

Our Reference: GSBG/CSDL/PCGB/ADMIN/COMM/CORR/2022/174

28 September 2022

Minority Shareholders Watch Group
Tingkat 11 Bangunan KWSP
No. 3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: Mr Devanesan Evanson
Chief Executive Officer

Dear Mr Devanesan Evanson,

EXTRAORDINARY GENERAL MEETING (EGM) OF PETRONAS CHEMICALS GROUP BERHAD (“PCG” OR “THE COMPANY”) TO BE HELD ON THURSDAY, 29 SEPTEMBER 2022

In reference to your letter dated 20 September 2022 on the above, we thank you for taking the time to send us the list of questions following the Circular to Shareholders and notice of EGM in relation to the proposed acquisition of the entire equity interest in Perstorp Holding AB (“Perstorp”) dated 14 September 2022. The responses to the questions in the letter are provided below. The same will be included in our EGM agenda and will be publicly available on our corporate website (www.petronaschemicals.com) from 28 September 2022.

FINANCIAL & CONTRACT TERMS

1. The acquisition of Perstorp marks PCG’s second acquisition in the high entry barrier and high margin specialty chemicals space after the completion of Da Vinci Group B.V. in September 2019 for EUR163 million (approximately RM760.6 million).

- (a) Earlier, PCG aspired of derive at least 30% of revenue from its non-traditional (derivative and specialty chemicals) portfolio by 2030. Having factored in this acquisition, how far is PCG from achieving the 30% revenue target?

Based on FY2021 financials, the combined revenue contribution of BRB Group (Da Vinci) and Perstorp of RM7.7 billion would make up 26% of PCG’s proforma group revenue of RM29.6 billion. As such, the acquisition of Perstorp would enable PCG to move closer towards achieving our target and aspiration.

PETRONAS CHEMICALS GROUP BERHAD (199801003704 (459830-K))

Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre

T: +(603) 2051 5000 F: +(603) 2051 1501

www.petronaschemicals.com

- (b) Upon completion of this acquisition, Perstorp will become PCG's indirectly wholly-owned subsidiary. What is the expected financial contribution of Perstorp to PCG moving forward?

Moving forward, Perstorp is estimated to contribute approximately 20% to 25% incremental revenue and 10% to 15% incremental EBITDA to PCG.

- (c) Asia-Pacific (including Oceania region) is one of the key markets for Perstorp with a revenue contribution of 24.69% for financial year ended 31 December 2021. How is the market presence of Perstorp compared to other specialty chemicals players in the Asia Pacific region?

Perstorp's market presence in the Asia Pacific region is comparable to its closest peers (as listed below). Perstorp's presence in the region will grow further with the completion of its new plant in India in 2023, adding extensive product offerings in its portfolio.

Other specialty chemical companies	Country	Asia Pacific revenue contribution
Celanese Corporation	USA	33%
Synthomer	UK	32%
Arkema	France	29%
Ingevity Corporation	USA	28%
Eastman Chemical Company	USA	24%
Evonik Industries AG	Germany	23%
Lanxess AG	Germany	22%
Huntsman Corporation	USA	22%
Stepan Company	USA	8%

Source: Companies' Annual Report

- (d) What is the internal rate of return and hurdle rate adopted for the evaluation of this acquisition?

The Group is not able to make public disclosure of estimated returns on its projects and investments. The internal rate of return (IRR) and hurdle rate adopted for the evaluation of the Perstorp acquisition are in accordance with the Group's general investment guidelines and policy.

2. The financial performance of Perstorp has been volatile for the past three financial years.

	FY2019		FY2020		FY2021	
	SEK (Million)	RM (Million)	SEK (Million)	RM (Million)	SEK (Million)	RM (Million)
Revenue	11,641	5,101	9,194	4,207	13,537	6,540
(Loss)/Profit After Tax	(1,268)	(556)	64	29	979	473
(LATANCI)/PATANCI	(1,294)	(567)	51	23	926	447

Source: Appendix II, page 36 of Circular dated 14 September 2022

Why did Perstorp slip into losses in FY2019 with a net loss and non-controlling interest of SEK1.29 billion? How sustainable are the earnings of Perstorp? Please provide a summary of Perstorp's financial information for the past five fiscal years.

FY2019 losses were attributed to lower volumes and unit margins of several product lines following production disturbances and softened global demand. The decline in global demand was further exacerbated by US-China trade war, Brexit and extreme weather conditions.

PCG believes that Perstorp's earnings are sustainable going forward based on its inherent business fundamentals such as geographical footprint, wide and loyal customer base, supply reliability, high quality of its products & services, market leadership as well as clean-environment & technology innovation. Post-acquisition, Perstorp will be in a more robust financial position to pursue its business expansion plans and potential synergies with PCG.

In the short-term, headwinds are anticipated as the global economy is threatened by weakening demand, increasing competition within a high-cost environment. Among the strategies to mitigate these is to focus on low-volume high-value specialty products as well as to implement effective pricing strategies to preserve margin contributions.

Million	FY2017 ⁽¹⁾		FY2018 ⁽¹⁾		FY2019 ⁽¹⁾		FY2020		FY2021	
	SEK	RM	SEK	RM	SEK	RM	SEK	RM	SEK	RM
Revenue	11,128	5,606	12,436	11,641	11,641	5,101	9,194	4,207	13,537	6,540
(Loss)/ Profit After Tax	(312)	(157)	45	21	(1,268)	(556)	64	29	979	473
(LATANCI)/PATANCI	(377)	(190)	6	3	(1,294)	(567)	51	23	926	447

Note:

⁽¹⁾ Excludes the discontinued operation

Source: Perstorp Annual Reports available on www.perstorp.com

3. **BNP Paribas Capital (Malaysia) Sdn Bhd, the expert appointed by PCG for the Expert's Report on the Fairness of the Base Purchase Price (BPP), is of the opinion that the BPP of EUR1.54 billion (which is based on an enterprise value, EV of EUR2.3 billion) is fair from a financial point of view (Appendix VII, page 175 of Circular dated 14 September 2022).**

The EV of EUR2.3 billion adopted by PCG is within BNP Paribas' EV range of between EUR1.91 billion and EUR2.65 billion using the discounted cash flow, transaction multiple and trading multiple valuation methodologies (Appendix VII, page 174 and 175 of Circular dated 14 September 2022).

Please provide the calculation of EV performed by BNP Paribas based on the three valuation methods stated above.

As stated in Section C of the Fairness Opinion report (Appendix VII Circular to Shareholders dated 14 September 2022), in determining Perstorp's value, BNP Paribas had applied three (3) valuation methodologies, namely, the discounted cash flow ("DCF"), transaction multiples and trading multiples.

The resulting EV valuation range based on the 3 methodologies are as follows:

- (i) DCF – EUR1,964 million to EUR3,023 million
- (ii) Transaction multiples – EUR1,980 million to EUR3,283 million
- (iii) Trading multiples – EUR1,064 million to EUR2,483 million

Based on the 3 estimated range above, BNP Paribas took a central EV valuation range, that is within the said combined range of EUR1,907 million to EUR2,653 million, to form its Fairness Opinion.

Should you require further clarification, please contact us at 03 2331 4981. We look forward to your presence at our upcoming virtual EGM on 29 September 2022. 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