PETRONAS

Our Reference: GSBG/CSDL/PCGB/ADMIN/COMM/CORR/2024/66

23 April 2024

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

Attention: Dr. Ismet Yusoff
Chief Executive Officer

Dear Dr. Ismet Yusoff

26TH ANNUAL GENERAL MEETING (AGM) OF PETRONAS CHEMICALS GROUP BERHAD ("PCG" OR "THE COMPANY") TO BE HELD ON WEDNESDAY, 24 APRIL 2024

In reference to your letter dated 15 April 2024 on the above, we thank you for the list of questions following your review of our Integrated Report 2023. 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.petronas.com/pcg) from 23 April 2024.

OPERATIONAL & FINANCIAL MATTERS

1. **PCG experienced a year of 'perfect storm' in 2023 with high energy prices, geopolitical tensions, and subdued demand with ample supply from the U.S. and China. Consequently, PCG's net profit slid to RM1.75 billion (FY2022: RM6.3 billion) despite comparable revenue of RM28.67 billion (FY2022: RM28.95 billion) and a higher sales volume of 9.6 million tonnes recorded (FY2022: 8.3 million tonnes).**

   (a) Does PCG expect low product spread to remain across all segments in FY2024?

   PCG expects market spreads to remain low across all segments in FY2024.

   In the first quarter of 2024 (1Q 2024), average spreads for Commodities i.e., Olefins & Derivatives (O&D) and Fertilisers & Methanol (F&M) are approximately 13% lower compared to 1Q 2023 but 2% higher compared to 4Q 2023.

(b) **Has the Group seen a recovery in average selling prices (ASPs) and signs of restocking in these segments?**

During 1Q 2024, ASPs of selected chemicals in the O&D segment (such as ethylene and MEG) increased ahead of the festive season. However, ASPs of other chemical products (such as methanol and urea in the F&M segment) declined due to lower demand and off-planting season respectively.

As for the Specialties segment, indicatively there are positive signs of restocking activities and modest demand recovery was reflected in slightly higher ASPs in 1Q 2024, but the situation remains uncertain as the geopolitical tensions continue. Regional supply disruption in Europe for certain product segments has also provided a temporary boost to the ASPs.

(c) **What will be the key drivers for recovery across the industry?**

The key drivers for recovery across the industry are:

(i) Economic improvements that would drive demand and consumption particularly in China and Europe;

(ii) Positive resolutions of geopolitical conflicts; and

(iii) Supportive monetary policy i.e., easing of interest rates.

(d) **Please explain the expected supply-demand dynamic by product segments.**

The supply-demand dynamics are summarised below based on key influencing factors for each product category and/or segment.

(i) ***Olefins & Derivatives*** market is expected to be soft as oversupply remains a key concern.

Factors influencing O&D market	
Demand	Economic recovery in China
Supply	• Capacity expansion for polymer products, Monoethylene Glycols and Paraxylene in China. • Cargoes from the United States (US) entering the Southeast Asian markets.

(ii) *Fertiliser & Methanol* prices are anticipated to remain low due to slow demand and global capacity expansion.

Factors influencing Urea market	
Demand	• Food security • Adverse weather conditions
Supply	• Plant capacity expansions in Russia, Turkey, India and China • Uncertainty of China's export ban policy • Geopolitical tensions

Factors influencing Methanol market	
Demand	Lower Methanol-to-Olefins (MTO) related demand
Supply	Capacity expansion

(iii) Specialty Chemicals is expected to see modest improvements in demand compared to FY2023.

Factors influencing Specialty Chemicals segment	
Demand	• Economic recovery in China and Europe • Demand recovery from end markets for construction materials, automotive, transportation and consumer goods.

2. In FY2023, PCG encountered both internal reliability challenges, as well as feedstock and utility supply disruptions in 2023.

(a) What were the internal reliability challenges PCG faced in FY2023? How did the Group deal with these challenges?

In addition to the heavy turnaround activities, the internal reliability challenges stemmed from unplanned shutdowns in FY2023, were primarily caused by mechanical failure of certain equipment.

In dealing with these challenges, we had performed targeted and comprehensive intervention activities as follows:

(i) Replacement of affected equipment to permanently resolve related issues;

(ii) Execution of a thorough root cause failure analysis to prevent similar recurrence; and

(iii) Optimisation of digital tools through advanced analytics to reduce plant downtime due to equipment failure.

(b) **In FY2023, PCG experienced unplanned shutdown events and operational challenges at PC Methanol, ASEAN Bintulu Fertilizer (ABF), PC Aromatics, PC MTBE, PC Fertiliser Sabah, PC Methanol (Plant 2) and plant facilities in Kertih due to combination factor of outages, utilities, and feedstock disruptions (page 22 of IR2023).**

Were these unplanned shutdowns preventable, or could they be mitigated in the first place? What is the likelihood of preventing or minimising the recurrence of similar unexpected shutdowns?

These unplanned shutdowns are mitigated through our Operational Excellence (OEX) programme.

In our efforts to minimise the recurrence, we are actively performing the following:

(i) **Short term:** Replacement of identified critical equipment to prevent potential issues.

(ii) **Long term:**

- Strengthening of programmes such as equipment reliability strategy (which includes asset risk prioritisation, preventive maintenance execution, equipment condition monitoring and proactive maintenance implementation) to mitigate unplanned shutdowns.

- For assets above 20 years in operation, we have performed a structured asset life study in evaluating the need for assets replacement.

In response to unplanned shutdowns due to feedstock and utilities supply disruptions, PCG worked closely with the feedstock and utilities suppliers (namely PETRONAS Carigali Sdn Bhd and PETRONAS Gas Berhad) on their mitigation plans to minimise risk of recurrence.

Additionally, the Board had agreed in August 2023 to elevate Feedstock and Utilities Supplies as a Critical Risk in the Group's Corporate Risk Profile, to assure long term feedstock and utilities supply reliability for PCG operation.

(c) **The feedstock disruption arising from the maintenance activities at the Sabah-Sarawak Gas Pipeline (SSGP) resulted in a significantly lower volume loss at PC Fertiliser Sabah and PC Methanol (page 54 of IR2023). As a result, the plant utilisation (PU) rate of Fertilisers & Methanol (F&M) declined to 84.4% from 87.5% previously.**

How much volume loss (by million tonnes) was incurred by the segment arising from the feedstock disruption? How long did the disruption last before the two plants resumed their normal operations?

The unplanned shutdown period (for PC Methanol and PC Fertiliser Sabah arising from the maintenance activities at SSGP) was approximately 30 days, resulting in sales volume loss of less than 10% of respective plant capacities.

(d) **In August 2023, PETRONAS announced the permanent shutdown of part of the SSGP near Lawas, Sabah, that delivers feed gas to its PETRONAS LNG Complex.**

Has PETRONAS' decision affected the supply of feedstock to PC Fertiliser Sabah and PC Methanol, which are operating from Sipitang, Sabah, and Labuan, respectively? If yes, what actions were taken to ensure a stable supply of feedstock to the two plants?

No, the decision has not affected the feedstock supply to PC Fertiliser Sabah and PC Methanol.

How do the Additional Ethane Taskforce (AET) and Additional Methanol Team (AMT) ensure a better and stable supply of feedstock in the future? Please share the outcome of PCG's AET and AMT initiatives.

The AET & AMT are collaborative efforts between PCG plants and the feedstock suppliers to maximise the integrated value chain from upstream to downstream, to ensure reliable and sustainable feedstock availability and quality for PCG plants.

The outcome of AET and AMT include, but not limited to the following:

(i) Improved and stable feedstock supply which contributed to total production volume;

(ii) Proactive alignment of planned shutdowns between the suppliers and the affected PCG plants; and

(iii) Timely delivery of upstream key projects to ensure long term security of feedstock supply to PCG plants.

(e) **How many statutory turnarounds and planned shutdowns does PCG intend to carry out in FY2024, including the number of days to be completed? What is the latest overall PU rate?**

Five (5) plant turnarounds are scheduled in FY2024 i.e., PC Fertiliser Kedah, PC Methanol Plant 1, PC Ethylene, PC Polyethylene and ASEAN Bintulu Fertiliser.

Each turnaround is estimated to take between 40 to 60 days.

Overall group PU as at 31 March 2024 was 87%, mainly due to plant turnaround at PC Fertiliser Kedah (from February to mid-March) and maintenance works at PC MTBE.

(f) **PCG sets a target of achieving PU of above 90% going forward, what are the possible scenarios that would result in a lower-than-optimal PU rate?**

Factors that could potentially lead to a PU rate of lower than 90% may include:

(i) The occurrence of identified Health, Safety and Environment risk factors;

(ii) Feedstock and utilities supply disruption; and

(iii) Additional maintenance and repairs in relation to and/or following turnaround activities.

3. **In the event of unplanned shutdowns, PCG would enter into strategic sourcing arrangements to source products from third parties in order to fulfil its contractual commitments to customers. In turn, this has caused an increase in the cost of revenue.**

How much did PCG spend on strategic sourcing in FY2023 due to these unplanned shutdowns?

The Group allocates for strategic sourcing annually, as part of our Commercial Excellence initiatives to ensure the fulfilment of our commitments to customers during the period of planned shutdowns in the event of plant turnaround and maintenance, while strategically providing additional revenue to the Group.

In FY2023, additional strategic sourcing volume was procured to manage the volume shortfall arising from the unplanned shutdown due to the SSGP-related disruption. The cost of purchase for this additional strategic sourcing volume amounted to 0.7% of the Group's FY2023 total cost of revenue, whereby such related costs were subsequently recovered through the sales revenue.

In addition, how much additional plant maintenance expenses were incurred due to the unplanned shutdowns?

The Group incurred an additional RM35 million for maintenance works due to the unplanned shutdowns.

The Group did not incur additional maintenance or repair costs in relation to unplanned shutdown arising from the SSGP disruption.

4. **The Pengerang Integrated Complex (PIC) is currently undergoing performance test runs (PTR) and will declare the commercial operational date (COD) once the PTR is completed. Tentatively, PCG is looking at Q2FY2024 to kickstart the COD.**

   Notwithstanding the expected topline contribution from PIC, analysts were cautious of the high depreciation and interest costs after COD, which would be a drag on the Group's profit in FY2024.

   Please provide guidance on the earnings impact of PIC on PCG upon the plant's commercial commission in the first few years.

   The Group expects that PIC will provide a material contribution to PCG's future earnings, upon Commercial Operation Date (COD) and gradual ramp up of plant operating rates.

5. **Despite doubling revenue to RM6.4 billion in the year, the Specialties segment plunged into losses, with a net loss of RM198 million compared to a net profit of RM144 million earlier (page 20 of IR2023).**

   One of the key market risks faced by the Specialty Chemicals Segment is the increased competitors' supply from China to Europe. (page 30 of IR 2023)

   How does PCG's pricing and cost of production compared to that of its peers from China to Europe? What are its competitive advantages over its peers? Which sub-segment provides a better upside for the Group in FY2024?

   The pricing and cost of production for PCG Specialty Chemicals are competitive against its European peers. However, due to different business model and market approach, the competitors from China have significantly lower cost of production for intermediate chemical products than the European producers. Further to that, following the weaker-than-expected recovery of the China market post the COVID-19 pandemic, saw Chinese producers looking for alternative markets for their products. This has led to intensified exports into Europe, which subsequently led to weaker product prices.

   Nevertheless, the competitive advantages of PCG's Specialty Chemical products over its Chinese competitors include higher quality products through better performance and functionality, market knowledge and technical support for products application as well as sustainability credentials through pro-environment products from Perstorp that enable customers lower their Scope 3 emissions.

   The Specialties sub-segments that may provide better upside for PCG in FY2024 are the automotive and consumer goods market, including Engineering Fluids, Resins & Coatings, Silicones and Lube Oil Additives & Chemicals.

SUSTAINABILITY MATTERS

1. **Among the sustainability risks are higher operational costs due to the development of costly low-carbon technology and increased cost of borrowing. (page 20 of SR2023)**

   How does the Group manage these two issues and the trade-off between decarbonisation to avert loss of market share and reduced profitability due to higher costs? Briefly explain the progress of decarbonisation.

   Achieving our net zero carbon emission goals will require a carefully planned transformation of our energy systems to significantly reduce emissions, while simultaneously ensuring a just and equitable transition towards a low carbon future by balancing material risks and opportunities.
   Our short-term priority on decarbonisation is to reduce emissions through flare reduction and by increasing the use of renewable energy within our assets. Through these efforts, we have achieved a total of about 146,000 tonnes of CO2 equivalent in GHG emission reduction in 2023.

   We are also assessing the deployment of electrification and other low-carbon emission technology to achieve our mid-term target of 20% GHG emission reduction by 2030. Other efforts implemented include:

   (i) utilising internal carbon pricing to guide prioritisation of our decarbonisation efforts and investment decisions; and

   (ii) conducting carbon footprint assessment to identify opportunities for cost-effective carbon abatement during project development stage.

   Long term efforts will include undertaking rigorous screenings and assessments on decarbonisation technologies, even those that have yet-to-be commercially proven.

CORPORATE GOVERNANCE MATTERS

1. **Referring to the Company's Corporate Governance Report 2023 (page 21), Practice 4.4 states that performance evaluations of the board and senior management include a review of the performance of the board and senior management in addressing the company's material sustainability risks and opportunities.**

   (a) What material sustainability risks and opportunities were incorporated in the performance evaluation? Were the unplanned shutdowns in FY2023 that caused significant business sustainability risks included in the performance evaluation?

   During the Board Effectiveness Evaluation, the Board was rated based on the Group's overall sustainability governance framework in reporting its ESG risks, sustainability targets and initiatives as well as its ability in distilling sustainability related risks facing the Group which have a material bearing to the businesses and strategies.

The performance evaluation of Management on sustainability includes the achievement of economic, environment and social performance targets, advancement of sustainability related growth projects and opportunities, sustainability governance and the overall management of sustainability and climate risks.

Key sustainability risks and opportunities deliberated in FY2023 include:

(i) The opportunities and risks associated with circular economy, particularly relating to investment in chemical recycling of plastic waste.

(ii) Climate risks of PCG business and operations including physical and transition climate risks, decarbonisation and climate litigation.

(iii) Human rights risks within PCG operations and supply chain.

The unplanned shutdowns in FY2023 relate to plant operational risk and it is included in the performance evaluation as part of the indicators for Operational Excellence.

(b) **How did the Board and senior management perform in relation to these metrics?**

Key sustainability metrics include circular economy, decarbonisation and human rights.

In general, for FY2023 the Management performed satisfactorily against the target set for these metrics.

During the Board Effectiveness Evaluation in FY2023, the overall evaluation outcome on the Board's Focus on Sustainability was *Satisfactory*.

(c) **Which area requires more focus and attention from the Board and management?**

The Board and Management's focus areas in Sustainability for FY2024 are:

(i) Drive net zero carbon emissions (NZCE) implementation.

(ii) Scale up water and waste management initiatives as well as enhance nature and biodiversity action.

(iii) To enhance human rights management across the Group's operations and supply chain to elevate positive social impact.

Should you require further clarification, please contact the undersigned at 019-541 9109 or Ms. Aslimawar Ahmad at 010–222 8074. We look forward to your presence at our upcoming virtual AGM on 24 April 2024.

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. Mr. Mazuin Ismail
Managing Director/Chief Executive Officer
PETRONAS Chemicals Group Berhad

3. Ms. Mariam Hassan @ Mek Yam
Company Secretary
PETRONAS Chemicals Group Berhad