PETRONAS

Our Reference:- GSBG/CSDL/PCGB/ADMIN/COMM/CORR/2023/90

17 April 2023

Minority Shareholders Watch Group
Level 23, Unit 23-2, Menara AIA Sentral,
No. 30, Jalan Sultan Ismail,
50250 Kuala Lumpur.

Attention: Mr. Devanesan Evanson
Chief Executive Officer

Dear Mr Devanesan Evanson,

25TH ANNUAL GENERAL MEETING ("AGM") OF PETRONAS CHEMICALS GROUP BERHAD ("PCG" OR "THE COMPANY") TO BE HELD ON TUESDAY, 18 APRIL 2023

In reference to your letter dated 10 April 2023 on the above, we thank you for taking the time to send us the list of questions following your review of our Integrated Report 2022. The responses are provided below. The same will be included in our AGM agenda and will be made publicly available on our corporate website (www.petronaschemicals.com) from 17 April 2023.

OPERATIONAL & FINANCIAL MATTERS

1. **PCG experienced contrasting first and second half in FY2022 with a strong head start in the first half driven by strong energy prices and then economic slowdown in the second half due to rising inflation globally.**

   Amid softened demand, the petrochemicals industry was affected by higher energy and feedstock prices, causing margin compression industry wide. As a result, PCG recorded a net profit of RM6.3 billion compared to RM7.3 billion in FY2021.

   Does PCG expect the margin compression to persist in FY2023 and 2024? What is the outlook for PCG's product prices?

   Margin compression may persist, particularly in the first half of 2023, as the petrochemical market conditions continue to be volatile in 2023 due to a culmination of factors, including, but not limited to:

   (i) Higher energy prices resulting in higher costs;

   (ii) Lower demand for olefins and derivatives due to recessionary economic outlook;

(iii) Lower prices of ammonia and urea due to high supply following higher availability of global capacity; and

(iv) Lower demand for specialty chemicals due to destocking activities.

The outlook for PCG's product prices in 2023 are expected to be lower compared to 2022 prices. This is because the prices reached historical highs in 2022 driven by the sharp rise in crude oil and gas prices at the start of the Russian-Ukraine war.

2. The Olefin & Derivatives (O&D) segment recorded an EBITDA of RM2.86 billion on the back of RM12.93 billion sales in FY2022. This translated into an EBITDA margin of 22.16% compared to 30.16% in FY2021.

(a) Does PCG expect a recovery in profit margin for O&D in 2023?

The decline in EBITDA margins for the Olefins & Derivatives segment in FY2022 was primarily due to:

(i) lower spreads, particularly for ethane-related products, resulting from the decline in selling prices coupled with the increase in energy and utilities cost; and

(ii) higher maintenance cost

The recovery in EBITDA and profit margins for O&D segment shall depend on the improvement in these factors as well as other economic factors.

(b) Referring to PCG's fourth quarter FY2022 financial result announced on 24 February 2023, the O&D segment recorded EBITDA and profit after tax of RM372 million and RM47 million respectively, compared to RM697 million and RM843 million in the preceding quarter. Meanwhile, quarterly revenue amounted to RM3.49 billion against RM3.4 billion a year ago.

Why was there a huge swing in O&D quarterly financial performance especially the profit after tax despite a marginal increase in revenue?

The prices of O&D products dropped as much as 15% against third quarter of FY2022 and 18% against fourth quarter of FY2021, therefore, the decline in the segmental performance is mainly attributed to the resulting decline in realised product spreads.

Additionally, there was a one-off valuation gain of RM276 million recorded in the third quarter of FY2022 arising from deferred payment arrangement on trade payables of its joint operations entity.

3. **In FY2023, the Specialties segment (which consists of Perstorp and BRB Group) contributed RM3.13 billion in revenue and RM382 million EBITDA to the Group (page 28 of Integrated Report 2022). This represents 10.8% and 4.72% of PCG's revenue and EBITDA in FY2022.**

   (a) What is the average EBITDA margin for specialty chemicals recorded by peers? Is it realistic for investors to expect the Specialties segment to post an EBITDA margin that is in line with PCG's O&D and F&M segments (circa 22% and 40% in FY2022)?

   PCG's basic chemicals business, which comprised of the O&D and F&M segments, were developed and fully integrated with PETRONAS' upstream operations. As such, the commercial arrangements unique to PCG's O&D and F&M operations do not apply to the operating units within the Specialties segment, namely BRB and Perstorp.

   The EBITDA margin recorded in FY2022 for identified specialty chemicals peer group range between around 6% and 20%, with an average of 13%.

   (b) What is the expected sales volume growth for Specialties in FY2023?

   The sales volume growth in FY2023 is expected to be in line with industry growth of approximately 3%.

   (c) The Specialties segment posted RM1.66 billion and an EBITDA of RM7 million in the fourth quarter of 2022. The segment slipped into losses with a net loss of RM163 million.

   What factors contributed to the tepid performance in the last quarter of FY2022? Does the Group expect the same in FY2023?

   The fourth quarter results for the Specialties segment are mainly due to the following:

   (i) Seasonally lowest quarter for specialties due to weaker demand and inventory destocking;

   (ii) Lower demand due to slow down in Europe and US;

   (iii) Higher European energy and raw material costs; and

   (iv) Unrealised foreign exchange due to depreciation of Swedish Kroner against the Euro.

   Based on current market conditions, we expect 2023 to be an equally challenging year. The team will continue to manage product mix and pricing excellence to leverage the recovery of market demand in 2023.

(d) Will PCG continue to pursue M&A to achieve the aspiration of deriving at least 30% of revenue from the non-traditional (derivative and specialty chemicals) portfolio by 2030?

PCG will continue to evaluate potential opportunities that fits the Group's two-pronged growth strategy. Our current aim is on realising synergies and long-term value creation from the acquired specialties assets.

4. **In 2022, PCG made a major investment decision by acquiring the entire equity interest in Perstorp Group for EUR1.54 billion in cash. This marks a significant milestone for PCG in expanding the specialty chemicals segment, enabling the Group to capture new growth opportunities while futureproofing its business against market cyclicality and volatility (page 21 of IR 2022).**

(a) What is the contribution of Perstorp to PCG by revenue and profit? What is the EBITDA margin of Perstorp?

With the completion of Perstorp acquisition in the fourth quarter of FY2022, PCG created the Specialties segment that comprise of Perstorp and BRB. Moving forward, the operational and financial results of Perstorp will be consolidated in this Specialties segment.

For the fourth quarter of FY2022, the Specialties segment contributed 19% of revenue to PCG with an EBITDA margin of 0.4%.

On a full year performance in FY2022, the Specialties segment recorded total revenue of RM8.2 billion and profit of RM113 million. EBITDA margin was recorded at 13.5%.

(b) Please elaborate on the financial contribution of Perstorp, given its fluctuating financial performance in the past five years as highlighted in PCG's EGM held in September 2022.

In its maiden contribution in the fourth quarter of FY2022, Perstorp's revenue contributed 15% to PCG's fourth quarter revenue. The decline in profitability in the fourth quarter does not reflect Perstorp's financial potential. Historically, Perstorp's average annual EBITDA margin of 15% is in line with industry peers.

Moving forward, we expect to unlock more value from potential synergies between Perstorp and PCG and/or PETRONAS. The addition of Perstorp to the PCG can potentially strengthen our market position and assist in our product innovation. In alignment with the PCG's stepping-out strategy, PCG will also benefit from Perstorp's technology, know-how and its customer-centric solutions.

Perstorp's "Finite Material Neutral" will complement PCG's Net Zero Carbon Emissions (NZCE 2050) aspiration which could be adopted and implemented more broadly for the benefit of the Group. Perstorp is also well-positioned for growth in pro-environment products and overall sustainable chemistry. Having introduced innovative, sustainable and safe solutions to the European market, Perstorp's products and solution have significant opportunities for future growth in Asia, PCG's home market.

In the meantime, Perstorp will strive to maintain profitability in the current challenging environment.

5. **PCG experienced lower plant utilisation (PU) rate of 89% in FY2022 compared to 93% in the year before, mainly due to heavy turnaround activities at its Malaysian facilities during the financial period.**

   How many plant turnarounds does PCG plan to carry out in FY2023? Which are the plants included in the scheduled stoppage? What are the production volume and PU rate guidance for FY2023?

   Planned turnaround and maintenance activities in FY2023 are as follows:

Turnaround	
3Q2023	PETRONAS Chemicals Ammonia Sdn Bhd
4Q2023	PETRONAS Chemicals MTBE Sdn Bhd

Planned maintenance (in conjunction with PETRONAS Chemicals Ammonia shutdown)	
3Q2023	PETRONAS Chemicals Olefins Sdn Bhd
	PETRONAS Chemicals Glycols Sdn Bhd
	PETRONAS Chemicals LDPE Sdn Bhd

Other planned shutdown in 2023	
1Q2023	PETRONAS Chemicals Aromatics Sdn Bhd
2Q2023	ASEAN Bintulu Fertilizer Sdn Bhd
3Q2023	PETRONAS Chemicals Fertiliser Sabah Sdn Bhd

   In FY2023 we are targeting to achieve PU rate of at least 90% and production volume of at least 10 million metric tonnes.

6. **PCG recorded "Other Expenses" amounting to RM166 million in FY2022 compared to RM60 million in FY2021 (page 12 of Financial Report 2022).**

   However, PCG's FY2022 quarterly results for the first, second, third and fourth quarters, posted "Other Expenses" of nil, - RM11 million, nil and - RM428 million respectively.

   How do these figures reconcile with the total - RM166 million for "Other Expenses" in FY2022?

Open

"Other income" or "Other expenses" mainly relates to net gains or losses arising from translation of assets and liabilities denominated in foreign currencies to our reporting currency. This translation is derived from the exchange rate at the end of every reporting period. As such, the figure reported as end 31 December 2022 is not a cumulative amount of the figures reported in the previous individual quarters.

7. **Under prudent cost discipline and optimisation, the Group has realised a cost optimisation target of more than 100% (page 27 of IR 2022).**

   Please explain and quantify the significant areas of achievement. Is the cost optimisation sustainable or could it be significantly enhanced further?

   In FY2022, PCG's cost optimisation efforts were largely focused in the following areas:

	RM Million
Manufacturing	*~50*
Commercial	*~26*
Strategy	*~53*

   PCG undertakes cost optimisation efforts on an annual basis to ensure areas targeted for optimisation are critically selected without compromising safety, efficiency and productivity.

8. **Under Operational Excellence, for the years 2018 to 2022, there are actual results shown for the headline KPIs (page 69 of IR2022)**

   No headline KPI targets are shown alongside the actual results for 2018 to 2022 to enable comparison showing whether targets have been achieved or not in the past. Please consider adding such information in the future.

   We note MSWG's request to include headline KPI targets against actual results for 2018 to 2022. We shall consider the request for our future reports.

9. **Under the three strategic thrusts, key initiatives and headline KPIs are stated for Operational Excellence and Commercial Excellence (pages 69 - 72 of IR2022).**

   However, there are key initiatives but no headline KPIs stated for Growth Delivery Excellence (pages 74 - 75 of IR2022).

   Why are no headline KPIs stated for the strategic thrust Growth Delivery Excellence?

   We note MSWG's comments on the headline KPIs for Growth Delivery Excellence. As majority of our Growth Delivery Excellence initiatives relate to growth projects, there are elements within each project that require confidentiality. Nevertheless, we shall consider stating the relevant headline KPIs in the future.

SUSTAINABILITY MATTERS

1. **Since 2019, PCG has set the target to recover 100% of plastic waste equivalent to domestic polymer sales. The plastic waste will be reprocessed to produce circular polymers for food packaging, healthcare and industrial applications, thereby reducing plastic waste in landfills (page 24 of IR2022).**

   (a) What is the percentage of plastic waste collected thus far compared to PCG's domestic polymer sales?

   We have yet to make the Final Investment Decision on the recycling plant. We are currently working towards realising our circular economy aspiration.

   (b) What is the status or timeline for reprocessing the plastic waste to produce circular polymers for food packaging, healthcare, and industrial applications**?**

   PCG has been working on multiple fronts to establish the ecosystem and value chain for the project. As such, we have yet to reach Final Investment Decision.
   We are currently in the engineering design stage for a plastic waste to circular naphtha plant. We have also signed an MOU with ExxonMobil to assess the potential for an industrial-scale implementation of advanced plastic recycling technology at a PETRONAS-owned facility.

   (c) Extreme weather events such as floods have caused disruptions to daily lives. In Malaysia, the Northeast Monsoon caused floods and landslides across several states. As of 21 December 2022, there were 108 flooded areas and 16 landslides throughout the country (page 48 of Sustainability Report 2022).

   What actions or mitigating measures has PCG taken to counter the climate risks? Which areas of the Group's operations are prone to climate events such as floods and what contingent measures have been taken to mitigate the disruption of operations?

   In our efforts to address the impact of our operations on climate change, we have developed our Net Zero Carbon Emissions 2050 roadmap in 2021 with clear goals for emission reductions.

   Following that, in 2022, we published our first Task Force on Climate Related Financial Disclosure (TCFD) standalone report, with the aim of improving our understanding of our long-term climate-related risks and opportunities and provide clarity on how we manage climate-related issues.

   Our operations have not been affected by the floods so far. However, we have identified flooding as a key risk in our Malaysian operations. As a precautionary measure for uninterrupted plant operation during the annual year-end monsoon season, we leverage the Flood Operations Committee (FOC) to ensure that support is provided for high-risk personnel (i.e., safe accommodation within the vicinity of the plant, transportation, and others).

Should you require further clarification, please contact the undersigned at 019-5419109 or Ms. Norhaslinda Samin at 019 - 3785768. We look forward to your presence at our upcoming virtual AGM on 18 April 2023.

Thank you.

Yours faithfully
for **PETRONAS CHEMICALS GROUP BERHAD**

Azira Marini Ab Rahim
Company Secretary

c.c.

1. **YBhg Datuk Ir. (Dr.) Abdul Rahim Hashim**
   Chairman
   PETRONAS Chemicals Group Berhad

2. **Ir. Mohd Yusri Mohamed Yusof**
   Managing Director/Chief Executive Officer
   PETRONAS Chemicals Group Berhad

3. **Mr. Kang Shew Meng**
   Joint Company Secretary
   PETRONAS Chemicals Group Berhad