Quarter Ended 31 December 2014 PETRONAS Chemicals Group Bhd Earnings Presentation
Event Date: 24 February 2015, 5.30pm

Nor Shahda Zakaria (Head of IR):

Good evening, everyone, and welcome. First of all, we would like to express our sincere apologies for rescheduling this session to a later time that is from 3 p.m. as per our earlier invitation to 5.30 p.m.

As announced earlier this month, there was a major changing of the guard at the highest level of PETRONAS management, in which PCG Chairman Datuk Wan Zulkiflee has been appointed as the new PETRONAS President and CEO effective April 1, 2015. During this transition phase, there had been some adjustments in management schedule which unfortunately had a ripple effect to the briefing session today.

Nevertheless, we thank you for joining us to cover PETRONAS Chemicals Group Berhad's briefing on the highlights of the financial results for the quarter ended December 31, 2014 as well as the full year 2014 performance.

Joining me are PCG President and CEO Sazali Hamzah, Farina Khan, Yusri Yusof and Akbar Thayoob who will take you through the highlights of the Company, financial, operational, as well as outlook on the market, respectively. Also joining us later for the question-and-answer session is Aziz Othman.

Before we start, please observe the disclaimer statement in the briefing pack. The access to this briefing via conference call or webcast are available on our corporate website.

Without further delay, I will turn the call over to Sazali.

Sazali Hamzah (President/CEO):

Thank you, Shahda, and good evening, everyone. Let me just go straight into our key highlights.

First, we begin with the general overview of the market condition in Quarter 4 2014. Compared to the preceding quarters, the global GDP growth softened from 2.6% to 2.5% in Quarter 4, as US growth slowed down, while China and Europe remained stable.

Brent price continued to decline due to global supply glut as US continued to supply a 27-year high crude oil production, while OPEC producers resisted to cut their output post OPEC meeting held in November 2014.

Similarly, naphtha also plummeted in line with crude oil price decline as overflowing supply of naphtha into Asia from the West were further aggravated by softer demand with several Asian crackers undergoing maintenance.

As a result, during Quarter 4, feedstock ethylene price weakened, causing the Olefins and Derivatives product prices to decline accordingly.

For the Fertiliser and Methanol segment, the price of ammonia improved due to tight supply, while urea remained comparable on the back of balanced supply demand. Methanol price, on the other hand, was lower as improved supply was met with weak demand, since cheaper crude oil has led to lower methanol demand for MTO and DME application.

Despite the challenging market condition, Group's financial performance improved compared to the preceding quarter, as the completion of the turnaround has led to higher utilisation, production and sales volumes, particularly for higher-margin ethane-based and methanol products. Revenue climbed 10% to MYR3.9 billion, while EBITDA climbed by 22% to MYR1,341 million, and the Group EBITDA margin remained strong at 32% for the year 2014.

Next, PCG has made key progress in our operational excellence strategies to deliver strong plant performance in 2014. With tighter and focused turnaround controls in place executed by our centralised turnaround team, our activities were completed effectively and safely in 2014 with improved execution compared to 2013.

In addition, we had also implemented various internal reliability enhancements at our plants. These measures are showing results as anticipated and the plants are running well with higher reliability, resulting in PU of 88% for Quarter 4 2014. En. Yusri will elaborate more on this later.

Next, I would like to highlight the key elements that underscore our resilience in light of the lower crude price that we have been seeing since the last few months.

For PCG, our wide range of products constantly acts as a natural hedge against the volatility of product prices. For example, ammonia and urea have low correlation to crude oil price, and as such are less affected.

Overall, this diversified business portfolio reduces the exposure to the market fluctuation to a certain extent.

As a gas-based producer, we are not affected by feedstock inventory issues commonly faced by naphtha-based producer. With our competitive gas-based cost advantage and integrated supply chain, these factors contribute to our resilient margins and allow us to weather market uncertainty in the near future.

In addition, we have a strong cash position to support our current and future growth plans.

Our committed projects, i.e. SAMUR and AROMA are progressing as planned. We will continue to monitor the cost of the project accordingly and ensure that the projects are executed and delivered in 2016 as scheduled.

We recently announced the plan to build a 2-EHAcid production plant at our joint venture site with BASF. The plant will be the first of its kind in the ASEAN region and will benefit from the integration with the current facilities. Our team also continues to assess PCG equity participation in RAPID. Led by PETRONAS, the project is still progressing as planned.

In line with our strategy, we also have a portfolio of other growth projects that are at various stage of assessment maturity to further expand our product portfolio into derivatives and specialty.

Last but not least, we continue to ensure our commitment in sustainability towards ESG, i.e. environment, social and governance. In fact, I'm pleased to share that PCG is in the top 10 out of 200 largest companies ranked by market capitalisation. In FTSE4Good Bursa Malaysia or F4GBM index launched on December 23 2014, to promote globally recognised standards for ESG practices.

Now, I would like to hand over to Madam Farina to provide detail of the financial results.

Farina Farikhullah Khan (CFO):

Thank you, Datuk Sazali. Good evening, everyone. As usual, I will walk through the details of the financial performance. If you can turn to slide 3 of the Group financial performance as well as slide 4 on plant utilisation for reference, I will start with the financial results against preceding quarter.

We are very happy to report, with the improved plant reliability following completion of our heavy turnaround and maintenance activities, and with the improved methane gas supply this quarter, we achieved higher plant utilisation of 88% for the Group, compared to 75% in Quarter 3. For Olefins and Derivatives segment, we achieved a plant utilisation of 93% compared to 90% in Quarter 3. And in F&M, our PU surged to 84% from 64% in Quarter 3. Consequently, sales volume increased by 22%.

As to the realised product prices, in line with the weaker market conditions, average realised product prices for Olefins and Derivatives, as well as methanol, dampened following the decline in crude oil and naphtha prices.

For ethylene glycol and aromatics, prices also declined due to weakening polyester demand. In contrast, ammonia prices increased due to tight supply, while urea prices were comparable on balanced supply and demand. As for methanol, prices were lower as supply improved with resumption of operations at key plants, including our PC Methanol 2 plant.

In addition, there was weaker demand for olefins and LPG substitutes, i.e. MTO and DME, as lower crude oil had led to cheaper olefins and LPG prices.

Overall, Group revenue increased 10% or MYR352 million to MYR3.9 billion on higher sales volume, which offset the impact of lower product prices. EBITDA for the Group was higher by 22% or MYR242 million at MYR1.3 billion, while Group EBITDA margin increased by 3% to 34%. However, PAT was lower by MYR162 million at MYR570 million, mainly due to provisions for impairment on assets relating to our butane-MTBE chain of MYR262 million as a result of weaker spread outlook for MTBE.

At business segment level, for O&D, higher PU and sales volume partially offset the lower product prices, resulting in revenue falling only marginally by 2% to MYR2.7 billion. EBITDA and EBITDA margin were comparable to the preceding quarter at MYR877 million and 33% respectively, as narrower product spreads were negated by higher volume. Profitability declined by 44% to MYR316 million, mainly due to provision for impairment on asset relating to the butane-MTBE chain that I mentioned earlier.

For F&M segment, revenue jumped by 49% to MYR1.2 billion, driven by higher prices and volume for ammonia, as well as higher methanol volume. EBITDA surged significantly by 131% while EBITDA margin climbed 14% to 40%. Profitability was 78% higher at MYR254 million.

Now, let's move on to the corresponding quarter.

The Group PU improved to 88% compared to 66% in the corresponding quarter, from better operational performance for both O&D and F&M segments. O&D achieved a PU of 93% compared to 67% in Quarter 4 last year, while F&M segment achieved a PU of 84% from 65% in Quarter 4 last year.

This stronger operational performance was driven by higher plant reliability following the completion of statutory turnaround activity, coupled with improved methane gas as well as utility supplies whereas in the corresponding quarter, as you may recall, the statutory turnaround for our bigger cracker was ongoing and Methanol Plant 2 was shut down for comprehensive maintenance activities.

Consequently, in line with higher plant utilisation rate, sales volume increased by 38% in Quarter 4 2014.

In line with challenging market, prices and spread for the Group were lower compared to the corresponding quarter. In the O&D segment, realised product prices were lower across the board on lower crude oil and naphtha prices. In addition, MEG prices declined due to lower demand from the polyester industry, while aromatic prices also fell due to increased supply from new capacities.

In the F&M segment, prices were mixed, with ammonia price increasing due to tight supply, while urea price was comparable on balanced supply as China suppliers offset the constraint in North Africa and India. As for methanol, prices normalised due to supply recovery, as well as weaker demand with lower requirements from MTO and DME, as mentioned earlier. In addition, in Quarter 4 last year there were supply constraints due to shutdowns, which pushed methanol prices up.

Despite the challenging market conditions, Group revenue increased by 16% at MYR3.9 billion as a result of higher sales volume, supported by favorable exchange rate movement. Group EBITDA surged 88% or MYR629 million to MYR1.3 billion and Group EBITDA margin jumped by 13% to 34%. PAT for the quarter climbed 14% to MYR570 million, particularly due to the high-margin ethane-based and methanol products.

O&D revenue increased by 2% to MYR2.7 billion as the higher volumes of high-margin ethane-based products and favorable exchange rate movement negated the impact of lower product prices. Meanwhile, EBITDA almost doubled from MYR442 million to MYR877 million, resulting in EBITDA margin of 33%. PAT was also higher by 7% to MYR316 million due to the same reasons given earlier.

In the F&M segment, revenue jumped by 62% to MYR1.3 billion on higher volumes, particularly for methanol and ammonia, also further supported by the favorable exchange rate movement. PAT climbed 54% to MYR254 million. EBITDA surged by 71% to MYR504 million and EBITDA margin was very strong at 40%.

Now, let's move on to the year under review.

In 2014, the Group achieved higher level of plant reliability across both segments compared to the previous year. Despite the higher level of statutory turnaround activities in 2014 compared to 2013 and methane gas supply limitations to our methanol facilities, Group PU in 2014 increased to 80% compared to 78% in 2013. Excluding the methane gas supply constraint at our methanol facility, Group plant utilisation would have been 87%.

As for O&D segment, PU increased to 86% from 83% in 2013, mainly due to the lower turnaround and maintenance activities. In 2013, TA was conducted at the bigger cracker and its related downstream facilities, while the TA in 2014 involved a smaller cracker and one downstream facility, as well as planned maintenance at PC aromatics.

For F&M, PU was still marginally higher at 75% from 74% in 2013, despite two statutory turnaround in 2014 compared to none in 2013, and despite the feed gas disruption from upstream supplier to PC Methanol 2. The higher performance was achieved as a result of higher internal plant reliability, particularly in our methanol plant. Excluding the supply disruption, F&M PU would have been 87%.

In line with the overall improved plant utilisation rate, production volume increased. However, sales volume were comparable as the higher production volumes include intermediary products which was subsequently consumed by downstream facilities.

Moving on to the product prices, generally, it was a challenging year for petrochemical market. Initially, we saw stronger polymer prices, supported by higher ethylene prices due to tight supply situation. However, this was met with weaker MEG and aromatics prices due to lower polyester demand as well

as additional aromatics capacities, which was further aggravated by the plunge in the crude prices towards the end of the year.

Similarly, urea price was weaker in 2014 compared to 2013 as the competitive tax structure in China led to higher supply availability of urea in the market, while methanol prices were also lower due to the resumption of operations at key regional producers.

Consequently, for 2014, Group revenue declined by 4% or MYR605 million at MYR14.6 billion. EBITDA for the Group decreased by 9% to MYR4.6 billion. Notwithstanding, our Group EBITDA margin for the 12 months remained healthy and resilient at 32%, compared to 33% in 2013. As to the PAT for the Group, it was lower by 22% to MYR2.7 billion as a result of lower spreads as well as provision for impairment on butane-MTBE chain.

Similarly, revenue for the O&D segment declined by 6% to MYR10.5 billion. EBITDA was lower by 5% to MYR3.2 billion due to narrower spreads whereas EBITDA margin was comparable at 31%. PAT declined 22% to MYR1.8 billion as a result of lower spread and provision for impairment mentioned earlier.

F&M revenue grew 2% to MYR4.2b, despite comparable production volume and lower product prices, due to the higher trading volumes. EBITDA of MYR1.5b was lower by 12%, with EBITDA margin still strong at 36%. PAT was lower by 16% due to the lower product prices and higher trading volumes which carried lower margin.

Now, moving on to my last slide, which is on our Group cash flow and cash balance. During the year, you can see that our cash balance decreased by MYR348 million, mainly due to higher cash outflow for investment in SAMUR project, as well as the turnaround costs incurred during the period. Nevertheless, our Group cash position remained strong at MYR9.8 billion.

With this healthy cash balance, we continue to be in a very good position, particularly in these difficult market conditions. The strong cash balance will provide us with the flexibility and opportunity to undertake our current and future growth plans.

Lastly, the Board of Directors has declared a second interim single-tier dividend of MYR0.08 per ordinary share amounting to MYR640 million to shareholders for the year ended December 31 2014. The dividend will be payable on March 24, 2015. This would be in addition to the interim single-tier dividend of MYR0.08 per share amounting to the same value which was paid to shareholders on September 12 2014. Cumulatively, the dividend for the year is MYR0.16 per share.

That's the end of my presentation. I will now hand over to Yusri on the key operational highlights.

M Yusri M Yusof (Head of Manufacturing):

Thank you, Farina. This is Yusri. Welcome and good evening. Let me now go through some of the highlights of our operations which supported the financial performance.

Operationally, we have executed all the planned turnarounds and maintenance programs for the year. We also took the opportunity during the turnaround and maintenance period to complete all our internal reliability and efficiency improvement initiatives. I'm pleased to report that compared to 2013, our internal reliabilities and plant efficiencies performance have improved. For example, our PC methanol plant reliability improved by 40% in 2014 compared to 2013.

In addition, we have also steered all our turnaround activities in 2014 with better precision and execution compared to 2013 due to our stronger centralised turnaround team and also our ability to manage our contractors better. Consequently, as expected, we see our plant performance steadily improve during the year.

All these efforts resulted in a PU of 88% for Quarter 4, which was the best quarter for the year, as we have been ramping up operations in Quarter 4 after the completion of all the turnaround and maintenance activities which was carried out in the last five quarters. Similarly, plant utilisation rates for Olefins and Derivatives, and Fertilisers and Methanol had also improved significantly to 93% and 84%, respectively.

Overall, the cumulative effect translated into an improvement of Group plant utilisation rate to 80% in 2014 from 78% in 2013, as mentioned by Farina earlier.

As mentioned, the Group PU would have been 87% had it not been for the methane supply disruption to our Methanol Plant 2, which we previously indicated would still be a risk until the new pipeline from the new supply source is completed.

Going forward, we will continue the momentum and focus on operational excellence. We will still have our turnaround and maintenance activities and our reliability program, albeit at a lower level than in 2013 and 2014. We will spread out the planned turnaround and maintenance activities to optimise business and resources. For 2015, we plan to conduct two turnaround activities compared to four to five turnaround per year, in the last two years.

We will continue to work on strengthening our relationship with our feedstock and utility suppliers. We expect to see methane supply reliability to be resolved with the completion of the Dalak Pipeline in 2016 as it is our long-term solution to the methane supply challenges that we are now still facing.

Meanwhile, we expect improvement in the ethane supply volume in 2015 following the completion of the earlier phases of our supplier's plant rejuvenation and revamp plan.

That's all I have for operational highlights. I will now hand over to Akbar for the market outlook.

Akbar Md Thayoob (Head of Commercial):

Thank you, Yusri. Hello, everyone. Akbar here from Commercial. Let me start with highlighting some of our notable achievements, especially in ensuring best prices despite the challenging market situation.

Firstly, we have improved our positioning in higher netback market where we enjoy a bigger slice of the market in ASEAN countries, as well as achieved higher sales volume to end-users. Secondly, we negotiated better pricing formulas for our term sales contract. Thirdly, we secured higher prices with just-in-time smaller parcel sizes for our ASEAN customers. And we managed early conclusion of sales in the first part of Quarter 4 ahead of the price slump.

Now, I would like to shed some highlights on the market.

On the supply demand front, we see that Asia Pacific will remain in net deficit as the fundamental demand in Asia remains positive in tandem with the positive GDP outlook, as well as there will be some several possible delays in new plant startups.

Prices, as we all know, are on downward trend, in line with crude oil price decline. Nonetheless, we see that the spread remains positive. For our Olefin and Derivatives spread, even though it is narrowing, we are still in positive territory and for the Fertiliser and Methanol spread, especially urea, are less impacted due to the low correlation to crude oil.

While buyers remain cautious, and maintain low inventory level, they are still in the market for the products.

We are facing more competition from Middle East as the threat continues, but at this point in time, PCG especially have some competitive advantages, especially in our location. We are situated in the growth demand area and as such, being close to our customers, we are able to provide value in terms of just-in-time delivery to our customers. And we also have very close relationship that we have built over the years and that has given more confidence to our customers to continue being our partners.

A lot have been spoken about shale gas and PCG will remain cautious and at this moment, we believe, with our competitive feedstock, we will remain competitive as the higher cost for North American products coming into this region is a natural barrier to entry.

Now, I would like to talk about the forecast market and prices for our products under the O&D business segment. Let me start with ethylene.

For 2015, ethylene demand supply balance in Asia is expected to remain tight as prices are expected to strengthen slightly in Quarter 2, as another round of cracker turnaround especially in North Asia takes place. Nonetheless, it will trend lower as compared to 2014 especially in Quarter 1 2015 as buyers are generally minimizing the stock in view of the volatile oil prices.

Moving to polymers, polymer prices are expected to remain soft in Quarter 1 2015 on bearish market sentiment, as energy prices continue to decline coupled with the feared slowdown. You see, I use the word feared because there is a lot of anxiety on how China is going to do in terms of its economic growth. Nonetheless, we enjoy a sharp spike in demand ahead of the Chinese New Year festivities. However, customers are on a cautious buying mode, again, purchasing on a just-in-time basis, while keeping inventories at minimum levels.

In Quarter 2, we expect polymer prices to trend alongside naphtha value amidst additional supply of 350,000 metric tonnes of LDPE coming from Borouge 3 plant in Abu Dhabi, as well as the competition of its phase 3 expansion at the end of Quarter 1 2015.

Now, let's talk about aromatics. The market situation will still be long and is expected to continue throughout 2015 with fresh capacities expected to come on stream as early as Quarter 1.

The only upside so far is the potential constraint in production as a result of tight naphtha supply and the expected delay in the startup of Jurong Aromatics Corporation, which we anticipate the volume of 800,000 metric tonnes of PX and 450,000 metric tonnes of benzene being taken away from the potential addition to this year's market supply.

For MEG, we expect prices to soften in 2015 due to heightened competition, again, coming from the new on-stream capacity, especially in China and the Middle East, and prices, similarly, are expected to remain weak in Quarter 1 2015, in line with volatile PTA price movements and slowdown of the market activities especially in view of the Chinese New Year holidays in the past month.

We anticipate prices to firm up slightly by March 2015 as buyers return to the market to replenish their stock post the Chinese New Year holidays. Nonetheless, the 2015 outlook for MEG remains range-bound and you see that it will probably hover around USD700 metric tonnes level.

Now, moving on to the forecast market and prices for products under the F&M segment. And let me start with granular urea.

We forecast that the prices for urea will average lower in 2015 as new capacities come on stream in Asia Pacific region, resulting in a surplus urea market. Price is expected to move sideways as well, going into later part of 2015 on the back of balanced supply and demand fundamentals.

Now, what about ammonia? In 2015, ammonia price is forecasted to be as well, lower, on the back of bearish downstream demand. And in this quarter, we expect the prices to trend downward from high

levels of Quarter 4 2014 as supply returns to the market amidst continuous weak demand from downstream applications of Caprolactam and Acrylonitrile.

Last but not the least, let us look at methanol. Methanol prices are expected to remain soft in 2015 as regional supplies retreat to normal level. In Quarter 1 2015, lower crude oil prices and weak downstream demand for formaldehyde and DME applications will act to the pressure on prices to move downward and therefore, we anticipate methanol prices to average around about USD280 per metric tonne.

With that, I now hand it over to Sazali.

Sazali Hamzah (President/CEO):

Ladies and gentlemen, before we go to the question and answer, let me highlight the following key points.

Even with the currently challenging petrochemical market, we foresee demand in Asia to remain positive in tandem with steady GDP outlook. Buyers may remain cautious and maintain low inventory level, yet the overall demand is still sufficient.

The organisation transformation that we embarked on the beginning of 2014, has contributed to a better execution of Operational, Marketing and Sales, and also innovation excellence which will helped us to ride through the challenging 2015 market and pursue growth for the company.

We have made some progress in our operational excellence. Health, Safety and Environment practices at our plants were at world-class performance in 2014. It will continue to be strengthened.

As we have shared, the plant reliability and utilisation rates have been improving and we expect our target plant utilisation in 2015 to be in the range of 80% to 85% rate. Beyond 2015, we expect our plant utilisation to further improve as the gas supply becomes more reliable with the completion of the Dalak pipeline in 2016.

We continue to enhance our marketing excellence as we leverage on our portfolio of quality customers, integrated facilities and geographical advantage. These competitive advantage has enabled us to lower the cost-to-serve through logistics optimisation in our key market in Asia Pacific.

With the successful commercialization of CF45, we continue to accelerate product upgrading program and future positioning. Some of the areas that we are assessing for potential opportunities are bio n-ethanol, ethoxylates, herbicides, LDPE coating and the dearomatised solvent.

With that, I would like to open to the floor for questions and answers.

Joe Vuei Wong – AmInvestment – Analyst

Firstly, given the current oil price level, how would that affect your negotiation for the ethane price with PETRONAS? And secondly, how would it affect the RAPID project in Johor given the current oil price level?

Sazali Hamzah (President/CEO):

At this moment, as you are aware, our contract gas pricing with PETRONAS, the first one will only finish by 2016, and there is also another plant in ABF in 2015. We are now starting to negotiate with PETRONAS. As far as our position now, and PETRONAS' position, there is no strong indication of much changes. However, we still continue this discussion with PETRONAS until the expiry of the contract.

It is important to take note that PCG is still a value to PETRONAS as a whole gas chain compared to other outlets. For example, power plant or other normal industries. So, we still bring higher value to PETRONAS. So, in that sense, we are also being protected by PETRONAS. That is one.

Secondly, when you talk about RAPID, I think we are not in the position to answer that but as far as we know, at this moment, the project is ongoing or proceeded as per plan. There is no indication of slowdown and I think that RAPID team is still pursuing the project as per the agreed target deadline.

Suwat Sinsadok – CIMB – Analyst

I have three questions. The first one is that could you please give some color on impairment loss, is that going to happen again in 2015 based on your estimate on the spread outlook.

My second question is on the shutdown schedule, you said that is going to be two shutdowns, could you please specify when it is going to happen and how long does it take?

And my last question is on the RAPID project progress, could you please add some detail on the project based on the schedule that you have given out. Thank you.

Farina Farikhullah Khan (CFO):

Just to add, on the impairment loss, we have taken in, basically, the latest outlook as far as the MTBE spread, given the current oil price scenario. As you know, MTBE is affected by the lower crude oil price environment that we are in and given our expectation that the oil price is going to stay at this level and yes, it will recover, but the expectation today is that it will not be to the USD100 level and beyond that as we have experienced before.

So, we have taken this latest outlook into account and as a result of that, we had that MYR262 million impairment. We don't foresee further impairment on MTBE as I mentioned, and also because we don't expect the oil price to go much further than the current level that we see.

But of course, it is subject to the change in this crude oil price assumption but with this latest view, the impairment stands at MYR262 million, for Quarter 4 and for the year.

I will pass the second question on the shutdown schedule for 2015 to Yusri. I think he mentioned earlier that we have two turnarounds planned for the year.

M Yusri M Yusof (Head of Manufacturing):

I think at this point of time, suffice to say that the two shutdowns that we are planning this year is of a smaller scale than the shutdowns that we have had in 2014 and 2013. We will, I guess, announce the site as we get closer to the date rather than announcing at the beginning of the year.

Sazali Hamzah (President/CEO):

Your question number three on the progress of RAPID, as I mentioned earlier, RAPID project is progressing as per plan. My understanding is that they are still working as per their original schedule, the refinery and cracker have proceeded as per plan, and followed by the petchem as well. So there are a lot of activities in RAPID now and I don't see any further deferment affected by the crude oil price.

Oscar Yee – CITI – Analyst

I have three questions. Firstly, I recently saw some ICIS comments that both of your methanol plants are currently shutdown due to some technical issues. Could you update us on what exactly is happening during this quarter and how long would the shutdown last?

My second question is with regards to your ethane availability. Your presentation clearly mentioned that for 2015, you are expecting a higher ethane volume. Could you tell us roughly in terms of percentage, how much increase in ethane volume do you see for 2015 versus 2014?

And finally, could you give us some more details about your involvement for the new projects with BASF. For example, for the 2-EHAcid, how much is project investment?

And also for the AROMA project, what sort of revenue and kind of EBITDA margin should we be expecting from this project? Thank you.

M Yusri M Yusof (Head of Manufacturing):

Concerning the report by ICIS, yes, we did have some disruption at our methanol plant. Basically in Labuan, we had some power dip that affected both plants. Plant 1 is in operation currently, it is almost back to full rate. Plant 2, unfortunately, we still have some work that needs to be done at upstream, which is a planned work that is part of our reliability improvement to improve the quality of methane that we will be receiving moving forward.

So, Plant 1 is already back up, Plant 2 is now on planned activities for installation of quality improvement for gas processing.

With respect to ethane, we have been working with our feedstock suppliers for the past two years, they have completed most of their rejuvenation and improvement work and we expect improvement to be in the range of maybe 15% to 20% in terms of volume.

Sazali Hamzah (President/CEO):

With regards to your third question on the 2-EHAcid, we have reached FID approval, so the next step is basically to go for the EPCC phase of this project. This project is led by BASF with support from us, it is a continued joint venture project with the same equity that we have in BPC.

The second one, on AROMA, the project is also progressing very well. So far, it is still as per our schedule and similarly, this project is led by BASF, with full support from PCG. This project have reached the construction stage at this moment.

On the EBITDA, I would like to get our CFO to comment on that.

Farina Farikhullah Khan (CFO):

As you are aware, this project is done through our joint venture company with BPC, which we are doing equity accounting on that. So therefore, we don't actually book the revenue and the EBITDA margin. For us, it is the share of associated company's profit.

What I can say is that as far as the addition to us on the share of associated profit, by the time the project stabilises, for 2-EHAcid, we expect the addition to the share of associated profit to be by about 4% and for AROMA, it is higher of course, it is a bigger project, we expect that to be about 10% of our addition to our share of associated profit in the year that it reached full cycle or full production.

Yong Liang Por – BNP Paribas – Analyst

Just a quick question on the write-down, I noticed the MTBE price has recovered a little bit now, so far, up to February. Does this introduce the possibility of write-backs?

And the second question is generally looking at all the product prices, MTBE prices probably fell just as much as some of the other products. So, why was the write-down just for MTBE? Thank you.

Farina Farikhullah Khan (CFO):

The write-down on MTBE, I think your first question was whether there is a possibility if the MTBE prices recover. So again, when we took the write-down, it is the view that the oil price is going to stay between USD50 to USD60 per barrel. Of course, if the MTBE price recover in line with the recovery in the oil price, there is the opportunity of write-up, the accounting standards allows for that so we will do that if we believe that there is a permanent recovery in the environment.

And your second question is, why is it just for MTBE? As far as MTBE, if you look at the feedstock, it's basically butane, of which the price that we pay is based on Saudi CP. So if you look at the spread, compared to our methane chain and our ethane chain, the spread for butane to MTBE, based on the feedstock price which is linked to Saudi CP, the spread is tougher and that is why only MTBE is affected but for the rest of the other products, it is quite comfortable.

Even for aromatics, we have taken the latest, of course, industry outlook, and we are still okay as far as aromatics is concerned.

Yong Liang Por – BNP Paribas – Analyst

So basically, the standard is that if there was a very severe margin compression, then that is when you take the write-down?

Farina Farikhullah Khan (CFO):

Correct. And of course, the cash flow that we use is basically at least 15 to 20 years kind of cash flow outlook, and if that value for the 15 to 20 years cash flow doesn't support the asset value, then that is the amount of the write-down that we have to do.

But should the value improve with the new cash flow assumption, and the exercise, the accounting standard requires us to do once a year. So at the end of every year, before the closing of the book, we will update the assumption. We don't expect a major change in other things with the exception of the product prices as well as the feedstock prices when we run the annual updates.

Nor Shahda Zakaria (Head of IR):

If there are no other questions, I would say that we can conclude today's briefing. The recording of this webcast will be made available at our website at the end of the day. We thank you for your participation and have a good evening.

THE END