Quarter Ended 30 June 2014 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date: 11 August 2014, 6.00pm

Nor Shahda Zakaria (Head of IR):

Good evening everyone. Thank you for joining us and welcome to PETRONAS Chemicals Group Berhad's briefing on the financial results for the quarter ended June 30, 2014.

As you are aware, similar to last quarter, we uploaded the presentation and results during the market close at lunch time. However, this time, as our Board meeting only finished after that, we were only able to upload the results after market close at 5. So, if you have just actually looked at the results, as well as the presentation, we do apologize.

However, thank you for tuning in and we hope that you are able to participate and clarify from our key management directly right now. Our key management will be sharing some key updates on the business. Then, we will go to the results with question and answer afterwards led by our CEO, Sazali.

Before we start, observe the disclaimer statement in the briefing pack. This briefing can also be accessed from our corporate website www.petronaschemicals.com. I will now hand over to Sazali.

Sazali Hamzah (President/CEO):

Thank you, Shahda. Ladies and gentlemen, good evening and thank you for joining us. I will start with some key updates on the company.

First of all, I'm pleased to update that we have successfully completed the divestment of our stake in our Vietnam-based subsidiary, Phu My Plastics and Chemical Company Ltd (PMPC) to Asahi Glass Company Ltd and also Mitsubishi Corporation in June 2014. As you may be aware, this divestment is following PCG's decision to exit from the vinyl business in 2012 as part of our portfolio optimisation strategy. This provides us the opportunity now to focus on our competitive product portfolio.

I'm also pleased to announce, in line with the company's strategy to focus on innovation, we have successfully developed a manufacturing process solution for one of our customers, a solar panel company based in this region. The customer solution is called CF45 low conductivity PEG 200 which is used as a base for the company's silicon sheet cutting fluid solution. Cutting fleet formulated using CF45 gives greater cutting precision, minimum saw mark and minimum dirt staining on silicon. The customer qualification audit has been successfully completed at our site and orders have been placed for July and August delivery of this product. We expect to continue to develop more innovative customer solutions and products which are currently in the pipeline in line with the company's mission and strategy.

Next, I will touch on a general overview of market condition in Quarter 2 2014 as compared to the preceding quarter. We have seen the global economy moderated slightly as the strengthening in the US economic recovery was countered by a slowdown in China's GDP growth while Europe's economy weakened.

Notwithstanding, emerging Asia GDP, which is a basket of countries that includes China, India, Indonesia, Malaysia, Philippines, Thailand, Vietnam and India is projected to grow by 6.7% in 2014 and 6.8% in 2015 in April 2014 IMF Report.

On product prices and spreads, market conditions were challenging, following increased supply of availability for aromatics, fertilisers and methanol, while ethylene derivatives were affected by softer demand. The spreads for the ethylene derivatives and aromatics were also narrower during the quarter.

In the Fertilisers and Methanol (F&M) segment, methanol prices were lower on improving supply, especially since major regional producers were operating well. In addition, Iranian cargoes entering China were also exerting pressure on prices. For urea, prices were dampened by the influx of Chinese cargoes as well as low tender price indications from India. Farina will later share more details on the market overview for the quarter shortly.

Now, moving on to our operations. We have completed our heavy turnaround activity safely and successfully in Quarter 2. There were three statutory turnarounds and one planned maintenance activity, all in our Olefin and Derivatives (O&D) segments, involving our smaller ethane cracker and its related downstream facilities as well as the MTBE plant and aromatic plant.

For our methanol facilities, as a result of our concentrated efforts to improve plant reliability and gas supply availability, we have achieved above 80% plant utilisation (PU), as we have targeted. The improvement cushioned the impact of the plant activities mentioned earlier. Yusri will provide more details on our operating performance later.

Finally, our financials. For the three months ended June 2014, EBITDA margin remained healthy above industry peers at 29%, albeit revenue was lower by 12% or MYR465M to MYR3.3B, compared to the preceding quarter. Group Profit declined by 30% or MYR254M to MYR585M and EBITDA reduced by 23% or MYR291M to MYR956M, reflecting thinner product spreads in tandem with market conditions and lower volumes from the planned maintenance activities.

I will now hand over the session to Farina to provide detail on our financial performance. Handover to you, Farina.

Farina Farikhullah Khan (CFO):

Thank you, Sazali. What I will do now is go through firstly, the quarter and the period market prices and the spread analysis and secondly, talk about our plant utilisation rates. As you are aware, these two are the key value drivers that will explain our financial perspectives.

Let's first start with some focus on the economy of our key markets. Domestically, Malaysia's GDP improved compared to the corresponding quarter as exports are stronger, supported by sustained industrial production.

For China, as shared by Sazali earlier, China's GDP growth moderated, evidenced by the contraction of the China's Purchasing Managers' Index to below 50 since the start of the year. However, towards the end of the quarter, we saw some signs of pickup in the economic growth as the PMI started to climb above the 50 index in both June and July 2014.

Thailand's GDP was dragged by political and social unrest from last year going into 2014. However, its GDP started to recover starting this quarter. Indonesia's GDP remained constant supported by its huge domestic market. The GDP of the rest of the Asian countries including Japan, Singapore, Philippines and India, softened slightly, in line with the overall slowdown in the global economy.

Moving on to prices, we saw the Olefins and Derivatives market prices were lower compared to the preceding quarter with the exception of ethylene and polymer prices generally. Ethylene prices were firmer due to tight supply with heavy cracker turnaround in the Northeast Asia and Southeast Asia region.

With the exception of LDPE prices, which were affected by softer regional demand, polymer prices were higher as a result of the higher ethylene prices, further supported by the limited supply following a technical issue at the regional facility as well as limited availability of HDPE and LLDPE due to the turnaround activity at PCG's own olefins facility.

On the other hand, MEG prices dropped due to bearish PTA prices as well as weak polyester demand amidst credit tightness of polyester producers in China. For PX, prices were also considerably lower due to the oversupply situation with the startup of new PX plants in the quarter.

Against the corresponding quarter, Olefin and Derivatives market prices were also mixed. Ethylene and polymer prices were higher due to supply constraints that I have mentioned earlier. Derivatives and aromatics prices were also lower due to weaker demand as explained earlier.

In both the preceding and corresponding quarters, overall O&D spreads were lower mainly driven by the weaker aromatic spread. In addition for PCG, our O&D spread was also affected by the lower volume of higher margin ethane-based products that we have following the turnaround of our smaller ethane cracker.

Let's now look at the Fertilisers and Methanol market. For urea, the continued influx of China cargoes, as explained by Sazali earlier, due to the lower export tax window, coupled with the start of the Indian tender, pressured the urea prices lower compared to the preceding quarter.

On the other hand, ammonia prices were slightly higher compared to the preceding quarter due to shutdowns at key producers' major plants as well as increased demand in the US. Against corresponding quarter, urea prices were also lower for the same reason. Ammonia prices corrected from the corresponding quarter's supply constraint situation as well as weaker consumption of ammonia derivatives.

For methanol, in the first half of 2013, prices were at normal levels but started to trend upwards in the second half of 2013, reaching record-level price in Quarter 4 2013 to Quarter 1 2014, due to supply disruptions in the region. With the improved supply from the resumption of operations in the quarter by key regional producers, including our methanol plant 2, as well as Iran producers, methanol prices returned back to the prices at the first half of 2013 level.

In conclusion, generally for first half of 2014, the market was weaker compared to first half of 2013 mainly driven by lower prices in the fertilisers and methanol segment and narrower spreads in the olefin and derivative segments, compounded by the lower volume of ethane-based products for PCG this year due to the turnaround of our smaller ethane cracker compared to essentially no turnaround for ethane cracker in the first half of last year.

Now let's move onto the next financial driver, the operational performance. As you are aware, the variables affecting our operational performance include internal activities such as planned statutory turnaround and maintenance activities that are critical to support plant reliability. In addition, external limitations such as reliability and availability of utility and gas feedstock are also crucial.

If you refer to the chart on the group plant utilisation, you can see that we have had only one TA, one turnaround activity, in the first half of 2013 which was on our propylene plant.

In the second half of 2013, we saw the start of the heavy turnarounds and maintenance activities for the Group which included our main cracker and three of its related downstream facilities.

The turnaround cycle continued in Quarter 1 2014 with one turnaround activity at ABF (Asean Bintulu Fertiliser), which is our oldest urea facility located in Bintulu, before increasing the momentum to three turnaround activities, which included our smaller ethane cracker and its related downstream facility in Kertih and our MTBE plant in Gebeng in Quarter 2 2014. In addition, there was planned maintenance activity in our aromatics plant in Quarter 2 2014.

The group plant utilisation rate that you see is very much a reflection of these key activities that we had undertaken.

In addition, previously we also faced external constraints in the supply reliability and availability mainly at our second methanol plant as its gas supply, previously, is sourced from a single gas field. The impact of these constraints were more prominent in the second half of 2013, further exacerbated as we decided to take a heavy stand to conduct a comprehensive plant maintenance program to resolve all identified operational issues. Accordingly, the F&M PU weakened.

In Quarter 1 2014, the F&M segmental PU was also affected as our methanol plant 2 was down for the first half of the quarter in order for the upstream supplier to install the tie-in to a second gas field in mid-February this year from a new source of gas supply. The implementation of the tie-in as well as enhanced plant reliability resulting from the comprehensive plant maintenance program led to an improvement in the plant utilisation which helped offset the heavy turnaround at our Olefin and Derivatives facilities in Quarter 2 2014.

As a result, the Group's PU was at 76% compared to 80% and 83% in the preceding and corresponding quarter respectively.

On the slide, you will observe that without turnaround and maintenance activities, our Olefins and Derivatives PU rates were in the high 90% as shown in Quarter 1 in 2013 and Quarter 1 in 2014. As for our F&M segment, you will note that without gas supply constraints, we achieved PU rates of above 80%.

Yusri will share a bit more on the outlook of the plant utilisation rates in the second half of the year onwards.

Let's move on now to our financial performance.

From my market overview and Group operational performance review, the impact of these factors are shown in our results. Firstly, against the preceding quarter. Revenue reduced by 12% to MYR3.3B mainly due to lower prices following increased supply availability for aromatics, fertilisers and methanol, coupled with softer demand for ethylene derivatives, which offset the higher sales volume achieved for the quarter.

Despite lower utilisation from the heavier statutory turnarounds and planned maintenance activities in Quarter 2 2014 as mentioned earlier, sales volume was higher due to higher sales from inventory. Despite higher sales volume, our financial performance declined on the back of lower volumes of high margin ethane-based products following the turnaround of our smaller cracker as mentioned earlier.

In addition, we also saw narrower O&D spreads and weaker F&M prices contributed to lower financial performance. Correspondingly, EBITDA for the Group was lower by 23% at just below MYR1B. Nonetheless, Group EBITDA margin remained very healthy at 29%, still very well above our industry peers.

Next, compared to the corresponding quarter. Revenue was lower by 14% due to lower average product prices by 11%, following weaker aromatics and fertilisers prices, and lower sales volume in tandem with the lower production volume by 8%. Production volume was lower in Quarter 2 as explained, due to the turnaround and maintenance activities whilst there was only one tail end turnaround activity in Quarter 2 2013 which commenced in late Quarter 1 2013. This is the propylene plant that I mentioned earlier.

Consequently, profitability was lower with EBITDA reducing by 38% or MYR533M to MYR956M. Similarly, EBITDA margin was lower but still resilient.

Finally, for the six-month period. Revenue was lower by 14% to MYR7.1B, on lower sales volume by 14% due to lower production volume following again a higher level of turnaround activities that were mentioned earlier, and gas supply constraint in Quarter 1 at our second methanol plant. Also, prices were lower by about 6% for the six-month period.

Consequently, Group financial performance declined in line with the lower production volume, narrower spreads and generally lower product prices. Accordingly, EBITDA for the Group decreased by 34% to MYR2.2B.

[Portion not captured in audio due to disconnected line]

[- begin-]

Notwithstanding, our Group EBITDA margin for 1H 2014 remained healthy and resilient at 31% due to lower sales of high margin ethane-based products amidst challenges in the operational and business environment.

Now, I will provide details on our segmental results.

Firstly, let's look at the O&D segmental performance. With the heavy turnaround and maintenance all in the O&D segment in Q2 2014, sales volume were lower in line with the lower production volume. Meanwhile, product prices were also lower for aromatics and derivatives. Consequently, revenue was lower for both the preceding and corresponding quarters by 19% and 21% respectively.

On profitability, in line with lower production and lower sales volumes of ethane-based products coupled with narrower spreads, both EBITDA and EBITDA margins declined compared to the preceding and corresponding quarters. EBITDA was lower by 32% compared to the preceding quarter, and down by 40% compared to the corresponding quarter. As for EBITDA margin, it was sequentially lower by 4% and correspondingly lower by 9%.

Similarly, for the six months period, the financial performance for the O&D segment followed the same trend. Revenue was lower by 14% compared to the corresponding period. Furthermore, profitability was also weakened by thinner aromatics spreads compared to the corresponding period as EBITDA was down 33% and EBITDA margin slipped 8%.

Now, let's move on to the F&M segment starting with the preceding quarter analysis.

In Q2 2014, higher sales volume in line with higher production volume offset the impact of lower methanol and urea prices resulting in revenue growth to RM1.1B. In addition, higher sales volume also supported the marginal growth in EBITDA while EBITDA margin slipped 4% due to lower product prices.

Next, compared to the corresponding quarter, although the impact of lower product prices in the F&M segment negated the higher sales volume, revenue, however, only decreased slightly. Meanwhile, both EBITDA and EBITDA margin declined by 26% and 12% respectively due to weaker prices despite higher volumes.

For the six months period, financial performance was affected by the softer market prices, mainly for urea. In addition, the feedstock availability issues at the methanol plant in the first half of 1Q 2014 and the turnaround activity in the urea plant in 1Q 2014 resulted in lower volumes. With softer prices for fertilisers and lower sales, the financial performance was weaker with revenue decreasing 14% to RM2.1B while EBITDA and EBITDA margin fell 30% and 8% respectively.

[- end-]
My apologies for the dropped call just now.

I'm now moving on to the last slide which is on our Group cash flow and cash balance.

During the year, you can see that our cash balance marginally decreased by MYR64M compared to the same period last year, due to lower receipts from customers in line with the lower revenue. Nevertheless, our Group cash position remains strong at MYR10.1B.

With a strong cash balance and the strong financial position, we are definitely in a position to have the opportunity and flexibility to undertake our current and future growth projects which includes the participation in RAPID that we are currently still assessing. We expect once the position in the participation in RAPID is finalized, we should be able to utilise not just the current cash balance but to also raise some level of financing to support the participation.

I'm also pleased to announce that the Board has approved an interim single tier dividend of MYR0.08 per share amounting to MYR640M which will be paid on 12 September 2014.

With that I would like to end my presentation. I will now hand over to Yusri to share a bit more details on our operational highlights including some outlook for our plant utilisation rates for this year onwards.

M Yusri M Yusof (Head of Manufacturing):

Thank you, Farina, this is Yusri. As Farina has updated on the financial performance on plant utilisation rates in quite detail, let me just go through some of the highlights of our turnaround and maintenance activities that have happened in Quarter 2 2014.

We had, as mentioned previously, three regulatory turnaround activities involving our 400,000-tonne cracker, its downstream polyethylene plant, and also our MTBE plant. In addition to the regulatory turnaround, we also had a planned maintenance activity and program at our aromatics plant. In Quarter 2 alone, we have executed 2.1 million manhours of turnaround at PCG successfully and safely without any major HSE incident or loss time.

With the completion of the turnaround and maintenance activity in this quarter, we have more or less concluded the mandatory turnaround that had been implemented within the Group operations since Quarter 3 last year, 2013. There is only one more turnaround activity for this year which is in Quarter 3. This will involve our smaller methanol plant in Labuan. Currently, preparations are in the final stages for the mandatory turnaround which will start mid of this month. We will also take the opportunity during this mandatory turnaround period to include some of our planned operational improvements in line with our strategy of enhancing internal reliability.

On our internal reliability enhancements, we have continued with the execution of our reliability improvement programs. In line with the execution of the TA and shutdown recently, we have resolved a couple of equipment and reliability issues at our respective plants. To date, our reliability indicators continue to be above 90% since we started on the program last year.

Moving on to our supplier management efforts, we continue to work on strengthening our relationship with our supplier through integrated planning and joint collaboration efforts, especially to manage reliability issues.

In Peninsular Malaysia, we are working closely with our supplier in several joint projects to improve availability and reliability of gas and utility supply. Several reliability improvement projects have been implemented to ensure increased availability of gas, especially for our gas crackers.

In Sabah, as we have updated before, we have completed the tie-in for the second source of gas supply to our methanol plant 2. You will see this later in the diagram that I'll explain shortly. And, this was done mid-February this year. We have also taken time during fourth quarter last year and also during first quarter this year to resolve some of the known issues affecting the quality and reliability of gas supply, especially from our supply to plant 2.

Since then, methanol plant 2 has been running very well and plant utilisation has reached more than 80% in Quarter 2 2014. The additional source of supply from the second gas field together with improved availability of the booster compressor complements the supply from Kikeh field. All these enhancements actually contributed to our improvement in the methanol PU.

However, we are still looking at our long-term solution to our gas supply reliability, which is particularly to provide additional source of gas supply via a new pipeline. This is expected to be completed by 2016 and I'll again explain shortly at the next slide.

I would like to take this opportunity to update on the gas supply situation to our methanol plant. We have two plants, plant 1 and plant 2 with the feedstock from basically two offshore clusters. For plant 2, as you can see from the diagram, the gas supply comes from cluster 2. Originally, we only had one source which is field number one. And, we have explained earlier, we have made the tie-in from field number two mid-February this year.

This gas supply from cluster 2 is being fed into a floating production storage and offloading vessel, FPSO, which is operated by our upstream supplier. Unfortunately, we have been informed by our supplier that their FPSO had experienced failure on one of its transformers since mid-July. Despite several attempts to restart the power supply, it has yet to be successful and we need to replace the transformer.

The FPSO at cluster 2 before this has been operating very well and this unforeseen incident is an unexceptionally rare occurrence. Nonetheless, the incident has resulted in the interruption of gas to our plant 2. We understand from our supplier that they expect the power supply to resume in August. Despite the availability of gas supply from the booster compressor that you can see linking plant 1 and plant 2, the volume was insufficient. Hence, plant 2 operations will be affected during the outage from cluster 2.

Therefore, we expect the PU for methanol plant to be affected. However, the F&M PU for the rest of the year is expected to be around 80% and the Group's PU is still expected to remain in the mid-80s.

Moving forward, as we have mentioned before, we are now working on the third source of gas supply. This is depicted as cluster 3 in the diagram and this bypasses the FPSO and supplies directly to our methanol plant in Labuan. This is a crucial initiative for us because upon completion of this project in early 2016, this will ensure that we would be able to achieve our target PU of 90% and above. As you can see, we are persistent in our efforts to enhance operational performance which should support our portfolio optimisation and innovative customer solutions moving forward.

I will now hand over to Akbar for market outlook.

Akbar Md Thayoob (Head of Commercial):

Thank you, Yusri. Good evening, everyone. This is Akbar here. In a nutshell, in the first half of the year, overall price performance was mostly mixed for Olefin and Derivatives. Prices strengthened towards the end (of the period) especially for glycols and aromatics due to the limited supply availability, whilst Fertilisers and Methanol product prices slipped on weakening demand.

Let's begin with Olefin and Derivative products. Following the first-half heavy cracker turnaround in Japan, South Korea and Taiwan, ethylene prices are expected to firm up in the second half on the back of limited supply availability. Price will be further supported by ethylene cracker shutdowns in Taiwan and Japan as well as backed by recent strong gains in the upstream crude and naphtha markets.

For polymers, prices are likely to stabilise in the second half of 2014 following strengthening ethylene feedstock price as well as prices being capped at high levels in the first half as a result of the same cost push factors. Demand, however, is expected to weaken towards the end of second half on seasonal trend holidays especially with the Golden Holidays in China as well as the December Christmas and year-end holidays. And, we foresee thinning margins from high feedstock price.

Contrary to the downward trend in price in the first half, MEG prices are firming up in line with improved PTA market sentiments. Supply is set to be tightened throughout the second half of 2014 as prices are expected to hover at around USD1,000 per metric tonne amidst more plant turnarounds in North East Asia and the Middle East.

Moving to aromatics, mirroring the MEG trend, prices in Asia hiked up in July amidst demand increase for PTA and the supply shortage from plant turnarounds. Nevertheless, prices shall soon soften from August onwards with supply recovery as plant startups and new capacities come on stream and we expect this to continue to soften towards the end of the year.

Now let's move on to the Fertilisers and Methanol segment.

I shall start with urea. Urea price dipped further towards the end of first half and is expected to remain bearish in the early second half with the opening of China's low export tax window from July to October 2014. Nonetheless, urea prices are likely to recover towards the end of the year as winter planting season demand from the US kicks in.

Moving on to ammonia, prices are foreseen to experience a slight dip in the early second half as supply remains stable at the back of slowing downstream demand with planned plant shutdowns as well as slowdowns. Prices are expected to move sideways towards the end of second half, supported by balanced supply demand fundamentals.

In the first half of the year, methanol prices hovered at around USD550 level, before experiencing price corrections that brought down the price to about USD400 level. And, we expect this to remain stagnant going into second half, with Southeast Asia producers running at optimum rates on the back of stable demand. Price correction shall cap the price at its normal USD380 to USD400 CFR levels towards the end of the year.

In summary, we expect product prices to improve slightly in the second half, with the exception of urea and aromatics given weak demand and long supply situation.

In closing, ethylene will be moving a little bit on the upward trend, polymers and MEG moving sideways, while aromatics will weaken. On the other hand, urea will soften from the level recorded in the first half, whilst ammonia and methanol are projected to be stable on a balanced supply demand scenario.

I will now hand over the session to Sazali for his closing remarks.

Sazali Hamzah (President/CEO):

Thank you, Akbar. Ladies and gentlemen, let me wrap up the session with the following key points on the market and operational performance.

We continue to see challenging market conditions to continue in second half of 2014 in key products including aromatics and fertilisers.

Moving forward, on our growth project, i.e. SAMUR. Effective June 25, 2014, the Group's wholly-owned subsidiary, PETRONAS Chemical Fertiliser Sdn Bhd has converted the Basic and Detailed Engineering, Procurement, Construction and Commissioning (BEPCC) contract for the SAMUR project, from an Alliance contract to a Lump Sum contract. This conversion will enhance the Group's control over SAMUR project's cost and schedule, and ensuring the delivery of the project, including managing the delay arising from fire onboard the contractor's vessel in December 2013.

SAMUR project is scheduled for completion by Quarter 1 2016. Currently, construction works are in full swing at site.

Next, on RAPID, we are still in the progress of assessing the Final Investment Decision for the project, and we expect to announce our decision sometime early next year.

As Yusri has informed, on operational performance, the unforeseen incident at our supplier's FPSO facility has affected the gas supply to our second methanol plant. While we are closely monitoring the rectification measures by our supplier, we expect the issues will be resolved as targeted. In the long term, the additional source of gas supply that would be completed by 2016 would ensure a high level of certainty in the reliability of gas supply to our methanol plant.

Going forward, with improved plant maintenance program and supplier relationship management at all of our plants, as well as our commitment to marketing excellence and innovative solution for our customers, we aim to achieve better plant and sales performance.

We now open the floor for any questions and answers. Thank you.

Alex Goh – AM Investment – Analyst

Good evening, everyone. Thank you so much for the opportunity. I just want to ask a few questions. What is your expectation for the plant utilisation of the Group, not just for the Group but olefin and fertilisers divisions looking at the fact that there's going to be another turnaround for another plant in the third quarter, and as well as the impact of the FPSO on Labuan plant as well? Just want to find out what is the utilisation in the second half? Thank you.

M Yusri M Yusof (Head of Manufacturing):

Thank you, Alex. As I concluded earlier, we expect our Group utilisation to be in the mid-80s. F&M utilisation is impacted, but more by the plant 2 outages this quarter rather than turnaround because the impact of turnaround is small, because the volume is small. So, F&M we still expected to be in the low 80s. For O&D, we expect the plant utilisation to be in the 90s. As shared by Farina, if you see O&D, we have no planned shutdown or turnaround, hence, the plant utilisation of O&D is expected to remain in the 90s.

Alex Goh – AM Investment – Analyst

I thought there was supposed to be another turnaround on a smaller methanol plant, right?

M Yusri M Yusof (Head of Manufacturing):

Yes. The methanol Plant 1, which has about 30% capacity of our whole methanol chain, so the impact on PU is not as big as the impact should we do the turnaround on Plant 2.

If you look at the chart that Farina showed on the utilisation, you can see on the trend, for F&M, because we have not had any turnaround in plant 2 except for the shortage of gas, the utilisation of F&M remains in the 80s. Whereas in O&D, because the distribution is more equal, anytime we have a turnaround activity, the utilisation will go into the 60s. So without turnarounds in O&D, utilisation is expected to remain in the 90s; F&M is expected to be in the low 80s.

Alex Goh – AM Investment – Analyst

I see. But once FPSO is completed in August, can I expect the fourth quarter utilisation for the F&M to go up to 90%?

M Yusri M Yusof (Head of Manufacturing):

Yes. That's why I said the F&M for the second half is in the low 80s because it'll mostly be contributed by plant 2 availability, also hampered by the shutdown that we did for plant 1. So, it's not going to be the whole F&M segment in the 90s because we still have the other fertilisers and urea plant that contribute to the PU.

Alex Goh – AM Investment – Analyst

For the Olefin and Derivatives, since there's no major turnaround in this second half, should we be looking at somewhere closer to the 97% range that you achieved previously in the first quarter?

M Yusri M Yusof (Head of Manufacturing):

Well, as I said, it will be in the 90s. We are targeting that.

Alex Goh – AM Investment – Analyst

Then, can I go on to the SAMUR project? There's been some calls by Sabah politicians that they want to take a 25% stake in the project. Just want to find out what is the actual stance or position of PETRONAS now, and when is the completion of this project now?

Sazali Hamzah (President/CEO):

At this moment, we are allowing the state government to evaluate on participation in SAMUR. We are looking at maximum stake of 25%. However, it depends on due diligence that they will carry out sometime within this month or next month, to see how much involvement - how much they want to participate in this project.

Alex Goh – AM Investment – Analyst

Would that mean that they will be putting in the equity or are they going to contribute?

Sazali Hamzah (President/CEO):

Yes, they will inject money. As I mentioned, to a maximum of 25% stake if they decide to participate. So now, they are preparing to do the due diligence. But, as to how much that they want to participate is subject to their evaluation.

Alex Goh – AM Investment – Analyst

When is the completion now of SAMUR, after all the delays?

Sazali Hamzah (President/CEO):

We are targeting in Quarter 1 2016. This is in tandem with the reason of the fire that occurred on one of the ships in December. And, we have discussed with our contractor, after optimization, the impact remains the same, which is six months from the previously agreed upon date. So, it will be in Quarter 1 2016.

Oscar Yee – CITI – Analyst

I have a couple of questions. Firstly, on the SAMUR project, you mentioned about first quarter 2016. Is it a mechanical completion or commercial production in terms of the timing?

Sazali Hamzah (President/CEO):

First quarter 2016 will be the "first oil"(i.e. ammonia and urea products will be produced). So, commercially, it will start from that date onwards.

Oscar Yee – CITI – Analyst

In terms of your gas supply, for your Labuan Number 2 project, is this gas supply sharing the same gas supply sources with the SAMUR project as well? And if so, would it also affect the feedstock availability for your new urea project?

Sazali Hamzah (President/CEO):

From the diagram just now, basically it will not share the same pipeline as the existing methanol plant 1 (PML 1) and methanol plant 2 (PML 2) supply. It will take from the new line that we are constructing for PML, but this line is a bigger line and the line will be connected to the MLNG plant. And from this line, the reserve is a lot more than our requirement. So by right, we should have a very stable gas supply because they have a bigger gas field for this pipeline.

Oscar Yee – CITI – Analyst

Finally, I noticed that the RAPID project I think a few weeks ago has awarded two EPCC contract; one to Sinopec Engineering, I think the other one to CTCI Corp. in Taiwan. Do you know if there's any details about those EPCC contracts being awarded? Is it related to the petrochemical part? And if so, is there any details that you could share with us?

Sazali Hamzah (President/CEO):

Unfortunately, we, at PCG, do not have the purview to know all the contracts progress in RAPID. Our involvement is only to evaluate our future participation in RAPID.

AC Tan – CLSA – Analyst

I just have a question on RAPID again. What is firstly taking so long for you to come up with a decision on whether to invest or not? What is the constraint now? And when do you expect this to start operating if you come up to a decision in first quarter of next year? Thanks.

Farina Farikhullah Khan (CFO):

Essentially, it's just the time to evaluate. Because as you are aware, we have our own independent board, and we do have our own investment evaluation criteria that we need to go through. And, also there is a regulatory process that we will have to go through, because this is considered, as you know, it's a related party transaction, which means that there is a certain listing requirement that we have to satisfy before we actually finalise the participation.

So, to answer your question, number one is the discussion with PETRONAS to basically decide in terms of where exactly in the overall big project that we will participate. Secondly, to basically table that to our own directors. And thirdly, is to make sure that in the process, we meet all the regulatory requirements and this is taking a bit of time, and that's why the expectation is early next year for the whole process to be completed.

AC Tan – CLSA – Analyst

Given the numbers that are out there, i.e. on the capacity of the cracker, etc., you are the one that owns the cracker essentially, right? Would there be anyone else coming in apart from PCG?

Farina Farikhullah Khan (CFO):

We have not finalised that decision. Basically, if you are looking at the entire project, you're right, there's the refinery cracker, there's the petrochemical plant, and also the infrastructure and utilities. The total project cost, as you know, is USD27B. The refinery cracker as well as the petrochemical plants are USD16B out of that USD27B. So, what we are assessing right now is not the entire USD16B but a portion of those. And, those are currently going through the assessments. We will definitely share in due course once we have taken the decision as to where exactly we will participate.

AC Tan – CLSA – Analyst

Finally, I suppose with this, the entire turnaround program as well as the maintenance are pretty much done at the O&D segment. Can you give me a flavour of 2015, whether or not there will be any program for more maintenance at O&D and the F&M, if at all?

M Yusri M Yusof (Head of Manufacturing):

Moving forward, we have mentioned that regulatory turnaround is cyclical, so we have moved away from the regulatory turnaround, but there are still process requirements that we have to satisfy. Activities like catalyst replacement, activities like process cleaning. So, there are still going to be planned shutdown days or maintenance days being planned next year and also, the subsequent years. So, it is still going to be there, but the duration and the intensity will not be as heavy as what we have seen for the past four, five quarters.

AC Tan – CLSA – Analyst

When you say the duration, let's say one of these shutdowns, how long do they usually take, like in days?

M Yusri M Yusof (Head of Manufacturing):

Typically, for a regulatory turnaround, it's typically 45 days or 50 days. For a normal shutdown, the process requirements is typically 20 to 30 days.

Suwat Sinsadok – CIMB – Analyst

Could you explain a little bit about aromatic part? The impact in the second quarter and what you expect for the second half, and probably in 2015?

Akbar Md Thayoob (Head of Commercial):

We expect the aromatics spread will become thinner in the second half of the year due to the fact that there'll be more plants coming on stream, and the balance will be very much on the supply side even though that demand will be picking up a bit on the PTA side towards the end of the year. So, we believe that it will be a weakening and thinning spread for aromatics going forward.

Mayank Maheshwari – Morgan Stanley – Analyst

At BASF PETRONAS (BPC), we have been seeing consistent deteriorating performance. Just want to check what's happening there and what's your outlook for 2015 and the second half of 2014?

Farina Farikhullah Khan (CFO):

These are basically the product prices. If we look at the market conditions, it is still challenging. If we look at the results of our joint venture company with BASF, it has improved compared to last year. But, it is still a challenging market condition for their products and we expect that to continue for the rest of this year actually.

Mayank Maheshwari – Morgan Stanley – Analyst

So on the utilisation rates, are they still running at that 70% to 80% levels or have they improved at all? Or do you think that will remain for the second half of this year as well?

Sazali Hamzah (President/CEO):

BPC has started a program to improve the reliability project which started from mid of this year. And I believe that we will see some results by end of the year or year after. And they recognize some of the issues on reliability is there.

David Hurd – Deutsche Bank – Analyst

I was just wondering if you could give us an update on your CAPEX both for 2014 and 2015? Also in light of the FID approval on Aroma. Thank you.

Farina Farikhullah Khan (CFO):

On CAPEX, we are still very much on track. If you recall from our previous discussions and announcement, particularly during the AGM, we announced that our CAPEX for the year is about MYR2.3B. And then you add another about MYR0.3B for our share in the Aroma project with BPC, we are still on track for the utilisation of that CAPEX. As our CEO, Sazali, already mentioned earlier, the SAMUR project, i.e. the construction activities, are currently in full swing.

And for the rest of the CAPEX utilisation, it's basically coming from the turnaround activities. So, that, indeed, is being utilized with the completion of the activities, with only one turnaround remaining in August for the year.

Overall, I think just for SAMUR, the utilisation may be slightly lower than what we had expected in the beginning of the year. Again, because the numbers that we had at the beginning of the year did not fully incorporate the six months delay as a result of fire incident. So, I think for SAMUR, it will be slightly lower than what we originally planned, but the rest are very much on track. So, that's as far as 2014.

When it comes to 2015, coming from the existing CAPEX which is from the operation side, with the completion of the major turnaround activities, we expect that the CAPEX from operations and maintenance to be lower. And, also with SAMUR project, the peak expenditure is behind us, i.e. the peak expenditure for SAMUR is in 2013 and 2014. So we're seeing a lower CAPEX number compared to 2014 and 2013. However, that does not take into account the fact that in 2015, there's a potential substantial expenditure that we will incur if we finalise our participation in the RAPID project.

Cheong Mun Wai – Employees Provident Fund – Analyst

I have three questions. First question is on the disposal of the PVC plant in Vietnam. Can I know much is the disposal price and what is the gains or losses on the disposal?

Farina Farikhullah Khan (CFO):

As part of the divestment exercise, we had entered into the agreement with the buyer where they actually requested us not to disclose the price of the divestment. Because of that and the amount in the overall scheme of our MYR5B EBITDA per year, that's not material, so we have not separately disclosed that.

But, suffice to say, I can share with you that we had disposed it at a gain. It's just that because of the agreement that we entered with the buyer, we're not able to share the exact amount of that gain as well as the proceeds.

Cheong Mun Wai – Employees Provident Fund – Analyst

Second question is on the methanol plant 1 (PML 1) plant shutdown. Just to know how many days you'll be shut down in the third quarter. And for the FPSO that was down, I'm not sure if I missed this just now. I think someone mention that the FPSO was down since middle of July this year and how many days will it be down? And, also would there be a force majeure that will happen as a result of this downtime?

M Yusri M Yusof (Head of Manufacturing):

The turnaround for plant 1 is expected to start mid-August to basically mid-October or maybe towards the end of October. As I said in my earlier briefing, the FPSO transformer has been down since early August and expected to be reinstated by end of August.

Cheong Mun Wai – Employees Provident Fund – Analyst

Any compensation from the party involved?

Sazali Hamzah (President/CEO):

We don’t have any compensation. Of course, we send a contest letter to them, but under our current agreement, I don't think they are liable for any compensation.

Cheong Mun Wai – Employees Provident Fund – Analyst

I think it was a news report somewhere in June regarding another SAMUR plant in the Sipitang Oil and Gas Industrial Park. Just to check whether, is this news true? And, do you have any more details to add to this?

Sazali Hamzah (President/CEO):

At this moment we don't have any plan. Our focus is still on SAMUR, to complete the project by first quarter 2016, where we will start the commercial operation. So, if you hear anything from the market, that is probably not from us.

Yong Liang Por – BNP Paribas – Analyst

I think Oscar already mentioned that some of the refinery projects, the initial construction awards have been sent out already. So, I'm just curious regarding your own participation in RAPID. You said the decision will be made at the beginning of next year. I'm just wondering that, when this decision is made, does this mean that you will make this decision and start awarding the projects right away or will you make the decision and then have to wait another couple more months before starting to award the projects? Thank you.

Sazali Hamzah (President/CEO):

Whatever we do at our side is a totally separate exercise. RAPID project will proceed as planned. So, our participation is all subject to our progress. So if you ask me whether contract will be whole or not whole, it's all at RAPID's discretion. It is not related to us.

Farina Farikhullah Khan (CFO):

Just to add to that, as Sazali mentioned, the RAPID project, it has its own project team and its progressing based on its plan. And our decision to participate is a separate exercise and it doesn't affect the RAPID project plan and progress in any way.

It's a PETRONAS project, as you know, as at this point in time, it's progressing as per the plan that has been endorsed at the final investment decision that was made by PETRONAS in April this year. So our level of participation, the decision was based on the equity side, and it doesn't affect the project's timeline and schedule in any way.

Yong Liang Por – BNP Paribas – Analyst

I was just curious because if the refinery project is being awarded, that means that the petrochemical can't be too far behind. Otherwise, it won't be synchronized, so I was just wondering whether there will be any acceleration in the timeline.

Farina Farikhullah Khan (CFO):

It's very difficult for us to comment at this point in time because we are not formally in the project yet. But, again as far as we know, the project is progressing, and I'm sure, like any other project, they will find every opportunity that they can to progress the timeline earlier. But, indeed they do have dedicated team and with their dedicated project scope and timeline that they are executing as at this point in time.

Nor Shahda Zakaria (Head of IR):

I think despite the fact that we had the results close to this briefing, I think we had a good presentation and good questions from the participants of this session. So if there are no more questions, I will say that we have come to the end of our briefing and we thank you very much for your participation.

The recording of this webcast will be made at the end of this day. And with that, thank you, and a very good night.

THE END