Event Name: Quarter Ended 31st December 2015, PETRONAS Chemicals Group Earnings Presentation
Event Date: 24th February 2016

Operator:
Thank you for standing by and welcome to the PETRONAS Chemicals Group Q4 for 2015 analyst briefing conference call. I must advise you that this conference is being recorded today.

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

Edward Ong (Head of IR):
Good morning, everybody. My name is Edward Ong, and I do Investor Relations for PETRONAS Chemicals. Thank you for taking the time to be with us today. With us today we have on the call, Datuk Sazali Hamzah, President and Chief Executive Officer; Rashidah Alias, Chief Financial Officer; M. Yusri Mohamed, Head of Manufacturing; Akbar Thayoob, Head of Commercial, and myself.

I would now like to hand over to Datuk Sazali for his opening remarks.

Datuk Sazali Hamzah (President/CEO):
Thank you, Edward. Good morning, everyone. Before we begin, I would like to take this opportunity to welcome Puan Rashidah Alias, which is our new CFO, who joined us in December last year. Puan Rashidah was previously with PETRONAS Group Treasury and she was a director of PCG Board since 2011, until recently. So for us, Puan Rashidah is not an -- is somebody that's very familiar with PCG business.

Now let me move to PCG performance. On 2015, was a challenge -- a very challenging year. However, despite slower global GDP growth and despite falling crude oil prices, I'm happy to report that PCG exceeded its target and has closed the year with a solid performance.

Our biggest challenge in 2015 was lower product spreads, arising from low petrochemical product prices. This is because some products are correlated to crude oil prices, while some faced lower demand or supply overhang.

Even so, the demand for our products remained resilient, especially within our key markets. With improved plant utilization, from 80% last year to 85% this year, in 2015, we were able to take advantage of that demand.

As a result, even though Group revenue was lower by 7%, at MYR13.5b, our EBITDA remained comparable, at MYR4.7b.

EBITDA margin improved, from 31.8% to 34.4%, in line with higher volumes, supported by favorable dollar-ringgit ForEx.

Looking ahead, 2016 continues to be a challenging year, but more on that after this. For now, I will pass the session over to Puan Rashidah for details on the financials. Puan Rashidah.

Rashidah Alias (Chief Financial Officer):
Thank you, Datuk. Good morning, everyone. Let's start with the full-year review, which is year-to-date 2015, versus year-to-date 2014. For reference, please turn to slide 5.

Group revenue declined by 7%, to MYR13.5b, as lower product prices offset the impact from higher sales volume and favorable dollar-ringgit ForEx.

Profit after tax for the year, however, improved by 13%, at MYR3.1b. This is primarily because in 2014 the Group recognized an impairment loss of MYR262m on assets relating to the Group's butane-MTBE chain.

Excluding this impairment loss, profit would still be higher by 3%, or MYR103m. And this is from higher sales volume, lower operating cost, and favorable dollar-ringgit ForEx, despite lower product spreads.

EBITDA was comparable, at MYR4.7b, and EBITDA margin improved to 34%, up from the previous year's 31.8%.

Production and sales for 2015 rose, as Group plant utilization improved to 85%, from 80% in 2014. This is driven by better plant reliability, less turnaround activities, and higher feedstock supply. Excluding the statutory turnaround, Group plant utilization would have been 89%.

By segment, O&D recorded 93% plant utilization for the year, supported by improved feedstock supply and lower levels of turnaround. In 2014, if you recall, there were heavy turnaround activities, involving our smaller cracker and its downstream facilities. Much less turnaround was done in 2015.

Fertilizer & Methanol also improved, closing the year with 80% plant utilization, despite major turnaround activities undertaken at our methanol facility in quarter three.

On the other hand, prices were lower all around, as the overall market in 2015 was impacted by the further decline in crude oil prices, increased supply availability, and slower market demand, especially from China.

Now let's turn to the quarterly performance. Please refer to slide 6 for the quarterly financial performance, as well as slide 7, for the quarterly plant utilization.

First, the comparison for the corresponding quarter, quarter four 2015, versus quarter four 2014. For quarter four 2015, Group revenue was 12% lower, at MYR3.4b, on slightly lower sales volume and weaker prices, which offset the favorable ForEx impact.

Similarly, EBITDA declined by 24%, to MYR1b, and EBITDA margin reduced to 30%.

Note that profit after tax for the quarter was higher by 39%, at MYR791m. As earlier mentioned, in 2014, we took an impairment loss of MYR262m on assets relating to the Group's butane-MTBE chain. Excluding this impairment loss, profit would have been lower by MYR41m, or 5%.

Production and sales volume were slightly lower. This was in line with a marginal decrease in Group plant utilization to 86%, compared to 88% in the same quarter last year.

There was a slightly higher level of maintenance activities, particularly within the F&M segment. Accordingly, the lower PU of 78% from F&M subdued the strong plant utilization of 95% of our O&D segment.

The average selling prices were lower, for both O&D and F&M segments, as the already low-price market was further compounded by subdued market demand, following news on muted economic growth in China.

By segment, prices for olefins and derivative products were lower. Yet profit increased by 83%, to MYR578m, mainly as the corresponding quarter included the earlier-mentioned impairment loss.

Excluding the impairment loss, profit for this quarter would have been comparable to the same quarter last year, as the impact of lower prices and narrower spreads were mitigated by favorable ForEx.

The fertilizers and methanol prices were also weaker, compared to the corresponding quarter. Weak demand for methanol derivatives, such as MTO and DME, together with ample availability of ammonia and urea in the market, also dampened prices.

Next, moving on to performance against preceding quarter. Quarter four 2015 versus quarter three 2015.

For the quarter under review, Group revenue decreased by 5%, to MYR3.5b QoQ, mainly due to lower prices.

Profit after tax was lower by 20%, in line with narrower spreads from lower prices, which offset the higher sales volume and favorable ForEx impact.

EBITDA fell by 29% from the preceding quarter and EBITDA margin fell by 9 percentage points, in line with lower profitability.

Production volumes were lower, as Group plant utilization of 86% was slightly lower, compared to the preceding quarter of 88%, due to slightly higher maintenance activities across several plants in both segments.

PU for the O&D segment was 95%, against 99% in the preceding quarter. And PU for F&M was maintained at 79%, similar to the preceding quarter. However, sales volume was higher, contributed by additional sales from inventory.

Olefins and derivatives product prices continued to trend downwards from the preceding quarter, as the prices were adversely affected by the continued decline in crude oil prices and weaker market demand.

F&M product prices were also lower, as methanol was affected by lower demand from products related to the energy market and urea prices weakened in an oversupplied market.

Moving on to our Group cash flow and cash balance. PCG continued to generate significant cash in 2015. Our cash flow from operations rose, in line with profit after tax. However, our cash balance decreased by MYR1.1b, mainly due to investment in new projects. These include the SAMUR project, the RAPID petrochemicals project, and investments related to the AROMA chemicals complex in Kuantan, Gebeng -- sorry, Gebeng, Kuantan.

In addition, PCG paid the second interim dividend for 2014 in March this year, and the first interim dividend for 2015 in early September. In total, we have paid MYR1.2b in dividends for 2015, year to date.

With the current MYR8.7b, our cash position remains strong, and we are committed to invest this cash in our growth plans, particularly with the acquisition of the RAPID petrochemicals project. This has a total investment cost of $3.9b, whilst maintaining our dividend payout of 50% of net profit.

And that concludes my review for 2015 financial performance. I now hand over to Yusri for the key operational highlights.

Mohamed Yusri M Yusof (Head of Manufacturing):
Thank you, Rashidah. Please turn to slide number 9. Good morning, everyone. Yusri here. I will take us through the operational highlights.

In overall, we have closed 2015 with better performance, compared to last year. Our continuous focus on operational excellence has seen incremental rewards, where we have seen four successive strong quarters this year. In fact, as mentioned earlier, 2015 saw our best utilization since our listing.

Plant utilization for the quarter, if you recall the slide number 7 during Rashidah's segment, we saw a slight reduce of utilization, to 86%, compared to 88% in both corresponding and preceding quarter. This is due to some maintenance activity at our Kertih complex, both on our site, affecting our OGD chain and at our utility supplier, affecting our ammonia plant.

With strong focus on supplier management, we have benefitted this quarter and the year by seeing higher ethane feedstock to our facilities, translating into higher production volume, and in turn, increasing our plant utilization rate.

In fact, effective supplier relationship has enabled us to optimize our operational activities and collaborate on technical support, thus maximizing available ethane and methane feedstock, so far this year.

Several platforms have been created to improve our feedgas supply, and we are reaping the benefits of better reliability and availability for both methane to Labuan and ethane to Kertih.

Our supplier relationship management remains a priority in ensuring the reliability and security of our feedstock supply. The agreed practices and actions implemented are embedded into our operational planning activities, to ensure sustainability of the feedstock for us.

As for the Dalak pipeline for Labuan, we have completed all the necessary tie-ins to the plant, and the natural gas from the new source of gas supply was introduced to our methanol facility in December 2015. This new source of supply via the Dalak pipeline, can now supplement our current supply from our existing supply of feedgas from the Kikeh field.

In quarter 4 2015, there was no statutory turnaround at any of our facilities. Our next turnaround will be at our PDH plant and our aromatics plant, scheduled in 2016.

For internal reliability, we are continuing our focus on three elements. We'll continue to resolve known issues through effective management of our bad actors program. We have a structured equipment reliability strategy which would lead to effective maintenance program. And thirdly, we are managing plant threats effectively.

Looking at our performance so far, we have delivered on our commitment last year of plant utilization of 85%. And as you can see from the graphics, PCG's focus on operational excellence has enabled us to continue year-on-year improvement on the utilization, since 2013.

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

Akbar M Thayoob (Head of Commercial):
Thanks, Yusri. Good morning again, everyone. Akbar here. Let's proceed with the commercial and market highlights.

Overall, the market was challenging in 2015. Volatile crude oil prices and tough macroeconomic conditions has resulted in lower product prices. However, market spreads were relatively healthy, in light of lower feedstock values and stable demand.

Against the bearish environment, we recorded good overall performance, mainly through focused execution of marketing and sales strategies and initiatives, and improved collaboration between our commercial and manufacturing division.

We have found the right home for all our products, as a result of the following key initiatives. Development of new market for high-value product and application, diversified sales to higher netback markets, leveraging on existing customers, as well as developing new ones. And last, enhanced marketing and sales capabilities.

To remain competitive, we continue to put high emphasis on customers' needs, through improved delivery performance and packaging quality; enhanced logistics arrangement through flexibility in parcel offering and co-loading. Focused engagement with customers and key stakeholders, and last but not least, maintain optimum product inventory level, to ensure high supply reliability.

Now allow me to go through the market performance and outlook. Across the board, with the exception for ethylene and ammonia, prices for quarter four 2015 have declined from quarter three 2015.

For the olefins and derivatives business segment, prices have weakened by 9%, as compared to the previous quarter, following continued low crude prices.

Similarly, our fertilizer and methanol business segment was also on a downward trend from preceding quarter by 7% given the long supply and weak demand conditions.

At halfway through quarter one of 2016, we anticipate the market for olefins and glycols to remain soft, on the back of ample supply and slow demand. Likewise, it is also foreseen that the fertilizer and methanol market will remain challenging in the near term, with lackluster demand, coupled with low crude oil prices.

As far as PCG is concerned, we expect product prices situation to be range bound on the lower price levels, over the near term. However, market is expected to show some signs of price recovery in second half of 2016, in line with the anticipated upward crude oil price forecast for quarter three 2016.

I will now touch on our outlook, under the olefins and derivatives business segment, starting off with ethylene. As mentioned earlier, ethylene prices have strengthened in quarter four 2015, versus quarter three 2015, following the tight supply condition, resulting from cracker shutdowns in the ASEAN region.

However, average ethylene price is expected to decline in quarter one 2016, with the incoming of import cargos into Southeast Asia to cover supply shortages from ASEAN origin.

Going into quarter two 2016, not much of price improvement is expected, with the weak downstream demand and low crude oil -- and crude oil price uncertainties.

I will now touch on polymers. Polymers prices saw a significant drop in quarter four 2015, due to weak demand, amid bearish sentiment over declining energy prices, weak domestic currencies, as well as year-end destocking.

In quarter one 2016, given the current bleak sentiment of the global economy, especially in China, polymer prices are expected to soften, amidst long supply and slow demand.

Low crude oil prices and ample supply situation in Asia and the Middle East may further hamper price increase for polymers in quarter two 2016.

In quarter four last year, MEG prices softened, given the low crude oil price situation, poor polyester demand, and weakening Chinese economy. Expectations of additional supply from the new coal-to-MEG (CTM) units, have also kept the price to a lower level.

MEG prices are expected to stabilize in quarter one 2016, supported by limited supply availability, due to production issues at ASEAN MEG facilities and inventory stocking, after Chinese New Year holidays.

Going into quarter two, we foresee MEG prices to be on a downward trend, following MEG capacity in the market -- following additional MEG capacity in the market and lower feedstock prices.

Aromatics. Much like derivatives, aromatics prices also dipped in quarter four 2015, tracking lower upstream feedstock prices and lower downstream polyester prices. Although demand is seasonally weaker for paraxylene in quarter four, unplanned outages in China has resulted in supply remaining balanced.

Prices are expected to decline in quarter one 2016, attributed to continued low crude prices, combined with weaker downstream market. As for quarter two 2016, we predict that aromatic prices shall improve slightly, following numerous scheduled turnarounds in Asia, restricting supply availability in the market.

Moving on to the fertilizer and methanol business segment, allow me to start with granular urea. Urea price continued to be on downward trend in quarter four last year, with ample supply availability and sluggish demand, following increase in export from China.

We anticipate prices to weaken further in quarter one 2016, as supply remains long, amidst weak demand, as opposed to the usual bullish seasonal demand, as the Thai drought continues to affect planting.

Urea prices are expected to be range bound in quarter two 2016, from the upcoming new capacities and the likelihood of more Iranian exports. Producers maintaining operating rates and lack of buying interest, shall also further dampen urea prices.

For ammonia, in quarter four 2015, we see prices largely in a stable mode, due to a relatively flat market condition, given the balanced supply-demand situation. However, ammonia short-term outlook for quarter one 2016 still continues to be sluggish, with current long market and slow demand for industrial applications. Prices, however are anticipated to improve by end of quarter two 2016, following increased buying interest we anticipate from industrial users of ammonia in the Far East.

On the other hand, for methanol prices in quarter four were weighed down by the persistently weak buy-sell sentiment due to sluggish demand for energy-based methanol derivatives such as MTO, DME and gasoline blending as a result of the lower crude oil price.

We foresee prices will continue to decline in quarter two -- in quarter one 2016, as buying sentiment remains weak amidst the low crude prices. Furthermore, stiff competition from Naphtha-based substitutes for methanol-to-olefin, better known as MTO producers, will dampen the demand further.

Going into quarter two 2016, a slight increase in market demand for MTO in China shall stabilize methanol prices. Albeit downward trends for prices in this quarter, we do not foresee this condition to sustain long, as most prices are expected to stabilize at the new price level by quarter two 2016.

In summary, olefins and derivative products are anticipated to remain range-bound if not lower, given sufficient supply situation, and further accentuated by slow demand and weak crude prices. Similarly, our fertilizer and methanol market segment will remain challenging as supply-demand balances.

And that's what I have for the market and commercial update. Back to you, Yang Berbahagia Datuk, on our key focus areas.

Datuk Sazali Hamzah (President/CEO):
Thank you, Akbar. Before we go to the question and answer session, I would like to share with you our key focus areas for this year.

The bearish trend in the global economy that we saw in 2015 appears to be continuing into 2016. Crude oil prices have fallen even lower and there appears to be subdued demand from China which could potentially affect the market further.

During this time, PCG will continue to work on sustaining our world-class operational excellence, such as maintaining good HSE performance and maximizing plant utilization via effective asset and feedstock reliability. We are also continuously exploring ways for cost optimization, focusing on feedstock, energy and utilities efficiency.

From our point of view, there is still headroom for the petrochemical market and there is potential value for us to tap on when opportunities come our way.

Through our commercial excellence, PCG will work on improving customer experience and optimizing our cost-to-serve. ASEAN remains as our key market and we are planning to further expand our presence in the region this year in Indonesia. We will announce more on this at the right time.

It is important that we focus on the delivery of all our growth projects to ensure minimum disruption affecting timeline and cost. In 2016 we have SAMUR and the first plant of the AROMA complex which are due to be commissioned this year.

Not to forget, there are also 2EHA, HRPIB and also RAPID petrochemicals project which are currently ongoing. PCG is also still evaluating new projects, as and when we achieve FID, we will make the appropriate announcement when the time is right.

And so, despite the global challenges, it will still be a very exciting year for PCG moving forward.

Let's us pass to Edward for the question and answer. Edward.

Edward Ong (Head of IR):
Thank you, Datuk. At this time, we are going to be doing the question and answer session. I would ask that if you ask a question, please state your name as well as your organization. John.

+++ q-and-a

Operator^ (Operator Instructions).

Ajay Mirchandani (JP Morgan) – Analyst:
Well, thank you. Ajay here from JP Morgan. Two questions from me.

One was with regards to the increased ethane supply that we saw in 2015. Can we expect any increase on further ethane supply in 2016 versus 2015?

And with regards to that increased ethane supply, if any, where is it likely to actually be directed towards? Is it going to be more towards the PE side or any other product? That would be useful.

The second question I had was just with regards to the previous problems that you had with the methanol plant in terms of the gas supply. I missed this comment during the call, but has that issue now been resolved? Or is that in terms of the connection to the SSGP pipeline going to happen in the first quarter itself? Those are my two questions. Thank you.

Datuk Sazali Hamzah (President/CEO):
Okay. Thank you, Ajay.

For the first question on ethane supply for 2016, we're also targeting a slightly higher ethane supply in 2016 as compared to 2015. This is mainly because our upstream colleague will be able -- is forecasted to be able to produce more ethane gas. And this mainly will increase the capacity for our second cracker and also our first cracker in ethylene or our Optimal complex. That's one.

Your second question on the supply reliability with regard to Dalak pipeline which is tied in into SSGP line, we have indicated to the market that we are going to do that in -- probably completed in quarter one this year.

However, actually we have completed all the jobs in December and commissioned the line. And as of now, we already have received the gas supply from Dalak pipeline. So we will anticipate that in 2016, the supply of gas to the PML2 plant will be much more reliable as compared to 2015.

Ajay Mirchandani (JP Morgan) – Analyst:
Can I just clarify with regards to the ethane supply, a percentage number? Can we expect it to be 5% higher year-on-year or 10% higher year-on-year?

Datuk Sazali Hamzah (President/CEO):
I think about that, 5% increase year-on-year.

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

Suwat Sinsadok (CIMB) – Analyst:
I have two questions. The first is about could you update the shutdown and maintenance schedule for this year? And what would be the expectation for, let me say, utilization this year? Will it still, let's say, 85% to 90%, that would be the expectation that we should have in 2016?

The second question is about the project update. Could you update the capital expenditure that you spent so far last year and this year for each project, if you can provide? Thank you.

Mohamed Yusri M Yusof (Head of Manufacturing):
Thanks, Suwat. Yusri here.

As I mentioned during my presentation just now, this year we are expecting a couple of turnarounds in the first half, namely PC Aromatics and our PDH plant, and one turnaround in the second half of the year, namely in our fertilizer plant. So we have basically three scheduled turnarounds this year.

With -- utilization, in terms of guidance, we are expecting utilization to be better than this year, so 85% to 90% is a good number for you to base this on.

Suwat Sinsadok (CIMB) – Analyst:
Thank you.

Mohamed Yusri M Yusof (Head of Manufacturing):
And just to clarify, we have yet to include SAMUR volumes in our utilization number, because SAMUR is still being commissioned. So we will take SAMUR still as a project for this year.

Edward Ong (Head of IR):
So that 85% to 90% is excluding SAMUR.

Rashidah Alias (Chief Financial Officer):
Hi Suwat. On the second question, on the capital spending, this year we spent roughly about just shy of MYR3b on our capital spending and that's primarily on the remaining portion for SAMUR and also the AROMA complex in Gebeng. And we have also started to spend a bit on the RAPID petrochemicals project.

Moving forward, in 2016 that's roughly expected to double from the current level. And that's primarily on the RAPID petrochemicals, because we have also awarded three packages on the RAPID petchem projects. So we'll start incurring some costs on that one.

Suwat Sinsadok (CIMB) – Analyst:
Okay. Thank you.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Yes. Thanks for the call today. A couple of questions.

Firstly, more from an operational perspective, you did touch about that improving utilization rates for the entire complex. Can you give us a bit more details of how the 79% utilization for the fertilizer division shape up ex SAMUR for 2016, considering now that you have enough supply on methane it can be -- get a bit more towards the 90% levels there?

And the second question was related to the other expenses that you reported for the fourth quarter. It had a gain of MYR73m. What was driving that? Thank you.

Mohamed Yusri M Yusof (Head of Manufacturing):
Okay. Mayank, hi. This is Yusri.

If you look at our fertilizer -- F&M, fertilizers and methanol plant performance this year, in terms of utilization, it is about 80%. And that translates to an overall Group utilization of around on average of 85% this year.

So with the better reliability of methane, we expect the fertilizers and methanol segment to improve the fertilizer -- the utilization to be in the mid-80s. And that will aggregate, as I said, the Group utilization for 2016, we are expecting it to be better than 85% to the range of 85% to 90% in 2016.

Mayank Maheshwari (Morgan Stanley) – Analyst:
So the ramp-up of only about 85% -- is it a function that you are not being able to place your methanol enough or is it a function of some plant reliability as such?

Mohamed Yusri M Yusof (Head of Manufacturing):
It is a function of maintenance activities. We don't have a TA, but we still have some maintenance activities at each of our plants. If you recall, I mentioned this year -- this is fertilizers and methanol segment. So this year in quarter three we do have a turnaround in our -- one of our fertilizers plant. So that brings the F&M segment slightly lower. It's not 100% because we still have maintenance activities in all our plants.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Okay. Thank you.

Rashidah Alias (Chief Financial Officer):
Mayank, sorry, you're referring to the other income for quarter four on your other question? Is that the one?

Mayank Maheshwari (Morgan Stanley) – Analyst:
Yes, no, so I was referring to other expenses. If you look at your financials, there is a MYR73m positive number on other expenses for the fourth quarter.

Rashidah Alias (Chief Financial Officer):
Right, right. Okay. That one, we had some reversals of provision. Primarily, this is relating to the decommissioning of our VCM plant. So progressively we are doing work on the decommissioning at VCM and based on the work, there are fine-tuning of further work, so certain work we need not -- we no longer need to do, for example, the soil content and everything.

So once we know that certain expenditures are no longer required, then we reverse it. That's about MYR60m to MYR60m-odd, about MYR60m-odd reversal that we had, so that resulted in the other expenses turning a positive number.

Mayank Maheshwari (Morgan Stanley) – Analyst:
It still is like if I take the MYR60m away from MYR70m, you still will have a positive number. Is there anything else that's driving this number? You normally have like a MYR20m to MYR30m negative number here, so I was just thinking what's exactly leading to it.

Rashidah Alias (Chief Financial Officer):
That's right. So there is also this ForEx. It's mainly the reduction and also a net ForEx loss -- no, there is actually a net ForEx gain that is actually charged to that line as well.

Mayank Maheshwari (Morgan Stanley) – Analyst:
And how much would be the rough magnitude?

Rashidah Alias (Chief Financial Officer):
Basically the rough magnitude, that's about MYR170m roughly.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Okay. Okay. That's clear then.

Rashidah Alias (Chief Financial Officer):
Yes. Yes.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Okay. And just one follow-up generally on the market itself, but specifically for methanol. Obviously, prices have been a bit challenging. But how are you seeing the pickup in terms of demand for that, specifically on China, on the MTO side?

Akbar M Thayoob (Head of Commercial):
Akbar here. We see that methanol demand of course from the MTO side will increase a little bit, with the desire for China to become more -- having more local supply for their olefins.

Unfortunately, we also foresee that there will be origins outside Asia that will be coming into this region that will basically make the supply and demand quite balanced for the -- throughout the year in 2016. So we foresee that methanol prices have actually come down to its lowest level and probably will be hovering in that region throughout the year.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Okay. Thank you.

Edward Ong (Head of IR):
I think, Mayank, that there were two big US plants that started up over the last quarter.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Yes. Yes.

Alex Goh (AmInvestment Bank) – Analyst:
Yes. Thank you very much. I have just one question on the SAMUR and AROMA plant. I'm just wondering what are your expectations of startup costs when these plants start operating? Do you expect the plant to break even in the first year or do you expect a loss? Thank you.

Datuk Sazali Hamzah (President/CEO):
Well, Sazali here. For SAMUR project and what we have seen now is, despite the market at this moment is quite under pressure, but as far as demand and supply it's still strong. I would say that we still have no issue to dispose it.

In terms of economic point of view, we still believe that there is still a positive sign on this investment despite that this is at the lowest period of the cycle which we believe. So let's -- but anyway in terms of price it's very difficult to tell. It can be up. It can be down, subject to also if the crude price situation. So let's see.

Alex Goh (AmInvestment Bank) – Analyst:
Okay. What about the startup cost? Normally, when any plant that starts operating there is some buildup of costs and you start to charge it off one-off during the year itself. How much do you expect that to occur this year?

Rashidah Alias (Chief Financial Officer):
Alex, once the plants start up, then we will charge the normal operational cost and whatever past cost that we incurred during the project buildup, that will be capitalized and depreciated. So there won't be a huge one lump sum charge at the start of the operation.

Alex Goh (AmInvestment Bank) – Analyst:
What do you expect the plant utilization for SAMUR and AROMA the first -- during the first year itself?

Datuk Sazali Hamzah (President/CEO):
I think in the first -- probably in the first quarter of commissioning of the SAMUR plant it will start probably at 50% load, then slowly creep up to probably around 75%. So that is our plan. Before it reach probably after one year close to 90%. I think that's the plan normally.

Alex Goh (AmInvestment Bank) – Analyst:
Okay. Thank you very much.

Oscar Yee (Citigroup) – Analyst:
Hi. This is Oscar from Citigroup.

Firstly, I would like to check about the RAPID project. For your $3.9b investment, does it include the investment in the steam cracker?

Rashidah Alias (Chief Financial Officer):
No, no, it doesn't. That one is only for the petrochemical projects.

Oscar Yee (Citigroup) – Analyst:
So if that is the case, then how do you determine the formula pricing for your feedstock like ethylene, propylene, etc.? Because I would presume most of the profit at the naphtha cracker is going to be captured at the upstream level instead of at the PCG level?

Datuk Sazali Hamzah (President/CEO):
Yes, you are right. Whatever the cracker it will be part of the refinery economic model. On our side, it will be a transfer pricing within refinery and cracker to petchem.

One good thing that we -- under this model that if you see that, first, we have guarantee in terms of supply liability, as the feedstock is also -- is a part of the overall Petronas value chain which, I think, the other competitors may not have that -- not all of our competitors have that flexibility.

In terms of pricing of course it is in the discussion and for sure we have the advantage because of it is only a fence-to-fence arrangement.

Oscar Yee (Citigroup) – Analyst:
Okay. And secondly, I also would like to ask about the SAMUR project as earlier questions have raised. Could you give us a little bit of color in terms of the pricing structure for your methane gas? Because I clearly understand it's a naphtha pricing formula, but would there be a floor for that kind of gas that you are going to buy? Because clearly at the current very, very low urea price, like $200, I think the question is whether you will still be able to generate a good return for your project.

Datuk Sazali Hamzah (President/CEO):
As far as Petronas, I think of course they will give also priority for the investment that they have. At this moment the pricing mechanism will be applied almost similar to other fertilizer plants and it's based on a percentage of the product price. And there is -- anyway, in terms of the percentage of the product price, we believe that it's still competitive.

Oscar Yee (Citigroup) – Analyst:
Okay.

Edward Ong (Head of IR):
It actually gives us a very -- it actually means that our margin is actually almost guaranteed.

Oscar Yee (Citigroup) – Analyst:
Okay. I understand. And finally, in terms of your new ethane supply agreement that you are going to enforce during the end of -- fourth quarter of this year. Clearly, given the current very, very low oil price environment, when you negotiate and decide on the terms, will this be -- continue to be like a fixed contract or is it going to be also like a similar profit sharing, that kind of contract, for your new -- for your upcoming ethane contract?

Datuk Sazali Hamzah (President/CEO):
We are still in the discussion. Actually we have submitted our proposal and it's back and forth between us PETRONAS. But bear in mind, as I mentioned earlier, on ethane gas it's -- actually it's not the core hydrocarbon that we are producing. Ethane is a byproduct from the gas fields. And as far as PETRONAS' perspective, ethane outlet is only to PCG. They don't have any other outlet.

So I believe we still have that competitive edge in terms of price negotiation with PETRONAS, which we hope that we would be able to conclude by mid of this year.

Oscar Yee (Citigroup) – Analyst:
Okay. Thank you very much.

Operator^ (Operator Instructions). As we have no further questions at this time, I'd like to hand the call back to Mr. Edward Ong for any additional or closing remarks.

Edward Ong (Head of IR):
Right. Well, thank you very much. I think that just about sums it up. I think, as Datuk has mentioned, this will be a tougher 2016, but we will hope to somehow make it through the year. Thanks very much and we will see you at the next quarterly briefing.

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

Rashidah Alias (Chief Financial Officer):
Thank you.

Operator^ Ladies and gentlemen, that will now conclude today's conference call. We thank you for your participation and you may now disconnect.