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OPERATOR:

Thank you for standing by, and welcome to the PETRONAS Chemical Group's fourth quarter financial year 2016 analyst briefing. (OPERATOR Instructions). I must advise you that this conference is being recorded today, Monday, February 20, 2017.

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

Safarah M Salim, IR:

Thank you, Claud. Good evening, everyone, and thank you for making the time to be with us today as we discuss PCG's performance for the quarter ended and year ended December 2016.

With us today are Datuk Sazali Hamzah, CEO of PCG; Madame Rashidah Alias, CFO; Encik Mohd Yusri, Head of Manufacturing; Encik Akbar Md Thayoob, Head of Commercial; and I'm Safarah from the Investor Relations team. So let's start our session today with Datuk Sazali and the key highlights.

Sazali Hamzah, MD/CEO:

Good evening, everyone. Thank you, Safarah. Thank you also for everybody for joining our analyst briefing today.

Looking back to 2016, there were many uncertainties affecting the market, resulting in cautious approach by the industry players globally. In January last year, we saw a steep fall in crude oil price due to the surge in oil production by several key major players. And if you could recall, somewhere in the beginning of the year, the Brent reached \$26 per barrel, which is its lowest since the last 12 years.

Crude oil prices then gradually improved throughout the year on the prospect that both OPEC and non-OPEC around the world have cut their production beginning 2017.

The highest crude oil prices were affected to positively impact the petrochemical product price. Still, the average Brent crude price for 2016 was \$42 per barrel, lower by 19% than \$52 per barrel in the year before.

At the same time, the general macroeconomic conditions did not show market improvement. The global GDP growth remained relatively flat throughout the year. Although there were traces of marginal increases in quarter 4. Overall growth was still lower than that seen in 2015.

Demand for petrochemical was therefore limited by short-term production plans. As such, while petrochemicals feedstock price may have slightly risen due to cost push, product prices dropped by 17% and price remained thin across the board.

Go to the next slide. And this could very well be the toughest business environment that we have every faced before. In 2015, we had seen the result from our operational excellence initiatives and we continued to perform well in 2016.

2016 has then put our commercial excellence strategy to test. And I'm pleased to share the efforts on the margin maximization initiative has contributed greatly to the overall business performance.

As a result, PCG recorded its best performance amid the toughest market headwind. Group plant utilization was 96%, the highest achieved since our listing in 2010. And this performance is considered above world benchmark numbers.

The higher plant reliability and also higher feedstock supply far exceeded the previous years. Our close collaboration with our upstream supplier as well as gas processing plant have really helped us in pushing our capacity in 2016.

More sales volume as well as improving product prices towards the end of the year helped our commercial team to secure their margin.

And financially, I'm proud to share with you that our revenue was higher by 2%. Most importantly, our EBITDA rose by 14% and profit after tax increased by 13% as compared to last year, despite the low margin period in 2016 that we have experienced.

Another thing, we also accomplished our strongest EBITDA margin at 38%.

For more detail on financials, I would like to pass the session to our CFO, Madame Rashidah.

Rashidah Alias, CFO:

Thank you, Datuk Sazali. Good evening, everyone. We will start with the Group's performance on slide 5, before moving on to the respective segments.

Now, for your reference, the chart on the right is the Group performance for the comparative quarters and on the left, is the Group's performance for the cumulative year of 12 months ended December 31, 2016.

Now let's start with the corresponding quarter, which is quarter 4, 2016 versus quarter 4, 2015. Compared to quarter 4 2015, we saw marked improvement in our plant utilization rate, which rose almost 10 percentage points to 96%, with higher feedstock supply.

Both the olefins and derivatives and fertilizers and methanol segments benefited from this increased supply and contributed to the increased PU or plant utilization, resulting in higher volume for both segments.

The higher production volume led to higher sales volume which, with the support of favorable foreign exchange impact, pushed Group revenue up by 14% to MYR3.95 billion from MYR3.45 billion in the same quarter of last year.

EBITDA surged 46% from MYR1 billion to MYR1.48 billion, driven by higher volume, better spreads and favorable foreign exchange. Consequently, EBITDA margin increased 8 percentage points to 38%.

Profit after tax was higher than the corresponding quarter by 31% at MYR1 billion compared to MYR791 million in Q4 2015; again, on the back of higher volume, supported by better spreads and favorable foreign exchange impact.

Next, we look at quarter 4 2016 versus quarter 3, preceding quarter. Comparing against the preceding quarter, we had a drop in plant utilization from the previous 100% to 96%, as we undertook a turnaround shutdown at our urea facility in Bintulu.

However, with more petrochemical product prices showing improvement, tracking the firmer crude oil prices in Q4 2016, revenue for the Group jumped 11% from MYR3.56 billion to MYR3.95 billion; further supported by favorable foreign exchange.

EBITDA for the Group saw a marginal 2% improvement from MYR1.46 billion to MYR1.48 billion, with improved spreads and favorable foreign exchange.

Profit after tax was higher than the preceding quarter by 5%, accordingly.

Now, for the 12-month period ended December 31, 2016, compared to 2015, we saw lower crude price compared to the previous year. Petrochemical product prices were also lower due to soft demand and capacity additions; and for products like ammonia and urea, global over-supply.

Nonetheless, with our plants running well and improved feedstock supply, particularly methane, our Group plant utilization rose 10 percentage points, from 85% at the end of 2015, to 96% at the end of 2016.

The result in higher sales volume, particularly methanol, pushed revenues 2% up to MYR13.86 billion from the previous MYR13.54 billion, further supported by favorable foreign exchange.

EBITDA rose 14% to MYR5.29 billion, from MYR4.66 billion in 2015; again, contributed by higher volume, coupled with foreign exchange impact, offsetting the impact of lower spreads.

Profit after tax for the year 2016 was 4% higher at MYR3.22 billion.

Now, excluding the one-time asset write-off that we had of MYR244 million that we took during the year, PAT would have been MYR3.47 billion, which is 12% higher than compared to 2015.

Moving on to how the segments performed, starting with olefins and derivatives. Against the corresponding quarter, the O&D segment saw improvement in plant utilization, increasing from 95% in Q4 2015 to 100% in Q4 2016, on the back of higher feedstock supply and lower downtime.

The corresponding higher volume and, subsequently, sales volume, coupled with higher product prices and favorable foreign exchange in Q4, pushed revenue to 16% year on year to MYR2.83 billion from the previous MYR2.44 billion.

EBITDA was also higher at MYR1 billion, compared to MYR781 million in quarter 4, 2015, with increased volume and better spreads supported by favorable foreign exchange. As a result, EBITDA margin rose 6 percentage points to 38%.

Similarly, profit after tax for the segment improved 22% to MYR706 million compared to MYR578 million in the corresponding period.

Against the preceding quarter, the O&D segment was comparable operationally, achieving 100% plant utilization in both quarters.

With slightly higher downtime, due to higher maintenance activities, production volume and, subsequently, sales volume for the segment declined a marginal 3%. Nevertheless, with most product prices for the segment trending higher for the quarter, tracking the firmer crude oil price, revenue increased 11% from MYR2.54 billion in the preceding quarter, to MYR2.83 billion.

EBITDA was comparable at 1% increase from MYR1 billion to MYR1.07 billion. EBITDA margin, however, declined 4 percentage points to 38%. Profit after tax for the segment improved 4%.

Next, we look at the performance of the O&D segment for the year against 2015. Product prices averaged lower in 2016 compared to 2015, with weaker crude prices and lower naphtha prices.

Nonetheless, as we continue to pursue our operational excellence initiative, plant performances under the segment improved, with a full-year plant utilization of 100% for 2016 compared to 93% in 2015, driven by improved ethane and naphtha supply, which negated the impact of higher turnaround days.

As a result of higher sales volume, revenue for the segment improved 3% from MYR9.5 billion in 2015 to MYR9.76 billion, supported also by favorable foreign exchange.

EBITDA for the segment rose 19% to MYR3.8 billion, with higher volumes, higher ethane feedstock supply leading to higher sales composition of ethane-based products and favorable foreign exchange that offset the impact of thinner spreads. As a result, EBITDA margin for the segment improved 5 percentage points to 39%.

Profit for the segment also saw an 8% improvement in 2016 at MYR2.16 billion, again, with higher volume. Excluding the one-time write-off that I have mentioned earlier at MYR244 million, PAT would have been 21% higher at MYR2.4 billion.

Next, we will look fertilizers and methanol segment on slide 7. Against the corresponding quarter, we saw marked improved in the F&M segment, with plant utilization jumping 10 percentage points from 79% in Q4 2015 to 89% in Q4 2016. This was mainly driven by higher and more stable methane supplies to PC methanol, with the coming on stream of the Dalak pipeline which in quarter 4, 2015, as you would recall, was just about being completed.

Nonetheless, the rise in plant utilization is slightly negated by the turnaround shutdown that we had in Bintulu during the quarter, whereas in Q4 2015, there were no shutdowns.

Production and sales volume for the F&M segment rose 18%, pushing revenue up by 9% to MYR1.15 billion compared to MYR1 billion last year, thus negating the impact of lower product prices.

EBITDA for the segment rose 26% compared to the corresponding quarter, contributed by the higher methanol volume and favorable foreign exchange which offset the impact of lower spreads. Consequently, EBITDA margin jumped 5 percentage points to 37%. PAT for the segment was higher by 35% at MYR331 million.

Now the segment performance against the preceding quarter, quarter 3, 2016. Despite a slightly higher methane supply seen in quarter 4 2016, plant utilization for the segment fell 7% to 89% compared to quarter 3 due to again the higher shutdown days within the segment as I mentioned earlier at our urea facility in Bintulu. As a result, we saw lower production and sales volume for the quarter.

However, revenue rose 9% quarter on quarter to MYR1.15 billion as urea and methanol prices improved with firmer crude oil prices. EBITDA for the segment increased by 8% to MYR425 million on the back of higher spread and positive currency impact, offsetting the lower volume.

The segment saw a rise in profit after tax by 29% to MYR331 million on lower tax expenses, resulting primarily from our recognition of deferred tax assets relating to our SAMUR plant.

For the whole 12 months for 2016 versus 2015, comparing the segment performance for 2016 against 2015, plant utilization saw a significant 13 percentage point improvement from 80% in 2015 to 93% in 2016. This was the result of improved methane supplies to PC methanol brought on by the Dalak pipeline that is now fully operational and the lower turnaround activities conducted for the segment during the year.

This year, we conducted one turnaround activity for the segment which was at Asean Bintulu Fertiliser, whereas in 2015, as you recall, there were two turnaround activities at PC fertilizer Kedah and PC methanol.

In line with higher plant utilization, production and sales volume rose, contributing to a slight increase in revenue which moved up 1% from MYR4.19 billion in 2015 to MYR4.23 billion in 2016, negating the impact of lower product prices.

Methanol price suffered during the year, following lower demand for fuel additives due to lower crude oil prices, whereas urea and ammonia were hit with oversupply from new capacities coming on stream.

The segment EBITDA declined a slight 1% as the higher methanol volume and positive currency impact cushioned the impact of lower spreads. Consequently, EBITDA margin saw a marginal decline to 36% from the previous 37%. Similarly, profit after tax for the segment declined 6% to MYR999 million.

Moving on to the last portion of my presentation, we have our balance sheet and cash flow. You will find the balance sheet on slide 8 and cash flow on slide 9.

First, a look at the balance sheet on slide 8. For the 12-months period ended December 31, 2016, we saw an increase in total assets by MYR1.15 billion, mainly from the addition to plant, property and equipment from project RAPID and project SAMUR. Consequently, total equity and liabilities also changed by the same amount.

Next, a look at the cash flows for the year-ended December 31, 2016. We started the year with MYR9.3 billion cash, which includes MYR8.7 billion that you see on the chart, plus a MYR622 million medium-term deposit that has now matured.

By the end of December, our cash balance has dipped to about MYR7.4 billion. This is primarily due to CapEx spending on our growth projects where we spent roughly about MYR3.4 billion for CapEx.

In 2016, we paid higher dividends to our shareholders compared to 2015 at a total of MYR1.36 billion related to the second interim dividend for 2015 at 10 sen per ordinary share and the first interim dividend for 2016 at MYR0.07 per ordinary share compared to a total of MYR1.28 billion in 2015.

At MYR7.4 billion cash balance, we are, indeed, practicing prudence and care in our spending as we focus on our growth strategy and ongoing CapEx requirements, which will increase as the RAPID petrochemical project advances.

That's all I have on the financial highlights. Handing over to Encik Yusri for highlights on manufacturing performance. Thank you.

Yusri Yusof, Head of Manufacturing:

Thank you, Rashidah. Good evening, everyone. Yusri here. Let me provide some color to our operational highlights.

You can first refer to slide 10. 2016 saw the strongest operational performance of PCG, with plant utilization at 96%. This is 10% better than what it was in 2015.

If you can look at the first graph, PCG's production volume continues to show year-on-year improvement as evident from the improvement of its plant utilization. The quarter performance was better than the corresponding quarter, but lower compared to preceding quarter, primarily due to planned maintenance activities, especially at our Bintulu facilities as mentioned by Rashidah earlier.

Higher production was a result of stronger plant reliability, efficient molecule management and successful turnaround execution. 2016 saw PCG generating highest production volume since our listing.

2016 our volume has reached beyond 9 million metric tonnes per annum. This performance is a result of reliable plant, efficient molecule management and flawless execution of statutory turnaround.

We have reached to a point where our facilities are quite reliable. This is achieved through three prongs. In health, safety and environment, or our HSE, it is our foundation and principal driver in driving towards reliable operation.

Reliable facilities will safeguard our people, the assets and the environment as well as surroundings. We continue putting strong efforts to cultivate the generative HSE mindset amongst our operation and this is something that we continue to strive and aim for.

We have deployed a systematic and integrated management system to facilitate our daily work. Having a stable plant of 25 units in six different locations, some are very integrated; this has improved our accessibility, integration and pace to deliver results.

Our main effort in plant reliability focuses on resolving known issues through our bad actor management program and also to anticipate problems through our plant threats management program. This has allowed us to keep the plant availabilities very high for 2016.

You move to page 11. Efficient molecule management was active through first improved infrastructure. Higher ethylene and methanol production was contributed by improved infrastructure and facilities, not only at our site but also at our suppliers' site.

For ethylene, our crackers at Kertih benefited from improved reliability of both the gas supply and also the utilities supply. In addition, improved infrastructure also allows for greater flexibility in balancing the ethylene supply from the two GPP sites to our two cracker sites.

For methane, the operationalization of the Dalak pipeline allows PC methanol to have an alternative gas supply from a new source in Sabah. This has resulted in reliable feedstock supplies to the methanol complex, thus we have achieved record production in 2016.

Another aspect to efficient molecule management is having to manage end-to-end visibility. We continue collaborating with our suppliers, especially the gas line and the offshore platforms to ensure end-to-end value visibility. These translate to operational transparency which allows us to make collective decision along the value chain for the best value.

For turnaround management, there are a couple of critical factors that we have achieved. First, we have improved the planning and execution of the turnaround.

We continue to leverage on PETRONAS on aligning the turnaround across PETRONAS Group. This allows PCG to collaborate and align the planning and execution of all assets within PETRONAS and PCG.

It allows us to optimize schedules, resources and minimize the downtime. As such, if you look at our record, we are able to reduce the exposure for turnaround days in 2016.

In our internal turnaround team that we have created a few years back, we continuously drive to increase the level of competency for our team. This, again, has contributed in improving the efficiency and execution of all our turnarounds last year.

Second, is how do we manage our contractors in executing the turnaround. Similar to our internal team, we continue in our effort to upskill our turnaround contractors. Through the long-term contract that we have established, we are able ensure the level of competency for the workers that our turnarounds are of acceptable level. We even collaborated with a government agency, namely CIDB, to certify some levels of workers for our contractors.

I will touch a bit on our 2017 highlights, next on slide 12. For 2017 operational plan, our aim is to sustain world-class performance. With the implementation of the operational excellence strategies over the last few years, we have seen marked improvement in our operational performance.

We aim to continue to operate better than the world industry benchmark that we achieved so far. For 2017, however, we do have a heavier statutory turnaround plan; this plan will impact our plant utilization to be slightly lower than what it was in 2016.

Next, our focus is to bring in our SAMUR project to commercial operation as safely and successfully as possible. SAMUR project has reached successful mechanical completion at the end of last year. We are now continuing to stabilize our operation, with target for steady run and performance test run this quarter.

The commercial operation post-performance test run is expected to follow accordingly. Depending on management review, a decision on SAMUR warranty shutdown will be decided later during the year.

Finally, our venture into specialty chemical at our associate JV partner in Gebeng, the Aroma plant; we expect commercial operation in 2017. We are within range of our startup schedule

after successfully achieving mechanical completion of the citral and citronellol facility and associated infrastructures in August 2016, followed by mechanical completion of the L-menthol facilities in December 2016. We expect citral production in the first half of 2017.

Following the comprehensive commissioning and the successful startup of citral production in Kuantan, we will then fill our global supply chain in phases. The production unit for citronellol and L-menthol is part of the integrated aromatic ingredient complex will come on stream in phases in 2017.

Conclusion. In conclusion, we closed 2016 as the best operational performance since our listing in 2010. We will continue our disciplined execution of the strategic plan and expanding our focus to improve efficiency to stay competitive in our industry.

Our team, especially the plant personnel, remain committed and are confident that we will continue to generate the values.

That's all I have for the operational highlights, and I would like to now hand over to Akbar for market performance and outlook.

Akbar Thayoob, Head of Commercial:

Thanks, Yusri. Good evening again everyone, Akbar here. Let's proceed with the market highlights. Overall, prices improved from quarter 3 to quarter 4, 2016 for most of O&D and F&M products.

In quarter 4, O&D product prices improved, contributed mainly by stable downstream demand and supply constraints, with the exception of ethylene. Ethylene price dipped slightly in quarter 4, with the return of supply in Southeast Asia.

Urea price firmed up in quarter 4, with increased demand for seasonal application. Ammonia average price, on the other hand, softened in quarter 4, after the steep decline in quarter 3, given the cautious buying sentiments in key regions, alongside global oversupply situation.

Methanol price, however, gained towards the end of quarter 4, 2016, from strong demand for MTOs, supported by production loss from major Southeast Asia producers.

Moving into quarter 1, 2017, we anticipate the price for olefins and derivatives to strengthen with continuous back supply and positive good oil uplift.

Meanwhile, we anticipate urea price to improve on the back of increased seasonal demand, with the return of the rainy season in Southeast Asia and application season in China.

Ammonia price, while still weak, is expected to improve, with limited supply and stable demand.

Methanol price is forecast to remain firm, with continuous demand for downstream derivatives, mainly from MTOs, and supply outages in the Southeast Asia region.

So that's the gist of PetChem market for last quarter, and a brief outlook for this quarter.

I shall now proceed with more details under each business, starting with O&D business. Ethylene. As I mentioned earlier, the average ethylene price settled slightly lower in quarter 4, 2016, where supply recovered as major crackers turnaround ended in October 2016.

Weaker downstream demand was observed towards the end of quarter 4, which is a typical seasonal low period in the market following holiday season. The market was further dampened with downstream producers scheduling their turnaround in the third quarter.

Going into quarter 1, 2017, the outlook is looking positive, as supply will continue to tighten, tracking several turnarounds in the Middle East and Asia, with an estimated ethylene production loss of 260,000 metric tonnes in total.

Downstream demand, especially for PE and MEG, is also likely to pick up in anticipation of the restocking activities post-Chinese New Year celebration. Also, anticipation in production cut by OPEC countries creates positive outlook for crude and this further supports the firm outlook for ethylene.

Polymers. Polymers prices were slightly firmer in quarter 4, 2016, in comparison with quarter 3 2016, mainly due to supply shortage from shutdowns of several PE producers in the Southeast Asia region.

In quarter 1, 2017, we will continue to see a positive period for the polymers market in Southeast Asia region on the back of major producers' planned shutdown in February and March 2017.

Restocking activities are anticipated post-Chinese New Year holidays, pushing up market sentiments towards the firm side. Drastic upward price movement, however, is unlikely, following the anticipated return of Iranian cargos to China. On another note, firm feedstock stock price will also lead to further support the positive polymer prices outlook.

MEG. MEG price improved in quarter 4, compared to quarter 3 last year, as supply was tight, following the force majeure declaration by a major Southeast Asia producer and turnaround activities in the Middle East.

Moving to quarter 1, 2017, prices are expected to firm up, as supply remains tight with production cutbacks across Asia in January and February as well as the higher PET capacity utilization with healthy polyester market outlook in China. This caused speculative enthusiasm among MEG market players, hiking up the MEG price.

Asian polyester staple fiber and filament yarn export prices are envisaged to be stable if not firm. Sellers have been offering higher prices due to increased cost pressure, and buyers are seen to be more positive towards accepting higher prices.

In addition, the firm ethylene price outlook also contribute to a stronger MEG price.

Aromatics. Aromatics prices improved slightly in quarter 4, as PTA continued its stable run rate with the restart of major Northeast Asia producer, after it shut down in September 2016. This was also backed by the slight uptick in crude oil prices.

Moving hand in hand with MEG in quarter 1, 2017, PX prices will see some improvement, with firm downstream PTA demand, in line with stable polyester market.

Supply cutbacks from Middle East shall further support upward price movement. Furthermore, Indonesia's Pertamina has started its aromatic trading activities from its Jakarta HQ in its bid to expand aromatic operations, which shall improve demand sentiment in the Southeast Asia region.

For benzene, the market has shifted to an anomaly, with benzene prices being higher than paraxylene. This is caused by simultaneous short supply in China and the US. Price outlook is anticipated to still be firm, despite a major turnaround of downstream facilities.

As for most PetChem products, the firm fixed spot price will also further support on aromatic price's stability.

Moving on the F&M business segment, I shall start with urea. Urea prices have improved in quarter 4 compared to quarter 3, due to low urea production in China, caused by a higher coal price.

The availability of spot cargos was also tight, as most producers have fully sold out to fulfil contract cargos, in line with planned shutdown in the Gulf region.

We anticipate the price in quarter 1 2017 to look slightly positive due to limited supply availability and strong China domestic prices is expected to drive the urea prices up.

Moreover, current regional rainy season is expected to boost demand in Southeast Asia until the end of quarter 1. Demand in the US is also expected to improve as distributors will start buying now for the preparation of spring season.

For ammonia, price plunged in quarter 4 due to global oversupply resulting from the new plant in the Middle East as well as in the US, while demand remains stagnant. These scenarios resulted in end buyers being offered spot cargos at much lower prices.

Continuous drop in the price has forced several producers to reduce production rates to mitigate losses. However, the opposite is anticipated in quarter 1, after ammonia price reached its bottom in December 2016 and is likely to improve albeit at a low level.

This is mainly as a result of the legal dispute between Russia and its Ukrainian ammonia pipeline partner on the tariff issue, which hasn't been resolved since December last year.

Furthermore, maintenance shutdown in the Middle East, technical issues in Algeria and turnaround in Iran shall put upward pressure on ammonia price until supply from these plants normalize in quarter 2.

Lastly for methanol, prices improved in quarter 4 compared to quarter 3, mainly attributed by product outage in Southeast Asia and Middle East as well as robust derivative demand for MTOs application.

Average prices are predicted to stay positive in quarter 1, 2017, as the tight supply is likely to continue from the Middle East and Southeast Asia producers as they catch up to fill up their term commitments.

The strong demand for MTO will continue to influence the market, hence sustaining the price at \$350 level. Downstream demand is expected to be stable, with the operating rate hovering at an average of 60% to 70% for acetic acid producers in Southeast Asia.

Next, I will take some short time to be talking about our commercial excellence for quarter 4, 2016 and the way forward. Reaping in fully on market improvement in quarter 4, 2016, we recorded good overall commercial performance for the quarter on the back of our best ever volume production from the manufacturing sector.

And we particularly will focus our execution of our commercial excellence initiative as we move forward. The key areas that we have been looking at and will continue to look into are: strategic volume shift; reduction of cost to serve; portfolio optimization; and key account management; as well as our continuous collaboration between various internal and external stakeholders.

Looking forward to 2017, we will strive to continue to execute the identified strategies, implement commercial excellence initiatives and intensify our engagement with key customers to deliver value to our stakeholders.

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

Sazali Hamzah, MD/CEO:

Thank you, Akbar. Ladies and gentlemen, the uncertainties surrounding crude oil prices and economic growth may continue well into 2017. In any case, it is important for PCG to remain resilient and keep on growing in this trying time.

We'll continue to focus with our growth projects as well as sustaining our operational and commercial excellence. Our commitment to strengthening the HSE culture in every aspect of our operation remains our top priority, so does our effort to maintain a world-class plant performance.

We will increase effort to enhance customer experience to create greater value, while continuing to grow the strategic market in the Asia Pacific region.

On the growth projects, we are excited to see our plan coming together as we bring in Sabah ammonia urea plant to our capacity this year. We have successfully produced on-specification urea and now in the process of ramping up the plant at its full capacity and reach a full commercial operation.

Our project with BASF through our associate company, BASF PETRONAS Chemicals Sdn Bhd, are well within the reach of Sabah's schedule. And we expect the production unit for our citral, citronellol and L-menthol to come on stream in phases in 2017.

We also saw the successful production of on-specification of 2 EH Acid in late 2016. Work on the production facilities for highly reactive polyisobutene, HR-PIB, is progressing well and we expect this facility to commission in 2017 as planned.

The petrochemical project within the Pengerang integrated complex are currently progressing as planned, including the newly awarded EPCC package for flexi polyethylene or flexi PE project.

That concludes our highlights for today. Let us move on to question and answer.

+++ q-and-a

OPERATOR (OPERATOR Instructions): Abhishek Nigam, Nomura.

Abhishek Nigam, Nomura – Analyst:

Just three questions from me. One on the tax rate. So what is causing it to dip so sharply in the fourth quarter and what is the guidance for 2017?

Second, what was the reason for the olefins EBITDA margin declining in the fourth quarter?

And third, I wanted to check on the olefins division shutdown that you announced for 2017. So is it more in the third quarter or more in the second quarter, if you would be more specific with the dates, please? Thanks.

Rashidah Alias, CFO:

I'll take the first question on the effective tax rate for the quarter. You're asking about the quarter, right, Abhishek, not the full year?

Abhishek Nigam, Nomura – Analyst:

Yes, I'm asking about the quarter as such, yes.

Rashidah Alias, CFO:

For the quarter, okay. Last year, we had a recognition of deferred tax asset for SAMUR. So we had tax incentives on SAMUR for the pre-operationalization expenses, which was -- we have received the final clearance from the authorities, so we were able to recognize the deferred tax asset. So that was why it was a lower figure in quarter 4 last year compared to this year.

You were asking for guidance for this year. Typically, our effective tax rate would hover around about 20%, 21%, around about there, on a Group basis. I'm talking about a Group basis because our Labuan outfit, the marketing side is being pegged at about 3%, whereas the rest, the manufacturing side, is of course at the normal corporate tax rate of about 24%.

So on a blended basis, typically we would see about 20%, 21%, and this year, we do see that on overall, the effective tax rate for this year is about 21%; 2015 is about 20%.

Only thing after you look at the under/over provision. There is some under/over provision, so the eventual number for the effective tax rate was 22% for 2016; 19% for 2015. But if you take out the under/over provision, impact, it normalizes back to about 21%, 20%. And we do expect this is the kind of tax rate that the Group would record.

Your second question, if I could move on to the EBITDA margin for O&D, for third quarter and fourth quarter. In the end, this segment comprises both: one is the ethane-based results and the other, that is naphtha-based, that is our paraxylene benzene and also MTBE.

So in line with the increase in prices in the market, the feedstock price for the aromatics, the ex-benzene and also MTBE, has gone up a bit, in line with the market because the feedstock price for this segment, that follows the market price; is pegged to market price.

Ethylene, as obviously you're familiar with it, that is a fixed feedstock price, so that doesn't impact our segment so much. But this is for the other portion, the px-benzene and MTBE, the C3 and C4 chain. The C2 chain, that's quite fine. So yes.

Yusri Yusof, Head of Manufacturing:

For the turnaround, Abhishek, it's Yusri here, the plan for O&D are mostly in quarter 3. As I mentioned in my presentation, this is, again, aligning with the regulatory date line and also aligning with all the shutdowns within the value chain. So that means we are aligned with some of the gas processing plant and also some of the offshore platform, so for O&D, mostly quarter 3.

Abhishek Nigam, Nomura – Analyst:

Okay. Thank you so much.

OPERATOR (OPERATOR Instructions): Ajay Mirchandani, JPMorgan.

Ajay Mirchandani, JP Morgan – Analyst:

A couple of questions from me. Just to clarify specifically on the turnaround maintenance. Can we confirm in Q3 what's the number of days we're talking about for that shutdown? In the past, you have mentioned around about 40 days. Can we just confirm that number?

The second one was specifically on SG&A. If I'm actually looking at the selling and general administration expenses as a total number, on a Q-on-Q basis, that number does seem to have a little bit of a steep increase. Just wanted to get a sense if there's any one-offs within that number or should we look at Q4 2016 to be a more normalized level that we look into 2017?

And third and lastly, just specifically on SAMUR, can we confirm that you should see commercial operations in Q1? I just wanted to get a sense on what's the likely contribution to earnings, if any, for the plant in 2017.

Yusri Yusof, Head of Manufacturing:

Okay, yes. I'll take the first one, Yusri here. Quarter 3, on average, we do have a few units/plants that we're going to turn around in quarter 3. But this year, on average, should be slightly longer because we're taking advantage of the statutory to also do some upgrading in our facilities. So, on average, we'll be around 50 to 55 days.

Ajay Mirchandani, JP Morgan – Analyst:

Can I confirm this would be the cracker alongside other downstream assets within O&D?

Yusri Yusof, Head of Manufacturing:

The cracker, most probably, we do not shut down, but it will be on a reduced rate because of the downstream are the ones that are being shut down.

Ajay Mirchandani, JP Morgan – Analyst:

And so what should we expect the overall plant utilization for olefins within 2017?

Yusri Yusof, Head of Manufacturing:

You mean specifically for the cracker or for O&D?

Ajay Mirchandani, JP Morgan – Analyst:

For O&D as well as the cracker.

Yusri Yusof, Head of Manufacturing:

I think maybe if you talk about maybe in the 80%, plant utilization. I don't have (multiple speakers).

Ajay Mirchandani, JP Morgan – Analyst:

And for the cracker?

Yusri Yusof, Head of Manufacturing:

For the cracker, it's at a reduced rate for around maybe 50%. 50% to 60%.

Ajay Mirchandani, JP Morgan – Analyst:

50% to 60%?

Yusri Yusof, Head of Manufacturing:

Yes.

Rashidah Alias, CFO:

Ajay, I'll take the other question you were asking about, the selling and distribution and G&A expenses, comparing quarter 4 to quarter 3. In terms of selling and distribution, nothing in particular. I think it is probably more in terms of the composition of product that we sell. So quarter 3, that's about MYR175 million. Quarter 4, that is MYR196 million. So that's about 10%, 11% increase. But nothing specific. So it's just like I say, depending on the composition of the product sell and also where we sell it.

In terms of administration expenses, in quarter 3, we had MYR141 million and in quarter 4, we have MYR229 million. The key items is, actually, we had this operational readiness cost for our project RAPID.

Now, what happens is that in terms of risk mitigation, we have started to take in some people as part of our operational readiness for project RAPID. So we have started to take in the manpower. These people are placed in various plants within PCG for them to get the right training.

So we have been working with PETRONAS, who, because, at the end of the day, the operational readiness program is not only for PCG, this is also involving PETRONAS's other plant. So we have been working with PETRONAS to finalize the cost allocation basis for these operational readiness people.

So we've been able to finalize it in quarter 4, so there is a charge of round about MYR70 million; that covers for 2015 and 2016. So we expect for the 2015 portion that's a one-time.

For that matter, 2016 and Q1 to Q3, that's a one-time charge to the G&A. And moving forward, that will be a normal charge to our G&A.

If at all, that's the single biggest item that is in terms of a one-time charge to the G&A.

Ajay Mirchandani, JP Morgan – Analyst:

That's very helpful, thank you. And just finally on SAMUR.

Sazali Hamzah, MD/CEO:

On SAMUR, our plan is to achieve the commercial operation in quarter 1, but as we speak right now, in month of January itself, we actually have run the plant at an operational 70% capacity, and we already produce on spec urea as well as ammonia. And to date, I think, we have numbers of ships have been done through [our jetty].

So, total, I think it's about close to 100,000 metric tonnes of urea and ammonia on spec that we have produced.

Ajay Mirchandani, JP Morgan – Analyst:

Okay, perfect. Just one last quick clarification. Just to confirm, if I look at 2016 cracker plant utilization, you mentioned 60% as the likely target for 2017. If we just compare that number to --

Yusri Yusof, Head of Manufacturing:

No, no. All right, Ajay, 60% is during that period only, during that period of downstream shutdown. So that is during that period.

Ajay Mirchandani, JP Morgan – Analyst:

Okay, only during that period.

Yusri Yusof, Head of Manufacturing:

Yes, during that period I have to turn down the cracker to match the unavailability of downstream. But not the whole year.

Ajay Mirchandani, JP Morgan – Analyst:

That's very clear, okay. I was under the impression you're giving a full-year number. Okay, perfect, that's very clear, thank you.

OPERATOR: Alex Goh, Am Bank.

Alex Goh, AM Research – Analyst:

I have three questions. One is the JV losses of MYR21 million in this fourth quarter. I just want to find out what was the cause of that. And why doesn't the JV company record the sterling performance like the rest of your main operations in O&D and F&M. That's the first question.

The second question is overall, what would be the plant utilization for the whole Group for 2017 if you include F&M?

And my third question is regarding the SAMUR plant. Roughly, how much would it add to your capacity in the F&M segment? And also, could you give us an indication for RAPID? Is it really going to start commencement in mid-2019? And how much would that add to the O&D capacity in 2019?

Rashidah Alias, CFO:

I'll take the first Question, Alex; that's on the share of profits, or are there not for JV and associates that is for quarter 4, 2016.

Now, we have a couple of JVs, but the one that contributes the largest is actually this joint venture, BASF PETRONAS Chemicals, they are producing actually acrylic acid, their main product is actually acrylic acid, oxo and BDO.

Now, for these products, the market was really bad in 2016. The drop in product prices went as high as about 45% for certain products, so it was quite bad for BPC.

But in January, we do see some positive turnaround in the market, so for some prices, there is actually a 100% increase in product prices. So it's part and parcel of the trough cycle of the petrochemical industry, particularly for this product, and we are seeing some positive upward trends for January. So for this year, it will be a better one, yes. Second question?

Sazali Hamzah, MD/CEO:

Yes the second question, you are asking about PU right?

Alex Goh, AM Research – Analyst:

Yes.

Sazali Hamzah, MD/CEO:

The utilization estimate on 2017, so what we are looking because of we have bigger turnaround for few of the plants, including olefin and derivatives, like we have complement with SAMUR in commercial operations, so we are targeting around high 80% and just on the dot 90%; it's in high 85% to 90% figure that we are targeting for 2017, yes? This is for overall PCG.

Okay, so the next one is you are talking about -- you are asking how much SAMUR adds volume to us. The designed capacity is about 1.2 million metric tonnes per annum of urea.

In the initial operation, we normally budget about 70%, around 70%, so you just can find 70% of 1.2 million, so that's roughly the volume that we will be adding to the system. And you --

Alex Goh, AM Research – Analyst:

Okay, how would that be booked --

Sazali Hamzah, MD/CEO:

Sorry.

Alex Goh, AM Research – Analyst:

Sorry, would that be progressive? The 70% utilization would that be progressive or would it start -- say, on first quarter or second quarter of this year, would it start straight away at 70% or you will progressively ramp it up from say 30%, 50%, how does --

Sazali Hamzah, MD/CEO:

It's progressive. It's progressive actually, bit by bit. It starts with minimum I'd say about 50%, then slowly going up, but we have to reserve certain number of hiccups because normally in initial operation, you will find a few surprises, that's one.

Secondly, we also may have to do the first warranty shutdown in the initial operation, so that actually lower down the overall utilization.

Yusri Yusof, Head of Manufacturing:

So 70% is what we expect as average for the year.

Alex Goh, AM Research – Analyst:

Okay, great. Thank you.

Sazali Hamzah, MD/CEO:

So your last question is RAPID, we will commence mid 2019 and how much it will add to O&D volume. At this moment, because this is very huge complex, so when we commence in mid 2019, I will say there will be a lot of challenges in the full integration of the unit.

So, to be safe, roughly as an estimation, we will grow to be -- we will fine tune further when time closer to the date, roughly in this, if we start somewhere commence in mid-2019, you can take about 50% of one quarter only for the period of the whole year.

So if RAPID's at about, what, 3.4 million metric tonnes, you have to divide by 4 times 50%. So that's roughly the estimate number, but we are going to revalidate that once the time is closer.

Alex Goh, AM Research – Analyst:

Okay, thank you. That's wonderful.

OPERATOR: Mohshin Aziz, Maybank.

Mohshin Aziz, Maybank Kim Eng – Analyst:

Congratulations on the great results. I just want clarity on the ForEx stuff. I know there was some explanation just now, but I missed some of it.

I just wanted to know whether it's to do with the completion of SAMUR project, and whether it's also inclusive of the day-to-day operations with regards to selling your products? That's all. Thanks.

Rashidah Alias, CFO:

Thank you, Mohshin. Which ForEx are you referring to again?

Mohshin Aziz, Maybank Kim Eng – Analyst:

The one on cash flow statement whereby there's two items, one is the MYR4.366 billion, and the MYR3.811 billion.

Rashidah Alias, CFO:

Okay, sure, in the cash flow statement right?

Mohshin Aziz, Maybank Kim Eng – Analyst:

Correct.

Rashidah Alias, CFO:

That one is pertaining to a hedging contract, settlement of hedging contract that we undertake pertaining to our shareholders' loans that we gave to SAMUR.

Let me explain further. As you are very much aware, SAMUR is very much financed internally using PCG's own cash. So when SAMUR was constructed, a lot of it is in dollar currency, so we gave dollar loan, PCG I mean, PCG holding company provides dollar loan to SAMUR.

Back then, this started I think about 2014, yes 2013/2014, so back then, the strategy was this project will be refinanced from an external source, external bank loan when it's nearing completion.

This is around 2016, so that was the strategy back then because we need to release the cash for utilization of project RAPID.

So it's a conscious strategy that we took at that point in time, and therefore, in anticipation of the dollar coming back to PCG from raising from the external source, we have hedged the shareholders' loans.

However, today, as we stand today that planning is not on the table any more for the mere reason that PCG has sufficient cash to finance project RAPID. It doesn't quite make sense for us to out to the market and borrow for project SAMUR and when we have sufficient cash to undertake project RAPID.

So then we settle the hedging contracts. So the one that you saw in the cash flow statement is the difference between the hedging rate and also the spot rate, so that's what you saw there.

Mohshin Aziz, Maybank Kim Eng – Analyst:

I see. So, in summary, basically you took a hedging contract and then you decided -- and this is probably a long-dated hedging contract I would assume. And then --

Rashidah Alias, CFO:

It's a progressive long-dated, yes.

Mohshin Aziz, Maybank Kim Eng – Analyst:

And then after that, you decided you don't need it any more. And, therefore, you unwind it basically.

Rashidah Alias, CFO:

Correct. The other point I think I need to make a mention is that back then in 2012 also, because there is a plan for the loans to be repaid or rather to be refinanced through external source, any fluctuation in the shareholders through SAMUR would have been needed to be charged to the income statement.

So the hedging also provides a cushion against the fluctuation. So that's also to protect the ForEx fluctuation in the income statement.

Mohshin Aziz, Maybank Kim Eng – Analyst:

So let me get this -- let me check if my memory on tax table is still correct. These losses in ForEx, it's not tax deductible, right? Or is it tax deductible?

Rashidah Alias, CFO:

Sorry, go ahead, Mohshin.

Mohshin Aziz, Maybank Kim Eng – Analyst:

No, because the net impact is the loss of about MYR500-odd-million ForEx loss due to the settlement of hedging contract. Is the loss tax deductible?

Rashidah Alias, CFO:

Okay. This is not an income statement loss. As I've mentioned earlier, any FX movement in the hedging contract is offset against the underlying, which is the shareholders SAMUR. But this is more for net cash out when we settle the FX contract.

Mohshin Aziz, Maybank Kim Eng – Analyst:

Okay, thanks. So it's not something we have to worry again and again then.

Rashidah Alias, CFO:

No, no. Yes.

Mohshin Aziz, Maybank Kim Eng – Analyst:

Okay, thank you very much. That explains it all.

OPERATOR (OPERATOR Instructions): Wan Zahidi, RHB Research.

Wan Zahidi, RHB Research – Analyst:

Just three questions from me. First one is what's your planned CapEx for FY17 considering you're in the middle of SAMUR, as well as a heavier turnaround schedule?

Second would be Datuk mentioned that 70% of 1.2 million tonnes per annum for urea, but what about the ammonia part of SAMUR?

And also, if I recall in the previous analyst briefing, the planned turnaround is mainly for Kertih, but if I look at slide 12, there's also a mention about 2017 TA including PC MTBE as well. And if I recall correctly, MTBE is in Gebeng. Just three questions from me.

Rashidah Alias, CFO:

I'll take the first question, Wan Zahidi. So that's on CapEx. This year we spent roughly about MYR3.9 billion CapEx. You saw in the cash flow, it's about MYR3.4 billion. However, of course, there are accruals and things. So round about MYR3.9 billion in terms of CapEx spending.

So, obviously, we're going to have another round of heavy CapEx spending particularly in 2017 and 2018. I would say that's actually our peak spending because more so because of project RAPID. So we are looking at something to the tune of perhaps 20%, 25% higher in 2017 and round about that level in 2018 as well.

Wan Zahidi, RHB Research – Analyst:

Thank you.

Sazali Hamzah, MD/CEO:

Your second question with regard to where is the ammonia. So basically this plan, all the ammonia will be converted into urea. We may produce a bit of ammonia excess but a very small quantity where we will sell on spot basis, so most ammonia is actually being utilized to convert into urea.

Wan Zahidi, RHB Research – Analyst:

I see. All right. Okay, understood.

YUSRI YUSOF, HEAD OF MANUFACTURING:

Yes, Wan Zahidi, Yusri here. You're right. It's not just Kertih, as I said, but mainly O&D and we do have turnaround in MTBE, which is part of O&D segment, this is in Gebeng. We also have a turnaround in plant 1 of methanol in Labuan. But the majority of our turnaround activities

center in Kertih just because of the integrated facilities there. So I have to shut down a few plants in tandem.

Wan Zahidi, RHB Research – Analyst:

Okay. All right. Thank you for the explanation. That's it from me, thanks.

OPERATOR:

There are no further questions in the telephone queue at this time. As there are no further questions, I would now like to turn the call back to our hosts for any additional or closing remarks.

Safarah M Salim, IR:

All right. Thank you, Claud. Ladies and gentlemen, we seem to have come to the end of our session today. If you have any queries or questions, please contact us at our email at petronaschemicals_ir@petronas.com.my. And thank you again for joining us. We'll see you next quarter.

Sazali Hamzah, MD/CEO: Thank you.

Rashidah Alias, CFO: Thank you very much.

Akbar Thayoob, Head of Commercial: Thank you.

Yusri Yusof, Head of Manufacturing: Thank you.

OPERATOR:

Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation today. You may now disconnect.