Event Name: Quarter Ended 30th September 2015, PETRONAS Chemicals Group Earnings Presentation
Event Date: 3rd November 2015

**Operator:**
Thank you for standing by and welcome to the Petronas Chemical Group quarter-three financial year 2015 analyst briefing conference call. I must advise you that this conference is being recorded today, Tuesday, November 3, 2015.

I would now like to hand the conference over to your first speaker today, Edward Ong. Please go ahead, Mr. Ong.

**Edward Ong (Head of IR):**
Thank you, Natalie. Good evening. Good morning and good evening. My name is Edward Ong, Head of Investor Relations, Petronas Chemicals Group. Thank you for taking the time to join us this evening. With us today we have Datuk Sazali Hamzah, President and Chief Executive Officer; Farina Khan, Chief Financial Officer; Encik Akbar Thayoob, Head of Commercial; Encik Yusri Yusof, Head of Manufacturing; and Encik Abdul Aziz Othman, Head of Strategic Planning.

I believe this call will be a little longer than usual so, without further ado, I would like to hand the time over to PCG's CEO, Datuk Sazali Hamzah.

**Datuk Sazali Hamzah (President/CEO):**
Thank you, Edward. Good evening, everyone. I'm happy to report that PCG posts another very strong quarter, despite the uncertainties surrounding the market. Compared to the corresponding quarter, the Group's financial performance continued to remain resilient with revenue higher by 3% at MYR3.6b and improvement in EBITDA by 31% to MYR1.4b.

Likewise, EBITDA margin increased to 39% due to the higher sales volume, better sales mix of high-margin ethane-based products and as positive ForEx has impacted and helped cushion the overall lower product prices.

On operational performance, I'm glad to say that our continued focus on operational excellence has delivered successive positive result, as planned. PCG Group plant utilization has improved to 88% on the back of higher plant reliability and improved feedstock supply.

As for the market, the average Brent crude oil price was about $51 per barrel for the quarter, down 50% from $103 per barrel in the corresponding quarter. Consequently, we see lower petrochemical product prices. However, demand remained resilient since that we end up on a sold-out position for all our products. And inventory was maintained at a very optimum level.

On another note, I'm also happy to announce that as of this morning PCG has acquired the entire equity of three companies undertaking RAPID petrochemical projects from Petronas Refinery and Petrochemical Corporation, PRPC. I will further elaborate this in my closing remarks.

For detail on financial I would like to pass the session over to Puan Farina. Puan Farina?

**Farina Farikhullah Khan (Chief Financial Officer):**
Thank you, Datuk Sazali. Good evening, everyone. For reference on the financial performance discussion please turn to slide 5 on the quarterly Group financial performance, as well as slide 6 on plant utilization.

Let's start with the performance against the corresponding quarter. I'm very pleased to report that we had a very strong quarter three this year. Our Group plant utilization rate was at 88% compared to 75% in the same quarter last year.

This was achieved from increased plant reliability and improved feedstock supply, despite the turnaround this quarter at our larger Methanol Plant 2 compared to the smaller methanol plant turnaround in quarter three of last year. Excluding the turnaround, plant utilization for quarter three 2015 would have been 97%.

As a result of the increase in plant utilization, we saw higher production and higher sales volume. We also recorded better sales mix of higher-margin ethane-based products, following higher ethane supply from Petronas.

Lower unit cost was recorded, particularly as a result of higher plant efficiencies, lower feedstock cost and other cost-saving measures that we have made.

On the market, pricing for olefins and derivative products remained challenging, with lower average prices realized in quarter three, in line with the weaker crude oil price environment. Nonetheless, pockets of opportunities remained for our O&D products on stable regional demand.

The fertilizer and methanol market prices were also softer compared to the corresponding quarter. Methanol demand was dampened by the sluggish demand for downstream formaldehyde, DME and lower gasoline prices, while urea is seeing ample supply into the market, contributing to the overall price weakness.

Looking at the financials, despite the weaker product prices Group revenue was higher at MYR3.6b, due to the higher sales volume supported by favorable ForEx impact. In addition, Group profitability surged by 35% to MYR990m compared to MYR732m due to better sales mix of higher margin ethane-based products and lower unit cost.

Similarly, EBITDA jumped by 31% to MYR1.4b. And so, we are very pleased to report an EBITDA margin of 39% for the Group this quarter, up by 8 percentage points from last year.

Next let's move on to our performance compared to the preceding quarter. We have upped our operational performance, achieving a Group plant utilization of 88% versus 78% in the preceding quarter with improved plant reliability and higher ethane supply that cushioned the impact of statutory turnaround at our larger methanol facility compared to the turnaround at our Gurun fertilizer facility in the last quarter.

On the O&D segment we saw a plant utilization of 99% versus 88% in the preceding quarter, as a result of better plant reliability coupled with higher feedstock supply, particularly for ethane, and improved utilities reliability.

The F&M segment achieved a plant utilization of 79% versus the previous 73%, with improved feedstock supply offsetting the slightly higher downtime due to turnaround activities at Methanol Plant 2. Excluding the turnaround, plant utilization for fertilizer and methanol segment would have been 96%.

O&D product prices continued to trend downwards with lower prices across all products, particularly for ethylene, following resumption of production at key producers. F&M prices were lower as methanol was affected by lower demand from energy market and urea prices softened on higher supply.

Despite lower petrochemical prices, Group revenue increased by 10% to MYR3.6b due to the higher sales volume supported by favorable ForEx. Profitability surged by 55% to MYR990m. EBITDA was at MYR1.4b, with a 33% increase from the preceding quarter, also driven by better sales mix of high-margin ethane-based products. Similarly, EBITDA margin increased to 39% from 33% previously.

Now for the nine-month period, year-to-date September 2015 versus year-to-date September 2014, the nine-month period comparison for 2015, saw petrochemical prices being significantly impacted by the low crude-oil price environment. O&D prices declined with the decline of naphtha prices, whereas F&M prices trended lower on weaker downstream demand and ample supply.

Plant utilization for the period was at 85%, which is an 8 percentage point increase from the same period last year. This was driven by lower plant turnaround. The turnarounds this year was two compared to five turnarounds that was undertaken last year. Higher plant reliability and also improved feedstock supply contributed to this good plant utilization that we saw in this period.

Excluding the turnaround, plant utilization for the period would have been 90%. We also achieved lower unit costs from this higher plant efficiency with lower feedstock costs and also other cost-saving measures achieved.

The nine-month period saw a decline in revenue to MYR10.1b, mainly due to the lower average realized product prices. This, however, was cushioned by higher sales volume, better sales mix, and favorable exchange rate, as well as lower feedstock cost, particularly for naphtha, propane and butane, resulting in profitability being higher by 7% to MYR2.3b.

EBITDA saw a 10% increase to MYR3.6b and consequently EBITDA margin for the period was at 36%, 5 percentage points higher than the same period last year.

Now let's move on to my last slide, which is the Group cash flow and cash balance. For the nine-month period this year our cash balance decreased by MYR302m, mainly due to the cash outflow related to the SAMUR project and investment relating to the AROMA complex in Gebeng.

In addition, there were payments of the second interim dividend for 2014 in March this year and the first interim dividend for 2015 which was paid in early September. In total, we have paid MYR1.28b in dividends for 2015.

With the current MYR9.5b, our cash position remains strong and we are committed to invest this cash in our growth plan, particularly with the acquisition of the RAPID petrochemical project, whilst maintaining our dividend payout of 50% of net profit after tax and non-controlling interests.

That concludes my presentation. I now hand over to Yusri for the key operational highlights.

**Mohamed Yusri M Yusof (Head of Manufacturing):**
Thank you, Farina. Good evening, everyone, Yusri here. Let me take you through the operational highlights for the quarter. Our continuous focus on operational excellence has seen incremental rewards where we have seen three successive strong quarters this year.

Plant utilization, as mentioned by both Datuk Sazali and Farina, for the quarter improved significantly to 88% compared to 75% in the same quarter last year, despite slightly higher level of turnaround activities this year. As mentioned, excluding the TA, our plant utilization for quarter three, 2015, would have been 97%.

With this strong -- with the strong focus on supplier management we have benefited this quarter by seeing higher ethane and methane feedstock to our facilities, translating into higher production volume, thus increasing our plant-utilization rate. In fact, the effective supplier relationship management has enabled us to optimize our operational activities and collaborate on technical support. And making us to -- able to maximize methane and ethane feedstock so far this year.

Our supplier relationship management remains a priority in ensuring the reliability and security of our feedstock supply. What we have done this year and the agreed practices and actions implemented this year are being embedded into our operationally -- operational planning activities, moving forward, to ensure sustainability of the feedstock reliability and availability.

Another element of the feedstock reliability, the Dalak pipeline that we have [talked] earlier, we are now -- we have completed all the necessary tie-ins to the plant which is a methanol plant. And the project is still very much on track for completion in quarter one, 2016. With Dalak we hope that our reliability for methane for our methanol plant will be on a higher level.

We had a statutory turnaround at our larger methanol facility during the quarter. As we had mentioned in the last briefing, the focus was to deliver the turnaround flawlessly, safely, and without major interruptions. And we are glad to report that with the focus on flawless execution and diligently working with our contractors we have completed the turnaround activities successfully.

Internally, when we look at our reliability, we are continuing our focus on three elements; resolving known issues through effective management of bad actors, structured equipment reliability study strategy, which would lead to effective maintenance program and, finally, managing plant threats effectively.

Moving forward, there are no turnaround activities planned for quarter four. And we are now in the midst of planning and consolidating our turnaround and maintenance activities for next year. We will have similar level of TA, turnaround activities next year as we have had this year.

So, all in all, looking at our performance so far, we believe we are on the right track to deliver our commitment of plant utilization in the mid-80s by the end of the year. As you can see from the graphic, PCG's focus on operational excellence has enabled us to continue our year-on-year improvement on plant utilization for the past three years.

And that's all I have for operational highlights. I would like to hand over to Akbar for the market outlook. Akbar?

**Akbar M Thayoob (Head of Commercial):**
Thank you, Yusri. Good evening, again, everyone. I'm Akbar and I will now take you through the market outlook.

Overall, prices have declined from preceding quarter for almost all products under the olefin and derivative business segment, following lower feedstock prices from low crude oil price environment and supply overhang. Similarly, our fertilizer and methanol business segment were also on the downward trend from the preceding quarter, given the bearish market conditions.

Moving forward, we expect product prices situation to improve slightly over the near term, as market is showing some signs of price recovery from the recent dip.

Let us now look at the outlook, starting off with products under the olefin and derivatives business segment. I'll start with ethylene. Ethylene prices fell in quarter three as compared to quarter two following the resumption of supply and weaker derivatives demand at the back of the lower oil price environment.

However, prices are expected to strengthen in quarter four as supply renew -- supply becomes limited with several plants going down for maintenance in Asia Pacific and Middle East. Renewed buying interest from downstream polyethylene will also further support the rise in ethylene prices.

For polymers, prices plunged in quarter three as compared to quarter two amidst bearish demand, following slowdown of Chinese economy and weak energy prices. Nonetheless, prices are expected to pick up in quarter four as supply becomes limited in this region, combined with improvement in buying sentiment in view of seasonal demand leading up to the Chinese New Year.

As for MEG, prices softened in quarter three due to continuous high inventory levels at Chinese ports, influenced by the poor downstream polyester performance in this low seasonal period. Similar to other ethylene derivatives, MEG prices are expected to move upward in quarter four on the back of tight ethylene supply and shutdown at several MEG plants.

Aromatics, prices for aromatics also dipped in quarter three, tracking lower upstream feedstock prices. Weak downstream polyester markets have also suppressed the aromatic price level. Meanwhile, prices are expected to stabilize in quarter four, as supply/demand fundamentals are quite balanced.

On the bullish side, paraxylene demand is expected to recover in view of the high seasonal demand, coupled with the start up of new PTA production facilities in the region. On the bearish side however, oversupply of paraxylene in China has capped the upward price movement.

Now I would like to move on to the fertilizer and methanol business segment and I shall start with granular urea. Urea prices trend continued to be on the downward trend in quarter three, with ample supply availability and sluggish demand with government controls of domestic selling price and prolonged drought still affecting the demand in Thailand. We anticipate prices to weaken further in quarter four, as supply remains long amidst weaker demand.

For ammonia in quarter three, prices were largely stable due to a relatively flat market condition, given the balanced supply/demand situation. However, we expect prices to improve slightly in quarter four, as supply availability is limited from the upcoming plant-maintenance activities.

Moving on to methanol, prices were lower in quarter three, weighed down by the persistently weak buy/sell sentiment due to sluggish demand from downstream, formaldehyde and DME. We foresee prices will continue to decline in quarter four, as buying sentiment remains weak. And stiff competition from naphtha-based substitute for methylene to olefin producers are among the cause for decreasing prices.

All in all, though prices are quite favorable in the next quarter, we do not foresee this situation to sustain long, as most prices are expected to stabilize in quarter one 2016. While ethylene may remain firm in quarter one, the rest of olefin and derivative products are anticipated to remain range bound, as the Lunar New Year approaches.

Similarly, fertilizer and methanol products will follow suit as supply/demand balance -- as supply/demand is in a balanced state.

And that's all I have for market and commercial updates. Back to you, Datuk, on our key focus areas.

**Datuk Sazali Hamzah (President/CEO):**
Ladies and gentlemen, 2016 looked like a challenging year and yet exciting for PCG. It looks challenging because crude oil prices continued to be volatile and that impacts the pricing for many of our products.

PCG's response to this market condition has been multidimensional. Operational excellence to improve sales volume and cut unit cost; marketing excellence to improve our net back; innovative product and solution to improve pricing and, in the long term, capacity expansion, which I will touch on later.

2016 is going to be an exciting year, firstly, because we are seeing our hard work translated into sustained improved efficiency. Plant utilization is on track to achieve our mid-80s 2015 target. This is a result of the step-by-step improvement we have moved over the last three years, which shows up as cumulative improvement in internal plant reliability and external supply reliability. That was elaborated by Encik Yusri just now.

The momentum from this effort will carry over into 2016. And we believe that with our current planned activity we can achieve Group plant utilization of 90% in 2016, excluding SAMUR, because we expect SAMUR for the initial start up will have some gradual improvement in terms of utilization.

We will also not compromise on HSE. And we will continue to strive to improve occupational safety, process safety, and compliance to environmental regulatory among others.

Secondly, 2016 is going to be exciting, as we execute our various growth projects. We expect SAMUR to be completed in the first half of 2016. The last piece of technical, operational, and infrastructure work are currently ongoing. In fact, most of our staff have already been mobilized to the site.

Other Group projects such as AROMA, 2EH Acid and HRPIB are also progressing as planned, the project that we undertook together with BASF [in BPC].

But I'm sure many of you are waiting for more details on RAPID. Now let me talk about RAPID. Can you refer to the slide number 11? Yes? So, as indicated in the red-dotted line, PCG participation in RAPID petrochemical project, this morning we have acquired the entire equity of three companies undertaking RAPID petrochemical projects from Petronas Refinery and Petrochemical Corporation, PRPC.

RAPID petrochemical project represents our next stage of growth. This is a long-awaited investment that we are talking about all this time. With the acquisition PCG will be taking over RAPID petrochemical complex consisting of the polymer, glycol and elastomer segment with a combined total capacity of approximately 2.7m tonnes per annum. The expected total investment cost for this project is about $3.9b.

In addition to this project, we are also looking at additional petrochemical project within the RAPID complex. For example, we are currently evaluating the INA and flexi-PE project. And when we achieve FID of this projects we will make the necessary announcement appropriately.

PCG is very excited to participate in RAPID petrochemical project. With this project we will be able to strengthen our petrochemical basic and concurrently diversify into selective derivatives, specialty and solution. We look forward to broadening PCG's product portfolio into key growth area of differentiated chemicals and increasing the Group's total production capacity to cater the growing Asian market.

For more detail of this project we are planning to organize an Investor Day in the latter part of this month. Invitation will be sent out in the due time, which we can explain more detail about this investment.

Without any further delay, I would like now to open the floor for question and answers.

+++ q-and-a

Operator^ (Operator Instructions).

**Ajay Mirchandani (JP Morgan) – Analyst:**
Yes. Thank you for the presentation and the call. I had two questions that basically I wanted to clarify on the RAPID asset. Number one, I just wanted to confirm with this acquisition have you taken over any debt, as well? I saw the acquisition price is only MYR13,000. I just wanted to confirm if any debt has been taken over at this level and how much that is.

Secondly, you did mention you're going to hold a more detailed presentation later in the month, but I would love to get some basic breakdown on the 2.7m tonnes. And you also very briefly mentioned about the potentially more CapEx. Just a little bit more color on that would be useful. Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Hi, Ajay. So, to answer your first question which is basically the acquisition cost or the consideration that we have paid for these three companies that we have acquired, so there's two parts to it. One is just the share value, which is MYR13,000. But the second part is, you are right, we are assuming the assets and the liabilities of the project companies of which the amount is about $110m -- approximately $110m.

**Ajay Mirchandani (JP Morgan) – Analyst:**
And, just to confirm, this is all in the form of debt being taken over? Is that correct? So, is that the amount of debt you have taken on?

**Farina Farikhullah Khan (Chief Financial Officer):**
It's both the asset of the company, because currently the asset of the company represents the project in progress that is captured in the books, which is essentially the historical cost, the project cost that has been incurred to date. And because this asset was funded by the parent Company, which is PRPC, so there is an equivalent amount of liabilities to that asset. So, it's both. Just to clarify that we are acquiring both the asset as well as the liabilities of the $110m. (Multiple speakers). Sorry. Can you repeat that again?

**Ajay Mirchandani (JP Morgan) – Analyst:**
Does the \$3.9b CapEx include the \$100m or the \$110m which is already there? Or is it over and above so the number will be \$3.9b plus \$110m?

**Farina Farikhullah Khan (Chief Financial Officer):**
It's already inclusive (multiple speakers).

**Datuk Sazali Hamzah (President/CEO):**
Already included --.

**Farina Farikhullah Khan (Chief Financial Officer):**
The \$3.9b is already inclusive of the \$110m that has been incurred.

**Ajay Mirchandani (JP Morgan) – Analyst:**
Okay, perfect. And just on the second part of the question with regards to the breakdown of the 2.7m tonnes as well as the other projects potentially we could look at?

**Farina Farikhullah Khan (Chief Financial Officer):**
The 2.7m, the breakdown, I think we will share that, if you don't mind, Ajay, the later part of this month, in fact, we're planning for the last week of November to share those further details of how much of that is polymer and how much of that is glycol and what is the balance of elastomers. So, that is the firm investment.

But in the pipeline, as Datuk Sazali mentioned during his closing remark, there is also currently the evaluation, if you recall from Petronas's earlier announcement, in the complex there should be one petrochemical chain called phenolics chain. Because of the changes in the market from the time Petronas FID'd the project in April last year to this year, Petronas has basically cancelled the phenolic chain because it doesn't meet the required IRR as a result of the lower outlook now.

So, with the cancellation of that phenolic there is other products currently being evaluated. And one that is being considered as a replacement to phenolic is basically flexi-PE. So, that's one that has yet to achieve FID, but that will be going through the project maturity process and you will -- once it reach FID we will share a bit more on that.

And the other one is, of course, on INA. That is currently still at the evaluation stage and will also again be announced at a later date once it has reached the FID maturity.

**Ajay Mirchandani (JP Morgan) – Analyst:**
Understand. One last question from me, I just wanted to get a sense -- again, clearly the FX would have played a big role, needless to say, on a q-on-q basis. I'm not sure if you have those numbers. But if you had adjusted out the FX change how -- would you be able to give us any rough sense of what the EBITDA or the net income would have been if you had kept the FX flat on a q-on-q basis?

**Farina Farikhullah Khan (Chief Financial Officer):**
Yes, roughly, basically, Ajay, the FX sensitivity for us is that for every MYR0.10 in there will be approximately 5% positive or 5% EBITDA impact. 5% EBITDA impact for every MYR0.10 movement.

**Ajay Mirchandani (JP Morgan) – Analyst:**
Okay, perfect. Thank you.

**Cheong Mun Wai (EPF) – Analyst:**
Yes, hi. Good evening. Thanks for the call and congrats for the extremely good result. I have five questions. First question is you mentioned that during the quarter there were more sales of higher mix of higher-margin ethane-based products. Can you just guide on what kind of products were sold? And how much more of those ethane-based products were sold and also in terms of the sales volume for the quarter, generally --?

Okay. Second question is on the higher ethane supply. So, can you guide what is the incremental addition to the plant-utilization rate, to the O&D plant utilization, as a result of this higher ethane supply?

Okay, question number three is on the lower feedstock cost as a result of the lower crude oil prices. You mentioned that naphtha, propane and butane feedstock costs have also declined. But, of course, the PX, propylene and butadiene prices have also declined. I just want to know what kind of a quantum of decline in the feed stock costs versus the quantum of decline in the products' prices?

Question number four is on the ForEx number. I think Ajay asked that question already. But I just -- can I refer to slide number 20 from your quarterly presentation? This is on the note B5 operating profit. I'm looking at the loss on the realized and unrealized ForEx. Was this the gain on the realized and unrealized ForEx in the operating profit note? So, basically it looks like that the net out each other quite nicely. So, I'm just wondering where is the ForEx impact into your P&L from the weaker ringgit?

And the last question is on SAMUR. I think that Datuk Sazali just now mentioned that SAMUR will be completed within the first half of 2016. If I recall, previous guidance was that it was supposed to be in the end of first quarter 2016. I'm just wondering if there has been a slight delay in the commissioning for SAMUR. Yes, that's all. Thanks.

**Datuk Sazali Hamzah (President/CEO):**
Okay. Let me answer a few questions and then the rest will be Farina will touch about it. Question number one, when you asked us about more sales of higher margin of ethane-based basically is -- basically is when we say that the -- our improvement is contributed by higher sales mix, it's our production of O&D products is higher than what we are targeting. So by doing that, O&D is the highest margin product. So when we produce that more, it contributes a lot in terms of EBITDA margin as well as EBITDA itself.

So what happens is -- behind that is, one is the plant has been run quite well. So as Yusri have mentioned, the plant ran -- I can say it's quite extremely well in terms of utilization. Secondly, it's also supported by the ethane feedstock. The ethane volume all this while has increased from our supplier, mainly because a good relationship that we have established with our gas plant as well as even the upstream production plant.

So what happens is, now it's tuned, the production, to a more ethane-based gas. As a result, we can benefit this and expecting higher ethane feedstock to our plants. So I think that's my answer to item number one and number two.

And item number three, you are talking about lower feedstock quantum. I would like Farina to talk about it.

**Farina Farikhullah Khan (Chief Financial Officer):**
Okay. If I were to look at -- let's take one of the products, paraxylene for example, because the feedstock for that is the naphtha, we can see that there's about 10% -- percentage points in terms of the different -- in the drop. So there's a lower drop in the price compared to the drop in the -- and a bigger drop in the feedstock price. And the differential between those drops is about 11% to be exact. That is for paraxylene. So paraxylene versus naphtha, that's an 11% delta there because the drop in price is lower than the drop in naphtha.

So I hope that answers your question in terms of the naphtha versus paraxylene, essentially.

**Cheong Mun Wai (EPF) – Analyst:**
Naphtha and PX spread, that's on a year-on-year basis, right, the 11%?

**Farina Farikhullah Khan (Chief Financial Officer):**
I'm looking at the -- basically the quarter -- corresponding quarter.
**Edward Ong (Head of IR):**
Year on year, yes.

**Farina Farikhullah Khan (Chief Financial Officer):**
Looking at corresponding -- quarter three this year versus quarter three last year.

**Cheong Mun Wai (EPF) – Analyst:**
Okay, great, the --

**Farina Farikhullah Khan (Chief Financial Officer):**
And if you were to look at, say, MTBE, because the feedstock there is butane, that's about 20% differential. So lower drop in price -- product prices versus a 20% higher drop in the butane price. So that's a 20% differential there.

**Cheong Mun Wai (EPF) – Analyst:**
Okay.

**Datuk Sazali Hamzah (President/CEO):**
And ForEx, okay. Another one is -- your question is with regards to SAMUR. So I would like to say here that basically this SAMUR complex is a very complex unit. And it's comprised of ammonia and urea. Our target at this moment, full commercial operation is in the second half. But the unit will be commissioned phase wisely. So ammonia will happen, target within the first quarter -- first half -- first quarter. And then followed by urea. This is our current target.

Bear in mind that this unit is a very complex unit. Our utility unit is already commissioned and our plant is -- plant people are already put on shift whilst construction is still ongoing. So that's basically that we can share with you as far as SAMUR progress. And we are targeting for the second half for the full commercial operation.

**Farina Farikhullah Khan (Chief Financial Officer):**
Just one more question that you had just now which is on the ForEx, if I understand your question correctly, you are asking where in the P&L is the ForEx impact. It's essentially embedded in revenue because almost entirely our revenue or the product is actually sold in US dollars. So we then get the ringgit equivalent of that. Some customers of course pay us in US dollars but some domestic customers pay in ringgit although the product price is definitely priced in US dollars.

**Datuk Sazali Hamzah (President/CEO):**
US Dollars, yes..

**Farina Farikhullah Khan (Chief Financial Officer):**
So it's embedded in revenue. Whereas for cost, we have a mix in terms of ringgit and dollar. So that's why overall there is a net positive impact whenever US dollar strengthens, again, because almost 100% of product is sold in dollar, whereas cost-wise it's a mix.

**Cheong Mun Wai (EPF) – Analyst:**
Okay, thanks. Just to revisit my second question. The higher [ethane] supplier, how much would that contribute to the incremental addition to the plant utilization rate?

**Mohamed Yusri M Yusof (Head of Manufacturing):**
I think if we look compared to previous year -- this is Yusri -- we have seen about 10% incremental in terms of feedstock supply this year. And if you were to translate to the PU, maybe it's around 6% to 7%, as compared to last year.

**Cheong Mun Wai (EPF) – Analyst:**
Okay, got it, thanks.

Operator^ (Operator Instructions).

**Alex Goh (AM Research) – Analyst:**
Thank you for the question and answer session. If I'm looking at the financial statements in the bursa announcement, on page 20, you've shown a gain on realized foreign exchange of MYR334m for the nine months 2015. Is this realized gain coming from your ForEx -- from your revenue or from your cost portion?

**Farina Farikhullah Khan (Chief Financial Officer):**
Page 20 is it under B5 or B6, sorry, can you repeat the number again?

**Alex Goh (AM Research) – Analyst:**
B5, yes B5.

**Farina Farikhullah Khan (Chief Financial Officer):**
Under B5, yes.

**Alex Goh (AM Research) – Analyst:**
Yes, you show a gain on realized foreign exchange of MYR334m. That -- this figure, is it embedded in your --

**Farina Farikhullah Khan (Chief Financial Officer):**
Oh right, yes, the cumulative quarter, MYR334m, yes.

**Alex Goh (AM Research) – Analyst:**
Is it coming from your revenue, of your product prices? Or is it from your cost portion?

**Farina Farikhullah Khan (Chief Financial Officer):**
This is basically from revenue, the gains that -- on realized ForEx from the revenue that we earned when translated -- US dollars translated to ringgit.

**Alex Goh (AM Research) – Analyst:**
Okay. A further question also on the RAPID, I understand you have taken over 100% stake in the three companies, but would you later be looking at other potential partners, foreign players in these products that you are looking at? Would you -- would it be possible that you may actually invite equity players into your RAPID project?

**Datuk Sazali Hamzah (President/CEO):**
Yes, at this moment we are actually in the progress, I would say, evaluating other foreign players. And -- but at this moment, we will proceed with or without the players. But we're still inviting some other players which are aligned with our strategy.

**Alex Goh (AM Research) – Analyst:**
Okay. For this RAPID project, this $3.9b, for it to cross a certain threshold, what sort of IRR or project IRR, would you -- would it need to meet?

**Farina Farikhullah Khan (Chief Financial Officer):**
Well, we have an internal investment hurdle rate that our Board of Directors basically expects. And when this was presented and deliberated at the Board, it's above our investment threshold and that's why the acquisition or the projects were approved by the Board.

Just to also -- for clarity, the internal or the Petronas appointee directors abstain fully from these decisions. And these decisions were reached entirely from the independent directors. So the independent directors were satisfied that this project's IRR met the hurdle rate that we have set.

**Alex Goh (AM Research) – Analyst:**
Could you give some guidance on what is that hurdle rate that you are looking at? Is it 15%?

**Farina Farikhullah Khan (Chief Financial Officer):**
That is not something that we usually share. As you very well know, I think we have never disclosed in the past as to the actual IRR for the project. But suffice to say if you're looking for comfort as to the attractiveness of this project, the assurance that I can give you is that we actually cancelled the phenolic projects. We cancelled the phenolic projects and we did not table the phenolic projects to our Board because it did not meet the hurdle rate. However, for polymer glycol and elastomer, it met the hurdle rate, it meets the hurdle rate and it went through the Board of Directors' approval.

So phenolic again was cancelled because it did not meet the hurdle rate and we're evaluating other options like flexi-PE as I mentioned earlier. Again, it's only when these projects meet the internal hurdle rate that we will reach the final investment decision.

**Alex Goh (AM Research) – Analyst:**
Okay, thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
As you're very well aware -- the other thing that I wanted to add is because of the current environment, as you are very well aware, all oil and gas and petrochemical companies really scrutinize their CapEx spending and their -- so in arriving at this decision to spend this amount of CapEx, those scrutiny was being made to make sure that the investments are financially attractive.

**Alex Goh (AM Research) – Analyst:**
Okay. When do you expect to reach FID?

**Farina Farikhullah Khan (Chief Financial Officer):**
You mean for other projects? Because for this project, this project has reached FID together with this acquisition. But other projects like flexi-PE and INA -- INA is the other project that are currently being evaluated in the complex where it has yet to achieve the final investment decision. Yes, probably sometime middle of next year. So this 2.7m tonnes per annum excludes INA and excludes potential flexi-PE investments.

**Alex Goh (AM Research) – Analyst:**
Okay. Going into 2016, next year, do you expect any major turnaround programs? You're aiming to increase your plant utilization rate and what are the things that will cause that -- that will cause a challenge for you to reach that?

**Mohamed Yusri M Yusof (Head of Manufacturing):**
If you recall my -- this is Yusri. If you recall my presentation, there are three thrusts to our capacity. One is turnaround, obviously. Second is internal reliability. Third is feedstock.

So turnaround, as I said, we are -- next year we're having similar level of turnarounds as we're having this year. However, we are expecting that our reliability and feedstock availability will be better. And that will be the thrust of our drive to increase capacity utilization.

**Datuk Sazali Hamzah (President/CEO):**
And we expect 2016 will be higher than 2015.

**Farina Farikhullah Khan (Chief Financial Officer):**
Yes, as Datuk Sazali mentioned in his earlier concluding remarks, we're looking at 90% utilization rate next year excluding SAMUR, for obvious reasons, because SAMUR will have to go through the ramp up and stabilization period. But we're quite confident with this 90% due to those factors that Yusri mentioned, the reliability of the feedstock coming in which -- some of those we are already seeing this year. And coupled with the fact that our expectation for the continued good performance from an internal reliability and the fact that, as you recall, 2013 and 2014, the utilization was also affected by the heavy turnaround period. But this year, 2014 and 2016, it's what we would call just a normal turnaround where you will have -- like this year, two. So around about that figure in order to achieve that 90% number.

**Alex Goh (AM Research) – Analyst:**
Okay, thank you so much.

**Shane Chan (CLSA) – Analyst:**
Sorry about that, already all of my questions were answered. Thanks.

**Datuk Sazali Hamzah (President/CEO):**
Okay, thank you.

**Mohamed Yusri M Yusof (Head of Manufacturing):**
Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Thank you.

**Yong-Liang Por (BNP Paribas) – Analyst:**
Hello, hello, Datuk Sazali, hello, Puan Farina, great result.

**Datuk Sazali Hamzah (President/CEO):**
Hello.

**Farina Farikhullah Khan (Chief Financial Officer):**
Hi, Yong.

**Yong-Liang Por (BNP Paribas) – Analyst:**
Really happy to see the RAPID project taking off.

**Farina Farikhullah Khan (Chief Financial Officer):**
Yes, we are equally excited.

**Yong-Liang Por (BNP Paribas) – Analyst:**
(Multiple speakers). Very --

**Datuk Sazali Hamzah (President/CEO):**
Yes, really excited. We just finished the Board meeting just now.

**Yong-Liang Por (BNP Paribas) – Analyst:**
Good timing.

**Datuk Sazali Hamzah (President/CEO):**
Yes.

**Yong-Liang Por (BNP Paribas) – Analyst:**
I just want to ask, first, on the olefins, are you off-taking almost all of the olefins from the steam cracker?

Second question is, on the benzene chain, are you examining that possibility as well?

And last question, with the methanol feedstock problem probably fixed next year, what's the guidance for methanol utilization rate next year? Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Maybe if I can answer the first one on the olefins, whether we are taking all of these from the steam cracker. Today, it's not all but potentially, if we go ahead and do the flexi-PE, so it could potentially be all olefins. So even though -- if we may not take all of the olefins, what we may enter into is of course the marketing arrangement with the refinery cracker company in order to market some of these excess volumes, if you will. But today, as I mentioned, we are evaluating other projects in order to take this excess olefin volume from the cracker.

On benzene, yes, we are looking at that as well. Currently evaluating that.

And your last question is on methanol, what will be the PU guidance for 2016, I will pass that to Yusri to answer that.

**Mohamed Yusri M Yusof (Head of Manufacturing):**
Looking at all our initiatives, especially with the Dalak pipeline, we are expecting to get better reliability and better volume of feed to -- however, we still need to commission and operationalize the pipeline to ensure that we sustain the operation. So what I can say now, what goes into our plan is basically high-80s for methanol PU.

**Yong-Liang Por (BNP Paribas) – Analyst:**
Okay. Sorry, so just a last question. So with $4b of CapEx, how much more do you think you can go up to?

**Farina Farikhullah Khan (Chief Financial Officer):**
Because this -- Yong, this $4b, we're not spending it all in one shot. This is over -- phased until 2019. So we do have the capacity and of course coupled with the fact that our -- a large headroom because our borrowing is zero today. So we do have a headroom, I would say, to take up to 2 times our EBITDA level on top of the internal cash generation.

Basically, number one is the cash balance that we have today. Number two is we will continue to generate cash from internal funds in the next five years where this CapEx is required. And number three is the headroom that we have to raise the funding. So these three will be the sources to find not just this $4b but also these additional projects that we talk about, flexi-PE and INA, there are also smaller gas-based projects that we have mentioned in the past to you like ethoxylate and things like that that are currently being evaluated. But those are the smaller ones that we still have capacity to fund, basically.

**Yong-Liang Por (BNP Paribas) – Analyst:**
Okay. Sounds like more growth to come, thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Yes.

**Datuk Sazali Hamzah (President/CEO):**
Yes. Especially RAPID.

**Alstone Tee (Morgan Stanley) – Analyst:**
Hello. Hi, this is Alstone from Morgan Stanley. Thank you for holding the call. Just one question regarding the gas prices. How are the prices for your propane, butane and methane like, quarter on quarter and year on year? Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
How are the gas prices for propane, butane and methane? If you're asking about the price structure today, so propane and butane is basically linked to Saudi contract price. So it's essentially market price at Saudi contract price.

But for methane, methane today, the price that we pay to Petronas is a function, an index of the end-product price. So if I were to take methanol, say the methanol price is $300 per metric tonne. So it's a function or an index number of that end product price. So I'm just giving a hypothetical index here. If the index or if the percentage is 50% then what we will be paying to Petronas is $150. But if the price was to go up --

**Alstone Tee (Morgan Stanley) – Analyst:**
Okay, sorry, yes. But what about the changes, in terms of percentage?

**Farina Farikhullah Khan (Chief Financial Officer):**
The changes in terms of percentage, can you clarify that?

**Alstone Tee (Morgan Stanley) – Analyst:**
So how much was methane up or down this quarter?

**Datuk Sazali Hamzah (President/CEO):**
Actually it's pegged to the Saudi --

**Farina Farikhullah Khan (Chief Financial Officer):**
It's pegged to the product prices for methane. So the up and down, it would typically be very much in line with the movement in the end-product prices.

So if I were to finish my earlier illustrative example to you, so if the product price is $300 and if the index is at 50%, we pay $150. But if the product price goes to $600 then we will pay $300. But if it goes to -- end product price is $150 then we will pay $75. So it moves along with the end-product prices. At a certain index, yes.

**Alstone Tee (Morgan Stanley) – Analyst:**
Okay, thank you.

Operator^ (Operator Instructions).

**Poom Paworamon (Credit Suisse) – Analyst:**
Hi, hello. Congratulations on a very good set of results. I have a very short question.

**Datuk Sazali Hamzah (President/CEO):**
Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Thank you.

**Poom Pawaramon (Credit Suisse) – Analyst:**
Okay. I have a very short question on the dividend policy. Wondering whether it will get affected by your CapEx plan at all? Or you will just maintain the same policy through the next three to four years?

**Datuk Sazali Hamzah (President/CEO):**
Actually, we will maintain our dividend policy as what we have done in previous years. So there will be no effect of this capital investment with regards to our dividend policy.

**Poom Pawaramon (Credit Suisse) – Analyst:**
Okay, thank you. And actually, one more question. The cash on hand that you have, is that in US dollars or it's in local currency?

**Farina Farikhullah Khan (Chief Financial Officer):**
It's mixed. Some of it, we hold in US dollars and some we hold in ringgit.

**Poom Pawaramon (Credit Suisse) – Analyst:**
Okay. Okay then, thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Thank you.

**Alex Goh (AM Research) – Analyst:**
Hi everyone, sorry, just one last question I forgot to ask just now. One is on the price structure for your feedstock, I understand for methane, one of the contracts will be expiring in 2016. I was wondering will there be any significant change in the pricing that you have currently ?

**Farina Farikhullah Khan (Chief Financial Officer):**
It's -- Alex, it's actually for ethane, if you are referring to 2016, at the end of 2016, the smaller cracker, so the 400,000 metric tonne cracker, the contract -- it's a fixed contract for the last 20 years with zero escalation, so that is due at the end of next year. Currently, we are still at the early stage of negotiation with Petronas, we expect this to be concluded at the earliest by quarter 2 next year.

And as far as our expectations, the fact that this contract was fixed for the last 20 years without escalation, we do foresee there will be some price increase. However, we don't expect those prices increases to be material or significant. And I guess the more important thing is that we expect that our competitive position to still remain.

When I say competitive position, if you look at the ethane cost today, the cheapest is the Middle Eastern producers of course. And second would be us. And third would be the ethane from the North America, the shale producers. So after the revision, even with the increase, our expectation is that for us to maintain the ranking and the position. This is of course subject to the finalization and the negotiation.

The reason that we feel that we have this strong position going in is because PCG -- Petronas Chemical is the sole off-taker of this ethane from Petronas. There is no competition for this ethane. And ethane, as you may be aware, is a byproduct. So the cost for Petronas when it comes to supplying this ethane to us is just basically the gas processing cost. We are not affected by the upstream cost, upstream development cost. But it's more the gas processing cost of supplying this to us, which has not increased tremendously as much as the increase on the upstream cost side.

So these are some of the factors that help to make us feel comfortable in this negotiation with Petronas.

**Alex Goh (AM Research) – Analyst:**
Okay, thank you so much.

Operator^ (Operator Instructions).

**Cheong Mun Wai (EPF) – Analyst:**
Yes, hi. I just have two more questions. The first question is regarding the tax incentive. I think recently in the budget 2016, it was mentioned that manufacturing companies will get an extension of the [RAs] which are expired. So just wondering if your company will benefit from this?

Second question is on the extension of the ethane feedstock supply. Just to clarify, is there actually a volume off-take that's guaranteed in the supply agreement? Because I'm not sure if this is a concern in terms of whether the gas coming off from the fields are becoming dryer and there's less ethane content moving forward in the future? So just want to see if there's any downside risk in terms of the volume that Petronas can supply to Petronas Chemicals? Is it embedded into the contract already? Thanks.

**Farina Farikhullah Khan (Chief Financial Officer):**
So let me answer question number one on the tax incentive. If you are referring to the reinvestment tax allowance then we don't have that. What we have is the tax allowance which doesn't have the expiry date. And that is what we are benefiting and enjoying and will (technical difficulty) continue to be enjoyed. (Multiple speakers).

So on your next question -- sorry?

**Cheong Mun Wai (EPF) – Analyst:**
Just to clarify, when you mention the tax allowance, is that the normal capital allowance? It's not the RA is it?

**Farina Farikhullah Khan (Chief Financial Officer):**
Yes, not the RA. It's the investment tax allowance. It's the investment tax allowance, yes. Not reinvestment. Because if you were to look, some of our plants that still have the initial tax allowance is like our glycol plants, our derivative plants, our methanol plants. These are the plants that we are still taking advantage of the investment tax allowance that we have.

**Cheong Mun Wai (EPF) – Analyst:**
The ITA is also the one that you get 60% on top of your CapEx qualifying expenditure, is it?

**Farina Farikhullah Khan (Chief Financial Officer):**
Yes, that's correct.

**Cheong Mun Wai (EPF) – Analyst:**
Okay. All right, thanks.

**Farina Farikhullah Khan (Chief Financial Officer):**
Okay, thank you. And I'll pass to Datuk Sazali to answer your second question.

**Datuk Sazali Hamzah (President/CEO):**
In -- for your second question, actually there is not off-take agreement between us and Petronas. But based on the current production forecast that we have, especially the new field that we also start producing, we are actually having a much wet gas as compared to previous. That's why we are able to produce more ethane now. And that plan is also being forecasted quite some time and there is no issue of -- that we are running out of C2 supply.

**Farina Farikhullah Khan (Chief Financial Officer):**
But if you are referring to the gas, we do have the gas supply agreement. Now what we call is the -- not an off-take agreement, we call it gas supply agreement. Which is essentially Petronas supplying the ethane to our crackers. There is -- yes, so there is no take or pay in that arrangement today. But in terms of the -- based on the reserves that we have today, we see that there should be enough ethane to supply to our two crackers for the next 15 years.

However, if you talk about would there be enough volume to set up a third cracker? There would not be enough volume to set up a third cracker and that's why we are investing in RAPID. But there would be enough volume at least for the next 15 years for two of our current gas crackers.

**Cheong Mun Wai (EPF) – Analyst:**
Okay, great. That's good news. Thanks.

**Piyanan Panichkul (UBS) – Analyst:**
Hi, thank you. I just have a quick question for Farina regarding the financing structure of the RAPID project. Could you explain a little bit more about the structure of the financing there, especially if you can give

some debt-to-equity ratio of the project and how big would the CapEx be for PCG in the next two years? Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Okay, maybe I will take the last question first, that you have now, in terms of -- you're asking for the CapEx. I guess outlook for PCG, with this participation in RAPID. If you were to look at PCG's CapEx today, this year in 2015, it's about MYR2.5b. With this RAPID project that we are doing now, we expect that for next year, that number would double, I would say. Because we are executing the project as we speak now. So that's basically just an overall guidance for 2016 CapEx when we take into account the RAPID project that we just acquired.

And again, of those that I mentioned that will double from this year, there is still the portion that relates to the existing business which is our normal operations and maintenance CapEx, turnaround CapEx and that's also the balance of CapEx that's relating to the SAMUR project as well as our investments in the AROMA complex. So -- but in terms of the proportion, it would be more -- for 2016, it will be more on -- starting to be more on RAPID than the existing business, basically. Yes? So that's on the CapEx for 2016.

And then going back to your first question which is on the financing structure. We are yet to finalize this. The reason being is that there is discussion about potential partners coming in. Because when we participate in the project, there is already some of the existing partners that Petronas have had in this arrangement. As Petronas have announced previously, there is Itochu and there is Versalis that is potentially participating on the polymer, glycol, as well as Versalis on the elastomer side. So depending on the partner participation and the level of participation, we may or may not require financing.

If we were to do it 100% by us, there is some level of financing that is required. But if some partners were to come in at a certain level, there is no financing required actually.

So again, that is only for these three projects. But as we go into flexi-PE and we go to INA, there is some level of financing that is required. But it's very difficult for me to give you a fixed number at this point in time because some of those things that I mentioned to you have not been finalized.

So our financing plan is actually in the early years obviously to use the cash balance that we have today. And as we approach 2017, we should have finalized those partners' participation and we should be able to firm up in terms of some of these financing plans.

In the negotiation with partners, of course financing is also a big consideration to some of them. Some of them prefer project financing. So again, it's difficult to finalize the financing plan at this point in time without finalizing those things with partners.

**Piyanan Panichkul (UBS) – Analyst:**
I see. Thank you so much.

**Edward Ong (Head of IR):**
All right. Ladies and gentlemen, time check. It's now quarter past seven and we've overrun our time by about 15 minutes. So perhaps what I could suggest is we'll take further questions at the Investor Day. And if you've got any burning questions in the meantime, please do feel free to email me at edward.ong@petronas.com.my and I will strive to get back to you as soon as I can.

Thank you so much for your time tonight. And this closes the call for the third-quarter Petronas Chemicals Group earnings. Thank you.

**Farina Farikhullah Khan (Chief Financial Officer):**
Thank you.
**Datuk Sazali Hamzah (President/CEO):**
Thank you.