased out and, therefore, the utilization is likely to be above 90%? So those are my two questions.

Rashidah Binti Alias, CFO:

Ajay, Rashidah here. Thank you for the question. So I'll address the first one in terms of the share of associate losses. Now for quarter 4 specifically, we have a total of MYR 43 million share of loss. This is -- this primarily relates to share of loss from one of our associates, which is BASF PETRONAS Chemicals. Now for two reasons. Number one, we mentioned earlier that the HR-PIB project came onstream. And therefore, depreciation has commenced in quarter 4, while the production is still ramping up. So that's one of the reasons. And the other, you would also notice that in the third quarter 2017, in actual fact, it was a positive figure or as a share profit. But third quarter 2017 by comparison was a rather peculiar quarter because there was also some tax adjustments, specifically relating to prior year over provision or as a -- yes, prior year over provision. And therefore, that gets adjusted in third quarter of 2017. So that's the one on share profit. I pass it over to Datuk.

Sazali Bin Hamzah, CEO:

Ajay, for 2018, as I mentioned, we will undergo through also heavy turnaround. Last year, we have shut down our cracker -- second cracker. But this year, we plan for our first cracker. So not only our cracker shut down, we also have some other plants like methanol, ABF, which is timed for statutory turnaround. So because of that, the overall utilization, we believe, that will be around 90%.

Operator: Our next question, Alex Goh from AmBank.

Alex Goh, Am Bank:

I'll run through -- follow through on Ajay's question. Could you run through on the first ethylene cracker, when is the turnaround? How long will it take as well as the methanol and ABF plants that you're mentioning? Could you just give us a time frame of when those turnaround activities (are going to take [place] that we can actually kind of gauge on which quarter those activities are going to take and the impact on the utilization? That's my first question. And my second question is for the 2018 CapEx, what are you going to spend on it? And what is total value, right? And my third question is on your tax rate. Overall, 16% this year as what you guided. I'm just trying to see going into this year and next, is it going to be lower?

Mahadzir Rani, Head of Manufacturing:

Okay, I think for the first question, regarding the -- the first cracker turnaround, we are going to execute the TA in the second half of 2018 and similarly for the ABF and also the methanol plant two (2).

Alex Goh, Am Bank:

Does that mean in the first half of the year, your utilization is going to be well above 90%-plus, 95% and above?

Mahadzir Rani, Head of Manufacturing:

Yes, I think above...

Sazali Bin Hamzah, CEO:

Yes, if everything is all right, then we should be above 90%, probably high 90%. But depending on the -- but bear in mind, we also have another planned shutdown in MTBE that we also plan sometime in quarter 1. Or in terms of raw volume, it's much higher in first half than second half.

Alex Goh, Am Bank:

I see. So you mentioned on first quarter, which plant is going to be on turnaround?

Mahadzir Rani, Head of Manufacturing:

The MTBE plant.

Sazali Bin Hamzah, CEO:

The first half.

Rashidah Binti Alias, CFO:

Yes. I'll take the next two questions. In terms of 2018 CapEx, based on our projection, we will be spending slightly higher than 2017. So within 15%, 20% higher range and mainly will be spent again on our PIC project in Johor because the project -- as we have guided in the past, the project peaks -- in terms of project spending, will peak in 2017 and 2018 before tapering down in 2019. But that is again based on 100% CapEx requirement at Johor. The other question is, in terms of effective tax rate, yes, you have seen that for the entire 2017, that's roughly about 15-odd percent. We expect the effective tax rate to be hovering around this level. I think in the past, we have also guided that our tax rate is between mid- to perhaps high-teens. So anywhere between 13% to 16%, that is roughly the range of our effective tax rate because, of course, depending on the product mix and everything else. But it should be ranging around that level.

Operator: Our next question, Suhir from Hong Leong Asset.

Suhir, Hong Leong AM:

I would like to ask about the gross profit margin within fourth quarter and also the first quarter of the 2017. Because from observation, I think for the fourth quarter, the margin is around 35% while the margin in the first quarter is around 40%. So I just want to know the difference why the margin (inaudible).

Rashidah Binti Alias, CFO:

Okay, Hi Suhir, Rashidah here. Okay, we are comparing between quarter 1 and quarter 4. Is that right?

Suhir, Hong Leong AM:

Yes.

Rashidah Binti Alias, CFO:

Okay, quarter 1 is indeed our best quarter because we do not have any turnaround. We also do not have any turnaround at all in that quarter, so our plant utilization, as we announced in the past, that was about 99% compared to fourth quarter, which is roughly about 92%. Because we also have this plant 1 methanol or rather the Labuan facility on turnaround. So that is the main reason for the higher margin in the first quarter because volume is also higher -- accordingly, volume is higher in quarter 1. Does that answer your question, Suhir?

Suhir, Hong Leong AM:

Okay. So first, if I'm not mistaken, your cost is rather fixed because since early this year, the price have gone up. So I thought the margin will be at least around 40% like the first quarter.

Rashidah Binti Alias, CFO:

In actual fact, between first quarter and the fourth quarter, the market is roughly about the same. Markets typically -- because they're fairly cyclical, right, typically in the first quarter, the market is quite good. The demand is fairly good. On average -- let's say, I put some numbers. On average, first quarter, the product price is roughly about \$540 per tonne. This is on average production. On the fourth quarter, it's roughly about that level as well, \$545, \$547, like that. So market is roughly the same. So really, the key differentiating factor is our turnaround. Our plant utilization in the fourth quarter and the volume, which is slightly lower in the fourth quarter.

Operator: Our next question, Mohshin Aziz from Maybank.

Mohshin Abd Aziz, Maybank Kim-Eng:

Congratulations on the results. I'd just like to ask, is there any update with regards to the sale or rather -- Saudi Aramco deal, whether there's any updates on that. That's my only question.

Sazali Bin Hamzah, CEO:

Mohshin, thank you for your compliment. Basically, our negotiation with Saudi Aramco is still ongoing, as we have mentioned. Hopefully, we can have it landed in quarter 1 this year. This is our target last time. So we're still maintaining the end date. So we are now still in a negotiation point. Of course, the number of outstanding items are getting less and less. So hopefully, we can conclude that. I hope I answered that, Mohshin.

Mohshin Abd Aziz, Maybank Kim-Eng:

Yes, you did.

Operator: Our next follow-up question, Ajay from JPMorgan.

Ajay Mirchandani, JP Morgan:

So just to follow up on two questions again. One is, Rashidah, you mentioned about the fact that you'd expect 15% to 20% higher CapEx in 2018, but this is on the whole project. Assuming the Saudi Aramco deal actually comes through, is it fair to say then the CapEx into 2018 should be lower than 2017, given the fact that it will be a smaller effective stake for PETRONAS Chemicals, if you can clarify on that? The second question I had was specifically on the olefins division in 4Q versus 3Q. If I'm looking at revenues, if I'm looking at volume, there has been a material increase. But for whatever reason, the EBITDA margin is actually flat at 32% in 3Q '17 versus 4Q '17. Is that

largely because the improvement in the margin has been offset by the ForEx? I just want to kind of clarify that part. And how should we look at the EBITDA margin for the olefin division into 2018?

Rashidah Binti Alias, CFO:

Yes, sure. On your first question, yes, if we shave off 50% of our CapEx requirement moving forward, that should -- our total CapEx should be roughly about 5%, 10% slightly lower compared to 2017, roughly thereabout. So yes, that's for the first question. For the second one, O&D third quarter versus fourth quarter -- Ajay, are you asking about first quarter versus fourth quarter, right?

Ajay Mirchandani, JP Morgan:

So fourth quarter '17 versus third quarter '17.

Sazali Bin Hamzah, CEO:

O&D (inaudible)

Rashidah Binti Alias, CFO:

Yes. The margin is about the same at about 32.4%. Okay. So volume goes up -- no, okay. In fourth quarter, we had some maintenance activities at our derivatives plant. In actual fact, the overall PU for the fourth quarter -- sorry, just give me a second, let me pull up some figures for you. Actually, the plant utilization for fourth quarter is at about 98%, yes. And third quarter is roughly about 82%, yes. So the increase in markets is offset by that slight decrease in volume, which is why then our margin is roughly at about the same.

Rashidah Binti Alias, CFO:

Yes. (inaudible) fourth quarter '17 and fourth quarter '16, okay.

Ajay Mirchandani, JP Morgan:

And that's where the confusion is. Because you've had such a material increase in utilization Q-on-Q from 82% to 98%, prices have actually improved as well Q-on-Q. So given that environment, you would have expected the EBITDA margin to have actually increased. And so I'm just trying to clarify. Is that flat margin driven by the fact that you had the headwind in the ForEx because of the ringgit strength? Is that one of the reasons why we've seen a flat EBITDA margin Q-on-Q?

Rashidah Binti Alias, CFO:

Okay, two reasons. Number one, also in the fourth quarter, as I've mentioned, we have this -- it's to do with the composition of the product mix. In fourth quarter, we had some maintenance activities at the derivatives plan. This is our normal routine maintenance activity. And therefore, the product composition is less on the C2 -- or rather ethylene-based product. And as you're aware, the ethylene-based product carries higher margins. Because this segment includes not just the ethylene base but also the aromatics, the paraxylene, benzene and MTBE. So in terms of product mix composition, the ethylene base is slightly lower. Therefore, that pushes the margin a bit lower. And for the second reason, as you also pointed out, the average dollar-ringgit is less. Ringgit has strengthened in quarter 4. That has -- to a certain degree, that also has an impact. You're right, yes. But the other reason is again on the product mix.

Ajay Mirchandani, JP Morgan:

And just a little more detail on the product mix. Is it the PE plants which were being maintained? Was it the MEG that was being maintained? Was it the ethanolamines? Just curious to get a sense which derivatives we were talking about, which were not operating as much?

Mahadzir Rani, Head of Manufacturing:

The MEG and derivatives plants.

Operator: (Operator Instructions) Our next question, Mayank from Morgan Stanley.

Mayank Maheshwari, Morgan Stanley:

So I had two questions, one was more related to SAMUR of how has been the exit utilization rate for SAMUR in the fourth quarter? And what are your expectations on that for 2018? And the second question was more related to your administration expenses. If you're seeing or roughly seen about a 10% decline this year, how sustainable you think that will be going ahead.

Mahadzir Rani, Head of Manufacturing:

For question number one, as mentioned earlier, we managed to sustain smooth operation at PC Fertiliser Sabah, which was also previously known as SAMUR, in the last quarter of 2017 at the utilization of 90% -- above 90%. Moving forward for 2018, we're also very confident that we can achieve the same level of utilization.

Mayank Maheshwari, Morgan Stanley:

So we should not expect any planned turnarounds or something in terms of anything at all on this plant going in 2018?

Mahadzir Rani, Head of Manufacturing:

Not for PC Fertiliser Sabah.

Sazali Bin Hamzah, CEO:

We don't have any planned statutory turnaround. They will happen in 2019. But we do budget for some pit stop, planned maintenance, short pit stop because some of the equipment need to come down. But it is a very short turnaround -- short shutdown.

Rashidah Binti Alias, CFO:

Yes, on the second question, Mayank, in terms of the decline in admin expenses by 10%. In actual fact, we have been going on what we call cost optimization initiative ever since way back from 2015 itself, when the industry cyclicality started to kick in. And what we have been doing internally within PCG is to make sure that we cap certain expenses at the previous year's level. So whatever cost optimization initiative that we have been doing in the past, we have been reaping the benefit of that. So any expenses moving forward, that is most likely going to be kept at this level. So you probably won't see any big reduction anymore. Because at the end of the day, like I said, in terms of our cost optimization initiative, we have been implementing that. And we're seeing the results and the outcome this year or rather in 2017.

Sazali Bin Hamzah, CEO:

The challenge is basically to sustain the admin expense as what we have actually [achieved] in 2017.

Mayank Maheshwari, Morgan Stanley:

Okay, sure. Just one more follow-up actually. When I look at the balance sheet side, there has been a significant increase in trade and other inventory numbers. Is it because of SAMUR or something else is causing this?

Rashidah Binti Alias, CFO:

Yes, one of the -- two reasons. One of it is, of course, in terms of the project, what you call it, project specs and materials. And the other one is simply from the rising price. So the value of the inventory has also gone up. But in terms of our inventory holding, that have not gone up. It is still at the same level in terms of our inventory holdings.

Operator: Our next question, Cheong Mun Wai from Employees Providence Fund.

Cheong Mun Wai, EPF:

I just have one question. Following up on Ajay's question regarding the CapEx, I think it was mentioned that for 2018 at a 100% level for your CapEx spend, right, you're looking at around 15% to 20% higher compared to 2017. So based on Slide #9, your CapEx for 2017 was around MYR 3.4 billion. So 15% to 20% presumably will be closer to MYR 4 billion at the 100% level. So if it takes, let's say, 50%, assuming the Saudi Aramco deal goes through, then 50% of the CapEx will be hiked off so would it be closer to around -- slightly above MYR 2 billion for your CapEx? I think you also mentioned that on a 50% level, right, it's 5% to 10% lower than 2017 level. So MYR 3.4 billion minus 5% is maybe around MYR 3 billion. So any guidance on that?

Rashidah Binti Alias, CFO:

Mun Wai, you were looking at Slide 9 just now, right?

Cheong Mun Wai, EPF:

Yes, that's right.

Rashidah Binti Alias, CFO:

In terms of the CapEx for 2017, our CapEx in 2017 in actual fact is about MYR 4.6 billion. Because the one that you are referring to is the cash flow, which is payment-related. So there are -- I mean, accruals and things like that. So in actual fact, yes, it is about MYR 4.6 billion for 2017. So 20%, 25% -- 15%, 20% is about MYR 5.6 billion roughly. At 20% higher, it's ranging roughly between MYR 5 billion to MYR 5.6 billion -- yes, MYR 5.3 billion to MYR 5.6 billion. Yes, that's right. So if we shave off -- if the project with Saudi Aramco is finally completed, then we should be roughly at about MYR 4 billion, MYR 4.6 billion -- MYR 4 billion, MYR 4.4 billion, roughly.

Operator: Our next follow-up question, Mohshin from Maybank.

Mohshin Abd Aziz, Maybank Kim-Eng:

I'd like to reask with regards to the tax rates for 2018. I know you mentioned there, I missed it. Can you just repeat?

Rashidah Binti Alias, *CFO*:

Yes, our tax rate should be ranging between 13% to 16% on a steady state, within that range.

Operator: Thank you. There are currently no questions in queue. (Operator Instructions) As there are no further questions, I would now hand the session back to our Alia. Please go ahead.

Zaida Alia Shaari, *Head IR*:

Datuk, anything (inaudible)

Sazali Bin Hamzah, *CEO*:

I think thank you very much, all of you. You have all a good day. And if you have any questions, you can always write to us through our normal website, and we will try to answer it as best as we can. Thank you, and hope to see you in quarter 1 later on.

Rashidah Binti Alias, *CFO*:

Thank you very much.

Mahadzir Rani, *Head of Manufacturing*:

Thank you.

Shamsairi Ibrahim, *Head of Commercial*:

Thank you.

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

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