



Our Reference:- GL/GSBG/LST/ADMIN/COMM/CORR/2020/315

15 June 2020

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,

**TWENTY SECOND (22<sup>nd</sup>) ANNUAL GENERAL MEETING ("AGM") OF PETRONAS CHEMICALS GROUP BERHAD ("PCG" or "the Company") TO BE HELD ON 16 JUNE 2020**

In reference to your letter dated 6 May 2020 on the above, we thank you for taking the time to send us the list of questions following your review of our Integrated Report 2019. 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](http://www.petronaschemicals.com)) from 15 June 2020.

**Strategy & Financial Matters**

**1. Given the COVID-19 pandemic, how is the Group preparing itself to face the new business landscape?**

To ensure our business sustainability in this new environment, we are undertaking the following measures:

- (i) strengthening our practices to ensure that the health and safety of our employees and stakeholders;
- (ii) ensuring business resilience through solid operational and commercial capabilities (further explanation in the immediate next reply);
- (iii) optimising operational costs and prioritising our investment spending accordingly; and
- (iv) reviewing and strengthening our long-term growth strategy.



**PETRONAS**

**With countries around the world keeping tight control over their border, how will the Group ensure that its supply-chain will not be affected in terms of timeliness, sufficiency and cost?**

PCG is able to circumvent supply chain disruptions through the following:

- (i) our solid operational and commercial capabilities allow us to respond with speed and agility to meet customer needs;
- (ii) our close relationships with our customers, suppliers and regulators allow us to minimise business interruptions;
- (iii) we have established strong market knowledge and understanding at ground level. The team has the ability to shift volumes into alternative markets; and
- (iv) effectively prioritising markets to capture maximum value and lessen the lockdown impact.

**2. Would the situation of flooding of chemicals in Southeast Asia last year due to the US-China trade war be continued into 2020, causing oversupply and thus depressing chemical prices further?**

**With further softening of crude oil prices recently, how would the Board foresee chemical prices trending in 2020 and would the prices be worse than in 2019?**

Throughout 2019 and into first quarter of 2020, chemical prices declined due to the following factors:

- (i) US-China trade tension;
- (ii) new capacities coming onstream, particularly in the US;
- (iii) China's slowing economy; and
- (iv) lower crude oil price.

In March 2020, the OPEC+ fallout and the recessionary global economic outlook amid COVID-19, further aggravated the decline in demand and overall prices of chemicals. We believe that the softening of chemical prices is temporary and the market will gradually improve towards the end of the year and into 2021.

**How does the Group plan to address the pressure on operating performance especially the bottom-line performance?**

The Group continued to demonstrate resilience in the first quarter of 2020 by maintaining our operational efficiency, customer centricity and diverse product portfolio and above all exercising financial prudence. Our solid operational and commercial capabilities allow us to be responsive to market changes accordingly.



**PETRONAS**

3. **PCG has achieved final investment decisions (FIDs) for the development of a butadiene derivative plant in Pengerang Integrated Complex (PIC) and a specialty chemicals plant at Kertih Integrated Petrochemical Complex. Both plants are expected to come on-stream in 2022.**

**How much is the expected capital outlay on the two plants? Will PCG reassess the investment into the two plants given current challenging environment?**

The total investment cost for both projects is expected to be in the region of USD300 million to USD350 million. This will be finalised at a later stage.

Our investment evaluation and due diligence exercise indicates that the products that will be produced from these projects have strong long-term demand outlook. As such, the Group intends to pursue these investments as planned.

4. **The Group expects sales to be increased by commercialisation of PIC and full integration of Da Vinci Group (DVG) into its operations (page 51 of IR2019).**

**Please brief shareholders the integration progress of DVG into PCG and the expected timeline for PIC to start commercial operation.**

The integration of DVG into PCG is mostly done, with the aim to improve DVG's current operational efficiencies while embarking on business expansion. Since the acquisition, we have undertaken the following:

- (i) the acquisition of the remaining 35% share in its Canadian subsidiary;
- (ii) expansion of DVG's Lubricant Additives & Chemicals business in Germany;
- (iii) implementation of an enterprise resource planning SAP system to enable more reliable and timely reporting; and
- (iv) evaluation for the construction of Silicone Blending facilities and a Synthesis plant.

**Will the COVID-19 pandemic affect the scheduled commercial operation date of PIC?**

Pengerang Integrated Complex (PIC) is gearing for full start-up towards commercial operations. However, this will depend on how the market recovers from the pandemic.

**How would DVG and PIC fare in FY20?**

We do not expect significant contribution from DVG and PIC in 2020 in view of the COVID-19 pandemic, OPEC+ fallout, prolonged US-China trade war, and low utilisation of PIC in 2020.



**PETRONAS**

5. **PCG's investment in PIC will further grow its basic portfolio and provide the opportunities to expand the derivatives and specialty chemicals portfolios. The first specialty chemicals to be produced in PIC is isononanol (INA) which is used in the production of plasticisers that are safe for a wide range of applications including toys and medical appliances (Page 97 of IR2019).**

a) **When is INA expected to be commercially produced at PIC? What does it mean to PCG with the capability to produce specialty chemical products like INA at PIC?**

PC Isononanol (PC INA) plant is expected to commercially start up subsequent to PIC coming onstream. This will strengthen PCG's position as the leading oxo alcohol producer in South East Asia.

b) **What and how many other specialty chemicals or products are in the pipeline for launching in FY20?**

We have several products in the pipeline at various stages of development. The commercialisation of these products will depend on their respective progress. In 2020 we aim to achieve Final Investment Decisions for another two products.

6. **One of the key research focuses of PCG is to convert second-generation palm biomass into chemicals that can provide a more sustainable and cost competitive advantage. Along the way, it has also embarked three new research projects to develop specialty chemicals from palm oil-based feedstock for personal care applications (page 99 of IR2019).**

**What is the status of the research projects above? What are the potential benefits to be unlocked by these research projects? How likely these research projects can be commercialized?**

A key thrust of R&D at PCG is aimed at promoting sustainability through the conversion of biomass into higher value chemicals while retaining cost competitiveness.

All research projects at PCG are on-track and progressing in accordance to plans. PCG has established a rigorous technology development stage gate to ensure the success of R&D projects into commercialisation.

PCG is currently building a pilot plant for converting second-generation palm biomass into chemical in our R&D centre in Bangi. For other research projects, we have completed the proof of concept stage and are now at the stage of laboratory scale reactor development, prior to moving into pilot stage.



**PETRONAS**

7. PCG introduced the New Plastics Economy (NPE) initiative in FY19 with the aim to transform all plastic waste into valuable resources that can be fed back into a circular economy.

Several initiatives have been carried out to pursue the agenda such as Memorandum of Understanding with Plastic Energy Ltd to conduct a feasibility study on establishing a chemical recycling plant that would convert plastic waste into crude naphtha for use in the production of recycled virgin-quality plastics.

It has also partnered Cypark Resources Berhad (Cypark) to develop a Solid Waste Modular Advanced Recovery and Treatment (SMART) system (page 99 of IR2019).

**What are the other initiatives in the pipeline to further promote the NPE agenda in FY20?**

The introduction of the New Plastics Economy, and the MOUs are newly launched initiatives for PCG. As such, we are putting in significant effort and focus to ensure that these initiatives progress well.

In 2019, we collaborated with the Ministry of Education (MoE) to develop educational modules for primary and secondary schools. In 2020, we will continue to upskill the teachers to ensure effective implementation of the modules.

PCG is also actively involved in the Malaysia Plastic Pact together with the Ministry of Environment to establish plastic circular economy roadmap for Malaysia.

**What are the challenges faced by PCG in achieving the ultimate aim of converting plastic waste into circular feedstock and alternative energy?**

The key challenges for the projects are the ability to maximise the recovery of recyclable materials, securing adequate and suitable feedstock from the waste collection system as well as to retain overall cost competitiveness. This will be addressed during the feasibility study stage.

8. Share of profit of equity accounted joint ventures and associates, net of tax shows a loss of RM54 million in FY2019 compared to a profit of RM108 million in FY2018 (page 108 of IR2019).

**a) Which entities contributed to the loss and what were the reasons for the loss?**

The share of loss of equity accounted joint ventures and associates was recorded mainly from BASF Petronas Chemicals Sdn Bhd (BPC) as a result of diminishing spread for commodities such as Acrylic Monomer, Oxo Alcohols (Solvents), Butanediol & Derivatives and 2-Ethylhexanoic Acid. The company also saw higher fixed cost due to a series of maintenance activities at their units.



**PETRONAS**

**b) Will the situation be improved and the entities turn around their performance in FY20?**

Given the overall market weakness as a result of the COVID-19 pandemic and increased economic volatility in 2020, these entities are facing challenges similar to all other chemical producers. We also believe the commodities market will improve gradually towards the end of 2020 and into 2021.

For your information, we are publishing these answer in the Company's website at <https://www.petronas.com/pcg/> for our shareholders' and public view. The answer will also be verbalised by the Company's Managing Director/ Chief Executive Officer during the 22<sup>nd</sup> AGM proceedings scheduled to be held on Tuesday, 16 June 2020. Should you require further clarification, please contact the undersigned at +603-2331 1562. We look forward to your presence at our upcoming virtual AGM on 16 June 2020.

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
  4. **Puan Rashidah Alias**  
Chief Financial Officer  
PETRONAS Chemicals Group Berhad