

## SEGMENTAL REVIEW

# SPECIALTY CHEMICALS

### Overview

This has been an important year for PCG's Specialty Chemicals Division as it marks the first full year of the coming together of BRB Group (BRB) and Perstorp Group (Perstorp), under one roof. This division, now known as PCG Specialty Chemicals (PCG SC), comprises BRB and Perstorp, has a total of 12 production sites, approximately 2,000 employees and sales representation across the Americas, Europe, Middle East, Africa and Asia Pacific (APAC).



### OUR BUSINESS PORTFOLIO IS FOCUSED ON SIX PRODUCT GROUPS:

Resins & Coatings

Engineered Fluids

Advanced Materials

Animal Nutrition

Silicones

Lube Oil Additives & Chemicals (LAC)

The establishment of PCG SC ensures the alignment of the operating companies to PCG's overall strategy and business goals. PCG SC is further supported by four functions that include Strategy & Business Development, Technology & Innovation, Finance, and Talent & Culture. Through PCG SC, PCG aimed to strengthen its position in the global specialty chemicals space, equipped with intimate market knowledge, innovation capabilities and strong sustainability credentials.

Moving forward, PCG SC will embark on a transformational strategy to focus on selected market segments supported by synergetic technology platforms to capture new opportunities amid an evolving market landscape.

### CHALLENGES

In the year under review, the specialty chemicals industry in general faced strong headwinds. The ongoing geopolitical tensions disrupted supply chains and caused energy inflation, which affected our production cost in Europe. Tight monetary policy throttled investments, especially in the construction segment, which in tandem with dampened market sentiment and customer destocking caused a further reduction in sales volume.

In addition, the slow recovery of China's economy prompted an increase of its low-cost exports to the global market, especially in Europe. This added competition further challenged sales prices and will continue to weigh on the industry for the foreseeable future.

To mitigate this, we have implemented operational improvements to increase efficiency while looking at ways to optimise our supply chain network and product mix to maximise profitability. Cost optimisation initiatives are also in place to lessen the impact of soft market demand. The overall aim is to ensure that we are in a stronger and fitter position to capture opportunities when the market recovers.

### PERFORMANCE HIGHLIGHTS & ACHIEVEMENTS

In the year under review, PCG SC reports, for the first time, financial results that combine both BRB's and Perstorp's contributions.

REVENUE	EBITDA	LOSS AFTER TAX (LAT)	SALES VOLUME
2023	2023	2023	2023
RM6,385 million	RM179 million	RM198 million	841 KMT

For the financial year 2023, PCG SC reported Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) of RM179 million, mainly impacted by compressed margins due to competitive price pressure coupled with weak market demand. Loss After Tax (LAT) was recorded at RM198 million in line with lower EBITDA.

In the face of the obstacles encountered in 2023, PCG SC proactively implemented focused strategies aimed at reclaiming market share and strengthening our competitive position. This involved a concerted effort to explore new prospects and broaden our market base, particularly within our specialties portfolio. Additionally, we undertook comprehensive optimisation in both production and sales processes to achieve optimum profitability. Our relentless commitment to procurement savings played a pivotal role in enhancing operational efficiency, with a key focus on cost optimisation.

## SEGMENTAL REVIEW-SPECIALTY CHEMICALS

### KEY HIGHLIGHTS

#### PERSTORP :

- Completed the construction of Sayakha plant in India for Pentaerythritol (Penta) production and ISCC PLUS certified Voxtar™ M40 to support our sustainability commitment
- Project Air, a game-changing initiative to break fossil dependence by producing sustainable methanol from residue streams, such as captured carbon, together with biogas and green hydrogen. It has obtained its environmental permit and the front-end engineering design is underway
- Implemented a technology to recycle wastewater from a nearby municipal treatment plant for production operations in Stenungsund, Sweden. This will save 1.1 billion litres of fresh water per year

#### BRB :

- BRB Malaysia Sdn. Bhd. in Gebeng, Pahang obtained critical certifications, ISO 9001 (Quality Management Systems), ISO 22000 (Food Safety Management) and GHP (Good Hygiene Practices), enabling us to enter the food industry in early 2023
- In Echt, Netherlands, BRB has started full operation of the new LAC plant
- BRB Silicones United Kingdom Ltd started full operation on 8 February 2023 which will strengthen our presence in the United Kingdom
- Since the incorporation of BRB South Korea Ltd on 14 December 2022, BRB has established full market presence and enhanced capability in South Korea to capture the value from the current business portfolio and ongoing growth projects

## SPECIALTY CHEMICALS PRODUCT

#### Resins & Coatings

Essential building blocks and specialty products tailored to produce resins for the coatings industry, including alkyd resins, liquid saturated polyester, liquid unsaturated polyesters, powder polyesters, polyurethane dispersions, radiation curing, cationic curing, and intumescent carbon donors.

#### Highlights :

New product launched by Perstorp for Pro-Environment solutions:

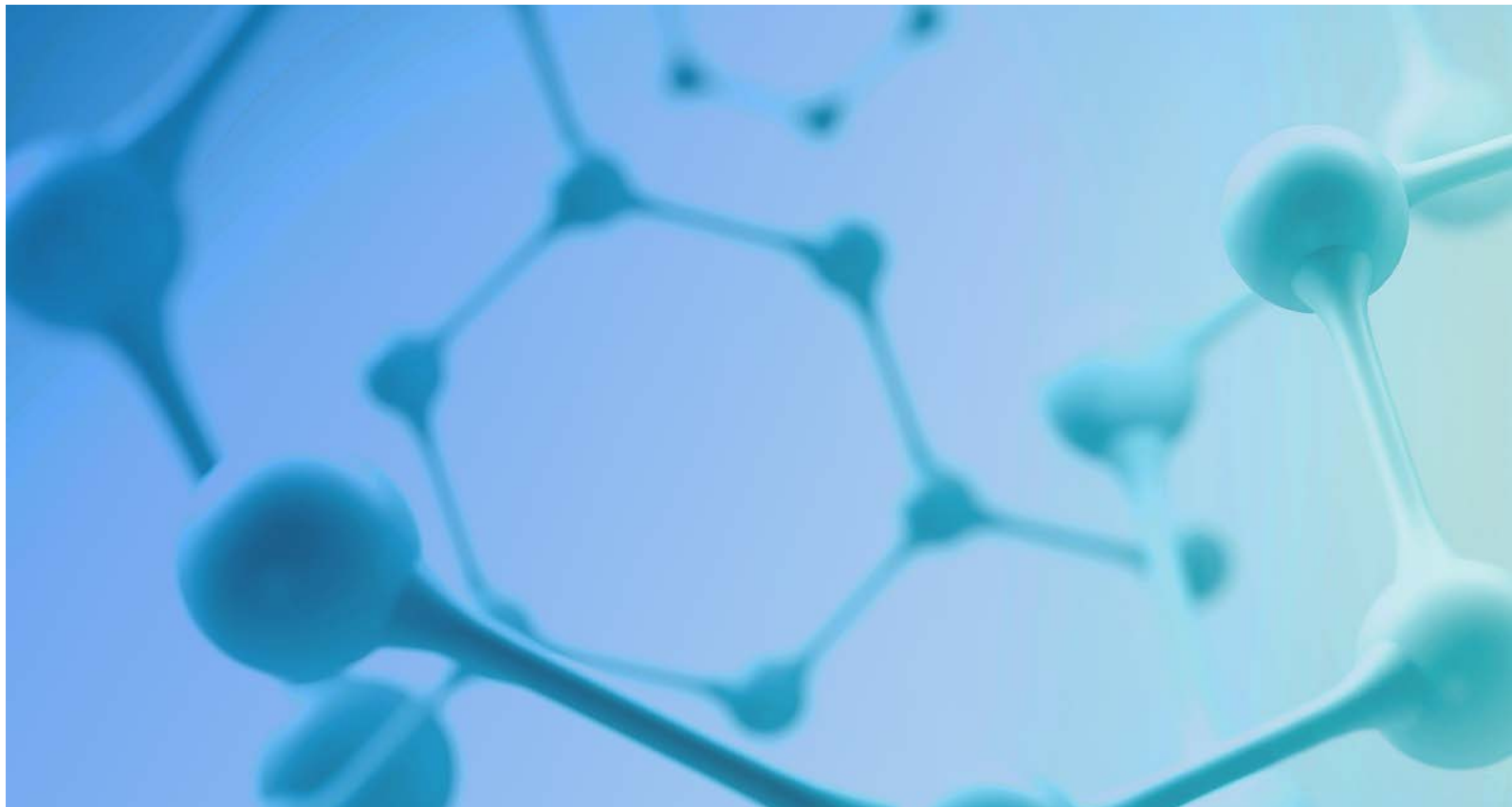
- Neeture™ N100 and Eyron™ T100, renewable polyols that reduce carbon footprint across the value chain and promote sustainable sourcing of raw materials

#### Animal Nutrition

Innovative organic-acid based solutions to improve gut health and performance as well as help to keep feed nutritious and safe from enteros, mycotoxins, moulds and yeasts.

#### Highlights :

- Expanded the Gastrivix™ Avi business, a poultry feed additive that combines valeric and butyric acid to enhance gut health for optimal growth and performance





## SEGMENTAL REVIEW-SPECIALTY CHEMICALS

## GROUPS

**Engineered Fluids**

High quality building blocks for polyol ester base stock with a complete range of polyol portfolio. Mainly targeted for use in aviation turbine oils, hydraulic fluids, metalworking fluids, refrigeration lubricants, transformer oils and di-electric fluids.

**Highlights :**

- Grew Pro-Environment sales by promoting sustainability in the lubricant industry

**Advanced Material**

Leverages focused and innovative chemistry related to polyurethane, PVC and polyesters to help formulators, compounders and converters to produce safer, more sustainable and higher performance plastics.

**Highlights :**

- The Tray Circularity Evaluation Platform (TCEP) Technical Committee of PETCORE Europe has endorsed Akestra™ 100 and Akestra™ 110 for heat-resistant PET tray production without negatively impacting European Polyethylene terephthalate (PET) recycling compliance. These products enhance recycled PET's heat resistance, enable increased recycled material content and promote circularity

**Silicones**

Specialty silicones products cover markets such as Personal Care, Construction, Coating & Inks, Plastic & Rubber Composites, and Food & Beverages.

**Highlights :**

- The BRB Silicone business launched a broad range of new products to address customer needs for various industries, such as coating, personal care and food applications. Some key highlights include:
- Akasil® Antifoam SD 10, SD 20 & SD 30 for food-grade application
  - BRB® SG 270 cross polymer for cosmetic application
  - CSL® 463 and 464 as a silicone for roof sealant

**LAC**

LAC improves the performance of lubricants and fuels. Our solutions enable better efficiency of vehicles and machinery in all temperatures, while extending service life and reducing fuel consumption.

**Highlights :**

- BRB introduced Petrolad® 9330 light duty engine oil package, targeting SN performance requirements and Petrolad® 8830 heavy duty engine oil, targeting CI-4 equivalent performance
- Viscotech® 6073 LR launched as an Olefin Copolymer (OCP) viscosity modifier that dissolves in re-refined base oil, which contributes to environmental sustainability through circular economy



## SEGMENTAL REVIEW-SPECIALTY CHEMICALS

## RISKS &amp; OPPORTUNITIES

## H

**Health, Safety and Environment (HSE) Risk**

- HSE incidents in chemical manufacturing, particularly process safety breaches like spills and fires, can significantly impact personnel, environment and operations

**Opportunity**

- Drive the implementation of HSE Excellence programmes at all levels

**Action taken**

- Increase and improve safety measures through safety training, e.g. Perstorp Careway 365 programme that covers annual assessment and integration programme with PETRONAS

**Results**

- No major HSE incidents such as fire, manual handling and spillage were recorded

## M

**Market Risk**

- Change in demand/customer behaviour
- Geopolitical tension, protracted/persistent high inflation causing slowdown of economy
- Increased competitors' supply from China to Europe

**Opportunities**

- Strong engagement with customers enables a better understanding of their product expectations
- Collaborations with customers provide better insights on current market needs

**Action taken**

- Participated in exhibitions, hosted seminars/webinars and launched new products to keep up with dynamic market demand
- Strengthen "Integrated product-tree strategy" to optimise margin contribution
- Proactive measures to respond to market recovery while capturing strong growth for specialties

**Results**

- Participated in 21 key exhibitions and seven webinars across the region such as the European Coating Show, CHINACOAT and In-Cosmetic Asia
- Launched 19 new products for coatings, personal care and construction application
- Increased sales volume in specialties segment and high-margin products

## O

**Operational Risk**

- Energy and raw material prices remain at high levels with big competitive gap between Europe, Middle East and Africa (EMEA) and APAC affecting margin contribution
- Supply chain/logistics disruption contributed by external factors, e.g. geopolitical tensions, sanctions

**Opportunity**

- Effective collaboration with feedstock, utilities, logistic providers and chemical suppliers

**Action taken**

- Run continuous improvement programmes with site-specific implementation including cost, raw material and yield optimisation while providing relief to selected struggling suppliers
- Frequent monitoring and reporting of improvement programme

**Results**

- Multiple sites achieved significant cost savings in key areas such as direct variables cost, freight and raw materials
- Increased product yield for specialties
- Adjusted supplier terms (price, payment, consignment stock, order size) to support them in hardship

## R

**Regulatory Risk**

- Dynamic and more stringent requirements and/or enforcement in laws and regulations related to specialty products and its market

**Opportunity**

- Continuously develop and establish best practices, including trainings to all staff, in order to ensure compliance with laws and regulations in the locations where we operate

**Action taken**

- Implemented mandatory e-learnings and training across all employees to raise awareness and knowledge of Code of Conduct and Business Ethics (CoBE), to align with PETRONAS' standard

**Results**

- Improved practice of compliance in keeping up with changing laws and regulations especially in critical legal areas

## SEGMENTAL REVIEW-SPECIALTY CHEMICALS

## CONTRIBUTION TO SUSTAINABILITY

PCG demonstrates a steadfast commitment to environmental stewardship, recognising the critical importance of sustainability within our operations. Our efforts are epitomised through Perstorp, with sustainability being a core component of its business strategy, aiming to be Finite Material Neutral – ensuring resource consumption does not surpass nature's replenishment rate.

## PRO-ENVIRONMENT SOLUTIONS

Perstorp's portfolio includes over 25 solutions and products derived from renewable and/or recycled materials, seamlessly integrating into existing chemical processes to offer sustainable options to our customers. Introduction of 2-EH Pro 100™, utilising renewable resources to achieve a negative carbon footprint, and Akestra™, a recyclable polyester alternative for food-grade applications, reflecting our commitment to sustainability as market demands escalate.

## CORPORATE SUSTAINABILITY TARGETS

Perstorp has ambitious goals set for CO<sub>2</sub> emissions reduction (Scope 1, 2, and 3), water conservation, waste management and minimising ecotoxic impact by 2030, validated by the Science Based Targets initiative (SBTi).

BRB is refining its sustainability framework, enhancing its economic, environmental, social and governance commitments. This encompasses a commitment to emissions reduction by 2030 and the promotion of sustainable products, alongside fostering a strong safety culture. This initiative aligns with upcoming EU regulatory requirements, with a completion target set for 2024.

## RECOGNITION

Our dedication to sustainability has been recognised with prestigious accolades from EcoVadis with Perstorp receiving a gold medal and BRB a silver medal which signify ranking in the Top 5% and Top 25% across all industries, respectively. These awards highlight our exceptional commitment to a superior sustainability management system, setting a benchmark in the industry.

## Material Matters :



**R** For more information regarding our Growth Delivery Excellence initiatives, please refer to our Strategy section on pages 59 to 61.



PCG Board's visit to Perstorp.

## OUTLOOK

The market outlook for specialty chemicals remains uncertain in the near to mid-term, influenced by the ongoing Russia-Ukraine conflict, continuous inflationary pressures, a global economic downturn and stringent product safety regulations, all of which are expected to affect the demand for our products. Despite these challenges, the long-term industry outlook is promising, with a shift towards sustainability and APAC being identified as a key growth region due to its economic opportunities. We have inaugurated Sayakha plant in India February 2024 to enhance our capability to serve the APAC market and align our commitment to sustainability by including the Pro-Environment Solutions line.

PCG SC is committed to innovation, sustainability and customer satisfaction as we navigate through the challenging terrains. We aim to expand our specialties portfolio and provide robust support to our customers, ensuring reliable supply of a broad range of products to the target segments.

We are also embarking on developing an innovation hub in Malaysia that will provide customer-centric solutions and leverage the global network of innovation labs from BRB and Perstorp. This initiative will enhance our innovation capabilities to deliver tailored solutions to meet customer needs. Additionally, PCG SC is developing a transformation strategy to embark on our journey to becoming a global leader in specialty chemicals industry.