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PT CHANDRA ASRI PETROCHEMICAL TBK

RECENT DEVELOPMENTS

The margins for the petrochemical industry are subject to cyclicalities and changes in supply and demand balances is a key factor that affects the profitability of the industry. In addition, the price of crude oil impacts our production costs and the selling prices of our products. We have generally experienced lower average sales price of our products since 2014 as crude oil prices have generally declined since that time, and we expect this trend to continue in 2017. However, oil prices recovered somewhat in the first half of 2017, resulting in increased prices of naphtha and we expect our cost of sales for the second quarter of 2017 to be higher compared to the second quarter of 2016 as a result. We also expect average sales prices of our products to be lower in the second quarter of 2017 as compared to the second quarter of 2016. In addition, as the Muslim holiday of Lebaran occurred in June 2017 which is a period during which we typically experience a seasonal decrease in sales, we expect our sales volumes, particularly for polyolefins, for the second quarter of 2017 to be lower compared to the first quarter of 2017 and the second quarter of 2016 as Lebaran occurred in July 2016. These factors will, together, have a materially negative impact on our gross profit and gross profit margins for the second quarter of 2017 compared to the second quarter of 2016 and, consequently we expect that our net income will be similarly negatively impacted during the second quarter of 2017, as compared to the same period in 2016. We expect our financial results for the second quarter of 2017 to be in line with other leading industry players in the Southeast Asian market as they have been similarly impacted by the above trends. However, with higher operating rates, we expect that our financial results for the first half of 2017 will be better than our financial results for the first half of 2016.