

OPERATING ENVIRONMENT AND OUTLOOK

As an integrated chemicals company, our operations and long-term value are influenced by a range of external factors, including global oil prices, economic conditions, geopolitical events and supply-demand dynamics. By closely monitoring these factors, we can effectively mitigate potential risks and capitalise on emerging opportunities.

MACROECONOMIC UNCERTAINTIES

The 2024 geopolitical landscape, particularly the conflicts in Europe and the Middle East, created economic uncertainty for the global economy. Global inflation and currency devaluations, especially in the first half of 2024, added further complexity and challenges for PCG to navigate. Macroeconomic headwinds such as weaker demand and subdued consumer sentiment, weighed on global economic growth, which expanded by 3.2% in 2024 compared to 3.3% in 2023^[1]. However, the Global Purchasing Manager Index improved slightly, moving above 50 points in the second half of 2024, compared to the first half which was lower than 50 points, ahead of 2025^[2].

The world's second largest economy, China, has also continued to struggle in its economic recovery despite efforts to ease monetary policy to support key sectors like construction and lending. Overcapacity in various industries and weak consumer spending limited the effectiveness of these efforts, leading to a slower than anticipated economic recovery.

In addition, the confluence of higher feedstock costs, lower chemical prices and elevated energy costs significantly impacted profit margins. The competitive landscape, intensified by Chinese suppliers going beyond their domestic markets as a result of the capacity overhang, further compounded the challenges faced by the industry. This necessitated strategic adjustments by companies, including PCG, to maintain profitability.

IMPACT ON STAKEHOLDER GROUPS & OUR RESPONSES



^[1] International Monetary Fund's October 2024 Global Outlook: "Policy Pivot, Rising Threats."

^[2] S&P Global: "Global Executive Summary: Turbulence ahead"

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Impact

Price Sensitivity:

- Inflation and economic downturn reduce consumer purchasing power, especially in consumer goods

Supply Chain Continuity:

- Customers worry about product availability due to supply chain disruptions

Affordability & Competition:

- Higher costs might push customers toward alternative suppliers or materials

Response

Strategic Pricing & Customer Focus:

- PCG adapts pricing strategically to maintain value for customers, leveraging product quality and flexible terms to help customers manage cost sensitivities

Resilient Supply Chain & Capacity Optimisation:

- PCG runs plants at optimum capacity to ensure continuous production and expanded its strategic sourcing efforts, while strengthening our presence around the region to provide uninterrupted supply to customers

Value-Driven Innovation:

- Through Research & Development (R&D) and expanding specialties portfolio, PCG emphasises high-value, cost-efficient solutions to maintain customer loyalty, even in a competitive market

OUTLOOK

The outlook for the chemical industry remains cautious, with thin margins expected from elevated feedstock costs, sluggish demand and a broader economic slowdown. Key geopolitical developments, including the Middle East conflict, have heightened market volatility, particularly in oil and liquefied natural gas (LNG). Oil prices are expected to remain in the USD 60–80^[2] range, influenced by both Organization of the Petroleum Exporting Countries (OPEC)'s production cuts and potential shifts in U.S. policy toward Russian exports. The oversupply of naphtha and limited demand growth add further downward pressure on petrochemical prices, while ongoing disruptions in shipping routes e.g., Middle East–Far East Asia and the Panama Canal congestion continue to elevate supply chain costs.

In addition, recent collaborations between Middle Eastern oil and gas companies as well as China-based petrochemical firms through joint ventures and stake acquisitions will intensify competition, impact global supply chains and could challenge market dynamics for companies like PCG.

PCG also anticipates that sustainability will continue to reshape market dynamics, requiring ongoing innovation in product development, emissions reduction and resource efficiency.

To remain competitive within this challenging environment, PCG must focus on strategic initiatives in operational excellence, energy-efficient practices as well as diversifying our portfolio which will be critical to mitigate rising input costs, maintain competitiveness and ensure business sustainability.

INTENSIFIED SUSTAINABILITY

The chemical industry is at a pivotal juncture, with sustainability emerging as a key driver of innovation and competitiveness. Stakeholders – including policymakers, investors and consumers – are increasingly prioritising environmentally responsible practices, prompting a shift toward sustainable feedstock and low-carbon solutions. This evolution is not only reshaping traditional operations but also opening new avenues for growth and collaboration.

A notable development is the European Union's Carbon Border Adjustment Mechanism (CBAM), designed to prevent carbon leakage by imposing a carbon price on imports of certain goods. This policy incentivises global decarbonisation efforts and promotes international cooperation in addressing climate change. It is one of many measures signalling an increasingly stringent regulatory landscape for sustainability worldwide. In response to these dynamics, companies are investing in green technologies, optimising supply chains for efficiency and exploring innovative materials that align with circular economy principles.

IMPACT ON STAKEHOLDER GROUPS & OUR RESPONSES



Impact

Low-Carbon, Eco-Friendly Products:

- Consumers, especially in developed economies with more stringent environmental regulations and compliance requirements are more likely to need low-carbon, cost-effective and environmentally friendly products

Response

- **Product Innovation and Co-Creation:** PCG collaborates with customers to co-create products with a higher Renewable Carbon Index (RCI), shifting from fossil to renewable carbon sources
- **ISCC PLUS Certified Products:** Launched Pevalen™ Pro 100, an ISCC PLUS certified non-phthalate plasticiser made of 100% renewable carbon content, to meet the requirements of eco-conscious customers
- **PCG Sustainable Portfolio:** Develop enhanced sustainable portfolio focusing on three areas:
 - Low-carbon solutions and Carbon Dioxide utilisation
 - Circular Economy and solutions
 - Bio-based chemicals

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Impact

Environmental Responsibility:

- Communities expect companies like PCG to prioritise environmental responsibility, reduce local environmental impacts and contribute positively to socio-economic development

Response

- Low-Carbon Methanol & Circular Solutions:** PCG actively pursues sustainability projects such as low-carbon methanol production and chemical recycling plant. The chemical recycling plant project is expected to produce pyrolysis oil for more sustainable plastics, addressing circular economy needs by utilising plastic waste as feedstock
- Circular Economy Initiatives:** PCG advances its Circular Economy initiatives through its New Plastic Economy Agenda, focusing on four pillars - innovation, infrastructure, education and clean-up – via partnerships with stakeholders like recyclers, technology providers and communities



Impact

Increased Scrutiny on Sustainability Performance:

- Greater number of investors are calling for transparent decarbonisation plans and the integration of sustainable practices into their overall strategies

Evolving Regulatory Landscape and EESG Reporting:

- Stricter sustainability reporting standards e.g., EU's CSRD, Bursa Malaysia's Main Market Listing Requirement, IFRS S1 and S2 raise investor expectations for transparent, high-quality EESG reporting

Response

- GHG Reduction and Net Zero Carbon Emissions (NZCE) 2050 Roadmap:** PCG continues with its GHG reduction efforts, targeting 20% reductions in our overall GHG by 2030 aligned with PCG NZCE 2050 Roadmap. This reinforces PCG's commitment to long-term value creation and profitability through sustainability initiatives
- Enhanced EESG Integration:** Expanded our assessment of sustainability and climate risks to align with new reporting standards. This includes integrating EESG considerations into corporate strategy to meet shareholder expectations for transparency, conducting double materiality assessments for Perstorp and BRB, and bridging the gap in preparation to meet the requirements of Malaysia's National Sustainability Reporting Framework and European Union's Corporate Sustainability Reporting Directives (CSRD)

OUTLOOK

Looking ahead, PCG anticipates that sustainability will continue to reshape market dynamics, requiring ongoing innovation in product development, emissions reduction and resource efficiency. By focusing on co-creation with customers, expanding its portfolio of sustainable products and investing in cutting-edge projects like low-carbon methanol production and chemical recycling, PCG is well-positioned to meet evolving stakeholder expectations and capitalise on new growth opportunities within the circular economy. Through these initiatives and a steadfast commitment to its Net Zero Carbon Emissions 2050 Roadmap, PCG is prepared to navigate regulatory changes and lead in sustainability value creation for the long term.