

Our Reference: GSBG/CSDL/PCGB/ADMIN/COMM/CORR/2025/63

21 April 2025

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,

**27TH ANNUAL GENERAL MEETING (AGM) OF PETRONAS CHEMICALS GROUP BERHAD
("PCG" OR "THE COMPANY") TO BE HELD ON TUESDAY, 22 APRIL 2025**

In reference to your letter dated 16 April 2025 on the above, we thank you for taking the time to send us the list of questions following your review of our Integrated Report 2024. 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 21 April 2025.

OPERATIONAL AND FINANCIAL MATTERS

1. The outlook for 2025 remains challenging as the global chemical sector continues to grapple with economic uncertainties, fluctuating crude oil prices and evolving market dynamics. The anticipated pressure on petrochemical prices, driven by softer demand and geopolitical headwinds, will require PCG to focus intently on cost containment and operational efficiency (page 21 of IAR 2024).

(a) To what extent has the Group effectively adopted AI-driven technology or other measures to enhance cost containment and improve operational efficiency?

PCG has implemented digitalisation across all aspects of its business including the adoption of AI-enabled applications in operations, commercial, procurement and finance.

For example, we leverage an AI-enabled digital application to conduct predictive analytics for the purpose of equipment performance monitoring, plant efficiency and reliability enhancements. Further AI adoptions were made in commercial and logistics to optimise product delivery scheduling, optimal price setting and 24/7 customer connection. The above benefits not only maximise our plant utilisation and customers order fulfillment rates but also minimise our costs to serve.

- (b) **With ongoing challenges such as capacity overhang, particularly in core products like ethylene, polyethylene, and monoethylene glycol, which PCG expects to face structural overcapacity until 2030, what strategic adjustments is the Group considering in terms of production optimisation, capacity rationalisation, or product diversification to mitigate margin erosion and maintain competitiveness?**

In navigating market headwinds, we continue to fortify our resilience against margin erosion and competition through the following mitigation actions:

- (i) Continued focus on operational excellence by improving efficiency across our production facilities to enhance productivity and products yield
- (ii) We are leveraging on our proximity to key markets and long-standing relationship with customers to grow our sales volume even in an oversupplied market. We address our customers pain-points and meet their evolving needs to further enhance value creation
- (iii) We maintain strong financial discipline through cost optimisation and prudent capital expenditures

Whilst we strengthen our existing business, we are also diligently assessing opportunities for future capacity expansion as well as high-return growth projects to future-proof our portfolio. We are diversifying our products range by growing our specialty chemicals segment to deliver niche, high-performance products tailored to meet diverse customer needs.

- (c) **How will the imposition of US trade tariffs affect the petrochemicals industry, and in turn the potential impact on PCG?**

We expect minimal direct impact to PCG since our sales volume and production capacity in the US are relatively small as it only contributes about 2% of total PCG sales volume and 4% of total revenue. For our specialties production in the US, most of the feedstocks are sourced within the country.

However, we anticipate there are potential indirect impacts to PCG and chemicals players in key markets (especially in Southeast Asia region) in the form of increased competition and margin compression. We are closely monitoring these developments and assessing broader implications on the overall market dynamics.

- 2. PCG recorded improved plant utilisation (PU) rate in FY2024 to 91.2% for Olefins & Derivatives (O&D) and 90.3% for Fertilisers & Methanol (F&M).**

What is the PU rate guidance for the two segments in FY2025, considering general overcapacity issues in the petrochemicals market? Additionally, please elaborate on the statutory turnaround activities in FY2025 and the cost and timeline for each of these turnaround activities.

PCG aims to achieve about 90% average plant utilisation rate on an annual basis. In FY2025, there are four (4) statutory turnaround (TA) activities have been scheduled in third and fourth quarters of the year.

Depending on the size and complexity of the plant, a TA is estimated to take between thirty (30) to sixty (60) days. The total annual cost of TA is approximately between RM300 million to RM600 million.

- 3. PCG achieved a significant milestone with its first foray into the medical industry following the signing of a Memorandum of Understanding with TOMOE SHOKAI Co., LTD. for the supply of ethylene oxide from its Kertih plant to support its sterilisation business (page 15 of IAR 2024).**

- (a) What is the current status following the signing of the MOU and what are the subsequent plans?

The objective of the MOU between PCG and TOMOE SHOKAI Co., LTD ("TOMOE") is for the of supply ethylene oxide to TOMOE's sterilisation business. The project is currently in feasibility assessment, expected to be concluded in 4Q 2025.

- (b) Please explain the prospects of the Group's venture into the medical industry.

PCG does not intend to participate directly in the medical industry segment. Our role is solely to provide feedstock, for example, ethylene oxide and nitrile butadiene latex for the medical industry when the opportunities are available.

SUSTAINABILITY MATTERS

1. During FY2024, the PCG approved the escalation of Plant Operational Risk from Medium to High Risk.

The escalation of Plant Operational Risk is mainly due to equipment reliability issues and disruptions to feedstock and utilities, resulting in plant slowdowns and shutdowns and in turn significantly impacting production volume and PCG's financial performance page 66 of IAR2024).

What caused the escalation of Plant Operational Risk, as equipment reliability issues are part and parcel of PCG's daily course of business?

The escalation of Plant Operational Risk to 'High' in FY2024 was made following several plant interruptions due to equipment issues, which affected overall plant reliability. To address this, PCG took proactive steps including equipment replacements, improving equipment reliability, conducting asset life studies, and leveraging digital tools for early issue detection.

CORPORATE GOVERNANCE MATTERS

1. For the second consecutive year, PCG has not adopted Practice 5.2 of the Malaysian Code on Corporate Governance (MCCG), which encourages large companies to have the majority of their board comprised of independent directors (IDs).

As of FY2024, only four out of eight directors on PCG's board are independent. PCG is a large company based on market capitalisation.

In explaining the departure from the Practice, PCG said "it is currently evaluating its options to meet the intended outcome. While an alternative plan has not yet been established, the Company remains committed to ensuring that its Board composition is appropriate to achieve its goals and objectives." *(Source: page 37 of Corporate Governance Report 2024).*

- (a) As a Large Company with substantial resources and access to a wide talent pool, PCG is expected to demonstrate leadership in adopting the best corporate governance practices.

What are the specific impediments or governance challenges have prevented the Board from achieving majority independence for two consecutive years? Why has there been a prolonged departure from Practice 5.2?

- (i) The Board believes that the current 4 Independent Non-Executive Directors (INEDs) provide sufficient and diverse range of independent views and perspectives to make decisions that are in the best interests of the Company.

- (ii) The Board Audit Committee (BAC), Nomination and Remuneration Committee (NRC), and Board Sustainability and Risk Committee are chaired by an INED and consist of majority INEDs. This provides alternative measures to ensure objective decision making.
- (iii) The Board regularly evaluates its composition and, when necessary, considers prospective candidates based on the required skills, experience, and capabilities. Appointments are made based on merit and aligned with the Company's future growth objectives.

(b) What options are on the table for the Board's consideration in applying Practice 5.2?

As mentioned above, the Board continues to assess its composition from time to time. When the need arises, a suitable candidate will be identified and appointed to the Board.

When does PCG expect to re-apply the Practice? Accordingly, please clarify the term "alternative plan" mentioned above.

The Board has not set a specific timeline for reapplying Practice 5.2.

"Alternative plan" refers to "other alternative practices", apart from those disclosed in the Corporate Governance Report 2024, as reiterated below:

- (i) The Senior INED provides guidance to the Chairman and represents INEDs.
- (ii) All Board committees are chaired by INED.
- (iii) All Board committees comprised solely of INEDs, except for the NRC.
- (iv) The BAC reviews all RPTs, conflict of interest situations prior to Board deliberations, ensuring transparency.
- (v) Directors with vested interests abstain from participation in discussions and voting on such matters and in certain instances recuse themselves from the meeting pursuant to the mitigation measures agreed by BAC.

- (c) With the impending retirement of Independent Director Datin Seri Sunita Mei-Lin Rajakumar after the conclusion of this AGM, the proportion of IDs will fall further to 42.85% of a seven-member board, signalling a further departure from Practice 5.2 of MCCG.

In light of this, how does the Board ensure sufficient checks and balance in boardroom deliberations, review and decision-making?

The process of sourcing an INED via an external consultant is currently on-going and we have identified numbers of shortlisted candidates. A new independent director is expected to be appointed in due course. The Board remains committed to finding a candidate who brings the right balance of knowledge, experience, and skills to effectively complement its composition.

How will objectivity, board independence and minority shareholders' interest be preserved under such board composition?

- (i) Based on the outcome of the Board Effectiveness Evaluation for year assessment 2024 which was conducted by an independent external consultant, the current boardroom dynamics fosters healthy debates and effective decision-making.
 - (ii) The Board emphasises the obligation of all Directors, irrespective of their independent status, to prioritise the Company's best interest and exercise independent judgment without constraints.
 - (iii) Matters pertaining to related parties are deliberated at the BAC, which comprises solely of INEDs, to ensure transactions are carried out on an arm's length basis, on reasonable standard commercial terms and not detrimental to the interest of the minority shareholders.
 - (iv) Moreover, as disclosed in the Corporate Governance Report the Board has established measures to ensure effective independent oversight and objectivity in all decision-making processes.
- (d) In addition, please elaborate on the NRC Priority Areas in FY2025 concerning the board succession plan in terms of composition, succession and development plans for successors of Key Senior Management positions, especially in Specialty Chemicals (*page 109 of IAR 2024*).
- (i) The Board succession plan comprising the Board composition, diversity and tenure is reviewed annually by the NRC and subsequently presented to the Board. The company has started the recruitment process 2 years before the end of the 9-year term for the INED, ensuring PCG has sufficient time to find candidates that meet the criteria outlined in the Board skill matrix.

- (ii) For Key Senior Management positions, especially in Specialty Chemicals, the Priority Areas in FY2025 for the NRC is to strengthen targeted succession planning through assessments of both internal and external talents to ensure a resilient and well-prepared leadership pipeline capable of delivering the role's strategic and operational goals. PCG continues to leverage on PETRONAS Top Talent Management programme where it integrates key elements such as Board Memberships, Executive Coaching, participating in Executive Courses at premier business schools and the Techno-Commercial Leaders Development initiatives. Together, these shall support PCG to be well-equipped with high-potential successors that have the expertise and capabilities required to address the challenges of a dynamic business landscape.

2. PCG seeks shareholders' approval for increasing the directors' fees from RM288,000 to RM360,000 per annum for the Non-Executive Chairman and from RM144,000 to RM240,000 per annum for each of the Non-Executive Directors (Ordinary Resolution 3, Notice of 27th AGM).

The proposed increment is based on a benchmarking exercise done by an independent consultant on directors' remuneration.

Based on the benchmarking analysis, PCG is positioned in the lower quartile, which is below the remuneration level. Accordingly, the NRC recommended to the Board proposed revisions to the Directors' Remuneration Framework and the Directors' Remuneration Package for non-executive directors. The Directors' meeting allowance and benefits-in-kind remain unchanged.

Which peers are included in the benchmarking exercise conducted by the independent consultant? Please elaborate on the findings of the benchmarking exercise.

- (i) The peer companies were determined based on the following criteria:
 - Financial criteria i.e. market capitalisation, turnover and operating profit or EBITDA.
 - Other criteria, namely, similar sector and cross-sector companies which were selected based on Standard Industrial Classification codes.
- (ii) An additional analysis was also performed across other domestic public listed companies operating in comparable sectors to assess the competitiveness of the proposed revised NEDs remuneration against the domestic market.
- (iii) Based on the benchmarking analysis, when compared against its peers, the Company is positioned in the lower quartile (bottom 25%) of the remuneration level. Additionally, the current median NED remuneration is at 23 percentile point.
- (iv) Despite the proposed increase, the proposed fees are still below the middle quartile when compared to the peer companies.
- (v) The NEDs remuneration was last reviewed in 2018.

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 27th AGM on 22 April 2025.

Thank you.

Yours faithfully
for **PETRONAS CHEMICALS GROUP BERHAD**



Azira Marini Ab Rahim
Company Secretary

- c.c.
1. **YBhg Datuk Sazali Hamzah**
Chairman
 2. **En. Mazuin Ismail**
Managing Director/Chief Executive Officer
 3. **Pn. Mek Yam @ Mariam Hassan**
Company Secretary