Quarter Ended 31 Mac 2014 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date: 8 May 2014, 6.00pm

Nor Shahda Zakaria (Head of IR):

Thank you. Hi. Good evening, everyone. I'm Shahda. Thank you for joining us and welcome to PETRONAS Chemicals Group Berhad's briefing on the financial results for the quarter ended March 31, 2014. Today, our PCG President and CEO Sazali Hamzah is leading the management team for the briefing. Sazali will be sharing with you a little bit about himself as well as some key messages about the company. Then we will go through the results with a question and answer session afterwards.

Before we start, please take a moment to read through the disclaimer statements in the briefing pack.

This analyst briefing is accessible by conference call or webcast which is available on our corporate website www.petronaschemicals.com.

Without further ado, I will hand over to Sazali.

Sazali Hamzah (President/CEO):

Thank you, Nor Shahda. Ladies and gentlemen, good evening and thanks for joining us.

First of all, let me give you some introduction about myself. I have been working in PETRONAS for more than 24 years in the petroleum refining and petrochemicals industry. Prior to joining PETRONAS Chemical Group Berhad, I was the MD/CEO of PETRONAS Penapisan Melaka Sdn Bhd, or nicknamed Melaka Refinery, for two years.

Formerly, I had the privilege to lead a highly technical specialised team in providing technical solutions and support to all PETRONAS operating plants. I also had the chance to pioneer a new division as the Head of Project Management Delivery, which oversees major PETRONAS downstream projects.

Throughout my career in PETRONAS, I have also been involved in several PETRONAS' project implementations such as Kertih Refinery Debottlenecking project, Kertih Aromatics project, Melaka Refinery COGEN and Base Oil Plant project in Melaka and also PETRONAS Penapisan Melaka 2 (PSR2) revamp project.

As you all are aware, Dr. Hapiz's tenure ended effectively at the end of April. Having been with PCG since the start of its journey, Dr. Hapiz has set the vision for PCG to be the preferred chemical company providing innovative customer solutions.

Moving forward, PCG will try to realise this vision by focusing on operational excellence, marketing and sales excellence, as well as innovation. In addition, PCG will continue its strategic growth plans to move towards specialty products and solutions while strengthening our basic chemicals product range.

I would like to record my sincere gratitude to Dr. Hapiz for his visionary leadership. I will certainly carry on his vision and strategic direction, and leverage on my background and experience in petroleum refining and petrochemical industries as well as technical services to further maximize value for our shareholders.

Now, let's move on to the subject at hand today. Let me start with a brief on market conditions in Quarter 1 2014.

The global economy was generally steady in Quarter 1 2014 as confidence in the US economic recovery remains healthy despite a lower GDP figure for the quarter, while China maintained a stable GDP growth.

On the products prices, market conditions were mixed. Compared to the preceding quarter, most of the Olefins and Derivative (O & D) product prices were higher on supply constraints due to cracker and derivatives turnaround activities during the quarter. The exceptions were MEG and paraxylene which were affected by a combination of off season demand for polyester and as well as expectation of new paraxylene capacities coming onstream in 2014.

In the Fertilisers and Methanol (F & M) segment, methanol price was marginally higher as market supply was tight in the first half of Quarter 1 2014. But, the price corrected in second half of Quarter 1, with major regional producers resuming plant operations in the quarter. In the urea segment, prices were supported by seasonal demand from the US, although pressure from the regional demand had some dampening effect.

Before I touch on the quarterly results, I would like to share some of the key updates on the company.

Let me, first, start with operational performance.

Overall, we have seen much improvement in Quarter 1, particularly in our O & D segment. This is the result of our efforts in operational excellence which includes enhanced plant management program and strengthened supplier relationship management.

An example of our success is evident in our second methanol plant. We are very pleased to announce that we have completed our comprehensive maintenance activities and restarted our second methanol plant in Labuan in February. In fact, it has already stabilised and is running well in the past two months, with only further minor works remaining. The upstream technical works undertaken by our supplier to provide additional gas supply source have also been completed. Going forward, we are well positioned to meet the strong demand for methanol.

On our turnaround and maintenance activities, in Quarter 1, we conducted turnaround activities at our ASEAN Bintulu Fertiliser plant, which was completed in early April. This is a mandatory requirement by our Department of Safety and Health. Further maintenance activities for the year are also planned for the major part of Quarter 2, with a final turnaround activity to be executed in Quarter 3.

On the marketing and sales front, we have said earlier that we are expanding our customer base with a view of establishing ourselves as a key player in this high value and high growth region. To that effect, as announced previously, we have incorporated a new subsidiary in Thailand on 13 March 2014 with the objective of sourcing and marketing of petrochemical products. We are looking into opening up more regional offices in the near future, with China and Indonesia offices expected to be opened this year.

In terms of innovation, we have also embarked on studies on various application solutions and product technical support in order to provide innovative customer solutions. These studies are in various stages of maturity.

Lastly, as announced by our Chairman in the recent Annual General Meeting, the overall completion of our SAMUR project is expected to be delayed by six months due to the fire incident affecting the project's critical equipment. This impacted the delivery of this critical equipment, hence, the new projected target completion date for SAMUR will be in Quarter 1 2016.

Next, on our financial performance for the quarter. It is evident that with the significant improvement in plant utilisation (PU) following the completion of major turnaround and maintenance activities at both of our facilities last year, the Group has recorded improved financial performance on the back of higher volumes, compared to the preceding quarter.

For the three months ended March 2014, we had a revenue of MYR3.8B and EBITDA of MYR1.2B while EBITDA margin stood strong at 33%, all of which increased significantly compared to the preceding quarter. The details on the results will be shared by Farina after this.

Now, I would like to hand over the discussion to Farina, our Chief Financial Officer, to provide details on PCG financial performance.

Farina Farikhullah Khan (CFO):

Thank you, Sazali. I will now go through the details of our Quarter 1 results.

Firstly, let's look at our financial results during the preceding quarter. We saw revenue jump by 14% to MYR3.8B, driven mainly by higher sales volume by 13% as a result of marked improvement in our operational performance. We will elaborate on this significant improvement in our operational performance in a bit more detail later on.

Operating profit doubled to just over MYR1B, also mainly contributed by higher sales volume particularly from higher volume of high margin ethane-based products in our sales mix. In addition, the maintenance expenses for the quarter was lower due to lower turnaround activities compared to the preceding quarter. Group Profit After Tax surged by 68% to MYR839M.

Similarly, EBITDA for the Group was considerably higher by 75% at MYR1.2B. Our Group EBITDA margin lifted to 33%, an improvement of 12% compared to the preceding quarter.

Now, let us move on to the corresponding quarter analysis. We saw Revenue lower by 15% compared to the corresponding quarter mainly due to lower sales volume by 20%, as well as softening product prices for both of our business segments.

The sales volume was affected by lower production as a result of methane gas limitation in the first half of the quarter at the Group's methanol plant 2 facility. In addition, the lower production was also contributed by the statutory turnaround activity at our urea plant in Bintulu whilst there were no statutory turnaround activity at all in the corresponding quarter.

The thinning spread in this quarter relative to the corresponding quarter, coupled with the lower sales volume caused the Group Profit After Tax to decrease by 32%, and EBITDA to drop by 30%. Nevertheless, our EBITDA margin was still very healthy at 33%.

Now, let's look at further details on the improvement in the operational performance. The Group achieved significantly higher plant utilisation (PU) of 80% in Quarter 1 this year despite the fact that we had some external limitations in the F & M segment. As mentioned earlier by Sazali, methanol plant 2 was operating only for half of the quarter due to the upstream tie-in activity to bring in additional gas supply sources.

In addition, the urea plant in Bintulu was shut down for one month during the quarter for statutory turnaround. If we adjust for the methanol plant 2 facility shut down as well as statutory turnaround at our Bintulu plant, our PU rate would be 94%, which is comparable to Quarter 1 2013 plant utilisation rate.

As we mentioned before, our heavy turnaround and maintenance cycle started from Quarter 3 2013, and the majority is expected to be completed by Quarter 2 2014. With the Quarter 2 2014 turnaround and maintenance activities being heavier than Quarter 1 2014, you will see that the PU trend reflects this cycle.

Now, I will share more granular details on our segmental results.

Firstly, let's look at the O & D segmental performance. I will start with the analysis against the preceding quarter for our O & D segment. PU jumped significantly from 67% to 97% given the high on stream days during the quarter following the completion of the turnaround activities at our main cracker and its downstream facilities in Quarter 4 2013.

The high PU rate of 97% achieved this quarter is a testimony of our operational excellence capability. For Quarter 1, O & D segment did not have any plant turnaround activity. The three turnarounds and one planned maintenance activity for the O & D segment are all scheduled in Quarter 2 2014.

Meanwhile, product prices for O & D were comparable to the preceding quarter with the exception of MEG and paraxylene due to the off season demand for polyester as well as additional paraxylene capacity coming on stream. Accordingly, we recorded higher Revenue by 9% for the O & D segment.

Looking at profitability, EBITDA for O & D segment doubled to MYR879M, while EBITDA margin increased by 14% to 31% as a result of the higher sales volume.

Moving on to the corresponding quarter analysis for the segment, we saw the O & D segment PU level at 97% being comparable to the corresponding quarter of 99%.

This was achieved due to higher level of internal operational efficiency which was slightly offset by slightly higher level of external feedstock limitation. Meanwhile, O & D product prices were generally mixed. We saw an improvement in ethylene and polymer prices due to tight supply, driven by maintenance activities at key regional producers. Prices for aromatics were softer as a result of higher aromatics new onstream capacity. We also saw weaker MEG prices due to higher supply levels compared to the corresponding quarter.

Consequently, Revenue reduced by 10% compared to the corresponding quarter.

With the lower sales volume and lower spread, EBITDA dropped by 26%. However, EBITDA margin was again, still resilient at 31%.

Now let us move on to our F & M segment starting with the analysis in the preceding quarter.

PU for our F & M segment was higher at 67% from 65% in the preceding quarter, despite supply limitations to our methanol plant 2 facility, as earlier mentioned, due to the upstream tie-in activity for additional gas supply sources in the first half of the quarter, coupled with the statutory turnaround at our urea facility in Bintulu.

Without these two external limitations, the F & M PU would have been at 94%. Again, this indicates an improvement in our plant operational performance given that we have now managed to overcome methanol plant 2 external and internal issues since middle of February this year.

As to the product prices for F & M, both methanol and urea prices were higher as a result of tighter supply for methanol, particularly in the first half of the quarter and healthier demand for urea whereas ammonia prices were comparable.

With higher sales volume and higher product prices, revenues climbed by 29% to MYR1B. Profitability grew accordingly with EBITDA escalating by 36% to MYR400M and EBITDA margin widening to 40%.

Finally, PU for F & M was lower compared to the corresponding quarter due to the same reasons we highlighted earlier. Compared to the corresponding quarter, product prices for F & M were mixed with urea and ammonia prices weakening due to softer demand while methanol prices were higher following supply constraints in the region.

Consequently, Revenue decreased by 25% while EBITDA declined by 33%. However, our EBITDA margin remained strong at 40%.

Before I touch on the Group cash flow analysis, I would like to make way for our Head of Manufacturing, Yusri, to elaborate further on some of the key strategies that our Manufacturing Group has established and implemented to enhance the plant operational performance that we saw in this quarter.

M Yusri M Yusof (Head of Manufacturing):

Thank you, Farina. I am Yusri, Head of Manufacturing.

Let me go through some of the key strategies that we have implemented to improve our operational performance.

The first strategy is strengthening the relationship with our suppliers through integrated planning and joint collaboration efforts, which have yielded the desirable result on the reliability of feedstock and utilities supply.

We take our methanol plant number 2 in Labuan as example.

As you know, methanol plant 2 has been affected by various issues since its commissioning in 2009. Initially, the plant faced water supply shortages, which we eventually resolved in December 2010 by working closely with our external service provider, even with governmental agencies. Subsequently, there were issues with quality and reliability of feedstock supply as well.

By working diligently with our upstream feedstock supplier, the quality of feedstock was improved and the issues were resolved with our supplier's action to modify some of the equipment at the upstream facility. As for the reliability of feedstock, we have also managed to work with our upstream suppliers to increase the flexibility of the feedstock by adding additional source of gas supply through the new tie-in to our current supply. This tie-in to the second gas field was completed earlier this year, in February, and since then, methanol plant 2 has been running very well.

Going forward, we aim to achieve improved PU rates at the methanol plant 2 which will contribute to the Group PU rate even better.

The second strategy is enhancing our plant maintenance program which is focused on both preventive and predictive maintenance.

This is a Group-wide intervention program to enhance plant and equipment integrity as well as threat management to various programs implemented at all of our plants. The program looks at current known issues for resolution and also potential risks for further mitigation.

Moving on to our third strategy, we are working closely with our selected main contractors for our turnaround, who have proven track records to execute our turnaround smoothly and cost effectively at all our facilities. We are also enhancing our internal capabilities through our turnaround centralised services and together with our selected main contractors, we believe we are on the right path to improve our performance of turnaround execution.

Furthermore, we are also very well supported by our parent, PETRONAS, through its Group Technical Services, Downstream Operations Department and Group Operational Excellence Department, in our efforts to improve our turnaround performance.

The timely completion of the programs that I mentioned above is critical to ensure sustained delivery for operational excellence and successful execution of turnaround activities as planned.

Again, as mentioned by Farina, the marked improvement in the PU rate this quarter goes to show that the key strategies that we have put in place have started to bear fruit, as intended. Going forward, we will continue to enhance operational performance which should translate to enhanced financial performance of the Company.

Please note however, in the short-term, as mentioned by Farina, in Quarter 2, we will see a slightly lower PU rate as we proceed to complete our Quarter 2 statutory turnaround program involving our O & D segment plants, involving our smaller ethylene cracker and its downstream plant, the MTBE plant, and planned maintenance at the aromatic plant.

With that, I will hand back to Farina for financial analysis.

Farina Farikhullah Khan (CFO):

Thank you, Yusri.

Now moving on to my very last slide, which is on our Group cash flow as well as our cash balance.

During the year, you can see that our cash balance decreased by about MYR722M, mainly due to the second interim dividend payout in relation to financial year 2013, of about MYR960m, which we had paid, actually, in March 2014. Nevertheless, as you can see, our Group cash position remained strong at

MYR9.4B, and with this strong cash balance, we are indeed very well positioned to undertake our current as well as future growth plans.

In addition, we have almost zero debt which means that we have plenty of headroom to raise financing to fund our potential growth project such as RAPID. Sazali will talk more about RAPID in the conclusion of the presentation today.

With that, I end my presentation. I will now hand over to Akbar for the market highlights.

Akbar Md Thayoob (Head of Commercial):

Good evening, everyone. This is Akbar here. The overall price performance in Quarter 1 was mixed as some of our key product prices strengthened due to the limited supply and availability while some of the product prices dipped on weakening demand. Let's go into the details and I will start off with the O & D segment.

First, the ethylene market. Prices remained strong given the tight supply situation in Asia amidst heavy cracker turnarounds in Quarter 1. Likewise, prices are expected to firm as the scheduled cracker maintenance activities within the region will continue into Quarter 2, thus limiting supply availability.

In the polymer business, prices strengthened in Quarter 1 on the back of supply constraints and rising feedstock prices. Moving into Quarter 2, we expect prices to stabilise as the scheduled maintenance activities from major producers in the Middle East and Asia will limit the cargoes into the region.

On the contrary, MEG prices fell in Quarter 1 on weak downstream polyester demand amidst high MEG inventory, especially in China. Furthermore, the tightening of credit policies by the Chinese government has also curbed buying sentiments as buyers remained on the sidelines.

Nevertheless, we expect MEG prices to improve in Quarter 2 driven by supply constraints in view of planned maintenance activities in this region.

Following the MEG trend for Quarter 1, weakening downstream demand and ample regional supply dampened our aromatic prices. In fact, prices are expected to decline further as the upcoming new supply capacities and a series of maintenance at the downstream units will significantly reduce import activities in the key Chinese and Taiwanese markets.

Now, let's move on to the F & M segment. I will start with urea. In Quarter 1, urea prices were stronger on supply tightness due to turnaround activities in the Middle East as well as export volumes restrictions in Algeria. I would like you to note that Algeria's Sorfert, with a 1.2M ton capacity, faced some export permit issues. In addition, the prices were further supported by US planting season demand.

Moving into Quarter 2, we expect urea prices to soften on rising urea supply from Middle East and Chinese producers amidst slower regional demand.

Moving on with ammonia, prices were stable as the weak downstream demand was offset by the turnaround and maintenance activities of key producers in Asia and Middle East. However, the ammonia market is improving in Quarter 2 due to rising demand in India for di-ammonium phosphate, or better known as DAP, production.

Meanwhile, methanol prices started off the year on a strong ground before correcting in the second half of Quarter 1 and supply in Southeast Asia stabilised following the resumption of operations by key regional producers, including our own methanol plant 2. In Quarter 2, methanol prices are expected to stabilise at around USD400 despite turnarounds in Middle East as Iranian cargoes will balance the supply demand fundamentals.

In summary, we expect product prices to remain generally healthy and firm in Quarter 2 with the exception for urea and aromatics given the long supply situation.

Back to you, Sazali.

Sazali Hamzah (President/CEO):

Ladies and gentlemen, let me wrap-up the session with two key highlights. One is on our growth plan and the other is on our turnaround activities for the rest of the year.

As you have seen in the media, our Prime Minister of Malaysia has officiated the groundbreaking ceremony of the aroma complex in Gebeng. This specialty chemical project will produce flavors and fragrance which are targeted at the high growth healthcare, personal care and food industry. It is an exciting chapter for us as we grow our portfolio of products to include high-end specialty chemical. The aroma complex will be built in phases and the first plant will start operations in 2016.

Another potential growth project is the integrated refinery and petrochemical complex in Pengerang, or RAPID, which is currently led by our parent company PERONAS. Given the project has recently reached FID, we are now ready to assess our potential participation in this project. The evaluation and the due process will take a few months and we expect to complete the exercise within this year.

Both Aroma and RAPID will support our aspiration to strengthen our basic petrochemicals and move towards specialty products. And besides these two projects, we are also building our capability to provide innovative customer solution.

Moving on to the statutory turnaround plan in 2014. To recap, this year will continue to be another year of heavy statutory turnaround and maintenance activities. And as highlighted, we have completed the first statutory turnaround for the year, which is at our urea plant in Bintulu. In Quarter 2, our turnaround activities will include our smaller ethylene cracker and also MTBE plant.

In addition, we will have maintenance activity at our aromatics plant. In Quarter 3, we will have our final statutory turnaround activity for the year at our smaller methanol plant.

With that, we would have completed our cycle of statutory turnaround activities for the main facilities in both business segments. And we expect to achieve improved PU, which would translate into better financial performance this year onwards.

So now I would like to open the floor for question and answer. Thank you.

Alex Goh – AM Investment – Analyst

Thank you everyone for the wonderful presentation. I have a few questions. It's regarding the PU for the second quarter because I understand the second smaller cracker will be undergoing a turnaround maintenance as well. Given that in this first quarter the O & D PU went up to 97%, is it likely that the second quarter PU will drop back to 80%?

M Yusri M Yusof (Head of Manufacturing):

Thank you, Alex for the question. Obviously, with the turnaround activities at our cracker and its downstream plant, the PU will be below 90%. So we are expecting it to be in the 80% region for the second quarter, for O & D segment itself.

Alex Goh – AM Investment – Analyst

How long will this plant turnaround take for the second quarter, and will it stretch over to the third quarter?

M Yusri M Yusof (Head of Manufacturing):

No. The turnaround for O&D segment will be completed in the second quarter.

Alex Goh – AM Investment – Analyst

So, would we be seeing in third quarter and fourth quarter, the PU rate would be going back up to over 90%, for third quarter and fourth quarter?

M Yusri M Yusof (Head of Manufacturing):

Yes. Bear in mind that in the third quarter we still have one small turnaround in our smaller methanol unit. But on average, we foresee our PU would go up on average for the year, yes.

Alex Goh – AM Investment – Analyst

And for your methanol and fertiliser division, given that we finally managed to get rid of whatever plant 2 problems you faced in the first half of the quarter for this period, can we see the utilisation going to be over 95% for the rest of this year?

M Yusri M Yusof (Head of Manufacturing):

As evident in the operation of methanol facility for the month of March, and even in the second half of February, we are operating in the region of 90% in terms of utilisation. And we believe that we managed to resolve all the major issues. As mentioned by Sazali, there are still some minor issues that we have to manage. But we believe that moving forward, PU will be high.

Alex Goh – AM Investment – Analyst

To double confirm, there is no major plant maintenance for your methanol and fertiliser plants going into the second quarter onwards?

M Yusri M Yusof (Head of Manufacturing):

In Quarter 3, there will be a statutory turnaround for our methanol plant 1.

Farina Farikhullah Khan (CFO):

The smaller methanol plant.

Alex Goh – AM Investment – Analyst

How would that impact your utilisation rate for the methanol division?

M Yusri M Yusof (Head of Manufacturing):

That plant is quite small. So, as long as plant 2 runs to its capacity, the PU for F & M division would not be affected too much.

Alex Goh – AM Investment – Analyst

This is a separate question. I just want to know on average, how much has the product prices for the olefin and polymer division gone up by? And can you also give us some quarter on quarter comparisons for the fertiliser and methanol division?

Akbar Md Thayoob (Head of Commercial):

For olefin prices, I think it has improved a little bit from Quarter 4 2013. If you see the average, it has moved to about USD40 from Quarter 4 last year to Quarter 1 this year. Whereas for HDPE, it remains in tandem with the rise in ethylene prices. So, all in all, we see there is a slight improvement in olefin as well as polymer derivatives.

Alex Goh – AM Investment – Analyst

How about for the fertilizer and methanol division? Can we have some feel on the average movement over the quarter?

Akbar Md Thayoob (Head of Commercial):

As I mentioned earlier, the prices for methanol has risen in Quarter 1. Especially the first half of Quarter 1, it has moved up. However, we foresee that going into Quarter 2, it is going south, towards slightly below the current prices in Quarter 1.

Alex Goh – AM Investment – Analyst

So, want to double check. The urea prices in the first quarter, if you compare with the fourth quarter, how many percent change was that?

Akbar Md Thayoob (Head of Commercial):

The urea prices went up roughly around about 17% to 20%. But, going into Quarter 2, as new capacities come back after the turnaround, we foresee that prices will dip below the Quarter 1 prices.

Alex Goh – AM Investment – Analyst

Can we also have a bit of feel how much CAPEX is in there for the SAMUR plant?

Farina Farikhullah Khan (CFO):

As mentioned before, we have spent about 50% of the CAPEX on SAMUR. So, we have about another half to go for the remainder of the project. And, as our CEO highlighted earlier, because the SAMUR project is delayed by six months due to the fire incident, the other half would be spent up until Quarter 1 2016.

Alex Goh – AM Investment – Analyst

Will there be any additional cost above your original estimate due to the delay?

Farina Farikhullah Khan (CFO):

We have not come to the exact amount yet as at this point in time because the assessment is still ongoing. And also, as you know, there are ongoing discussions with the parties who are carrying out the equipment onboard. So, I cannot comment too much on this because discussions are ongoing with the parties as to how do we treat the cost of the damaged equipment as a result of this fire incident.

Alex Goh – AM Investment – Analyst

For the Pengerang petrochemical plant, how much based on your preliminary assessment would this plant cost?

Farina Farikhullah Khan (CFO):

Again, as mentioned by Sazali earlier, we are very much at the preliminary stage of assessment because the project, as you are aware, belongs to PETRONAS, and we are targeting to complete the whole exercise towards the end of this year. So, I cannot give you a final figure as to our level of participation and therefore, the participation cost or the cost relating to RAPID, i.e. our portion on this.

As you know, as announced by PETRONAS, RAPID, the refinery and the petrochemical plant, will cost in total of about USD16B. We will know the exact figures and our exact level of participation, once we finalise the negotiations.

Sazali Hamzah (President/CEO):

Just to add, the USD16B does not include the associated facilities. If we include the associated facilities, the total will be USD27B.

Suwat Sinsadok – CIMB – Analyst

Could you explain about the reason why the EBITDA margin of the O & D segment has been quite low compared with the first quarter last year, even though the PU has been comparable? I understand that it probably came from aromatic weakness and also from MEG, but can you give me some idea what percentage or what would be the number from that? Thank you.

Farina Farikhullah Khan (CFO):

You are right there. The reason for the lower margin, by 7%, was entirely because of MEG and paraxylene. MEG was on average lower by about 5% and paraxylene prices on average was lower by about 10%.

Yong Liang Por – BNP Paribas – Analyst

I have two quick questions. The first question is you said you are opening marketing offices in other countries. Can you tell us why? Do you think that will help you to achieve a better price? And how much will this cost?

And I think the second question is that there are a couple of products which look like they're in terminal shape. I think some of the oxo-alcohol had negative spread for quite some time. Is there any plan to rationalise this production? Thank you.

Akbar Md Thayoob (Head of Commercial):

I would like to respond on our effort to open up our presence locally in the three countries, which is China, Indonesia and Thailand. The main motivation for us to do that is to allow us to understand the local market much better on the ground and allow us to understand the customer requirements better. This will help us to move towards our aspiration of providing innovative customer solutions.

As far as cost is concerned, it is not very significant, because we already have our presence there through our representative office. All we need to do is just bump up a bit of manpower, as well as bring in the required small paid up capital to operate these subsidiaries.

Farina Farikhullah Khan (CFO):

On the second question that you have, Yong, oxo-alcohol is basically the product of our joint venture or associate company, which is the BASF PETRONAS joint venture. So, we are just being the associate, we're just taking the equity accounting share of the profit or loss from the company. And at this point in time, there is no plan to essentially rationalise the joint venture company.

Yong Liang Por – BNP Paribas – Analyst

So, no plan to rationalise any product at all?

Farina Farikhullah Khan (CFO):

We continue to do our portfolio review. It's part of our regular strategic planning and strategic review process. At this point in time, we don't have anything specific to announce as far as rationalisation of any specific product.

Julie June Nelson Auo – RHB Research – Analyst

Hi, thank you evening and thank you. I just want to take the question on CAPEX a little further. I just wonder what's the CAPEX like for this year and next year, and on the part of SAMUR?

And also I was wondering whether the fire for the machinery that was on the way to SAMUR, was it insured? And I was wondering how much can we recover through insurance if there's any? Thank you.

Farina Farikhullah Khan (CFO):

CAPEX for 2014, as announced recently at our Annual General Meeting, we are planning for CAPEX of about MYR2.3B for this year. Roughly half of that is for SAMUR, and the other half is basically for our maintenance CAPEX, which is both the turnaround CAPEX as well as some other reliability and integrity CAPEX that we are undertaking. So that's MYR2.3B for this year.

If you were to add the aroma complex project which is undertaken through our associate company, BASF PETRONAS, you can add another MYR0.3B. So in total, it would be about MYR2.6B for the year.

Julie June Nelson Auo – RHB Research – Analyst

And then about the SAMUR fire, is there any recovery from insurance?

Farina Farikhullah Khan (CFO):

As I highlighted earlier, we are still in the discussion on this. An assessment is still being carried out. So I am unable to give any specific figures and comment at this point in time.

Oscar Yee – CITI – Analyst

Thank you for the presentation. I want to ask, have you started negotiation for your new gas contract for the SAMUR project? And when would this be finalized?

And also, I understand your ethane contract for the first small cracker will be expiring in 2016. May I also ask for that part have you started the negotiation? Clearly prices is going to go up, but do you expect those prices to be similar to what you're paying currently for your other contracts, like fertiliser and methanol, or do you expect it would be even higher than that? Thank you.

Farina Farikhullah Khan (CFO):

Oscar, for SAMUR, we have concluded the agreement with PETRONAS for the gas purchase quite some time back. So, that has been concluded.

On your second question, the ethane contract for the smaller cracker will be expiring sometime in late 2016. And usually we will start negotiation between 18 months to 24 months before the contract expiry. So for this particular contract, we have yet to start, but we expect to start the negotiation by the end of the year.

As for the prices, you know that this contract is a 20 year contract. So given that it was entered almost 20 years ago, we expect that there will be some increase in the prices. But we believe that we will be entering into the negotiation with the position of strength given the fact that we are a sole off- taker for ethane from PETRONAS, as well as other factors, one of which, ethane is a by-product from the mainstream gas. We believe that the increase will not have a material impact to our financials.

Oscar Yee – CITI – Analyst

Could I just check for your SAMUR urea project, how long is the gas contract? How many years?

Farina Farikhullah Khan (CFO):

The contract duration is for 15 years, yes.

Alex Goh – AM Investment – Analyst

Just want to run through your associate profit for first quarter 2014, it has dropped by about 30% quarter on quarter. I just want to find out what was the reason for the drop in associates?

Farina Farikhullah Khan (CFO):

Mainly because in Quarter 4 last year, one of our associates had actually received a once-off income. So, the profit for that particular associate was higher last year. This year, it has gone back to the normal level.

Alex Goh – AM Investment – Analyst

MYR49M is considered a normalised profit for your associates?

Farina Farikhullah Khan (CFO):

For one quarter. Of course, it depends year to year, depending on the market conditions of the products for our associate companies. So, it would vary from year to year. But the particular associate that I was mentioning just now is basically our Kertih Terminal, which had received a settlement agreement in relation to the decommissioning of our other subsidiary, VCM. So as part of that settlement agreement for the termination of the contract, there was a once-off payment that was received by Kertih Terminal.

Alex Goh – AM Investment – Analyst

Just want to check on your Shariah compliance by May. You have a lot of bank deposits obviously. But I just want to find out whether the interest-bearing MYR8B, are they Shariah-compliant?

Farina Farikhullah Khan (CFO):

Yes, they are.

Alex Goh – AM Investment – Analyst

So, in that case there is no issue of non-compliance?

Farina Farikhullah Khan (CFO):

That is correct. There is no issue with Shariah compliance.

Nor Shahda Zakaria (Head of IR):

If there are no more questions, I think we can conclude our briefing for today. Thank you for your participation. And a recording of this webcast will be made available at our website at the end of the day.

Thank you very much and good evening.

THE END