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Operator:

Thank you for standing by, and welcome to the Petronas Chemicals quarter one 2017 analyst briefing. (Operator Instructions). I must advise you that this conference is being recorded today, Monday, May 15, 2017.

I would now like to hand the conference over to your first speaker, Ms. Safarah Salim. Please go ahead.

Safarah Salim, *IR*:

Thank you, Hannah. Good evening, everyone, and welcome again to the Petronas Chemicals Group quarter one earnings call for the year 2017. Thank you for making the time to be with us today, and before we proceed, I'd like to take your attention for a few minutes to the disclaimer that we have.

All right. So with us today are, Datuk Sazali Hamzah, MD/CEO of PCG; Puan Rashidah Alias, Chief Financial Officer; Encik Mohd Yusri Mohamed Yusof, Head of Manufacturing; Encik Akbar Thayoob, Head of Commercial; Encik Abdul Aziz Othman, Head of Strategic Planning and Ventures; and I am Safarah from the Investor Relations team.

So we'll start the session today with Datuk Sazali and the key highlights.

Sazali Hamzah, *MD/CEO*:

Okay, thank you, Safarah. Good evening, everyone. Thank you for joining our analyst briefing today. In the first quarter of this year, we saw slight recovery of petrochemical prices, driven by improved energy industry and positive economy.

Crude oil prices climbed up from the average of $44 per barrel in 2016 to $54 per barrel in quarter one 2017. Petrochemical product prices as such rose in tandem and was further supported by improved demand in the region. I am pleased to highlight that PCG posted a strong bid on earnings in the opening quarter of the year.

Group plant utilisation was 99%, as both plant reliability and feedstock supply was stable, with minimal disruption. Sales volume increased 16% year on year, mainly driven by higher demand and tighter supply across all products.

The higher volume, together with firmer price, led to revenue being recorded at MYR4.7 billion and EBITDA at MYR1.9 billion. The higher volume, together -- sorry. EBITDA margin was 41%, mainly driven by better spreads and lower unit costs. For more detail on the financials, I would like to pass the session over to Puan Rashidah. Puan Rashidah.

Rashidah Alias, *CFO*:

Thank you, Datuk Sazali. Good evening, everyone. Let's start with the Group's performance, and I am on slide number 4. Compared to quarter one 2016, we have seen marked improvement in market conditions. Crude oil prices have risen to average at $54 per barrel during the quarter, far higher than the $34 per barrel average in the corresponding quarter.

The petrochemical market has improved alongside crude oil, and product prices have firmed up amidst improved demand. We saw improved feedstock supply during the quarter, which along with zero maintenance shutdowns, brought about another impressive plant utilisation rate of 99%. Against this backdrop, Group revenue increased 49% to MYR4.7 billion, with higher sales volume, better product prices, supported by favourable foreign exchange.

EBITDA surged 69% from MYR1.1 billion to MYR1.9 billion, driven by higher volumes, better spreads and lower unit costs. EBITDA margin improved 5 percentage points to a strong 41%. Profit after tax more than doubled from the corresponding year at MYR1.4 billion.

Now, comparing against the preceding quarter, which is quarter four 2016, we saw firmer crude oil prices in Q1 2017 compared to Q4 2016. Naphtha prices increased in tandem with crude oil, while tight petrochemical product supply further lent support for firmer petrochemical product prices.

Group plant utilisation increased from 96% to 99%, with better plant reliability, coupled with minimal operational interruption or shutdown.

With improved production and subsequently improved sales volume and higher product prices, revenue improved 19% to MYR4.7 billion, supported by the stronger US dollar.

EBITDA increased by a significant 31%, with better product spreads and lower until costs. EBITDA margin improved 4 percentage points to 41% and profit after tax was higher, improving by 34% to MYR1.4 billion.

Now, let's take a closer look at the performance of the segments, starting with olefins and derivatives on slide 5. Now, against the corresponding quarter, the O&D segment saw improvements at MYR3.2 billion revenue and MYR1.3 billion EBITDA. Product prices increased across all products amidst tight supply and stronger demand. The O&D segment recorded improved operational performance, with higher plan utilisation at 100%, versus 97%, as a result of higher feedstock supply and no turnaround activities. We had PC MTBE/PDH plants and PC aromatics turnaround activity in the -- in quarter one 2016.

Driven by higher sales volume and improved product prices, the segment revenue grew 43% to MYR3.2 billion, supported by favourable foreign exchange impact. Segment EBITDA surged 65% to MYR1.3 billion, from the corresponding MYR808 million, with higher volumes, improved spreads and lower unit cost. EBITDA margin jumped 5 percentage points to 41% and profit after tax more than doubled the corresponding MYR461 million to reach MYR933 million.

Now, comparing against the preceding quarter where the market backdrop was similar, there were also improvements seen in the segment due to tight supply. O&D products increased alongside higher crude oil and naphtha prices. The segment's operational performance has been consistently strong, recording another 100% PU, or plant utilisation, despite receiving slightly lower feedstock during the quarter.

Now, revenue for the segment climbed 14%, with higher product prices, supported by favourable foreign exchange. EBITDA increased 25%, with better product spreads and lower unit costs. EBITDA margin improved to 41% and profit after tax rose 32% to MYR933 million.

Moving on to fertilizers and methanol segment, on slide 6, starting with comparison against the corresponding quarter, quarter one 2016. Now, product prices strengthened for urea and methanol, tracking higher crude oil prices and higher demand on the back of tight supply. Ammonia, however, continues to feel the impact of global oversupply.

The segment's operational performance has seen improvement compared to the first quarter of 2016, with improved methane supply to the methanol plant, recording a plant utilisation of 96%, compared to the corresponding 89%. Revenue grew 61%, driven by higher sales volume, better product prices, supported by favourable foreign exchange impact.

EBITDA for the segment rose to MYR622 million, with improved spreads and higher sales volume, and EBITDA margin was strong at 41%. Similarly, profit after tax more than doubled, increasing by MYR193 million, to reach MYR451 million.

Now, comparing against the preceding quarter, which is quarter four 2016, the segment recorded better product prices, with firmer crude oil prices, tight supply and firmer demand. Plant utilisation improved from the previous 89% to 96%, with no turnaround activities.

The previous quarter saw our Bintulu facility shut down for turnaround activities. With increased volume and higher product prices, the segment revenue grew 31% to MYR1.5 billion. EBITDA surged 46% to MYR622 million, driven by volume, better spreads and favourable foreign exchange impact. EBITDA margin improved 4 percentage points from 37% to 41%, and profit after tax improved by 36% to reach MYR451 million.

Next, we look at our balance sheet and cash flow on slide 7 and 8. Now, first, the balance sheet on slide 7.

For the three-months period ending March 31, 2017, total assets increased by MYR30 million. Although PCG generated MYR1.3 billion profit after tax for the quarter, we also paid our second interim dividend amounting to MYR960 million, and therefore, the increase of roughly MYR30 million in total assets. The increase in assets are mainly represented in the form of additions to property, plant, equipment, and these are mainly our growth projects, and we also saw higher trade and other receivables, in line with higher sales.

Looking at our cash flow, on slide 8, we had higher cash generation for the three-month period ended March 31, 2017, compared to the same period in 2016, with higher net cash receipts. Our cash balance declined by 5% at the end of the period, with higher dividends paid to shareholders amounting to MYR960 million, as earlier mentioned, related to the second interim dividend of MYR0.12 per share and expenditure in relation to our growth projects.

With MYR7 billion in cash balance, we will continue to practice care and prudence as we focus on our current growth projects and future opportunities.

Thank you, that's all I have on the financial performance. Over to you, Yusri for the manufacturing highlights.

Mohd Yusri Mohd Yusof, *Head of Manufacturing:*

Thank you, Rashidah. Good evening, everyone. Let me share the operational highlights for this quarter. You can refer to slide number 9. Leveraging on the foundation that we have laid and the hard work that we have been putting in, 2017 began strongly.

We have recorded another impressive operational performance, as mentioned by Rashidah, at 99% plant utilisation rate in the opening quarter of the year. The sustained PU, which far surpasses world-class benchmark, bears testimony to the ongoing efforts in ensuring high plant reliability and stable feedstock supply. O&D plants have been able to sustain excellent performance of 100% PU for the past three quarters, while F&M plants have climbed back to the 96% PU level after the completion of ABF turnaround in quarter four 2016.

Next, we look at our game plan. This strong operational performance was achieved through dedicated and continuous execution of our game plan, and we will continue to improve on the execution of the planned activities to ensure sustainability.

Our game plan has three levers to it. First, we are targeting a stronger internal reliability strategy. For this strategy, we will focus on three elements. First, bad actor management to solve non-plant issues through effective management of equipment with repetitive failure. As we resolve these issues, invariably, the plants operate more reliably.

Second, we are focusing on structured equipment reliability strategy, or ERS, for our maintenance programs. This is important. Our planned maintenance program has reached more than 90% compliance rate. This means that we are diligently executing our preventative maintenance program based on the risk and strategy at each individual equipment. Despite this high level of achievement, we are targeting to further improve the effectiveness of our maintenance program, as it will further reduce the reliability risk that we see at the plants.

Thirdly, under this strategy is to manage plant threats effectively. As a proactive measure, we are also instituting a structured approach to manage potential plant threats. We hope that this structured approach we can manage the plant threat that it will not turn into a bad actor, which will cost us reliability incidents.

With the implementation of the OE strategy, or operational excellence strategy, over the last few years, we have seen marked improvement in our operational excellence, and we aim to continuously improve our system and practices to be able to operate better than industry standards.

Second lever on our game plan is effective feedstock supplier management. In addition to plant reliability, availability of feedstock is another critical success factor towards higher plant utilisation. Our supplier management remains a priority in ensuring the reliability and security of feedstock supply.

We have established greater collaboration in planning our operational activities and in providing technical support throughout our value chain. Our collaboration effort focuses on gas processing plants and offshore platforms, which include the receiving terminals, to ensure end-to-end value visibility that subsequently translates to operational transparency. This allows us to make collective decisions for the back of the value chain.

For example, for methane, the commissioning of the Dalak Pipeline in quarter one 2016 has complemented the feedstock availability to Labuan, resulted to a more stable and reliable feedstock supply to our methanol complex.

We now not only have available volume but also have some flexibility in the infrastructure to supply feedstock to both Plant 1 and Plant 2 of PC Methanol. And you can see from the PU for F&M in slide 9 earlier, which recorded PU of 89% in quarter one 2016, when we commissioned Dalak Pipeline, and that subsequently increased to 96% in quarter two and quarter three of last year and also in current quarter of 2017.

For ethane, the collaboration is two pronged. First is to ensure resolution of plant issues at both ends of the value chain at gas processing plants and also at our steam crackers, and second, to ensure the gas and oil platform offshore of Terengganu delivered the right mix of gas composition to the gas plants for us to get our ethane feedstock, and you saw the results. PU for the O&D plant has been at 100% for the past three quarters.

Third is on our managing our turnaround activities. The objective is always to have a flawless turnaround activities, both in planning and also in execution. Last year, in 2016, we successfully completed three turnarounds, and for this year, we plan to execute five turnarounds.

In quarter one of this year, there was no scheduled turnaround for all our assets. Our first turnaround for this year started in quarter two, where our MTBE plant has just completed a successful turnaround from April 1 to May 12 of 2017. This turnaround - quarter three will be a big turnaround period for us, since it will encompass several of our Kertih plants, and we will close the year with our turnaround at Plant 1 Methanol in quarter four.

Our improvement for turnaround focuses both on planning and execution. Leveraging the planning across Petronas Group allows us to optimize resources and minimize downtime along the value chain. Our efforts in upskilling our turnaround contractors to long-term contracts to ensure consistent level of competency for our workers at our turnarounds is contributing to the successful execution of our turnaround so far. And for record, our turnaround last year and also the first turnaround at MTBE this year has been executed ahead of planned schedule.

Next, can we go to slide 11. Let's talk a bit on our growth projects that we have currently ongoing. First, SAMUR. After reaching successful mechanical completion last year, we continued to commission and start up the plants, both ammonia and urea plants, in quarter one 2017. We achieved ammonia plant 100% operation at the end of March 2017. However, we had to shut down the urea plant in early April to repair some valves.

We restarted the plant after the successful repair and have since achieved 100% operations for both ammonia and urea plants. The performance test run was successfully concluded on May 2, 2017. This means that the plants have demonstrated the sustainable operations at design capacity.

We now expect the SAMUR project to contribute to our financials by quarter two 2017. For our specialty growth projects, for AROMA projects, we are within range of our startup schedule, with the BPC or BASF Petronas Chemicals team is currently commissioning the integrated plant for AROMA, which is citral and citronellol and L-menthol, progressively. For HR-PIB the project is progressing well to meet its planned commissioning target of quarter four 2017.

Looking at our performance thus far, despite the turnaround that we have at MTBE plant in quarter two and the planned turnaround that we are planning in Kertih in quarter three and in Labuan in quarter four, we anticipate to record operations of above world-class benchmark this year, sustaining our strong operational performance.

I believe that the successful execution of our three-pronged strategies that I have just elaborated, we should be able to deliver a respectable low-90s PUs for this year, and that's all I have for operational highlights. I would like to hand over to Akbar for market performance and outlook.

Akbar Thayoob, *Head of Commercial*:

Thank you, Yusri. Good evening again, everyone. Akbar here. Let's proceed with the market highlights. Overall, prices improved from quarter four 2016 to quarter one 2017 for most of O&D and F&M products. In quarter one 2017, it is observed that the O&D product prices improved, mainly contributed by supply limitation and supply downstream -- and stable downstream demand following the positive crude oil prices.

For F&M, prices improved in quarter one, with supply limitations from key producers. Moving into quarter two 2017, we anticipate the prices for olefins and derivatives to soften in view of slow downstream demand, coupled with supply recovery. Meanwhile, a mixed outlook on the F&M side is anticipated as market correction takes place. So that's the gist of petchem markets for the quarter-on-quarter comparison.

Now let's look a bit deeper into the segments to see what we can expect for quarter two. I shall start with the outlook under the O&D business. The average ethylene prices improved in quarter one 2017, as compared to quarter four 2016, mainly due to tight supply as most producers performed turnaround activities in Asia region. The price improvement was also influenced by higher crude oil and naphtha prices.

Ethylene prices are assessed to be stable in quarter two 2017. There will be ample supply of ethylene in the market after some key producers restarted their plants post turnaround activities. At the same time, demand from downstream markets, especially styrene monomer, is expected to improve in the near term, leading to relatively stable price movement throughout quarter two.

Polymers. Polymer prices were firm in quarter one 2017, as compared to quarter four 2016, mainly due to tight supply amid turnaround activities in Southeast Asia region, following rebound in demand in February after Lunar New Year holiday.

Moving to quarter two 2017, the outlook is predicted to be soft, attributable to the high supply availability from Middle East and the restarting of some plants in Southeast Asia following the completion of their TA activities. The restocking activities in relation to the Eid celebration occurring at the end of the quarter is expected to be less impactful due to the supply glut, thus limiting price increase in the near term.

Similar to polymers, MEG prices improved in quarter one 2017, as compared to quarter four 2016, due to tight supply amidst the turnaround activities from several producers in Southeast Asia region and the Middle East. In addition, this is also due to the restocking activities post-Chinese New Year holiday season. We foresee MEG prices to be lower in quarter two as compared to quarter one on the back of sufficient supply as several Asian producers resume their production.

On the demand side, polyester sector is foreseen to be stable throughout quarter two, though the near-term outlook remains uncertain due to volatile crude oil and feedstock prices.

Aromatics. Aromatics prices significantly improved in quarter one 2017, as demand from downstream PTA remained strong, with the restart of a Northeast Asia producer after completing its maintenance activities in February 2017. Also, new demand has emerged with the restarting of a giant PTA producer coming back in February after halting its operation for a few years. Excuse me. The aromatic prices is anticipated to continue to improve as supported by higher crude oil prices.

PX prices is forecasted to be soft in quarter two 2017, in view of weak demand from downstream PTA, as market foresees China's PTA operating rate to be lower than 72%, resulting from the postponement of maintenance of PTA units.

In terms of supply, there will be more PX in the market, as new capacity will potentially start up in June 2017.

Benzene is also expected to be in oversupply in Asia amid downstream shutdowns and high styrene inventories in China. The prices are also predicted to be lower in light of the new capacity startup in Asia.

Now I would like to move on to the F&M business segment, and I'll start with urea. Urea prices had improved in quarter one this year as compared to quarter four 2016 due to supply tightness as higher coal price in China discouraged domestic urea production. The availability of spot cargoes was also tight following the unscheduled shutdown of key Middle East producers.

Urea prices in quarter two 2017 are expected to be lower than quarter one due to high inventories at buyers' sites despite the planting season in the Southeast Asia region. However, the decline in price movement is predicted to be on a short-term basis as buyers waiting on the sidelines for prices to move further south will need to go back to the market once they run out of inventory. Quarter two price trend is expected to stabilize around low $200 level, mainly contributed by limited supply availability from the Middle East.

Now, we move on to ammonia. Ammonia experienced more than 30% increase in average prices in quarter one, as a result of supply constraint due to the legal dispute between Russia and its Ukrainian ammonia pipeline partner on the tariff issue and maintenance shutdown in the Middle East, as well as some technical issues in Algeria. In addition, the price increase is also contributed by the turnaround in Iran.

We can foresee an improving market in quarter two as prices maintain at high levels with the reduced production rate from the Algeria key producer and scheduled maintenance in the Middle East and Oceania. Demand remains unchanged, if not slightly weak, in comparison to last quarter, leaving limited room for upward price movement.

Lastly for methanol, tight supply and strong demand in quarter 1 2017 pushed up average price by $50 per metric ton in comparison to quarter four last year. However, the increase was short lived as the market corrects itself going into quarter two, to a lower price level with Chinese coastal buyers now sourcing domestically due to the widening gap between the import and domestic methanol prices.

Demand from traditional derivatives market, i.e. biodiesel, acetic acid, DME, formaldehyde and MTBE is expected to remain stable. Downward price movement however, is anticipated to be cushioned by shutdowns in Asia and the Middle East towards the later part of quarter two.

So, overall, we delivered a solid commercial performance for the quarter through continuous collaboration between various stakeholders and focused execution of our commercial excellence initiatives especially in enhancing our presence in focused markets, implementation of key account management and capability building. These efforts, coupled with an improved market, brought about our strong commercial performance seen in quarter one 2017.

Looking forward to quarter two 2017, we will strive to continue and deliver the identified commercial excellence strategies and initiatives to sustain our commercial excellence performance.

That concludes my section on the market and our focus moving forward and back to you, Datuk.

Sazali Hamzah, *MD/CEO*:

Okay. Thank you, Akbar. Ladies and gentlemen, the first quarter of 2017 showed positive indicators of a recovering economy and energy industry. Despite the improvement that we have seen so far, crude oil and as such petrochemical prices, is forecast to remain volatile.

Asian petrochemical players are likely to continue facing pressure from supply glut with additional capacity coming on stream in 2017. Plant that started up in 2015 or early 2016 are also seeing a more stable production. There are also global impacts on the increasing trend of protectionism from several major economies. While the market conditions remain uncertain, we will continue to be resilient ~~and~~ due to our competitive advantage.

At PCG, we will continue to work on sustaining our world-class operational excellence. HSE will remain our utmost priority. We will continue to explore ways for cost optimization, focusing on feedstock, energy and utilities efficiency. We will improve customer experience and optimize our cost to serve and South East Asia remains our key market and we will continue to further expand our presence in this region. We will also focus on the delivery of all our growth projects to ensure a minimum disruption affecting timeline and cost.

For all our growth projects, our key focus will also be to execute activities well, such as route to market for chosen products, from PIC, Pengerang Integrated Complex and effective operation and market readiness program.

On that note, I am also pleased to share that we have reached final investment decision or FID for an Isononanol plant in April which we have announced previously. This is another additional to the petrochemical project within the PIC in line with the strategy to grow further in specialty chemical. Beyond 2020, we will assess our opportunities in downstream derivatives and specialty chemicals at Pengerang, Kertih, Gebeng as well as in East Malaysia. The completion of PIC as well as the current plants that we have will provide a lot more opportunities to grow in the area of chemicals, derivatives and specialty.

Next, let's move on to question-and-answer. Thank you.

+++ q-and-a

Operator:

(Operator Instructions). Mohshin Aziz from Maybank. Please go ahead.

Mohshin Aziz, Maybank Kim-Eng:

Hi, congratulations on the fantastic results. I've got two questions, actually one question and one request. First the question, I was wanting to know with regards to capacity growth, from our side, it's a bit difficult to assess. You mentioned about the urea plant being ready and stuff like that. In terms of volume growth, assuming all the turnarounds have been done, what sort of production volume growth can we expect on a year-to-year basis? So, that's the first question.

And then the request is for Rashidah, with regards to the cash flow statement, so right now it's being furnished indirect method, which I greatly thank you very much, it's definitely helpful, but can you please assist us to give at least four historical quarters so that we are able to forecast going forward. It will really help our work if we can get success with historical quarters of the indirect method. That's all. Thank you.

Rashidah Alias, *CFO*:

Yes, hi Mohshin, before we jump to your first question on the volume just now, let me just comment at the indirect cash flow. Precisely, we think the indirect method would benefit the users more, so your request on the four quarters, sure we can do that, but give us a bit of time. I will update back when it's available, that means we have to work out for quarter two to quarter four, because you wouldn't have the quarter one of 2016, you now have quarter two -- sorry quarter one 2017, so we've got to work out the quarter two to quarter four. Give us a bit of time here, then we will furnish it.

Mohshin Aziz, Maybank Kim-Eng:

All right. Thank you. I mean, I understand it's going to take a lot of work, but it will be really, really helpful for us. So, thank you in advance.

Rashidah Alias, *CFO*:

Sure. We would like to furnish information that will be useful to you.

On the volume --

Sazali Hamzah, *MD/CEO*:

Okay, Mohshin, your question, just now with regards to capacity growth, related to SAMUR, my understanding, so for 2017, you can put that the growth is -- the utilisation is basically about 70% to 75% for 2017, and that corresponds to urea of 1.2 million, so you have to times 1.2 million times 0.7 to 0.75. That is for 2017.

In 2018, we may target about 80% and subsequent years, we always aim to get above 90%. So that is our normal target to produce urea in SAMUR.

Mohshin Aziz, Maybank Kim-Eng:

Okay, thank you very much. That answers my question.

Operator:

Ajay Mirchandani from JPMorgan. Please go ahead.

Ajay Mirchandani, JPMorgan:

Well, thank you so much for the call and congratulations on an excellent set of results. One quick question for me was specifically on how we need to think about utilisation in the coming quarters, given that you are guiding for a low 90s kind of utilisation for the year. Should we simply expect Q2, Q3, Q4 to be kind of lower at around about a steady 90% level or high 80s or should we see a little bit of lumpiness within those numbers, any kind of rough guidance on that for the rest of the year would be helpful. Thank you.

Mohd Yusri Mohd Yusof, *Head of Manufacturing:*

Right, thank you Ajay, Yusri here. As I said, I am targeting low 90s for the year. Quarter three is going to be low, because quarter three as I have mentioned, that we're going to have a big turnaround in Kertih. So, I'm expecting quarter three will be in the low to mid 80s PU, and then quarter two and quarter four will be around low 90s.

Ajay Mirchandani, JPMorgan:

If I can just clarify, because previously there was an expectation that there will be some delay on the major turnaround of Kertih, is that now back on, so we should expect the cracker you turnaround happening in Q3 where previously there was some possibility of a delay?

Mohd Yusri Mohd Yusof, *Head of Manufacturing:*

Cracker will not happen, but the rest of the plants, the derivative plant, the ammonia plant, would happen.

Ajay Mirchandani, JPMorgan:

Understand. Okay. Thank you.

Operator:

Alex Goh from Am Bank. Please go ahead.

Alex Goh, Ambank:

Okay, thank you. I have two questions. One is regarding your effective tax rate, which is about 16%, and the notes to your account mentioned that this is largely due to global incentive for trading. I'm just wanting to know, which segment of your profit was benefited from this and how long is this going to continue? Is this something that's going to be permanent? All right, that's my first question.

And my second one is, I'm just trying to do a comparison between the first quarter to fourth quarter of this year, that means a quarter-on-quarter comparison. What was the increase in terms of your average product prices? I'm just trying to capture the increase in your net profit bottom-line here.

Rashidah Alias, *CFO*:

Okay. Sure, thank you Alex. Again, if I will take your second question first, you're asking about the increase in product prices, right?

Alex Goh, Ambank:

Yes, correct, average.

Rashidah Alias, *CFO*:

For quarter one, yes, okay. On average, looking at our range of product, that is roughly about 17% to 20%, roughly, roundabout that in terms of product prices.

Alex Goh, Ambank:

17% to 20%, from first quarter to fourth quarter of last year, is it?

Rashidah Alias, *CFO*:

No, this is comparing quarter one 2017, average product prices, comparing to quarter one 2016.

Alex Goh, Ambank:

I see, but how about against quarter four?

Rashidah Alias, *CFO*:

Well, against quarter four, the quantum is not as much, it's roughly about 10% to 11%, 9% to 11%, roughly.

Alex Goh, Ambank:

9% to 11%, okay, thank you.

Rashidah Alias, *CFO*:

Yes, not as much, because as you also be aware, for quarter four the market has started to recover. Quarter one and if you recall quarter one, the crude price, recovering around about $30-ish per barrel, by quarter four last year, that was quite close to about $50 per barrel. So, the petrochemical prices kind of followed suit.

Alex Goh, Ambank:

Okay. Great. Thanks.

Rashidah Alias, *CFO*:

Yes. Quarter one is better but the quantum against quarter one is more pronounced, compared to the quarter four of 2016.

Okay, then in terms of your first question on the Global Incentives, GIFTs rather, yes, it is expected to be a permanent arrangement for us. What GIFTs means is that any volume that we sell through our marketing arm in Labuan, this is a Labuan entity will qualify for that incentive and they will be taxed any profit, will be taxed at roughly about 3% compared to volume that is being sold under the Sendirian Berhad Company, that is at the corporate tax rate of 24%.

So, at some point, we have also starting from a couple of years back, we have also started to restructure a bit our model, what we call this contract manufacturing, where our manufacturing entity focusses on the manufacturing part, and therefore all of the marketing of the product will be done by our marketing Labuan company. So, essentially, in a way we also get the benefit of the 3% lower tax rate. So, the plant, we'll sell the product to marketing Labuan and marketing Labuan in turn will onward sell that to the market.

Alex Goh, Ambank:

So but overall in that case, going forward, let's say in to the next few quarters or even to next year, is your effective tax rate going to come down even further from the 16% that we are seeing?

Rashidah Alias, *CFO*:

Okay. We would expect so, because as I've mentioned, in terms of the conversion into that contract manufacturing model, we are doing it progressively, so there are some other plants that we are yet to convert into this contract manufacturing model, so what that means is that certain volume is still being sold through the Sendirian Berhad Company.

Moving forward, as and when we are ready, or we execute this contract manufacturing model into this remaining plant, then all of this volume will shift to the marketing Labuan company. And again, SAMUR will also come on stream, and when SAMUR comes on stream, that will also lower down our effective tax rate, because SAMUR also carries its own incentive, not the GIFT, but it also has some investment tax allowances and things like that. So, that should also help to bring our effective tax rate down.

Alex Goh, Ambank:

I see. So, looking into this year and next year, could you give us some guidance on what sort of effective tax rate should we be looking at maybe 10% or even lower than that?

Rashidah Alias, *CFO*:

Okay. If you look at quarter four, our effective tax rate was about 12%, quarter four 2016, this quarter is about 16%, so I think as and when we get all of the plants converted into this contract manufacturing, we're probably looking at the low teens kind of an effective tax rate.

Alex Goh, Ambank:

Okay. That is for the full -- full year this year and also for 2018?

Rashidah Alias, *CFO*:

Full year. Yes, we are looking at the full year rate, something around, somewhere in the region of the low teens, what I mentioned to you earlier.

Alex Goh, Ambank:

I see. Okay, thank you very much.

Operator:

Abhishek Nigam from Nomura. Please go ahead.

Abhishek Nigam, Nomura:

Sorry, just some clarification on the tax rate thing. So, we're looking at low teens in 2017 or 2018?

Rashidah Alias, *CFO*:

Yes, 2017 -- okay, sorry, Abhishek, 2018, I think with more likely 2018 forward, because the conversion of the remaining of the plant is happening progressively, so depending on the progress of that conversion, towards the end part of this year, only we're able to convert the remaining plants. So, then you're looking at that low teens rate in 2018 forward. We're probably going to see this level 16(%), 17(%) for this year, still.

Abhishek Nigam, Nomura:

Okay, so because I think you were earlier guiding around 21% odd for 2017, so that comes down to 2016, 2017, right?

Rashidah Alias, *CFO*:

Yes, because last year when we gave that guidance, at that point, one of the other plant wasn't also onboard, so in quarter three, quarter four last year -- sometime in quarter three, quarter four 2016, we brought the ethylene, polyethylene plant into contract manufacturing model. So that is a big one that helps to bring down the effective tax rate.

Abhishek Nigam, Nomura:

Okay, and is this something that is like a new tax thing or has it like existed for a while, because I don't think --

Rashidah Alias, *CFO*:

Right, it has existed for a while, but I think again because of the progressive conversion to take advantage or rather progressive conversion into the contract manufacturing, that was why you were seeing a progressive drop in terms of the ETR rather than an immediate drop to that low teens, to that 15%, 14% or rather 15%, 16% that you are seeing right now. And as you are aware, ethylene, polyethylene, that's a big contributor to the group, it's ethane based, so once we are able to bring that onboard, the impact on the ETR is quite a lot.

Abhishek Nigam, Nomura:

Okay, I think that --

Rashidah Alias, *CFO*:

Yes, this one has been I think about two, three years back, about two or three years back.

Sazali Hamzah, *MD/CEO*:

2015.

Rashidah Alias, *CFO*:

Yes, around 2015 we started this.

Abhishek Nigam, Nomura:

Okay. Thank you so much.

Rashidah Alias, *CFO*:

Yes, sure. Welcome.

Operator:

Cheong Mun Wai from EPF. Please go ahead.

Cheong Mun Wai, EPF:

Hi, good evening. I just have one follow-up question on the SAMUR utilisation rate. Just I was guided that the 2017 utilisation rate should be around 70% to 75% times 1.2 million tons per annum. Can I just clarify, this 1.2 million tons should be adjusted for 12 -- 8 months because the operation only started from May to December of this year? So, we should take eight months of 12 times 70% to 75%, 1.2 million tons per annum. Thanks.

Sazali Hamzah, *MD/CEO*:

I think you don't need to adjust it, because what happened is even though full capacity in May, in between we already run this plant, but at lower capacity, we reached 100% I think twice, then we bring back the plant and then we run for 90% quite some time, so the first few months also have some utilisation factor, so as the calculation is just times directly.

Aziz Othman, Head Strategic Planning & Ventures:

For the full year.

Sazali Hamzah, *MD/CEO*:

For the full year.

Rashidah Alias, *CFO*:

Yes, for convenience it has been adjusted to an annual average Mun Wai, so you can take it against the 1.2 million tons.

Cheong Mun Wai, EPF:

Right. So that 70% to 75% also includes the warranty shutdown that is expected in the fourth quarter of this year, right?

Sazali Hamzah, *MD/CEO*:

Okay. Basically, what happened is 70%, 75%, we may have to shut down at the end of this year, which is December, but at this moment we try to push that shutdown to the quarter one next year, so by doing that, we think that 70%, 75% of 1.2 million is achievable.

Cheong Mun Wai, EPF:

I see. Just one more thing. Can you guide how much was SAMUR's contribution in first quarter 2017 to the EBITDA and the bottom line?

Rashidah Alias, *CFO*:

Nothing, except for some pre-operating expenses, because it hasn't reached the ready for use stage, for us to recognize the financial indication. So, by this quarter, we should be able to -- it will start to hit our income statement in this quarter.

Cheong Mun Wai, EPF:

I see. Okay, thanks.

Rashidah Alias, *CFO*:

Yes.

Operator:

Azim Faris from BIMB Securities. Please go ahead.

Azim Faris, BIMB Securities:

Hi, I have two questions. One, when do you expect your JV plant to contribute to your bottom line?

And the second question will be, I wonder why, as far as I know that citral and citronellol has reached the mechanical completion by August 2016, why it takes so long to reach their commercial operation? Okay, that's all. Thank you.

Sazali Hamzah, *MD/CEO*:

Okay, first one, why citral and citronellol already reached mechanical, it's actually now is on the commissioning state. Bear in mind that this plant consists of three plants, citral, citronellol, L-menthol, so it's required part by part to be commissioned. So, we would expect by quarter three we should be able to get the full product on stream and high capacity as well. Also, bear in mind also this is new unit, new plant that have been built, so it also depends on much from our partner expertise in starting up this plant as well.

Rashidah Alias, *CFO*:

BPC as an entity or rather the BASF Petronas Chemical is undertaking the citral, citronellol, methol project. From the existing operations, we are already contributing, this is the lines of product of acrylic, OXO, BDO, they are already contributing to share profits, but the projects that we have been talking about, these are new growth projects, and so expected to contribute in addition to the existing operations, quarter three --

Sazali Hamzah, *MD/CEO*:

Quarter three or quarter four.

Rashidah Alias, *CFO*:

Yes.

Azim Faris, BIMB Securities:

So for the citral and citronellol, the new plant would be contributing to your bottom line starting fourth quarter, is it?

Rashidah Alias, *CFO*:

Yes, roughly end quarter three, quarter four, like that roughly. Yes.

Azim Faris, BIMB Securities:

Okay, thanks. Thank you.

Operator:

Just confirming that there are no further questions at this time. So, I'll turn the call back to our hosts for any further remarks.

Safarah Salim, *IR*:

Thank you, Hannah. Ladies and gentlemen, as there are no further questions, we have come to the end of our session today. If you have any further questions, please contact us at our email, petronaschemicals_ir@petronas.com.my. Thank you again for joining us today and we'll see you next quarter.

Operator:

Thank you. Ladies and gentlemen, just to confirm that does conclude our conference for today. Thank you for participating. You may all disconnect.

END