BOROUGE PLC – Q1 2023

Management Discussion & Analysis

28 April 2023

INSPIRING TOMORROW

1. Summary of Operational & Financial Performance

Borouge Plc reported Q1 2023 revenue of $1,382 million, representing a quarter-on-quarter decline of 13%, primarily due to the volume impact from the planned Borouge 2 (“B2”) Turnaround. The Turnaround is part of Borouge’s regular plant maintenance schedule, which keeps the Company’s world-class asset base well-maintained and supports industry-leading asset reliability, and efficient and safe operations.

The quarter-on-quarter decrease in revenue of 13% was driven by an 18% decrease in sales volumes, primarily due to the abovementioned Turnaround impact, which more than offset the 7% increase in average selling prices during the quarter. Polyolefin average selling prices improved in Q1 2023 versus the previous quarter driven by improving product benchmark prices and premia expansion.

During the first quarter, operating profit decreased primarily due to lower revenue resulting from the B2 Turnaround impact, partially offset by higher average selling prices and a lower overall cost base quarter-on-quarter. In the first quarter, Borouge generated adjusted EBITDA of $460 million, down 15% versus the previous quarter and net income of $199 million, down 19% versus the previous quarter.

Cashflow conversion in the fourth quarter was 82% versus 86% in the previous quarter, reflecting higher investment activity due to operations expenses related to the B2 Turnaround. Net debt was $3,277 million, versus $3,010 million in the prior quarter, primarily owing to cash payment of the $650 million final dividend in March, more than offsetting the net operating cash generation for the period.

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
Total sales volumes (kt)	**1,157**	**1,100**	**1,415**
…Polyethylene	573	610	733
…Polypropylene	488	458	628
…Ethylene and others	96	32	54
Average selling price ($/t)			
…Polyethylene	1,202	1,399	1,116
…Polypropylene	1,082	1,381	1,016
Product premia ($/t)			
…Polyethylene	264	297	217
…Polypropylene	137	244	117

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
	(Unaudited)	(Unaudited, Pro Forma)	(Audited)
	US$MM	**US$MM**	**US$MM**
Revenue	**1,382**	**1,590**	**1,593**
Cost of sales	(914)	(868)	(1,010)
Gross profit	**467**	**722**	**583**
General and administrative expenses (excluding D&A)	(46)	(40)	(59)
Selling & distribution expense	(100)	(174)	(148)
Other income and expenses	5	2	13
Operating profit	**327**	**510**	**388**
Profit for the period	**201**	**363**	**247**
Profit margin (%)	*14%*	*23%*	*16%*
Total comprehensive income for the period	199	363	269
Adjusted EBITDA(1)	**460**	**644**	**541**
Adjusted EBITDA margin (%)	*33%*	*41%*	*34%*
Basic earnings per share (US$)	0.01	0.01	0.01
Diluted earnings per share (US$)	0.01	0.01	0.01
Net debt	3,277	3,306	3,010

(1) Adjusted EBITDA is calculated as EBITDA plus adjustments on foreign exchange gain or loss and impairment loss on property, plant and equipment.

2. Operational Review

The planned turnaround of Borouge 2 was successfully completed on time and within budget. Plant utilisation decreased quarter-on-quarter due to the turnaround (estimated volume impact of c. 200kt). Overall production capacity remained flat (adjusted for fewer Q1 calendar days versus the previous quarter).

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
Production capacity (kt)	**1,228**	**1,162**	**1,244**
…Polyethylene	678	678	693
…Polypropylene	550	484	551
Utilisation rate			
…Polyethylene	78%	81%	99%
…Polypropylene	81%	87%	104%

The Low-Density Polyethylene ("LDPE") unit was successfully and safely reinstated allowing for XLPE to restart again using Borouge produced LDPE base resin. The Olefin Conversion Unit ("OCU"), which allows Borouge to internally produce significant volumes of propylene, operated at a reduced utilisation rate of 44% due to the B2 Turnaround, versus the near 100% utilisation rate during the prior period.

3. Revenue & Pricing

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
Sales volumes by product (kt)			
…Polyethylene	573	610	733
…Polypropylene	488	458	628
…Ethylene and others	96	32	54
Polyethylene (US$ / t)			
…Average sales prices	1,202	1,399	1,116
…Premia	264	297	217
...Benchmark	938	1,102	899
Polypropylene (US$ / t)			
…Average sales prices	1,082	1,381	1,016
…Premia	137	244	117
…Benchmark	945	1,137	899

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
	(Unaudited)	(Unaudited, Pro Forma)	(Audited)
Revenue by product	**(US$MM)**	**(US$MM)**	**(US$MM)**
…Polyethylene	758	904	880
…Polypropylene	555	652	672
…Ethylene and others	69	34	41
Total revenues	**1,382**	**1,590**	**1,593**

(1) Benchmark prices represent HDPE Blow Molding NEA CFR and polypropylene Raffia NEA CFR prices as per IHS Markit data.
(2) Average sales prices are equal to revenue over sales volumes (including commissions).
(3) Premia is equal to the difference between average sales prices and the benchmark prices.

First quarter sales volumes declined by 18% versus the prior quarter, primarily reflecting the impact of the B2 Turnaround. Sales volumes from energy & infrastructure solutions represent 46%* of polyolefin sales volumes in the first quarter versus 44%* in the previous quarter. This is part of Borouge's strategy to focus on durable products for industrial applications. Specifically, sales volumes of PE100, a key premium product used in infrastructure applications, have contributed positively to the overall sales mix outcome. The Asia Pacific market continues to be the largest destination for polyolefin sales with 61%* of total polyolefin sales volumes followed by the Middle East and Africa with 31%* of total polyolefin sales volumes.

Benchmark pricing and premia improved in the first quarter versus the prior quarter. Management maintains its over-the-cycle premia guidance for both PE ($200 per tonne) and PP ($140 per tonne). In the first quarter, premia for PE and PP were $264 per tonne and $137 per tonne, respectively.

*Sales volumes for polyolefins only (i.e., excluding ethylene and others). Below tables include total sales (including ethylene and others)

Segmental revenue breakdown (includes polyolefins and olefins)

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
By product group			
…Polyethylene	55%	57%	55%
…Polypropylene	40%	41%	42%
…Ethylene and others	5%	2%	3%
By end market			
…Consumer solutions	45%	49%	48%
…Infrastructure solutions	48%	47%	46%
…Other	7%	4%	6%
By geography			
…Asia Pacific	59%	58%	65%
…Middle East & Africa	29%	33%	26%
…Rest of World	7%	7%	6%
…Ethylene & others	5%	2%	3%

(1) Consumer Solutions includes sales to the agriculture sector.
(2) "Other" in "By End Markets" includes mobility and healthcare sectors and ethylene and other products.

Segmental volume breakdown (includes polyolefins and olefins)

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
By product group			
…Polyethylene	50%	55%	52%
…Polypropylene	42%	42%	44%
…Ethylene and others	8%	3%	4%
By end market			
…Consumer solutions	49%	50%	52%
…Infrastructure solutions	41%	45%	42%
…Other	10%	5%	6%
By geography			
…Asia Pacific	56%	59%	65%
…Middle East & Africa	28%	31%	26%
…Rest of World	7%	7%	6%
…Ethylene & others	8%	3%	4%

(1) Consumer Solutions includes sales to the agriculture sector.
(2) "Other" in "By End Markets" includes mobility and healthcare sectors and ethylene and other products.

4. Costs

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
	(Unaudited)	(Unaudited, Pro Forma)	(Audited)
	US$MM	US$MM	US$MM
Revenue	**1,382**	**1,590**	**1,593**
Cost of sales (excluding D&A)	(781)	(736)	(861)
…Feedstock costs	(375)	(274)	(331)
…Other variable and fixed production costs	(406)	(463)	(529)
…as % of revenue	*57%*	*46%*	*54%*
General and administrative expenses (excluding D&A)	(46)	(40)	(59)
…as % of revenue	3%	*3%*	4%
Selling and distribution expenses	(100)	(174)	(148)
…as % of revenue	*7%*	*11%*	*9%*
Other income and expenses	5	2	13
Depreciation and amortization	(133)	(131)	(149)
Operating profit	**327**	**510**	**388**
…as % of revenue	*24%*	*32%*	*24%*

During the first quarter, revenue declined by 13% and total costs fell by 12%. As a result, operating profit was down 16% to $327 million in the first quarter. The operating profit margin remained flat at 24% versus the previous quarter, supported by significant cost savings from the Value Enhancement Program.

In the first quarter, feedstock costs were higher due to a combination of a higher market price of externally sourced propylene and a higher proportion of externally sourced propylene due to the reduced utilisation of the OCU (resulting from the B2 Turnaround).

All other cost line items were down significantly versus the previous quarter.

- Selling and distribution costs were down 33% from the previous quarter primarily due to lower sea freight costs
- Other variable and fixed costs (which include the costs of utilities, catalysts, and additives) were down 23% from the prior quarter primarily driven by lower production volumes
- General and administrative costs were down 22% from the previous quarter primarily due to one-off manpower costs reflected in Q4 2022

5. Cash Generation

	Three Months Ended		
	31 March 2023	31 March 2022	31 December 2022
	(Unaudited)	(Unaudited, Pro Forma)	(Audited)
	US$MM	US$MM	US$MM
Profit for the period	199	363	247
Income tax expense	84	135	94
Net finance loss, including foreign exchange loss	44	12	46
Depreciation of property, plant and equipment	126	125	142
Depreciation of right-of-use assets	6	1	1
Amortisation of intangible assets	1	6	5
Impairment loss on property, plant & equipment	-	2	4
Adjusted EBITDA (1)	**460**	**644**	**541**

Capital expenditure (2)	83	128	76
Adjusted operating free cash flow (3)	378	516	465
Cash conversion (%)	*82%*	*80%*	*86%*

(1) Adjusted EBITDA is calculated as EBITDA plus adjustments on foreign exchange gain or loss and impairment loss on property, plant and equipment.
(2) Capital expenditure is calculated as additions to property, plant and equipment for the period.
(3) Adjusted Operating Free Cash Flow is calculated as Adjusted EBITDA less capital expenditure.

Adjusted EBITDA in the first quarter declined by 15% to $460 million versus the prior quarter, reflecting the revenue impact of the B2 Turnaround, which was only partially offset by increased polyolefin prices in the quarter, and margins were supported by cost savings. Borouge generated $378 million of adjusted operating free cashflow during the first quarter at a conversion rate of 82% versus 86% in the previous quarter, reflecting higher investment activity mostly into operations expenses related to the B2 Turnaround.

6. Current Trading & Outlook

We note that economic activity in our core Asia Pacific and Middle East markets remains stronger than developed economies.

In 2023, the outlook for polyolefins remains cautious and market analysts anticipate a narrow band price volatility during the year. Market analysts expect stable demand growth in Borouge's target markets with statistics for in-country consumption in China being positive, though exports remain low and reflect the macroeconomic dynamics in developed markets. Market expectations of higher anticipated oil prices are favourable for Borouge.

Borouge Management re-affirms the existing through-the-cycle premia guidance for PE and PP of $200 per tonne and $140 per tonne, respectively.

Management expects production volumes in 2023 to be focused on more differentiated products (such as introducing infrastructure grades into PP5 to further develop differentiation in the PP product portfolio). We will continue to stay agile and able to opportunistically shift volumes in-line with growth opportunities across our target regions. Further, Borouge's core strategy of developing innovative products continues to support our premium pricing.

Within our cost base, ethane costs will remain essentially fixed under our long-term pricing agreement with ADNOC, which provides us with significant long-term visibility, a key competitive advantage. Propylene costs, which broadly track oil prices, remain elevated. We anticipate continuing to run our OCU at high levels of utilisation in the coming quarter, generating cost effective propylene feedstock for PP production. We also anticipate strong progress to continue to be made on the Value Enhancement Program during the remainder of the year.

Management reiterates its commitment to pay $1.3 billion in dividends for the Financial Year 2023.

The Company will announce its Q2 2023 results on 28 July 2023.