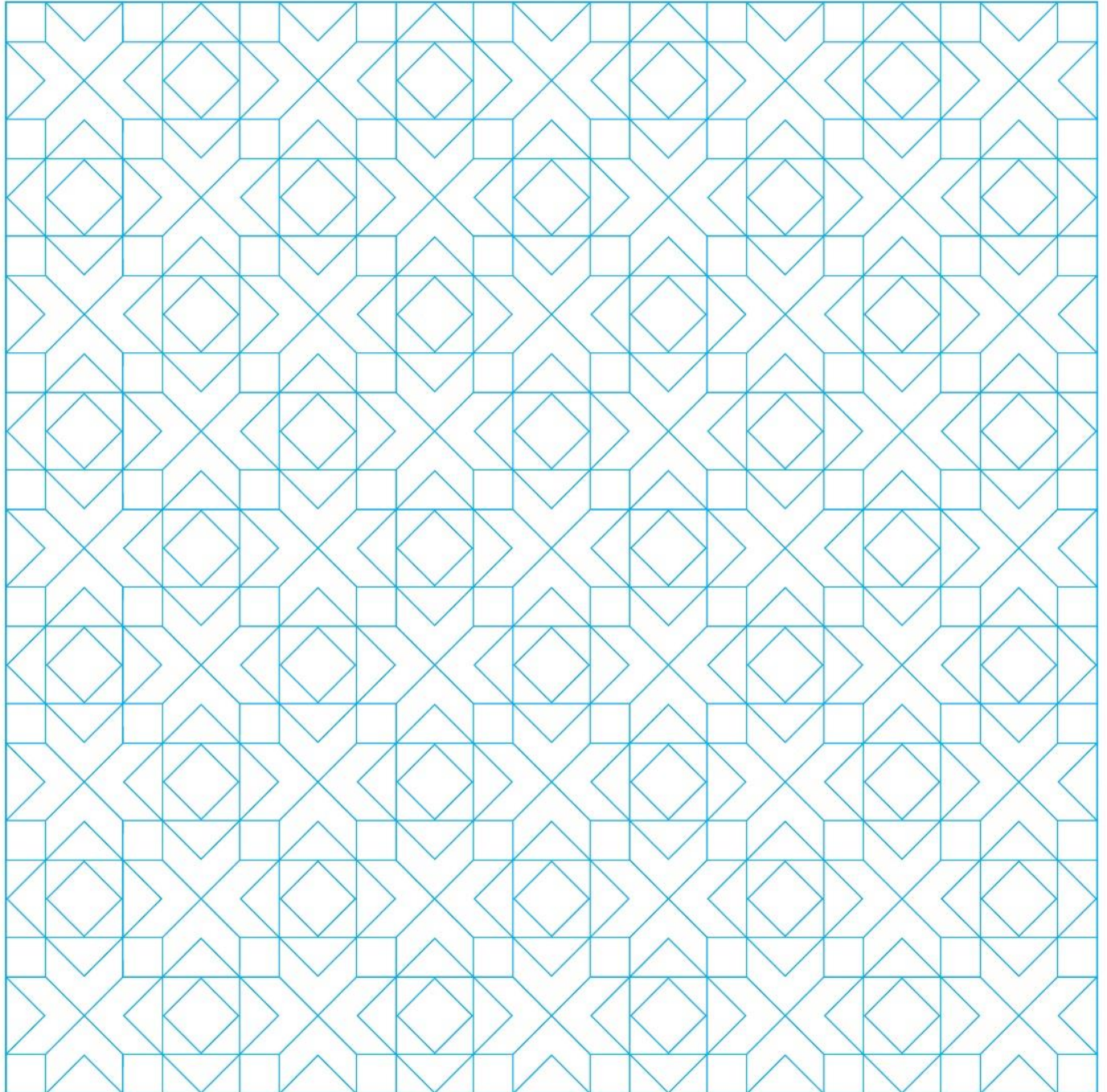


BOROUGE PLC – Q3 and 9M FY2022

Management Discussion & Analysis

28 October 2022



1. Summary of Operational & Financial Performance

Borouge Plc reported strong third quarter revenue of US\$1,674 million in a weak operating environment, representing year-on-year growth of 8%. Third quarter revenue was down 10% quarter-on-quarter, primarily driven by an 18% decline in prices which was partially offset by sales volume growth of 9%. Overall pricing was impacted by lower underlying IHS Markit benchmark pricing and lower premia over benchmark achieved as compared to the prior period. Revenue for the nine months ended 30 September 2022 of US\$5,134 million represented an increase of 14% year-on-year, primarily driven by higher sales volumes.

Plant utilisation grew quarter-on-quarter with the new PP5 plant fully ramped-up and the turnaround completion of Borouge 1 (“B1”).

During the third quarter, operating profit and net income margins decreased on lower prices with only modestly lower costs per tonne. This was primarily due to higher selling and distribution expenses reflecting globally elevated shipping costs and lagging input costs. In the third quarter, Borouge generated Adjusted EBITDA of US\$593 million and net income of US\$308 million.

Cashflow conversion was high, reflecting low capital expenditure in the period given recent project completions, including PP5. Net debt remained stable at approximately 1.1x Net Debt/EBITDA.

	Three Months Ended			Nine Months Ended	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
Total sales volumes (kt)	1,341	1,227	1,136	3,669	3,280
...Polyethylene	681	652	652	1,943	1,849
...Polypropylene	544	496	477	1,498	1,306
...Ethylene and others	116	79	7	228	125
Average selling price (\$/t)					
...Polyethylene	1,271	1,518	1,322	1,394	1,337
...Polypropylene	1,133	1,435	1,319	1,309	1,393
Product Premia (\$/t)					
...Polyethylene	304	436	256	346	262
...Polypropylene	184	318	195	247	238

	Three Months Ended (Unaudited, Pro Forma)			Nine Months Ended (Unaudited, Pro Forma)	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
	US\$MM	US\$MM	US\$MM	US\$MM	US\$MM
Revenue	1,674	1,870	1,551	5,134	4,522
Feedstock costs	(341)	(320)	(305)	(935)	(867)
Variable & fixed production costs	(653)	(613)	(511)	(1,859)	(1,462)
Gross profit	680	937	734	2,340	2,193
General and administrative expenses (excluding D&A)	(34)	(29)	(54)	(105)	(113)
Selling & distribution expense	(192)	(188)	(118)	(554)	(333)
Others	3	(1)	(1)	6	9
Operating profit	457	719	563	1,687	1,756
Profit for the period	308	490	397	1,161	1,229
<i>Profit Margin (%)</i>	<i>18%</i>	<i>26%</i>	<i>26%</i>	<i>22%</i>	<i>27%</i>
Total comprehensive income for the period	302	485	397	1,150	1,229
Adjusted EBITDA⁽¹⁾	593	870	696	2,104	2,182
<i>Adjusted EBITDA Margin (%)</i>	<i>35%</i>	<i>47%</i>	<i>45%</i>	<i>41%</i>	<i>48%</i>
Basic earnings per share (US\$)	0.01	0.02	0.01	0.04	0.04
Diluted earnings per share (US\$)	0.01	0.02	0.01	0.04	0.04
Net Debt	3,094	3,543	(678)	3,094	(678)

(1) Adjusted EBITDA includes impairment loss of property, plant and equipment

2. Operational Review

Borouge grew overall production capacity by 10% due to ramp-up of the new PP5 unit, adding new polypropylene capacity compared to the same quarter in 2021. This new unit initially started production with base grades, but during the third quarter the Company has been successfully introducing more differentiated grades into the production mix, further supporting the premium product set.

	Three Months Ended			Nine Months Ended	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
Production capacity (kt)	1,244	1,225	1,134	3,631	3,366
...Polyethylene	693	686	693	2,057	2,057
...Polypropylene	551	539	441	1,574	1,309
Utilisation rate					
...Polyethylene	90%	93%	98%	88%	93%
...Polypropylene	97%	90%	100%	91%	99%

Olefin production volumes in the quarter continued to grow, with record steam cracker performance in the period.

Following a previously reported shutdown, management expects the Low-Density Polyethylene (“LDPE”) unit to commence operations in the first quarter of 2023. The LDPE unit is one of 16 units at the Ruwais production complex. Borouge continues to internally produce significant volumes of propylene, converting ethylene via its Olefin Conversion Unit (“OCU”), which ran at a near 100% utilisation rate during the period.

Borouge’s flexibility to internally optimise feedstock production in such circumstances is considered a key competitive advantage. As a result of the LDPE shutdown, the Company has been able to redirect more of its cost advantaged ethylene to the OCU for conversion into propylene. Internally produced propylene is cheaper, even after conversion expenses, than purchased propylene at current market prices. This internal polypropylene production has helped to mitigate the LDPE shutdown impact. Borouge is working closely with Borealis to provide supply continuity for those customers buying XLPE.

3. Revenue & Pricing

	Three Months Ended			Nine Months Ended	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
Sales volumes by product (kt)					
...Polyethylene	681	652	652	1,943	1,849
...Polypropylene	544	496	477	1,498	1,306
...Ethylene and others	116	79	7	228	125
Polyethylene (US\$ / t)					
...Average sales prices	1,271	1,518	1,322	1,394	1,337
...Premia	304	436	256	346	262
...Benchmark	967	1,082	1,066	1,048	1,075
Polypropylene (US\$ / t)					
...Average sales prices	1,133	1,435	1,319	1,309	1,393
...Premia	184	318	195	247	238
...Benchmark	949	1,117	1,124	1,062	1,155

	Three Months Ended (Unaudited, Pro Forma)			Nine Months Ended (Unaudited, Pro Forma)	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
Revenue by product	(US\$MM)	(US\$MM)	(US\$MM)	(US\$MM)	(US\$MM)
...Polyethylene	941	1,049	895	2,894	2,559
...Polypropylene	648	734	644	2,035	1,852
...Ethylene and others	85	86	12	205	112
Total Revenues	1,674	1,870	1,551	5,134	4,522

- (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.

Third quarter sales volumes grew by 9% vs. the prior quarter, reflecting higher underlying production following the PP5 ramp-up. Third quarter 2022 vs. third quarter 2021, total sales volumes grew by 18%.

Borouge sold an increasing proportion of its products into the infrastructure solutions market in both the third quarter and nine months ended 2022, with September 2022 the strongest volume ever achieved in a single month. 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 sales.

Benchmark pricing declined in the third quarter vs. the prior quarter, driven by an overall weaker pricing environment, global economic uncertainty and ample supply. Borouge continues to achieve premia above benchmark pricing, reflecting its differentiated product mix and ability to capture regional price opportunities. In the third quarter, there was premia compression from the exceptional levels achieved in the prior quarter. Management guided in the previous quarter to medium-term premia levels and Borouge continues to achieve above guidance premia: in the third quarter, premia for PE and PP were US\$304 and US\$184 per tonne, respectively.

Segmental revenue breakdown

	Three Months Ended			Nine Months Ended	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
By product group					
...Polyethylene	56%	57%	58%	56%	57%
...Polypropylene	39%	39%	42%	40%	41%
...Ethylene and others	5%	4%	0%	4%	2%
By end market					
...Consumer solutions	45%	49%	55%	47%	56%
...Infrastructure solutions	47%	45%	42%	46%	39%
...Other	8%	6%	3%	7%	5%
By geography					
...Asia Pacific	65%	60%	58%	61%	59%
...Middle East & Africa	29%	32%	31%	31%	30%
...Rest of World	6%	8%	11%	8%	11%

(1) Consumer Solutions includes sales to the agriculture sector.

(2) "Other" in "By End Markets" includes approximately 0.1Mt to the mobility and healthcare sectors and approximately 0.1Mt of ethylene and other products.

4. Costs

	Three Months Ended (Unaudited, Pro Forma)			Nine Months Ended (Unaudited, Pro Forma)	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
	US\$MM	US\$MM	US\$MM	US\$MM	US\$MM
Revenue	1,674	1,870	1,551	5,134	4,522
Cost of sales (excluding D&A)	860	792	683	2,388	1,903
...Feedstock costs		320	305	935	867
...Other variable and fixed production costs	518	472	377	1,453	1,036
...as % of revenue	51%	42%	44%	47%	42%
General and administrative expenses (excluding D&A)	34	29	54	105	113
...as % of revenue	2%	2%	3%	2%	2%
Selling and distribution expenses	192	188	118	554	333
...as % of revenue	11%	10%	8%	11%	7%
Others	3	(1)	(1)	6	9
Depreciation and amortization	134	142	133	406	427
Operating Profit	457	719	563	1,687	1,756
...as % of revenue	27%	38%	36%	33%	39%
<i>Total operating costs / tonne of production</i>	<i>931</i>	<i>903</i>	<i>762</i>	<i>936</i>	<i>729</i>

During the third quarter, revenues declined by 10% and total costs grew by 6%. As a result, operating profit was down by 36% to US\$457 million in the third quarter. The operating profit margin declined to 27% vs. 38% in the prior quarter.

Within costs, feedstock expenses grew by 7% from the previous quarter, reflecting higher volumes and higher propylene prices during the period. As previously discussed, Borouge was able to internally produce propylene from ethylene from its Olefin Conversion Unit at a lower cost than the equivalent volumes procured from ADNOC in the period. Variable costs continue to be elevated, with chemicals and utilities continuing to be impacted by the inflationary environment. Mix effects also contributed negatively to margins, with higher volumes of PP products produced on purchased propylene.

Selling and distribution costs grew by less than total sales volumes over the period. While costs grew only in line with volumes, year-on-year Borouge is experiencing higher selling and distribution costs. In

particular, sea freight rates with higher costs on many routes, due to disruptions in the global shipping market.

G&A expenses increased over the period but significantly reduced year-on-year, reflecting the impact of the Company's cost optimization program.

5. Cash Generation

	Three Months Ended (Unaudited, Pro Forma)			Nine Months Ended (Unaudited, Pro Forma)	
	30 September 2022	30 June 2022	30 September 2021	30 September 2022	30 September 2021
	US\$MM	US\$MM	US\$MM	US\$MM	US\$MM
Profit for the period	308	490	397	1,161	1,229
Income tax expense	123	212	164	470	525
Net finance loss, including foreign exchange loss	27	17	2	55	1
Depreciation of property, plant and equipment	128	135	127	388	407
Depreciation of right-of-use assets	1	0	1	3	4
Amortisation of intangible assets	4	5	5	15	16
Impairment loss on property, plant & equipment	2	10		12	
Adjusted EBITDA(4)	593	870	696	2,104	2,182
Capital expenditure(1)	29	(44)	22	113	156
Adjusted operating free cash flow(2)	564	914	674	1,992	2,026
Cash conversion (%)	95%	105%	97%	95%	93%

(1) Capital expenditure is calculated as additions to property, plant and equipment for the period.

(2) Operating Free Cash Flow is calculated as Adjusted EBITDA less capital expenditure.

(3) Changes in Net Working Capital is calculated as the difference between Net Working Capital at the end of the period and beginning of the period.

(4) Adjusted EBITDA includes add back of impairment losses on property, plant & equipment.

Adjusted EBITDA in the third quarter declined to US\$593 million vs. the prior quarter (US\$870 million), primarily reflecting the decline in average selling prices. Inventories continued to be in line with mid-term guidance. Capital expenditure in the period was mostly related to maintenance expenditures at existing plants and was lower vs. the prior quarter following the completion of the PP5 unit.

In aggregate, Borouge generated US\$564 million of adjusted operating free cashflow during the third quarter at a conversion rate of 95%. During October, the Company paid US\$325 million of dividends to its shareholders.

6. Current Trading & Outlook

Borouge recognises signs of slowing economic activity in developed markets, however, economic activity in its core Asia Pacific and Middle East markets remains relatively better with economic growth rates ahead of developed economies. Borouge expects stable polyolefin demand growth in its core territories.

Current softer pricing levels reflect the global demand and supply situation and industry-wide feedstock prices observed during the period. However, Borouge continues to achieve premia above its mid-term guidance, reflecting the differentiated product mix. Benchmark prices for PE and PP have come down across all regions. Analyst pricing expectations currently anticipate a stable price scenario until the end of the year. Data from market analysts indicate that while underlying benchmark prices for PE and PP have softened, they remain at strong levels compared to prior years.

Borouge has maintained healthy premia above these benchmarks during the third quarter, down from exceptionally high premia achieved in the second quarter of 2022. Premia achieved in the third quarter continue to be above mid-term guidance of \$200/tonne for PE and \$140/tonne for PP. Premia achieved continue to reflect the highly differentiated product mix, and Borouge's ability to capture regional price opportunities. The Company remains able to place volumes and be tactical about the markets it addresses in response to changes in demand. The core strategy of developing innovative products and continuous innovation supports premium pricing and has not changed.

Within the cost base, ethane costs remain essentially fixed under a long-term pricing agreement with ADNOC, which provides significant long-term cost visibility and supply security, a key competitive advantage for Borouge. Propylene costs broadly track oil prices, which remain elevated but have begun to decline since August. Management anticipates continuing to run the OCU at high levels of utilisation in the final quarter of the year, generating cost effective propylene feedstock for PP production. Management also anticipates shipping costs to come down further in the fourth quarter and will continue to focus on overall cost management.

Based on recent performance and business outlook, Borouge reiterates its commitment to pay \$975 million in dividends to shareholders for Financial Year 2022 (of which \$325 million has already been paid), and at least \$1.3 billion in dividends for Financial Year 2023.

The Company will announce its Q4 2022 results on 2 February 2023.