Quarter Ended 30 June 2015, PETRONAS Chemicals Group Earnings Presentation
Event Date: 7 August 2015

Operator:
Thank you for standing by and welcome to the PCG analyst briefing for quarter ended August 7, 2015 conference call. (Operator Instructions). I must advise you that this conference is being recorded today, Friday, August 7, 2015.

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

Edward Ong (Head of IR):
Thank you, Natalie. Good evening, good afternoon and good morning. This is the second quarter 2015 Petronas Chemicals Group Berhad earnings call.

I would draw your attention first of all to the disclaimer on our presentation.

Thank you for taking the time to join us. I must apologize in advance if the sound quality is not as good as usual. This is because we are currently dialing in from an off-site location, so I do hope you bear with us.

With us today, we have Datuk Sazali Hamzah, Chief Executive Officer; Farina Farikhullah Khan, Chief Financial Officer; Akbar Thayoob, Head of Commercial; and Mohamed Yusri Yusof, Head of Manufacturing.

Without further ado, I'd like to hand the floor over to Datuk Sazali, Chief Executive Officer.

Datuk Sazali Hamzah (President/CEO):
Thank you, Edward. Good evening, everyone, and good morning as well as good afternoon in some other places. We'll start with key highlights of the quarter under review.

Firstly, on operational performance, our ongoing focus on operational excellence continues to show the results we expected. For the quarter ending June 30, 2015, PCG again achieved better plant utilization of 78% on the back of higher plant reliability, less turnaround activities and better feedstock supply compared to the corresponding quarter. Excluding the turnaround at our Gurun facility and planned catalyst change-out at PC Glycol, Group PU for the quarter would have been 89%.

PCG also recorded better operational performance year on year. For the six-month period ending June 2015, our Group plant utilization stands at 84%, as compared to 78% in the same period last year. Again excluding the PCFK turnaround and planned downtime at PC Glycol, Group PU would have been 89%.

As for the market, we continue to see product prices being pressured by the impact of the low crude oil prices. However, the decline is lower-than-anticipated due to some supply constraints in this region stemming from seasonal turnaround and several unplanned shutdowns [inaudible]. The average Brent crude oil -- the average Brent crude oil prices was $63 per barrel for the quarter, declining by 43% compared to the corresponding quarter.

The Group financial performance continues to remain resilient despite the challenges. Compared to the corresponding quarter, revenue was comparable at MYR3.3b. Earnings before interest, tax, depreciation and amortization, EBITDA, improved by 13% or MYR127m to MYR1.1b. EBITDA margin also improved to 33% as sales volume and better sales mix continued to mitigate the lower spread.

On another note, last month, PCG and BASF, through our joint venture, announced the final investment decision for the production of highly-reactive poly-isobutene or HR-PIB in short. HR-PIB is used as a component to manufacture fuel and lubricant additives such as fuel detergents or dispersant for engine oil. The increasing environmental and regulatory standards in the automotive industry require higher-performing engine oils and fuels, especially in the growth region Asia, thus the need for additives such as HR-PIB is anticipated.

HR-PIB together with the AROMA and 2-EH acid project will further boost our product portfolio and support our vision to expand the specialty product arm while growing volume in the basic chemical segment.

Back to the quarterly results. For more detail on the financials, I would like to pass the session over to our CFO, Madam Farina.

Farina Farikhullah Khan (Chief Financial Officer):
Thank you, Datuk Sazali. Hello, everyone. If you can turn to slide 5 on the quarterly Group financial performance, as well as slide 6 on plant utilization, for your reference on these financial performance discussion.

Let's start with the performance against the corresponding quarter. So this is quarter two 2015 versus quarter two 2014. I am very pleased to report that we had a strong second quarter. Our plant utilization rate was at 78% compared to 76% in the same quarter last year. As explained by Datuk Sazali earlier, this was achieved through better operational performance and lesser turnaround activity as compared to the same quarter last year. For this quarter, we had one turnaround activity at Petronas Chemicals Fertilizer Kedah and one planned catalyst change-out at PC Glycol, Petronas Chemicals Glycol. Excluding the turnaround and the planned catalyst change-out, Group plant utilization rate would have been 89%.

Market conditions continue to be challenging as both segments recorded lower average realized product prices amidst the lower crude oil price environment. However, this quarter's prices are higher than what we originally anticipated, particularly on the olefins and derivative segments due to some supply constraints in the region.

The fertilizer and methanol market prices were lower compared to the corresponding quarter, with weaker demand for methanol following lower demand for energy-based derivatives such as DME, as a result of lower crude oil prices. Ammonia and urea also saw lower prices due to ample supply.

Group revenue was comparable at MYR3.3b despite the weaker prices. This is contributed by higher sales volume, better sales mix, and favorable foreign exchange rate. Group profitability also increased by 9% to MYR638m, compared to MYR585m, which is also due to lower operating costs. Consequently, EBITDA was also higher at MYR1.1b compared to MYR956m in the corresponding quarter. Lastly, we're pleased to report that EBITDA margin for the Group increased by 4% to 33%.

So in conclusion, our strong quarter two performance is actually due to four factors. Number one is better sales volume from stronger operational performance. Number two is better sales mix as we have more ethane-based products in the portfolio as a result of higher ethane supply. Number three is favorable foreign exchange movement due to stronger dollar compared to ringgit. And lastly, price was a bit lower than -- it is lower but it is actually much better than originally anticipated.

Now let's move on to our performance compared to the preceding quarter. As you are aware, there were no planned turnaround and major maintenance activities undertaken in quarter one 2015 compared to one planned turnaround at PC Fertilizer and the planned catalyst change-out at PC Glycol. So again, excluding the turnaround and the planned catalyst change-out, the PU of 89% is comparable to the 90% in the preceding quarter.

The O&D segment saw a PU of 84% due to the planned maintenance shutdown at PC Glycol for the catalyst change-out mentioned earlier. Without the maintenance shutdown, PC Glycol -- without the maintenance shutdown at PC Glycol, the segment PU would have been 93% this quarter, compared to 95% at the end of -- for the quarter one 2015.

For the Fertilizer & Methanol segment, the PU excluding the TA at the Gurun fertilizer plant is comparable at 85%, versus 87% in the preceding quarter.

Financially, compared to the preceding quarter, Group revenue increased by 5% from MYR3.1b to MYR3.3b due to the higher prices realized as a result of the earlier mentioned supply constraint, as well as supported by favorable foreign exchange rate. However, profitability for the quarter declined compared to preceding quarter by 5% and EBITDA also saw a decline of 5% to MYR1.08b due to the lower sales volume following the planned maintenance activities that we mentioned earlier. Nevertheless, EBITDA margin remained strong at 33%.

Now moving on to the performance for the six months period, so the six months 2015 compared to six months 2014.

At the O&D business segment, revenue declined by 13% to MYR4.4b, mainly due to lower average realized prices following the lower crude oil and naphtha prices. EBITDA was marginally lower at MYR1.42b, compared to MYR1.47b, with generally lower product spreads. EBITDA margin, however, improved by 3% to 34% as a result of a higher proportion of high-margin ethane-based products in the sales mix following higher volume of ethane supply.

The Fertilizer & Methanol segment also saw lower product prices across all products, particularly methanol. Methanol and ammonia prices were lower as a result of resumption of operation within some of the regional producers, coupled with the weaker downstream demand, especially in the energy derivatives sector. Urea prices were impacted by the increase in export volume from China following the implementation of the new export tax structure.

For the Fertilizer & Methanol segment, revenue showed a marginal decline of 3% to MYR2.1b as the lower product prices were negated by the higher sales volume as well as favorable exchange rate movement. EBITDA was comparable at [MYR804m], while EBITDA margin is very strong at 39%.

For the six months' period this year, Group revenue was lower by 10% or MYR702m to MYR6.4b, mainly attributable to the lower average realized product prices, as we have mentioned and discussed earlier. EBITDA for the Group was comparable at MYR2.2b as higher volume, better sales mix and favorable foreign exchange movement offset the current weaker market condition. Consequently, EBITDA margin for the Group increased to 34% from 31%.

In short, PCG has shown resilience and continued to deliver strong EBITDA margins despite the more challenging market conditions compared to 2014.

Moving on to my last slide on page 16, which is our Group cash flow and cash balance. Sorry, page seven. If you can refer to the slide, on page 7, on our Group cash flow and cash balance.

For the six months' period this year, our cash balance decreased by MYR785m, mainly due to cash outflow related to our SAMUR project, as well as investments relating to the AROMA chemical complex in Gebeng. Relative to last year, our cash flow from operations is also lower, but this is in line with the lower revenue recorded. Nonetheless, our cash position remains strong at MYR9.3b, which enable us to progress forward with our growth plans.

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

Mohamed Yusri Yusof (Head of Manufacturing):
Thank you, Farina. Hi, everybody. This is Yusri. For operation, we remain committed to deliver operational excellence at all our plants. Our focus on increasing our internal reliability has continued to work in our favor. This is evidence that we are seeing continuous improvement at our plant performance and efficiency.

Now, a couple of key points that we are looking at when we talk about plant reliability. We are constantly improving the quality of equipment strategy and the execution of the maintenance of the -- the execution of maintenance plan. Second, we have also instituted a proactive program to manage potential plant traps to avoid unplanned downtime.

And if we were to compare to the corresponding quarter, the reliability performance has improved by 25%. As part of our continuous focus on HSE improvement, fire prevention and spillages remain high on our priority, even the fire, if you have heard, at PC LDPE is considered relatively minor as it had no impact to the integrity of the equipment and minimal impact to the production output of the plant.

If I were to look back at quarter two, overall it has been a good quarter, especially now we have executed our planned turnaround at PC Fertilizer Kedah successfully.

On the feedstock front, the efforts that we spent on our supply reliability program continue to deliver results that we wanted. We saw improvement in both the reliability and volume of our ethane supply for our crackers. Also we saw improved reliability of methane supply for our methanol plant.

At this point, I would like to mention that the progress on our Dalak pipeline project for methanol plant is -- has been going on as planned. We are committed to deliver the project on time in quarter one next year, following which, we expect our methane supply to our methanol plant in Labuan to be more reliable and stable.

Moving forward, our focus for the next half-year is the execution of PC Methanol Plant 2 turnaround, which is coming up in quarter three. We are focusing to deliver the turnaround flawlessly, safely and without major interruption.

In conclusion, we are very much on track to deliver on our commitment of plant utilization in the mid-80s for the year 2015.

Maybe -- now I would like to hand over to Akbar for the market outlook.

Akbar Thayoob (Head of Commercial):
Thanks, Yusri. Good day again everyone. I will now take you through the market outlook for petrochemicals. Product prices in quarter two were firmer on the back of improved market following the recovery in oil price and some supply constraints in the region. However, we expect weaker market conditions going into quarter three as we anticipate more volatility in crude oil prices.

Let's begin with the products under the Olefins & Derivatives business segment.

Ethylene. We saw improved prices in quarter two as a result of ethylene supply shortage following several planned and unplanned shutdown across the region. Prices are softening in quarter three on improved regional supply following the return of Asian refineries from peak maintenance season.

Ethylene market will also be under pressure from the following factors: First, falling naphtha prices due escalating supply from the West, Middle East and India. Second, easing gasoline market. And third, LPG emerging as alternative cracker feedstock.

Similar to ethylene, polymer prices moved higher in quarter two on slight improvement in demand from restocking activities for festive season amidst strong ethylene prices. Prices however are softening in quarter three on the back of low seasonal demand declining feedstock and MEG prices.

Shifting to MEG, improved crude values and positive performance in downstream polyester sector has supported MEG prices to average higher in quarter two. Prices in quarter three are softening due to anticipated lower polyester production rates amidst declining feedstock prices.

For aromatics, we saw -- we also saw price improvements in quarter two as a result of higher crude oil prices and tighter supply following scheduled maintenance of several Px facilities. Prices are stabilizing in quarter three, largely contributed by continued supply disruption regionally.

I shall now touch on the Fertilizer & Methanol business segment, starting with methanol. Prices were higher in quarter two, mainly driven by limited supply in the region and supported by improved demand for methanol to olefins from China. Prices are stabilizing in quarter three, mainly on supply/demand fundamentals.

Moving on to ammonia. In quarter two of 2015, ammonia prices continue to trend downward as supply recovers amidst continuous weak downstream demand for caprolactam and acrylonitrile applications, especially in the northeast Asia region. We are seeing improved prices in quarter three as plant turnaround activities end for India's major downstream application producers.

For granular urea, the declining price trend in quarter one continued in quarter two as supply outpaced demand. In addition, seasonal demand for agriculture application was delayed, resulting in buyers waiting on the sidelines in anticipation for a price drop before replenishing their inventories. On a brighter note, prices are stabilizing in quarter three, contributed by supply shortage from the Middle East.

Now I would like to take a few minutes to talk about the longer-term outlook for urea given that we are commissioning SAMUR, our urea project, next year. World urea demand is expected to increase at 1% to 2% annually, but if we zoom into the Asian region, urea growth is expected to continue to grow at more than 2% annually.

This encouraging growth is due to two factors. First, increasing demand for agriculture-based food for the world's most populous region. Second, increasing crop prices that promotes the agriculture industry, resulting in higher demand for fertilizers. For meeting the demands for agriculture-based food, more and more farmland is needed. However, what we are seeing now is that available farmland per capita is actually shrinking. As available farmland become more limited, the increase in population will push crop prices higher, and in searching for balance for sustainable and affordable food, there is a need to improve crop yields more in the years to come.

As the largest growing population in -- as the largest growing population region, Asia will continue to be significantly in deficit. If you recall, I mentioned earlier, demand for urea in Asia will grow at more than 2% per annum, which is actually doubling the world growth for urea. This deficit will continue to grow from 4m metric tons to 8m metric tons and more, concentrating in the Indian subcontinent, followed by Southeast Asia, and then the Far East. Between now and 2020, there will be 4.5m tons total capacity of urea added in the Asian region, including our own SAMUR plant. However, with more than 8m tons per year expected in demand growth for urea, it can be concluded this region will continue to be a net importer for some years to come.

For the rest of the year, we shall continue to focus our efforts to generate additional value for the Company through several initiatives. These include diversifying sales to higher netback markets; leveraging on existing customers while developing new strategic customers; venturing into new markets for high-value product and application; enhancing logistics optimization, including reducing cost to serve; improving term pricing; and last but not least, collaborating with strategic partners for swap arrangements and strategic sourcing.

In addition, we will also enhance customer retention by improving delivery performance and packaging quality to meet customer requirements, frequent engagement with customers to understand better their requirements, as well as scaling up representative office to marketing subsidiaries in Thailand and China.

This is all I have for now. Back to you, Yang Berbahagia Datuk.

Datuk Sazali Hamzah (President/CEO):
Ladies and gentlemen, before we proceed to question-and-answer, I would like to highlight several key areas that we'll continue to focus in year 2015.

Health, safety and environment will always be one of our prime focus. We'll continue to strengthen the HSE culture by inculcating best practices to sustain world-class performance at our plants. All our efforts to improve our operational performance are coming to fruition. At the current rate, we are on track to achieving our target performance. On growth projects, we are progressing on SAMUR, AROMA, 2-EHA, and HR-PIB as per plan.

Ladies and gentlemen, at the last analyst briefing I shared with you some of our growth projects and how excited we are to pursue this growth for the Company. We are already looking at several gas-based derivative projects as well as collaboration to produce more specialty chemicals. As you know, we are evaluating our participation in RAPID and are progressing on our discussion with Petronas. Although 2015 may remain challenging, we do believe that the market will improve from 2016 onward where prices and spread are expected to be better.

In the meantime, PCG will continue expanding both our products and production capacity such that we will remain resilient and position our self for the upswing in the petrochemical sector.

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

+++ q-and-a

Operator^ (Operator Instructions).

Wan Zahidi (RHB Research) – Analyst:
Hi, thank you for the presentation. I have two questions. The first one is regarding the PML 2 turnaround. How many days is the turnaround expected to be and what is the utilization rate that you are looking at for the rest of the year for F&M and O&D?

And the second question is on the ethylene feedstock agreement that is due in 2016, any updates on that? Thank you.

Mohamed Yusri Yusof (Head of Manufacturing):
All right. Thank you, Wan, for the question. For the PML 2 turnaround, this is a regulatory turnaround that we had to satisfy the Department of Occupational Safety and Health so it will take a bit of time because we have to open all the equipment for inspection so we expect the plant to be down until maybe early October.

And I said earlier, our committed target for this year's PU is in the mid 80s. That combines both F&M and O&D segments for PCG.

Wan Zahidi (RHB Research) – Analyst:
Okay.

Datuk Sazali Hamzah (President/CEO):
For the second question, Wan, Sazali here. You asked first about the ethylene feedstock agreement, which, some of them will expire in 2016. At this moment, as I mentioned in the previous analyst briefing, the discussion is still ongoing. We expect there will be some increase but will not be as -- as a normal increase with what I could say. However, the discussion will continue before the contact expiry.

Wan Zahidi (RHB Research) – Analyst:
Okay, thank you.

Operator^ (Operator Instructions)

David Hurd (Deutsche Bank) :
Thanks very much. I just wanted to follow up on the previous question that you turnaround on the PML 2. You said it would be down until the early October. When does the turnaround start, I'm sorry?

Mohamed Yusri Yusof (Head of Manufacturing):
That is set to start by mid-August.

David Hurd (Deutsche Bank) :
Mid-August?

Mohamed Yusri Yusof (Head of Manufacturing):
Yes.

David Hurd (Deutsche Bank) :
Okay, that is great. Thank you so much.

Mohamed Yusri Yusof (Head of Manufacturing):
You're welcome.

Yong Liang Por (BNP Paribas) - Analyst :
Hello, Edward, Hello, Sazali; hello, Farina.

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

Yong Liang Por (BNP Paribas) – Analyst:
Two quick questions. The first thing, I think, could you give us some guidance on earnings sensitivity to ForEx with the ringgit being a bit volatile.

And I think the second question is the -- associate contributions are looking weaker and do you think there is any chance of improvement in the coming quarters? Thanks.

Farina Farikhullah Khan (Chief Financial Officer):
I will take your two questions, Yong. So the first one is on the essentially the sensitivity of the -- I guess dollar to ringgit and the impact to us. And so firstly, to say that actually whenever the dollar strengthens, as a whole, PCG actually benefits as you can see from our results that we discussed earlier, there is a favorable foreign exchange movement, net favorable movement whenever dollar strengthen against the ringgit. And roughly, it is -- I would say around 6% EBITDA so 6% to 7% impact to EBITDA for every MYR0.10, sen movement.

And secondly, on your question on our associate companies. You are right, our associate companies are also not spared by the weaker market condition because it is affecting the -- I think, obviously commodity to a larger extent and specialty, lesser volatility there.

But in general, we see that for example, one of our bigger associate company, BASF Petronas Chemical, earnings to also be affected by the current weaker market environment.

The only associate company that is not really affected is of course, our Kertih Terminals because that is basically a stable business as far as cash flow is concerned when our plants are running well, high production volume and our associate company Kertih Terminals would benefit.

I hope that answers your question, Yong.

Yong Liang Por (BNP Paribas) – Analyst:
Yes, thank you. Sorry, just one follow-on question. It's already August and I have to ask the question of RAPID. I recall maybe last year, the guidance was that by the first half of this year, more clarity on PCG's involvement with the Pengerang [PSO]. I am just wondering, what is the holdup and really, how much longer do we need to wait to hear more news on this?

Datuk Sazali Hamzah (President/CEO):
Okay, Yong. So, really there is a lot of progress already from RAPID point of view, one of them is that the area to play is already almost confirmed. The things that I think that we are still continue discussing because they still -- we are evaluating the other partner in RAPID. So that actually is still in a discussion and we actually will be a part of the final effort in the discussion. So we still are putting our target, hopefully by end of this year, we should have a better clarity on this.

Yong Liang Por (BNP Paribas) – Analyst:
Okay. Thank you. We are very excited about this project so the sooner the --

Farina Farikhullah Khan (Chief Financial Officer):
So are we. So are we. Yes, yes.

Datuk Sazali Hamzah (President/CEO):
We will share with you once we have finalized it.

Farina Farikhullah Khan (Chief Financial Officer):
Yes.

Edward Ong (Head of IR):
They have just been told by [evil] IR that they can't share yet.

Farina Farikhullah Khan (Chief Financial Officer):
Yes.

Yong Liang Por (BNP Paribas) – Analyst:
Understood. Thank you.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Hi, this is Mayank. I just wanted to ask two questions. One was more related to the pipeline completion to the fertilizer plant, you highlighted 90% plus completion in the last quarter. Can you give us any more details there?

And the second question was more related to the methane gas supply contract as well as the butane gas supply contract. Any changes on those contracts considering the government is trying to raise prices as well? Thank you.

Mohamed Yusri Yusof (Head of Manufacturing):
Okay, thank you, Mayank. And yes, we highlighted on the Dalak pipeline project last quarter. As I said earlier, we remain on track, in fact, when the last tie-in will be happening when we shut down PML 2 the middle of this month. So once the last tie ins are completed, after the shutdown, we will then continue with our pre-commissioning and commissioning activities for the pipeline with the plan of having the pipeline fully commissioned in quarter one 2015.

Farina Farikhullah Khan (Chief Financial Officer):
On your second question, Mayank, on the propane and butane, whether there are changes to the contract and as you know, the current contracts -- can I just confirm, is your question on propane and butane or -- for methane and ethane?

Mayank Maheshwari (Morgan Stanley) – Analyst:
It's methane, yes.

Farina Farikhullah Khan (Chief Financial Officer):
Methane.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Methane and butane.

Farina Farikhullah Khan (Chief Financial Officer):
Methane and butane. Okay, basically, yes, because butane and propane is basically the same, today the contract price is linked to the Saudi contract price and there are no changes to the contract structure. That remains the same. So the price that we pay is -- there is some discount, some discount to the Saudi CP but it is generally moves very much in tandem with Saudi CP.

And on methane, there are essentially for SAMUR, I think we have mentioned before the early 2014, we finalized the gas sales agreement for methane and that was at the same structure as the past contract, basically.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Okay, so for the existing plant, no changes?

Farina Farikhullah Khan (Chief Financial Officer):
For the existing plant, there is basically one change on one of the fertilizer plant. In terms of the contract structure itself, it is predominantly the same. Basically when I say predominantly the same, the contract structure, if you recall, for all our methane is that is it linked to the end product price. So as far as that contract structure, that remains the same. There is that link to the methane price which is a function of the urea price.

So if I can give an illustrative example, if the urea price is at $300 per metric ton and if the percentage is 50%, then what we pay to Petronas is basically $150. But if the urea price were to go to $600, then essentially the price that we pay would be $300. So it is still linked to the end product prices.

Mayank Maheshwari (Morgan Stanley) – Analyst:
So the percentages and everything is the same?

Farina Farikhullah Khan (Chief Financial Officer):
The percentage itself has been revised because the -- unlike ethane, ethane, we are the sole -- basically offtaker of ethane. There is no competition to ethane. When it comes to methane -- and also for ethane, ethane is also a byproduct which is not affected by the upstream cost.

But for methane, it does get effected by the upstream development cost which I think is increasing, as you know, over the years, so there is some slightly -- some revision to the percentage itself in order to reflect the increase in the upstream cost and essentially the competition for methane, for us is with LNG.

So again, to link that to ethane and the current negotiation that we are having, as Datuk Sazali said earlier, we are expecting some increase because the contract was entered 20 years ago and it is a fixed contract, with not even an annual escalation.

However, we don't expect the increase to be material and it is the same for the Bintulu Fertilizer, the revision, there is no substantial impact -- negative impact to financials. Essentially, it is not material, the increase is not material to the overall group EBITDA even with the revision. And so for ethane, again, linking back to ethane, it is a difficult situation because it is shielded from the upstream cost because it is a byproduct and the fact that we don't have other competitors for this ethane.

Mayank Maheshwari (Morgan Stanley) – Analyst:
So just to understand this a bit more clearly, what you are saying is that the methane price has -- the discount of 50% that illustratively that you gave have gone up?

Farina Farikhullah Khan (Chief Financial Officer):
Yes.

Mayank Maheshwari (Morgan Stanley) – Analyst:
Sorry and so the discount have come down and the prices have gone up? But can you share roughly how much and what we should start thinking about the oil prices from the time have come down by 50% and energy prices have come down as well. So how should we be thinking in the longer term about this price structure? So how long are these new contracts on methane going ahead into?

Farina Farikhullah Khan (Chief Financial Officer):
The contract is basically again long term, it's basically ten to 15 years. And that has not changed. So again, your question is whether it's fundamentally -- it is actually not linked to the oil price because urea is not linked to the oil price, Mayank. So that is -- in the negotiation, yes, there is no correlation as far as that methane pricing to the current oil price.

Mayank Maheshwari (Morgan Stanley) – Analyst:
So the way I'm trying to understand this, as you said, there is increasing cost inflation at the upstream level. So there are increase in methane price view. But now, there is deflation that is happening across so when do you think the next revision would be if at all? Or will it be a 10 year or a 20 contract and doesn't get revised --

Farina Farikhullah Khan (Chief Financial Officer):
10 years for the Bintulu Fertilizer, it is 10 years. For SAMUR project, it is 15 years. And for our other contracts, it is also 15 to 20 years and so it is not due -- fertilizer, Gurun is not due until about 2018.

Mayank Maheshwari (Morgan Stanley) – Analyst:
So the new structure will be running up until at least 10 years at a minimum?

Farina Farikhullah Khan (Chief Financial Officer):
Yes.

Mayank Maheshwari (Morgan Stanley) – Analyst:
And can you give us any idea in terms of after the cost revision there, where will you be on the cost curve on the fertilizer side?

Farina Farikhullah Khan (Chief Financial Officer):
Very much still at a competitive structure. The other thing that I should share on the Bintulu, as you know, is that it is only owned by us at 63%. What we have done also is that we have changed the company into a tolling company where essentially there is less leakage as far as going to the partner. So it is -- at the plant itself it's a fixed margin and then the profit is essentially parked at the marketing company which is 100% owned by us.

So that is also the reason why the impact on financial is not big because while there is that some revision in the percentage on the index itself, but the profitability as a whole is not affected because we changed the plant to a tolling company with a fixed margin and the margin above that is basically enjoined at PC marketing which is 100% owned by us.

So there's changes in the business model along with that price revision, that essentially really minimise the impact to our bottom line.

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

Oscar Yee (Citigroup) – Analyst
Thank you for the presentation. Could you share with us the investment cost for your new HR-PIB project for the -- your JV with BASF. And also could you remind me what is the investment cost for the 2-EH acid as well?

And since the AROMA complex will start up next year, how much additional associate income per year do you expect from that AROMA complex? Thank you.

Farina Farikhullah Khan (Chief Financial Officer):
On the investment cost for HR-PIB as you are aware, we have announced for AROMA before, its figure, is about $500m for AROMA. For 2-EH acid, we also announced at $60m. For HR-PIB actually it is a smaller project and -- today BASF has not kind of agreed with us as far as sharing the information publicly. But what I can share with you is that if it is a smaller capital expenditure compared to the 2-EH acid that we have announced.

And as far as the impact to our bottom line for AROMA, we are expecting about 6% addition to the share of associated companies' profit. So 6% addition to that line. For 2-EH acid, it is about 4% addition to the share of associated companies profit and for HR-PIB it is actually roughly about 1% to 2% impact. It is smaller project.

Though, of course the IRR of the project, as you are aware, this is going further into specialty so the IRR for the project is actually quite high and for PCG, when we look at this, why we are excited about this was if you look some of the financial point of view, maybe the impact is not big but we look at this as a very strategic project as we grow it further into our learnings on specialty and solutions.

As you are aware, from the second half of 2013, we actually, our strategy is twofold; one is to strengthen on the commodity, but second is add further on the specialty and solutions and given that specialty and solution is a new area, so we are doing it in a smaller scale compared to the existing commodity base that we are familiar with but is an important learning before we can actually embark on something on a bigger scale and perhaps ourselves.

If you look at Petronas's model for petrochemical, if you look at the last 20 years, typically for something that we are not familiar with, we go into partnership with other companies that have got the technology and the expertise in this area and over the years, as we learn about the product, the technology and we get more comfortable, and that is where we then get into the area ourselves and at a larger scale.

So in a way it's a conscious decision and a risk management perspective also taken into consideration that this is a new area. The fact that BASF of course is a very strong partner for us, mitigates the risk going into this area -- this new area.

Datuk Sazali Hamzah (President/CEO):
So just to add to what Farina has said, if you can recall just now, we are also talking about the contribution from our partners have been declining and so moving into this project will dampen the impact long term. At same time, what Farina said is correct that we are now familiarizing ourselves with specialty chemicals and we do have a projection to participate in a bigger scale once the time is right.

So we all are -- also have some project in our pipeline but before we go into deeper, we would like to understand in the specialty game.

Oscar Yee (Citigroup) – Analyst :
So would it be part of your RAPID complex or would it be kind of a separate to be built ?

Datuk Sazali Hamzah (President/CEO):
It's separate, the knowledge that we get will be part of the strategy that we are going to play in RAPID later on.

Oscar Yee (Citigroup) – Analyst :
Okay, I understand. Thank you.

Edward Ong (Head of IR):
All right. I was told by Natalie that no more -- sorry, Natalie, go ahead. Operator?

Operator^ (Operator Instructions).

Edward Ong (Head of IR):
All right, Natalie, maybe we got time for one last question, given that is it quite late on a Friday evening.

Operator:
It appears that are no further questions at this time.

Edward Ong (Head of IR):
Right, in that case, thank you very much for joining us in the call. If you have any further questions, my contact number is at the end of the presentation. Alternatively, you can email it to me at edward.ong@petronas.com.my. Again, that is edward.ong@petronas.com.my.

Thank you very much and good evening.