



PETRONAS

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26 April 2019

Minority Shareholder 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,

TWENTY FIRST (21ST) ANNUAL GENERAL MEETING ("AGM") OF PETRONAS CHEMICALS GROUP BERHAD ("PCG" or "the Company") TO BE HELD ON 29 APRIL 2019

In reference to your letter dated 23 April 2019 on the above, please find below our response to your questions:

Strategic and Financial Matters

- 1) In its vision to be "the preferred chemical company providing innovative customer solutions", PCG's second-prong strategy is formulated to selectively diversify into derivatives, specialty chemicals and solutions as disclosed on page 25 of PCG's Integrated Report <IR> 2018.

A key way to drive this strategy is through Pengerang Integrated Complex ("PIC"). In the Message from MD/CEO on page 31 of IR 2018, it was stated that as at January 2019, PIC's petrochemical projects are at 96% completion and on track to commence production in 2nd half of 2019.

- a) Since we are currently in the month of April 2019, please provide the latest update on PIC and its related projects and markets?

The overall PIC Petrochemical project progress is at 98.4% and on track to commence production in the 2nd half of 2019. Route to market has been established and PCG is ready to sell the product upon commencement of the production.

- b) What is the current level of production volume for derivatives, specialty chemicals and solutions in 2018 and the projected volume in 2019 and 2020?

The current production of derivatives and specialty chemicals between 2018 and 2020 will be in the range of 5% from the overall PCG production capacity.

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- c) PCG on 15 April 2019 announced to the exchange, Bursa Malaysia Securities Berhad ("Bursa Malaysia"), that a fire incident that occurred on 12 April 2019, at approximately 1:25 a.m at PIC had no financial or operational impact to its current business.

What was the root cause identified for the fire incident and correction actions taken under PCG's Health, Safety and Environment ("HSE")?

The fire occurred at the Atmospheric Residue Desulphurisation Unit. This unit resides within the refinery and cracker section which is not part of the Petrochemicals Complex. Therefore, the petrochemicals section is not affected by the fire incident. The investigation to identify the root cause and mitigation, is currently ongoing.

- 2) The MD/CEO shared in his message on page 31 of PCG <IR> 2018 on the launch of 10 new product brands at the Asia Petrochemical Industry Conference ("APIC") 2018.

- a) **What is the progress and result of these products since its launch in 2018 and as to-date in 2019?**

To date, 4 out of 10 products were released to the market. The remaining products will be available by the fourth quarter of 2019, with the commercial operations of our petrochemical plants in the Pengerang Integrated Complex.

- b) **What is the targeted market for these products and how does the Company envisage the growth in these new products?**

Our target market remains in Asia Pacific region. It is expected the market remain robust in view of stable GDP growth in this region.

- 3) Despite a weak petrochemical market and heavy year of plant turnaround in Financial Year ("FY") 2018, PCG recorded higher revenue, profit after tax, EBITDA, total dividend and total assets compared to FY 2017 as disclosed on page 12 of PCG's Integrated Report <IR> 2018. However, EBITDA margin dropped from 38.0% in 2017 to 35.6% in 2018.

- a) **What were the main factors that contributed to the overall lower EBITDA margin in 2018?**

EBITDA margin was lower by 2.4% at 35.6% mainly due to statutory turnaround activities undertaken at its cracker and related downstream facilities.

- b) **Based on the segmental reporting as disclosed on page 66 of the PCG's Audited Financial Statements ("AFS") 2018, the following was noted:**

| | Olefins & Derivatives (RM mil) | | Fertilisers & Methanol (RM mil) | |
|-------------------------------------|-----------------------------------|--------|------------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue from external customers (A) | 12,280 | 11,350 | 7,241 | 6,013 |
| Segment profit (B) | 2,829 | 2,771 | 2,261 | 1,609 |
| Margin (B/A) | 23.0% | 24.4% | 31.2% | 26.8% |

As illustrated in the table above, the Fertilisers & Methanol segment's margin improved in 2018 whilst Olefins and Derivatives dropped marginally. What were the factors that contributed to the margin fluctuation?

Margin for Fertiliser and Methanol segment improve mainly due to stronger product price arising from tighter supply demand balance. On the other hand, margin for Olefins and Derivatives dropped slightly due to higher unit cost arising from statutory turnaround undertaken in one of the cracker unit.

4) Note 40 of the Audited Financial Statements ("AFS") 2018 states that on 28 March 2018, PCG completed its divestment of 50% equity interest in Pengerang Petrochemical Company Sdn. Bhd. ("PPC"). The principal activity of PPC is production and sale of products within ethane, propane chains and ethane derivatives. PPC has not commenced operation during FY 2018.

a) What is the rationale for divesting PPC, from a fully-owned subsidiary, to a 50% joint operation with Aramco Overseas Holdings Cooperatief U.A ("AOHC")?

With the divestment, we could ensure the security of feedstock supply. PCG will also be able to minimise the project and operational risks by leveraging on Saudi Aramco, who is also experienced in running a similar large integrated refinery petrochemical complex.

b) We note from Note 21 (page 52 of AFS) that the divestment in PPC resulted in loss of RM160 million which is accounted for under operating profit.

i) Please explain how the loss of RM160 million was derived?

The loss of RM160 million was the impact of foreign exchange translation on shareholder's loans pursuant to the divestment of 50% equity interest in PPC.

ii) Why was this loss accounted for under operating profit?

The loss on divestment was recognised in profit or loss in accordance with the accounting standards requirements under MFRS 10.

5) On page 46 of PCG's Audited Financial Statements ("AFS") 2018, Note 11.1 states that included in Trade Receivables is an amount due from a corporate shareholder of a subsidiary of RM116 million (2017: RM70 million)

a) Which subsidiary does this relate to and who is the corporate shareholder mentioned? What is the nature of this transaction with the corporate shareholder?

This refers to PETRONAS Chemicals Aromatics and its corporate shareholder which is MJPX Co. Ltd. This trade receivable balance relates to the sale of petrochemical products to MJPX Co. Ltd.

b) The outstanding amount has increased significantly by RM46 million or 65.7%.

Please explain the increase, the aging of these receivables, credit term and measures undertaken to recover these balances.

The increase was due to higher sales volume coupled with higher sales price. As at 31 December 2018, the ageing was current and within a credit term of 30 days. To date, the outstanding amount has been paid accordingly.

Corporate Governance Matters

1) Based on the Corporate Governance ("CG") report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance ("MCCG") 2017, please provide clarification on the following:

- a) Practice 4.5 - The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

PCG's response: Departure (timeframe to meet the 30% within 2 years)

MSWG's comment:

Page 18 of the CG report states that only 22.2% of the Directors are women (i.e. 2 of 9 directors are women). Is there a challenge to meet the 30% target at the Board level? How does the Board intend to address this matter at the Board level?

The Board supports the target of 30% representation of women directors. However, in fulfilling this aspiration, we consider the skills, experience and availability of candidate in our search for new directors.

- b) 7.2 - The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

PCG's response: Departure

MSWG's comment:

On page 26 of CG report, it was disclosed that the Company opted not to disclose the senior management's remuneration components due to confidentiality on personal data.

The Company has disclosed an alternative practice where it has identified the top 5 senior management by disclosing the names but not the details of the remuneration.

The disclosure of how the remuneration is measured allows stakeholders to understand the link between senior management remuneration and the company's performance. This will also enable stakeholders to determine whether the remuneration is fair and able to attract and retain talent.

The Senior Management's remuneration is benchmarked against the Oil, Gas, Chemical and Petrochemical ("OGCP") industry and is aligned with the market. Currently, the remuneration is anchored at 50th percentile on average against the OGCP industry to remain competitive.

As PCG falls under the category of Large Companies as defined under MCCG 2017, the following Step Up practices are applicable to PCG.

- c) 8.4 - The Audit Committee should comprise solely of Independent Directors.

PCG's response: Not Adopted

MSWG's comment:

Currently the majority - 55.5% i.e. 5 out of 9 of the Directors are Independent Directors. PCG is in a position to adopt this Practice to enable an audit committee which is entirely comprised of Independent Directors.

The Board agreed to maintain its current practice in having a Non-Independent Director on the Board Audit Committee ("BAC"), in view of the integrated nature of PCG's business with PETRONAS Group. This practice has served the BAC well in providing insight into integrated PETRONAS Group practice during BAC's deliberations.

For your information, we are publishing these answers in our corporate website (www.petronaschemicals.com) for our shareholders' and public viewing. The answers will also be made available and displayed on the LED display screen located at Majestic 2 of Level 3, Majestic Hotel, , 5 Jalan Sultan Hishamuddin, 50000 Kuala Lumpur on the day of the AGM on Monday, 29 April 2019.

Thank you.

Yours faithfully
for **PETRONAS CHEMICALS GROUP BERHAD**



Hasnizaini Mohd Zain
Company Secretary

- c.c.
1. **YBhg Datuk Md Arif Mahmood**
Chairman
PETRONAS Chemicals Group Berhad
 2. **YBhg Datuk Sazali Hamzah**
Managing Director/Chief Executive Officer
PETRONAS Chemicals Group Berhad
 3. **Mr. Kang Shew Meng**
Joint Company Secretary
PETRONAS Chemicals Group Berhad