CFO'S REVIEW

DEAR STAKEHOLDERS,

In the year under review, PCG's financial performance was relatively subdued compared to the year before due to challenges beyond our control such as higher feedstock prices, lower demand driven by slower global economic growth and additional capacities coming online. Cumulatively, these challenges had resulted in compressed margins for most products. Furthermore, feedstock disruptions in the second quarter and unplanned shutdowns in the third quarter of the year affected our production. Nevertheless, PCG demonstrated operational resilience in getting back on track within the year, recovering from the disruptions and navigating the downcycle in the chemicals industry to deliver revenue of RM28.7 billion, Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of RM3.8 billion and Profit After Tax (PAT) of RM1.8 billion.

In addition, we have maintained an unrelenting focus on cost optimisation and continued to advance our business and sustainability initiatives in preparation for the eventual upturn in the chemicals industry. We also continue to be prudent in managing risks and liquidity levels, while ensuring we maintain low gearing levels.

Profit After Tax:	Liquidity with Cashflow from Operations (CFFO) of	Dividend Payout Ratio:
RM1.8 billion	RM5.1 billion	61.3%
2022: RM6.3 billion	**2022:** RM8.0 billion	**2022:** 51.9%

As a consequence of the disruptions, our plant utilisation (PU) rate declined to 85%, lower than last year's of 89%. PCG recorded a comparable production volume of 10.4 million tonnes in 2023 against the year 2022. We ensured the timely delivery of products to achieve 9.6 million tonnes in sales volume.

However, our cost of revenue increased by 17.7%, from RM20.3 billion to RM23.9 billion, mainly due to persistently 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 42% of the total costs for the year.

PCG recorded EBITDA of RM3.8 billion, which declined from RM8.1 billion in 2022, mainly due to compressed margins. As a result, our EBITDA margin during the year stood at 13.2% compared to 27.9% in 2022. 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 (JVs) and associates which were also not spared from the volatile market environment. Our Profit Before Tax (PBT) contracted from RM6.7 billion to RM2.1 billion while PAT reduced from RM6.3 billion to RM1.8 billion.

The commissioning of our petrochemical plants at the Pengerang Integrated Complex (PIC) is still ongoing. The delay may pose risk to the project economics. To mitigate such risks, 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.

Mohd Azli Ishak
Chief Financial Officer

KEY ACHIEVEMENTS

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 as well as effective project management and delivery
- 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 of RM407.4 million

Heightened Risk Management and Governance

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

Actions
- Strengthened integrity management practices as an assurance to stakeholders
- Influenced JV and associate companies to establish more structured risk management system
- Assessed high-impact business matters including proposals for portfolio rationalisation, alliances for strategic ventures and key capital projects to ensure PCG's growth and sustainability
- Implemented risk appetite and conducted a comprehensive review of risk profiles and mitigations across PCG Operating Units (OPUs)
- Established the Risk International Database (RID) that provide near real-time and single source of information
- Reviewed Group Limits of Authority (LOA) and PCG line of sight to align with the current business environment throughout the PCG Group of companies and providing LOA consultation to the JV and associate companies

Results
- Obtained certification on ISO 37001:2016 Anti-Bribery Management Systems (ABMS) for PCG
- Established business and operation readiness on risk management workstream deliverables for LG PETRONAS Chemicals Sdn. Bhd. (LG PC) and PCG PCC Oxyalkylates Sdn. Bhd. (PCG PCC) to safeguard PCG's interest
- Protected and created value through effective governance and risk management practices embedded in business process
- Enhanced monitoring and assessment of geopolitical tensions and facilitated the evaluation of potential business expansion opportunities
- Promoted the balance of process efficiency and business agility in decision-making for the Group while the establishment of PCG line of sight ensured alignment to business objectives and interest

Effective Working Capital and Liquidity Management

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

Actions
- Ensured 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 ensuring supply continuity to our customers
- Close tracking and monitoring of any potential overdue receivables
- Enhanced scrutiny of payables deadlines and improved efficiency of the payment process to ensure timely payments within the agreed terms, thus safeguarding our creditors
- Prepared daily cash flow forecasts to ensure effective cash management

Results
- Maintained a timely monetisation of products, balanced with their availability, to meet customers' requirements
- 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 for our subsidiaries and our associates 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 Economic, Environmental, Social and Governance (EESG) performance. At PCG, we continue to put EESG as a top priority to ensure that we will be able to position ourselves to meet financing market requirements with an attractive proposition for stakeholders

Results
- Maintained financial institutions' confidence despite market challenges

CFO'S REVIEW

SEGMENTAL PERFORMANCE RESULTS

Our chemicals portfolio comprises Olefins & Derivatives (O&D) and Fertilisers & Methanol (F&M) which make up the commodities business and Specialties. F&M remained as the major contributor to the Group's EBITDA.

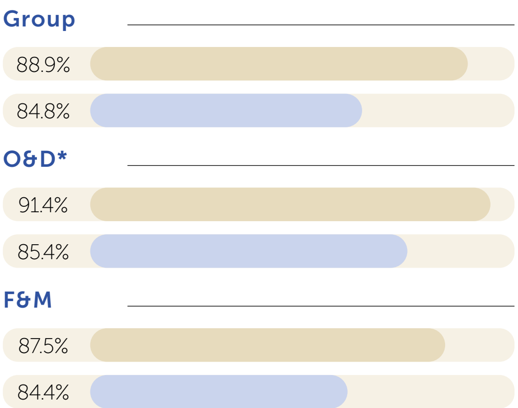
OPERATIONAL AND COMMERCIAL PERFORMANCE

O&D
O&D recorded a lower PU rate of 85.4% compared to 91.4% in 2022 as a result of higher plant maintenance activities during the year.

F&M
F&M recorded a lower PU rate of 84.4% compared to 87.5% in 2022 due to feedstock disruptions, resulting in lower production and sales volumes.

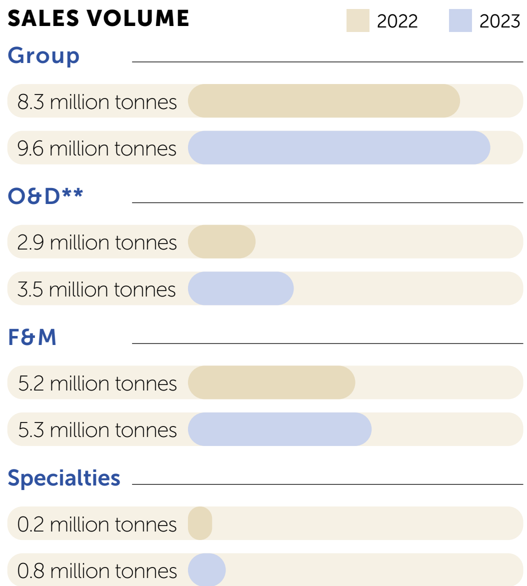
SPECIALTIES
Specialties sales volume increased by four times primarily due to Perstorp's full year of consolidation post its acquisition in October 2022 despite weak market demand.

PLANT UTILISATION RATE



* *excluding PIC*

SALES VOLUME



** *including PIC*

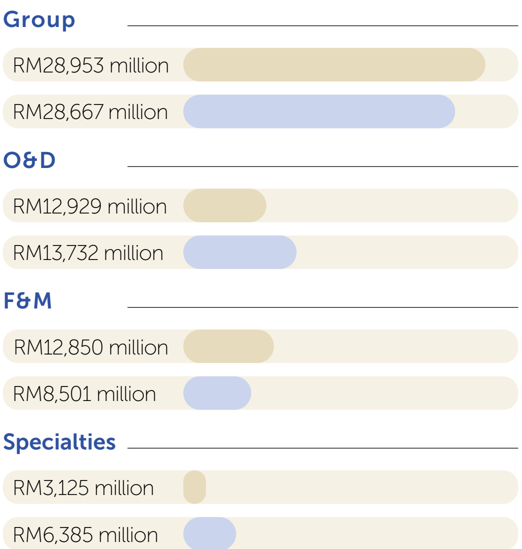
FINANCIAL PERFORMANCE

O&D
O&D revenue increased by 6%, mainly contributed by pre-commencement sales volumes from PIC. EBITDA decreased by RM1.6 billion following lower product spreads and higher maintenance as well as energy and utilities costs. PAT also decreased in line with lower EBITDA.

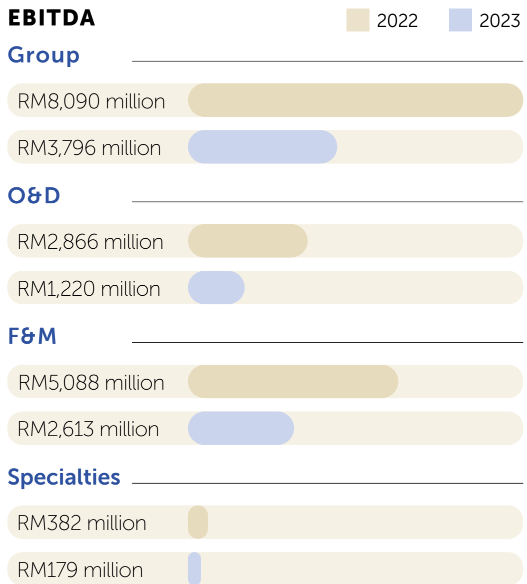
F&M
F&M revenue declined by 34%, mainly due to lower product prices. EBITDA decreased by RM2.5 billion following lower product spreads. PAT also decreased in line with lower EBITDA.

SPECIALTIES
Specialties revenue doubled to RM6.4 billion, primarily due to Perstorp's full year of consolidation post its acquisition in October 2022. However, EBITDA decreased by RM0.2 billion due to compressed margins. LAT recorded at RM0.2 billion in line with lower EBITDA.

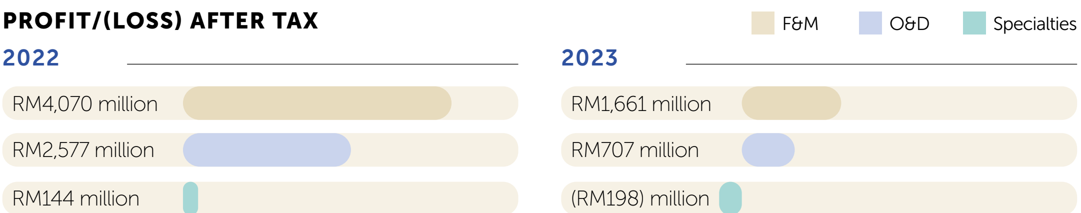
REVENUE



EBITDA



PROFIT/(LOSS) AFTER TAX



CFO'S REVIEW

BALANCE SHEET MANAGEMENT

Overall, our total assets surged by RM4.8 billion, representing 8.6% growth at RM60.2 billion. Additionally, our robust cash balances stand at a formidable RM9.3 billion. This financial strength positions us well for pursuing our growth plans.

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 8 sen and 5 sen per ordinary share during the year, representing a dividend payout of 61.3% of PATANCI amounting to RM1.0 billion.

SUSTAINABILITY

In our steadfast commitment to sustainability, we have strategically allocated financial resources to support identified sustainability initiatives. This involves directing capital towards projects aligned with sustainability goals, establishing investment guardrails to ensure the realisation of sustainability-linked endeavours. This year, we sanctioned the construction of an advanced recycling plant in Pengerang that will convert end-of-life plastic waste into pyrolysis oil, which will be used as feedstock in the production of sustainable plastics.

Emphasising the importance of managing sustainability risks, particularly climate risks, we have implemented a robust strategy and governance process. This framework not only addresses risks but also actively seeks opportunities within these challenges, aligning with our organisational objectives.

Building on the momentum from our inaugural TCFD report published in 2022, we have continued to enhance management and disclosures on sustainability and climate-related risks and opportunities. We have broadened the assessment of physical risks to include our international assets and updated our transition risks.

Our efforts in embodying transparency recognised at the Australasian Reporting Awards 2023.

In response to the issuance of the International Sustainability Standards Board (ISSB) inaugural standards— International Financial Reporting Standards (IFRS) S1 and IFRS S2—covering general sustainability-related disclosures and climate-related disclosures respectively. PCG is proactively finalising our approach to integrate these standards into our sustainability reporting. These standards not only enhance transparency and accountability, providing stakeholders with a clear view of an organisation's environmental impact and sustainability initiatives, but they also play a critical role in risk management and long-term sustainability. By embracing IFRS S1 and S2, we will enhance our risk management strategies, ensuring resilience and adaptability in a sector facing significant environmental risks and regulatory pressures. This adoption is essential in maintaining stakeholder trust and ensuring that the organisation is well-positioned to navigate the evolving landscape of global energy and environmental regulation.

In the realm of sustainability, we remain vigilant about the potential application of carbon tax. Simultaneously, we are proactively gearing up to comply with the Corporate Sustainability Reporting Directive (CSRD) issued by the European Financial Reporting Advisory Group for our European subsidiaries. This proactive stance reflects our commitment to staying ahead of regulatory developments and aligning with evolving sustainability reporting standards.

Furthermore, we have bolstered our internal monitoring and tracking mechanisms for investments and expenditures related to sustainability activities. This enhancement ensures strict adherence to reporting requirements and facilitates timely management decisions, reinforcing our commitment to advancing the sustainability agenda.

OUTLOOK

As we navigate the economic landscape marked by uncertainties, the chemical sector will continue to face ongoing pressure on prices and margins. However, amid these challenges, a positive shift is anticipated in the market dynamics for specialties where demand is expected to gradually improve.

In this environment, the imperative of cost containment takes centre stage, prompting PCG to sustain its unwavering focus on robust cost discipline. Proven cost optimisation efforts will be leveraged to fortify our competitiveness and enhance resilience, ensuring the organisation's ability to weather market fluctuations.

We are also anticipating an uplift to revenue in 2024 through our investment in PIC. Furthermore, two strategic investments through JVs and associates, namely specialty ethoxylates and polyether polyols plant in Kertih, Terengganu, and nitrile butadiene latex plant in Pengerang, Johor, are set to come fully online in 2024. We also expect to achieve RFSU for 2-Ethylhexanoic Acid (2-EHA) plant in Gebeng, Pahang.

Aligned with our steadfast commitment to Operational Excellence and Commercial Excellence, these strategic moves are poised to fortify our balance sheet, providing the organisation with enhanced flexibility to explore additional growth projects. This comprehensive approach underscores our dedication to navigating the dynamic market conditions and seizing opportunities for sustainable growth.

While the past year has presented its share of challenges, we remain steadfast in our commitment to delivering value to our shareholders. Our resilience and adaptability have enabled us to navigate through uncertain times and emerge stronger. As we look ahead, we are optimistic about the opportunities that lie ahead and are confident in our ability to continue driving sustainable growth and creating long-term value for our shareholders. We thank you for your continued trust and support as we embark on this journey together.

Mohd Azli Ishak
Chief Financial Officer