PETRONAS

25 April 2017

Ms. Lya Rahman
General Manager
Badan Pengawas Pemegang Saham Minoriti Berhad
Tingkat 11, Bangunan KWSP,
No 3, Changkat Raja Chulan,
Off Jalan Raja Chulan,
50200 Kuala Lumpur

Dear Ms,

Nineteenth (19th) Annual General Meeting (AGM) of PETRONAS Chemicals Group Berhad ("PCG" or "the Group")

In relation to your letter dated 17 April 2017, we would like to provide our responses to Minority Shareholder Watchdog Group's ("MSWG") queries with regards to the Nineteenth (19th) Annual General Meeting (AGM) of PETRONAS Chemicals Group Berhad ("PCG").

A. <u>Strategic and Financial Matters</u>

1. **There has been an upward trend in PCG's plant utilisation rate since FY 2013, from 78% increasing to 96% in FY 2016, exceeding world class rate of 85%.**

   (i) What could be considered as an optimal plant utilisation rate leading to economies of scale whilst balancing the forces of demand and supply?

   At PCG, we aim to achieve an optimal plant utilisation rate of 85% and above while observing Health & Safety and Environment (HSE) performance at all our operating units.

   The optimal plant utilisation would result in lower unit cost, thus allowing for competitive product offering and value proposition to our customers.

(ii) With such high level of plant utilisation rate, how has PCG been able to effectively mitigate the risks of plant breakdown or any untoward incidents?

We continue to implement focused reliability programme, integrated turnaround management, and value chain feedstock planning as part of our asset integrity and reliability initiatives.

HSE metrics is our foundation and principal driver towards reliable operations. Reliable facilities will safeguard our people, the asset and the environment as well as surroundings. We continue putting on strong effort to cultivate the generative HSE mindset in all aspects of our operations.

(iii) What are the planned maintenance activities for FY 2017 and what would be the impact on the plant utilisation rates?

There will be heavier turnaround work expected in FY 2017 compared to FY 2016. The plants undergoing statutory turnarounds are PC MTBE in Quarter 2, PC Derivatives, PC Ammonia and PC Methanol (Plant 1) in Quarter 3, and a warranty shutdown for the soon-to-be commissioned PC Fertiliser Sabah (SAMUR).

Consequently, our plant utilisation is expected to be slightly lower than FY 2016. We aim for our plant utilisation to be around high-80s%.

2. The Group celebrated its highest sales volume in FY 2016 and was also able to strategically shift some volume to a higher value market.

(i) What is the outlook for FY 2017 and is the Board confident of registering a much higher sales volume compared to FY 2016?

Global economy is expected to show slight improvement in 2017, however, crude oil price is forecasted to remain volatile. While petrochemical demand is expected to be slightly better in 2017, prices may remain subdued in line with volatile crude oil price. We expect the overall demand for petrochemical products to strengthen gradually from 2018 onwards as it catches up with supply.

At PCG, we continue to sell our products into markets which give us better netback, leveraging on our proximity to the market particularly in Malaysia and Asia Pacific. Whenever the opportunity arises, we will balance out the channel mix to a higher proportion of end users for better value. As such, we will continue to strive for better commercial performance than the previous year.

(ii) What percentage of the current Group sales is generated from the higher value market and what is the target?

Malaysia continued to be our biggest market, accounting for 33% of FY 2016 revenue. The remaining sales was generated from export markets, which was mainly from Asia Pacific countries. In this regard, China remained the largest international market, making up 22% of FY 2016 revenue.

For FY 2017, our target market is Asia Pacific where overall demand still exceeds supply. Our anticipated revenue mix remains similar to that of FY 2016.

3. **In the Management Discussion and Analysis on page 46 of the Annual Report, higher plant utilisation rate together with a stronger US Dollar against the Malaysian Ringgit, enabled the Group to record an increase in revenue despite lower prices of products on average.**

   To what extent has the appreciation of US Dollar positively impacted the Group Revenue?

   For FY 2016, the appreciation of US Dollar has positively contributed to the Group Revenue by 5%.

B. <u>Corporate Governance Matter</u>

1. **For Ordinary Resolution 3, we believe that the term 'Directors' Fees and Benefits' or 'Directors' Remuneration' would be more appropriate instead of 'Directors' Fees' as the amount includes benefits such as allowances and insurance.**

   We hope the Board would consider our suggestion.

   We noted on MSWG's concern and suggestion in relation to the appropriate term to be used for our Ordinary Resolution 3 on the approval of Directors' fees payable to Non-Executive Directors of up to RM1.5 million with effect from 1 January 2017 until the next Annual General Meeting of the Company.

   However, we wish to highlight that, we had provided an explanation via Explanatory Notes C inside our Notice of Annual General Meeting dated 28 March 2017 to address the issue raised by MSWG in relation to Section 230(1) of the Companies Act 2016 and we noted that the fees of the directors, and any benefits payable to the directors including any compensation for loss of employment of a director or former director of a public company or a listed company and its subsidiaries, shall be approved at a general meeting of the Company.

In view of the above, we wish to reiterate that for this Annual General Meeting purposes, the fees structure of the Non-Executive Directors (NEDs) of the Company comprises of the following:-

(i) Monthly fixed fees for duties as Director/Chairman;
(ii) Meeting allowance for each Board/Board Committee attended; and
(iii) Directors and Officers Liability Insurance.

C. <u>Sustainability Matter</u>

1. PCG is one of the Top 10 companies ranked by market capitalisation in the FTSE4Good Bursa Malaysia (F4GBM) Index.

(i) Please share with shareholders the key areas and achievements which PCG scored very well to enable it to be highly ranked in F4GBM.

PCG has identified 11 Sustainability Focus Areas which are significant to our business and stakeholders, and aligned to the PETRONAS Sustainability Framework. These Focus Areas are grouped into three main categories i.e. Environment, Health & Safety, and Society as further described in Section Four of the full Annual Report. We have established specific performance target for each area and close monitoring of the progress for each initiative.

(ii) Moving forward, what areas does PCG intend to focus on to perform better?

PCG views sustainability as an ongoing journey, which requires our continuous improvement to meet future challenges and opportunities. Moving forward, we will continue to improve our performance in all 11 Focus Areas. We will also reassess the Focus Areas to identify relevant Sustainability Issues in the future.

We trust the above clarifies your queries

Thank you.

Yours sincerely,
for **PETRONAS Chemicals Group Berhad**

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