CFO'S REVIEW

STRENGTHENING OUR RESILIENCE, DRIVING VALUE

Mohd Azli Ishak
Chief Financial Officer

Dear Stakeholders,

Amid a volatile market, PCG continued to deliver a strong set of financial results in the year under review, as we continued to make good on our promises to deliver value to our stakeholders. In 2022, we recorded commendable earnings while stepping out significantly into the specialties space with the acquisition of Perstorp Group. PCG also demonstrated operational resilience throughout the year as it rapidly recovered from heavy statutory plant turnaround activities, enabling us to achieve Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of RM8.1 billion.

The focused execution of our strategies and efforts to strengthen our core business has clearly taken PCG to the next level. Besides ensuring stable plant operations, we have also responded to the uncertain global landscape with a disciplined approach towards cost optimisation and focused on consistent business growth, with a strong emphasis on advancing our sustainability journey. I would like to give credit to all PCG employees for their perseverance during challenging times, while demonstrating great resilience and stamina in weathering the uncertainties we have faced.

The price of crude oil rose to an average of USD101 per barrel in 2022 compared to USD71 per barrel in 2021. The increase in oil prices, as well as healthy demand for petrochemical products amid limited supply in certain markets, resulted in higher product prices. Capitalising on our Operational Excellence and Commercial Excellence, we achieved commendable results, despite the softening market in the second half of the year.

Our team sustained stable plant performance at a full-year plant utilisation (PU) rate of 89%, albeit lower than last year's 93%, mainly due to heavy turnarounds at our Malaysian facilities during the year. PCG recorded a comparable production volume of 10.4 million tpa against the year 2021 from its Malaysian and international operations this year. We ensured the timely delivery of products to achieve 8.3 million tpa in sales volume.

BRB Group delivered outstanding financial results in 2022 driven by a stronger market which provided an additional EBITDA of RM366 million to PCG, more than double of its annual target and the highest EBITDA since its inception more than 40 years ago.

The acquisition of Perstorp Group has further expanded our specialty chemicals offerings, bringing us closer to realising our mid-term goal of 30% additional revenue from non-traditional business by 2030. With Perstorp Group's revenue now contributing to the Group, we achieved a significant increase of 26% in revenue, from RM23.0 billion to RM29.0 billion in 2022. However, our cost of revenue increased by 40%, from RM14.4 billion to RM20.3 billion, mainly due to higher feedstock and fuel costs in line with higher energy prices. Feedstock costs remained the most significant component of the Group's cost of revenue, comprising approximately 48% of the total costs for the year.

PCG recorded EBITDA of RM8.1 billion, which declined from RM8.3 billion in 2021 mainly due to compressed margins. As a result, our EBITDA margin during the year stood at 28%. Along with the decrease in EBITDA, we saw a reduction in our profits mainly arising from a lower share of profits from our joint ventures and associates which were also not spared from the volatile market environment. Our Profit Before Tax (PBT) contracted from RM7.7 billion to RM6.7 billion while Profit After Tax (PAT) reduced from RM7.3 billion to RM6.3 billion.

The commissioning of our petrochemical plants at the Pengerang Integrated Complex (PIC) faced a setback following a fire incident within the complex in October 2022. Although the incident occurred outside of our facilities, the commissioning of our plants was delayed and this may pose risk to the project economics. To mitigate such risk, we continuously assess the progress of the project, its financial status and funding requirements in addition to ensuring safe and smooth operation of our petrochemical plants.

KEY ACHIEVEMENTS

Profit After Tax

RM6.3 billion

2021*: RM7.3 billion

2018	4.9 billion
2019	2.8 billion
2020	1.6 billion
2021*	7.3 billion
2022	**6.3 billion**

Liquidity with CFFO of

RM8.0 billion

2021*: RM8.2 billion

2018	6.7 billion
2019	5.5 billion
2020	3.0 billion
2021*	8.2 billion
2022	**8.0 billion**

Dividend Payout Ratio

51.9%

2021: 61.0%

2018	53.5%
2019	51.2%
2020	59.0%
2021	61.0%
2022	**51.9%**

* *Certain financial information and its corresponding financial ratios have been restated in line with amendments to MFRS 116 Property, Plant and Equipment*

PRUDENT COST DISCIPLINE AND OPTIMISATION

Our capability to sustain our position as the nation's industry leader by continuing to take proactive measures that optimise cost and preserve the value

ACTIONS

- Exercised robust financial discipline and cost optimisation driven by value creation initiatives through Operational and Commercial Excellence
- Leveraged tools such as preventive maintenance through machinery monitoring and prescriptive and diagnostic measures
- Effective stakeholders management through contract negotiations to achieve better contract value

RESULTS

- Realised cost optimisation target of **>100%**

HEIGHTENED RISK MANAGEMENT AND GOVERNANCE

Our effective risk management has always been a pillar of good governance and integral to ensure business continuity

ACTIONS

- Enhanced the role of the Board Risk Committee (BRC) and Risk Management Comittee to Board Sustainability and Risk Committee (BSRC) and Sustainability and Risk Management Committee (SRMC) respectively to add sustainability oversight by assessing, evaluating and monitoring the implementation of PCG's Economic, Environmental, Social and Governance (EESG) roadmap
- Continues to assess high-impact business matters with the assistance of the Board and BSRC, including proposals for acquisitions, portfolio rationalisation, joint ventures, alliances for strategic ventures, key capital projects, and new ventures to ensure PCG's steadfast growth
- Communicated and encouraged joint venture and associate companies to implement effective risk management

RESULTS

- Protect and add value to PCG through effective risk management practices embedded in business and operational processes
- Exploit growth and business opportunities via evaluation and effective decision-making processes supported by risk assessment including the acquisition of Perstorp Group
- Enhanced risk management system at BRB Group including establishment of risk profile and risk assessment in decision making

EFFECTIVE WORKING CAPITAL AND LIQUIDITY MANAGEMENT

Our working capital management initiatives focused mainly on effective inventory management, trade receivables & payables and liquidity management

ACTIONS

- Ensure efficient inventory management through planning and proactive monitoring, and implementation of Bottom-Up Stock Target (BUST) initiative to operate plants with an optimal stock level and ensure supply continuity to our customers
- Close tracking and monitoring of any potential overdue receivables
- Enhance scrutiny of payables deadlines and improve efficiency of the payment process to ensure timely payments within the agreed terms, thus safeguarding our creditors
- Prepare daily cash flow forecasts

RESULTS

- Maintained a timely monetisation of products, balanced with its availability, to meet customers' requirements
- Ensured timely receipt of payments and maintained a record with no outstanding receivables written-off
- Maintained sufficient cash for day-to-day business operations and potential growth requirements

EXTERNAL FINANCING

Our ability to secure financing amidst uncertainties is a testament to financial institutions' confidence in PCG, our financial strength and attractive growth projects

ACTIONS

- Obtained external financing to ensure sufficient cash availability to fund growth projects
- Despite lower gearing levels, we are cognisant that capital providers will evaluate potential borrowers on their Environmental, Social and Governance performance. At PCG, we continue to put sustainability and lowering emissions as a top priority to ensure that we will be able to tap the market with less difficulty should the need arises

RESULTS

- Secured external financing with competitive rates for BRB International B.V.

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STRONG SEGMENTAL PERFORMANCE RESULTS

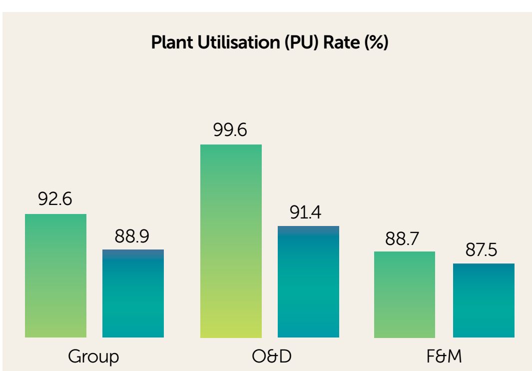
Our basic petrochemicals portfolio comprises two main operating segments, namely Olefins & Derivatives (O&D) and Fertilisers & Methanol (F&M). PCG introduced Specialties as a new operating segment this year, which includes the newly acquired subsidiary, Perstorp Group and also BRB Group. F&M remained to be the highest contributor to the Group's performance.

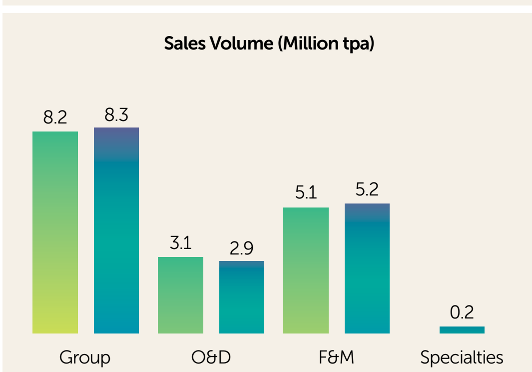
OPERATIONAL AND COMMERCIAL PERFORMANCE

O&D
PU for O&D decreased by 8% as a result of statutory plant turnarounds and maintenance activities during the year which resulted in lower production and sales volume.

F&M
F&M recorded comparable PU rate, production and sales volume.

SPECIALTIES
Specialties, which represent 2% of our total sales volume, is a new operating segment introduced during the year upon the acquisition of Perstorp Group.





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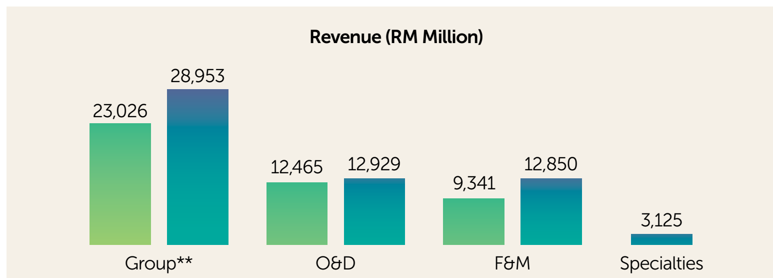
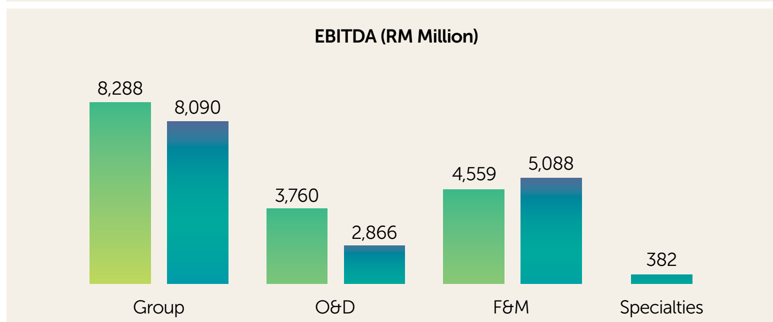
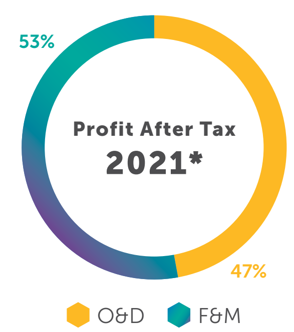
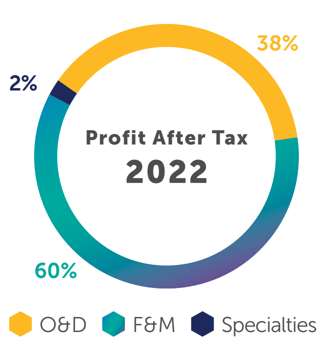
FINANCIAL PERFORMANCE



*** Includes Others: 2021: RM1,220 million, 2022: RM49 million*







O&D
Average product prices for the O&D segment were higher, driven by strong crude oil prices leading to a 4% increase in revenue. EBITDA decreased by RM894 million or 24% from 2021 mainly due to lower sales volume. PAT decreased in line with the lower EBITDA; and due to lower share of profits from joint ventures and associates.

F&M
Average product prices for the F&M segment were higher, leading to 38% higher revenue compared to 2021. EBITDA rose by RM529 million or 12% from 2021 due to improved margins. PAT increased in line with the higher EBITDA.

SPECIALTIES
Specialties contributed to RM382 million and RM113 million of our EBITDA and PAT respectively, primarily due to the stellar performance by BRB Group as a result of improved margins; and the acquisition of Perstorp Group during the year.

ROBUST BALANCE SHEET MANAGEMENT

Overall, our total assets grew by RM9.0 billion or 19% at RM55.4 billion. This was mainly driven by the acquisition of Perstorp Group which was fully financed by internal funds. While this has reduced our cash reserves, this capital investment has strengthened our cash generation. Our cash balance remained healthy at RM8.9 billion and we have ample credit headroom as gearing ratio remained stable at 7%. This puts us in a financially strong position to continue pursuing our growth strategies.

RETURNS TO SHAREHOLDERS

As per PCG's dividend policy, we maintained our commitment to a dividend payout ratio of around 50% of Group Profit After Tax and Non-Controlling Interests (PATANCI). The policy ensures attractive returns that meet shareholders' expectations while preserving cash to fund growth investments.

The Group declared dividends of 25 sen and 16 sen per ordinary share during the year, representing a dividend payout of 51.9% of PATANCI amounting to RM3.3 billion.

SUSTAINABILITY

Sustainability and discussions surrounding climate change continue to be a significant part of board room conversations globally as organisations sharpen their respective strategies to respond to this heightening risk. In this regard, the finance team is fully behind PCG's Sustainability Agenda of achieving the aspirations of the Net Zero Carbon Emissions (NZCE) 2050 Roadmap. With the NZCE pathway now outlined, it has given greater clarity on what is required to achieve a net zero carbon future. In relation to this, PCG has acted proactively in publishing its first standalone Task Force for Climate-related Financial Disclosures (TCFD) report in September 2022 which discusses our responses to disclosure recommendations under the TCFD.

The TCFD framework helps business organisations to identify climate-related risks and opportunities with financial impacts. Adopting the TCFD recommendations will allow us to disclose our climate-related risks and opportunities while providing investors with a clear understanding of the potential financial implications of our transition to a low-carbon economy.

PCG's acquisition of Perstorp Group further solidifies our ambitions in achieving NZCE by 2050, as we are able to reduce our carbon footprint in the long run through the use of greener feedstock from Perstorp Group, in line with Perstorp Group's aspiration to become Finite Material Neutral.

OUTLOOK

As we enter into 2023 amidst volatile global economic conditions, we remain focused on driving PCG's strategic thrusts to accelerate growth and create stakeholders' value, whilst navigating market uncertainties. We are certainly looking forward to commercialising our operations at the PIC once all safety measures and other considerations are fulfilled. We will also be working hard in ensuring a smooth and seamless post-merger integration of Perstorp Group into PCG, which will contribute additional earnings, expand our global market presence and improve our product portfolio, especially within what is now an expanded specialty chemicals platform.

Building on the momentum from previous year, we target to deliver higher returns to shareholders from our specialties segment as we anticipate an upward trajectory for the specialty chemicals market as Asia is expected to be the next key market.

In maintaining our license to operate, we are aware that it is a matter of time before carbon tax comes into play. If we do not respond, it will immediately erode our ability to deliver value to our stakeholders. Thus, this partly drives our need to lower emissions either through our own initiatives or through acquisitions like Perstorp Group with its pro-environment approach and low-carbon portfolios while accelerating our journey towards a circular economy. We are also gearing up in the anticipation of new standards by the International Sustainability Standards Board (ISSB) on general sustainability-related disclosures and climate-related disclosures.

We believe that there are opportunities for us to strengthen our balance sheet in driving our operations and flexibility to explore other growth plans. With statutory plant turnarounds and shutdowns planned in 2023, we will continue to prioritise cost discipline and optimisation, as well as Operational Excellence programme to sustain plant utilisation at above industry benchmark levels thus ensuring we remain competitive and resilient.

Mohd Azli Ishak
Chief Financial Officer