

**DEAR STAKEHOLDERS,**

**In presenting my first report as the Managing Director/Chief Executive Officer (MD/CEO) of PETRONAS Chemicals Group Berhad (PCG), I am deeply grateful to the Board and Management for the trust they have placed in me. I also want to recognise my predecessor, Ir. Mohd Yusri Mohamed Yusof, for the instrumental part he played in ensuring PCG's resilience and success during the pandemic and the particularly challenging operating environment in the past two years, positioning the Company for continued growth and excellence. While the path ahead will remain undoubtedly challenging, I am fully committed to the mission of taking PCG to its next level of transformation.**

The past year has been a volatile one for the chemicals industry, characterised by a range of external events that have inevitably impacted our overall performance. Nevertheless, despite these challenges, I believe that PCG has weathered the storm and stayed the course in the execution of our strategies while preserving value for our stakeholders.



# MD/CEO'S REVIEW

**Mazuin Ismail**

*Managing Director/Chief Executive Officer*

**A CHALLENGING YEAR**

In 2023, the industry grappled with the effects of moderating global economic growth, geopolitical tensions and China's weaker-than-expected post-pandemic recovery. The impact of these macroeconomic events, coupled with high energy prices and product oversupply, essentially precipitated a downcycle for the overall industry especially as demand in many chemical consuming sectors remained soft. Demand in the specialty chemicals sector also remained weak for the same reasons in addition to softer demand in European markets.

Internally and externally, we faced challenges that impacted plant utilisation, which subsequently led to weaker production performance for our commodities portfolio. While these challenges had a material impact on our performance, we have since moved beyond these issues and will be unrelenting in our efforts to ensure operational resilience.

Taking the above factors together, 2023 was indeed challenging for PCG, which in turn affected our financial performance.

**STAYING TRUE TO OUR STRATEGIES**

The challenges affecting the entire chemicals industry this year are multifaceted but mainly driven by the ongoing downcycle that pushed down margins and increased costs for all industry participants, sparking a destocking trend in the specialties sector, in particular.

However, we view this downcycle as temporary. In addition, we recognise that what we produce is vital to the construction, automotive and personal care sectors. By optimising

our production, we are committed to positioning ourselves strategically to seize any arising opportunities when the recovery occurs. We will be well-prepared for the rebound in restocking and economic activities, while making every effort to be in the best position to capture new opportunities.

Thus, for PCG, the focus will continue to be on our two-pronged strategy driven by the three strategic thrusts of Operational Excellence, Commercial Excellence and Growth Delivery Excellence. These thrusts have served us well over the years and remain key to our sustained resilience. We are committed to strengthening our operational performance and fostering stronger relationships with our customers to ensure we are delivering the products and solutions the market wants. Growth opportunities, meanwhile, will continue to be aimed at maximising the value of our molecules, further developing our specialty platform post-acquisition, and uncovering new opportunities from our sustainability and decarbonisation journey.

## OE OPERATIONAL EXCELLENCE

In the year under review, PCG continued to prioritise the health and safety of our people. Through our generative Health, Safety and Environment (HSE) culture and discipline towards upholding HSE Excellence, I am pleased to report that we recorded ZERO fatality and ZERO Major Fire. Regrettably, however, we recorded two Lost Time Injuries (LTI). We acknowledge that these incidents highlight areas where our health and safety operations can be further improved, and we are committed to doing better for the safety of our workers. We have since taken remedial actions to identify root causes to prevent future occurrences.

The comparatively stronger HSE performance this year was largely due to our efforts in adopting a more structured PCG-wide approach towards addressing the root causes of previous incidents during turnarounds, where past learnings were discussed and shared with all PCG operating units. The success of this initiative will see us extending it to cover scheduled maintenance as well.

With regards to our plant reliability, PCG encountered both internal reliability challenges, coupled with several feedstock and utility supply disruptions in 2023, which ultimately affected our plant utilisation rate. We have since undertaken a series of corrective and mitigating actions throughout the year. To that end, we have conducted a deep dive, focusing on our people, our processes and even our culture to come up with a long-term plan to prevent future occurrences.

**R** Read more on Operational Excellence on pages 53 to 55.

## CE COMMERCIAL EXCELLENCE

In achieving Commercial Excellence, we fostered collaboration and close partnerships with all stakeholders to optimise value creation and meet our customers' needs. Despite significant turnaround activities, customer orders were consistently fulfilled throughout the review period. PCG recorded sales volume of 9.6 million tonnes in 2023, comparable to the previous year. While margins were compressed by lower prices, we were prudent in managing our costs, especially our cost to serve, validating our resilience and ability to realise value year on year.

Our commitment to satisfying customer needs extended to the introduction of new and improved products and solutions. In 2023, we launched Ethonas SF401, a more cost-effective spacer fluid designed for oil and gas applications. Concurrently, we continued to extract value from existing enhanced products and solutions.

We also undertook a significant digital initiative with the phased rollout of the PETRONAS360 Customer Portal (P360). P360 provides customers with access to transaction details, account statements, real-time delivery status and various exciting features. These features include online spot volume offers, getting more information on products, and the ability to log enquiries and feedback directly to PCG. Pilot customers started using this platform in November 2023 and we plan to expand it to other active customers by 3Q 2024 as part of our ongoing commitment to enhance customer experience.

**R** Read more on Commercial Excellence on pages 56 to 58.

## GE GROWTH DELIVERY EXCELLENCE

In future-proofing the business against market volatility, our Growth Delivery Excellence focuses on extending our value chain, building our specialty platform and creating optionality for growth through innovation and new technologies. We also continue to make meaningful progress in creating circular and sustainable products that have the potential to assist our customers in their respective decarbonisation journeys.

In 2023, our new specialty ethoxylates and polyether polyols plant in Kertih, Terengganu, and nitrile butadiene latex plant in Pengerang, Johor, both achieved the ready for start-up phase. The plant in Kertih will enable us to meet the growing demand for foam products in the automotive sector, cleaning and personal care products. The plant in Pengerang is also well-positioned to capture opportunities in the global glove market, given Malaysia's status as the largest glove producer in the world.



A pilot plant to produce bio-based emollients.

## MD/CEO'S REVIEW

### GE GROWTH DELIVERY EXCELLENCE (continued)

In addition, we reached a Final Investment Decision (FID) in the acquisition of a Maleic Anhydride (MAN) plant in Gebeng, Pahang, from BASF PETRONAS Chemicals Sdn. Bhd. and to upgrade the facilities to produce refined MAN. Refined MAN is typically applied in the production of food and beverage, coating and surfactants, pharmaceuticals, textiles and other industrial products. This acquisition will enable us to better serve customers from the Asia Pacific region and the Indian subcontinents and strengthen our portfolio as we explore opportunities in Europe and the Middle East, in addition to fostering synergies with the Specialty Chemicals business.

We have achieved significant advancements in the post-merger integration with Perstorp Group (Perstorp) for our specialties platform, securing alignment on the value synergies and establishing plans for their execution in the next phases. This year, BRB Group (BRB) introduced new products for both the cosmetics and automotive industry, and BRB Malaysia Sdn. Bhd. obtained certifications such as ISO 9001, ISO 22000 and Good Hygiene Practices. These certifications demonstrate the facility's efficient operating management system and compliance to safety practices in handling food-grade products.

In creating optionality for growth, our technology development of bio-Monoethylene Glycol (Bio-MEG) is ongoing with active customer collaboration in refining the products to meet their various specifications. We have constructed a pilot plant to produce bio-based emollients to diversify PCG's bio-based offerings in the personal care sector. This pilot plant will be part of the Innovation Hub that PCG is currently developing in Bangi, Selangor.

Through this Malaysian Innovation Hub, along with BRB and Perstorp's innovation labs, we will establish a global innovation network that aims to increase the level of innovation sophistication in our key focus markets and enable localised solutions. Investing in innovation and technology ecosystems is vital for PCG to propel our growth in specialty chemicals and drive competitiveness.

**R** Read more on Growth Delivery Excellence on pages 59 to 61.

### SUSTAINABLE PROGRESS

In 2023, PCG made a significant first step forward in its Circular Economy agenda to contribute to a sustainable plastics ecosystem. We have sanctioned a project to construct an advanced chemical recycling plant in Pengerang, Johor. The end-of-life plastic for this plant is collected throughout the country, as we aim to reduce plastic waste ending up in landfills. This recycling plant will be able to give a new lease of life to what is a typically end-of-life plastic into pyrolysis oil that can then be used as feedstock in the production of circular plastics.

In further demonstrating our commitment to sustainable practices and the circular economy, PCG's marketing arm, PETRONAS Chemicals Marketing (Labuan) Ltd. (PCML) successfully obtained the International Sustainability and Carbon Certification (ISCC) PLUS Trader scope certification for bio-based, bio-circular and circular (technical) raw materials for all markets. The certification assures that we comply with globally recognised ecological and social sustainability requirements, voluntary greenhouse gas (GHG) emissions reductions and traceability throughout our supply chain. Beyond this, the certification will complement PCG's commodity portfolio and support the proliferation of sustainable products.

PCG continued to collaborate with Malaysian Plastic Manufacturers Association (MPMA) to drive adoption of Operation Clean Sweep (OCS), the plastic industries signature programme to reduce plastic resin loss to the environment. Having become the first producer in Malaysia to

voluntarily sign up for OCS in 2022, we rolled out the programme to our logistic providers to continue our efforts to reduce plastic loss during product handling and transport.

In our Specialty Chemicals segment, Perstorp launched sustainable products such as 2-EH Pro 100 and Valeric Acid Pro 100, which have low carbon footprint, are made from 100% renewable content and are ISCC PLUS certified. Perstorp has also set ambitious sustainability targets to achieve Finite Material Neutral, an ambition that emphasises responsible resource management, ensuring that the consumption of finite resources is balanced by efforts to regenerate or replace them.

In terms of our climate action, we continue to reduce GHG emissions, achieving a reduction of 146,100 tCO<sub>2</sub>e in 2023. The reduction was achieved through operational optimisation via flare reduction initiatives and energy-efficient measures, as well as increasing the amount of renewable energy that we use. The latter was made possible through our successful subscription to Tenaga Nasional Berhad's Green Electricity Tariff and Sarawak Energy Berhad's Renewable Energy Certificate.

In our efforts to support biodiversity, we are actively expanding our mangrove replanting and rehabilitation efforts, where we have now planted 5,700 mangrove trees in 2023, an increase of over 2,000 trees from 2022. Our replanting efforts promote the conservation and rehabilitation of mangroves to protect its rich biodiversity and ecosystem. This is an especially important initiative considering the findings from our biodiversity baseline report on International Union for Conservation of Nature (IUCN) species in 2022 that sighted two critically endangered species living near areas where we operate.



Expanding our mangrove rehabilitation efforts to support biodiversity.

## MD/CEO'S REVIEW

### OUTLOOK

Looking ahead, we expect the challenges presented by the external environment to persist into 2024. The bearish global economy, slower-than-expected recovery in China and ongoing geopolitical tensions will continue to affect the petrochemicals industry and produce softer markets for the near term. As we are in the business for the long run, we are confident that the cycle will turn upwards as the economy rebounds and demand catches up with supply. Beyond that, it is about how well-positioned and nimble we are to capture the pockets of opportunities that present themselves over the short, medium and long-term.

PCG recognises that ongoing challenges are part and parcel of the broader value creation journey as we look at growth opportunities in becoming the sole melamine producer in Southeast Asia and expanding our reach for Specialty Chemicals in the Asia Pacific region.

With that in mind, I believe that the way forward in the near term is to ensure we are on the right footing in all aspects. Having spent the year going back to basics to ensure our operational performance will be rock solid going forward, we can expect more from our businesses as we see initiatives from the previous year take effect in 2024. This includes the commercial operations of our nitrile butadiene latex plant in Pengerang, Johor, the specialty ethoxylates and polyether polyols plant in Kertih, Terengganu, and the melamine plant in Gurun, Kedah.

We also anticipate achieving ready for start-up phase for the expansion of the 2-Ethylhexanoic Acid (2-EHA) plant in Gebeng, Pahang through our JV company, BASF PETRONAS Chemicals Sdn. Bhd. that will double its capacity.

For our specialty business, having spent a good part of the year integrating Perstorp with PCG, we are now executing our plan to significantly increase the value of the specialty portfolio as part of PCG's overall growth aspiration. In February 2024, we inaugurated Perstorp's Sayakha plant in India for the production of Pentaerythritol (Penta) and calcium formate, including the renewable Penta grades of ISCC PLUS certified Voxtar™ M40. This will bring us closer to our Asia Pacific customers and enable the rollout of the portfolio of sustainable Pro-Environment solutions to the Asian region. Perstorp was also recently granted an environmental permit for its Project Air and is now working towards project approvals, which will enable the production of sustainable methanol.

We also continue to signal to our stakeholders that we have plenty more to do to support our sustainability ambitions. In this context, the sanctioning of the advanced plastics recycling plant is just the start of a long-term journey to help boost Malaysia's sustainable plastic ecosystem and promote plastic circularity.

Ultimately, our growth considerations are driven by one important element – our customers. It is clear that being able to anticipate their needs and creating the products and solutions to fulfil their needs are crucial to our long-term business sustainability. In summary, PCG is ready to face the ongoing challenges, recognising that it is part and parcel of the broader value creation journey. We have the measures in place to mitigate these challenges, as well as the plans and commitment to grow the business further. We will bounce back stronger and wiser by remaining true to our strategies and dedicated to delivering value to our stakeholders.

### ACKNOWLEDGEMENTS

As I begin my journey as the new MD/CEO of PCG, I am filled with both excitement and a deep sense of gratitude.

To our esteemed Board of Directors, I am immensely thankful for the strategic guidance and unwavering commitment you have continuously provided. Your wisdom and foresight are invaluable assets that have steered PCG through the myriad challenges and opportunities. I look forward to your continued guidance as we navigate the path ahead.

To our remarkable PCG team, your dedication and hard work are the pillars upon which our success is built. Each one of you plays a vital role in the achievements and milestones of PCG. I am inspired by your passion and expertise and am grateful for the energy and excellence you bring to our collective endeavours every day.

To our valued shareholders, your belief in our vision and your ongoing support are fundamental to our growth. Your investment in PCG represents a shared commitment to a journey of excellence. I am deeply appreciative of your trust and look forward to forging a strong and fruitful partnership.

In this new chapter of leadership, I am excited to build on the strong foundations laid by my predecessors and steer PCG towards new heights of achievement and sustainable growth. Together, we will continue to uphold our legacy and commitment to excellence. Let us move forward, united and strong, as we continue to be "Steadfast. Advancing Sustainably."

#### **Mazuin Ismail**

*Managing Director/Chief Executive Officer*