



**PETRONAS**

08 April 2015

**Ms. Rita Benoy Buchon**  
**Ketua Pegawai Eksekutif**  
**Badan Pengawas Pemegang Saham Minoriti Berhad**  
Tingkat 11, Bangunan KWSP,  
No 3, Changkat Raja Chulan,  
Off Jalan Raja Chulan,  
50200 Kuala Lumpur

Dear Madam,

**Seventeenth (17<sup>th</sup>) Annual General Meeting (AGM) of PETRONAS Chemicals Group Berhad ("PCG" or "the Company")**

In relation to your letter dated 1 April 2015, we would like to provide our responses to MSWG's queries with regard to the Seventeenth (17<sup>th</sup>) Annual General Meeting (AGM) of PETRONAS Chemicals Group Berhad ("PCG").

**Strategic and Financial Matters**

**1. "In the Chairman's Statement, it was stated that PCG has improved on its operational excellence during the year under review with higher plant utilisation rate attained at 80% compared with 78% in 2013. It was also stated that the higher level of operational performance was achieved despite continued gas supply constraints affecting the Groups methanol facilities as well as turnaround activities undertaken at several plants.**

**i) Would the Board foresee more gas supply constraints in 2015?**

To ensure feedstock security and reliability, PCG continues to work on strengthening our relationship with our upstream suppliers and utility suppliers. As a result, methane supply has improved in 2014 compared to 2013, while ethane supply was comparable.

PCG expects ethane supply to be further enhanced in 2015 with the completion of our supplier's plant rejuvenation and revamp programmes as well as the ethane recovery initiatives. As for methane, we expect the supply reliability and availability to increase with the completion of the Dalak Pipeline in Q1 2016.

**ii) Would the Board expect to maintain to plant utilization rate of at least 80% for 2015?"**

PCG has made strong progress in our operational excellence. We have successfully completed the heavy cycle of turnaround and maintenance activities which commenced in mid-2013, as well as executed all the planned internal reliability and efficiency improvement programmes.

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In addition, the establishment of a centralized turnaround team with standardized work processes also resulted in improved execution of the turnaround activities in 2014 compared to 2013.

For 2015, we will spread out the planned turnaround and maintenance activities to optimise resources and minimize production disruption across the value chain, taking into account the business environment.

Given the above, we expect our plant utilization rate in 2015 to be in the 80% to 85% range.

- 2. "It was stated in the Chairman's Statement that debottlenecking of shale-based ethane crackers in the US as well as the commencement of new crackers in India and coal and methanol-based olefins plant in China would introduce additional capacity into the market. The higher supply, coupled with potentially softer feedstock cost as crude oil price is yet to settle at a comfortable level, could lead to higher uncertainty on petrochemical product prices.**

**Given the above, how would PCG stay competitive and sustain its performance for the upcoming financial year?"**

PCG foresees that the industry will remain challenging in 2015 due to uncertain petrochemicals product prices as crude oil prices are yet to settle. However, it is anticipated that petrochemicals product spreads will remain stable in view of sustained supply and demand balance.

In view of this challenge, the focus for 2015 will continue to be on accelerating excellence. We will strive to sharpen our competitive edge by strengthening HSE programmes as well as improving turnaround management, internal reliability performance and supplier relationship management to achieve and sustain world class plant performance.

In addition, we continue to enhance our marketing and sales capabilities, including improving our market savviness as well as pricing expertise with the right systems and tools to enhance our ability to capture better value.

Through portfolio management and innovation, we will continue to deliver profitable growth projects, and increase innovative product solutions.

Another focus for 2015 would be to undertake cost optimization, without sacrificing safety and quality, by undertaking our activities with an even more stringent cost and efficiency perspective.

Our well-diversified portfolio of products, competitive cost advantage, fully integrated facilities and infrastructure, strategic location to growth market and strong cash position will sustain and enable us to weather the market uncertainties going forward.

3. **“The share of profit of equity accounted joint ventures and associates, net of tax, recorded was RM166 million in 2014 compared to RM221 million in 2013.**

**How would the Board view the performance on these joint ventures and associates for 2015?”**

Share of profit of equity accounted joint ventures and associates in 2013 included once-off income at one of our joint ventures company of about RM25 million which partly contributed to the variance between 2014 and 2013. Excluding this once-off income, the variance in performance is mainly due to petrochemical market conditions.

The performance of joint ventures and associates in 2015 will similarly be affected by the petrochemical market conditions.

PCG through its representative in the joint ventures and associates will continue to work together with our partners to drive value creation despite the challenging market conditions. In the short term, the focus will be on delivering operational excellence to realize value creation.

For the medium to long term, PCG will seek to enhance value by pursuing growth in its joint ventures and associates through projects such as Aroma Project and 2-EHAcid.

We hope the responses are acceptable to you.

Thank You.

Yours sincerely,



**Syed Marzidy bin Syed Marzuki**  
Company Secretary  
PETRONAS Chemicals Group Berhad