

BOROUGE PLC Q4 / FY 2023

Management Discussion & Analysis

1st February 2024



1. Summary of Operational & Financial Performance

In a challenging polyolefins market, Borouge PLC (Borouge) delivered resilient FY 2023 results supported by high operating rates, strong sales volumes, and outperformance of the Value Enhancement Programme.

The Company reported full year 2023 revenue of \$5,791 million, representing a year-on-year decline of 14 percent, primarily due to a 16 percent drop in average selling prices. Healthy sales volumes of 5,116kt partially offset the price decline from the high pricing levels achieved in 2022. Sales volumes for Polyethylene (PE) and Polypropylene (PP) are up by 2 percent and 8 percent respectively, on a year-on-year basis. High production utilisation rates of 101 percent for PE and 97 percent for PP for the year resulted in over 4.9 million tonnes of polyolefin production (5.1 million including ethylene and others) despite the executed Borouge 2 turnaround in Q1 2023.

Fourth quarter revenue of \$1,497 million is in-line with the previous quarter and down 6 percent year-on-year. Sales volumes are down 3 percent from the previous quarter and down 4 percent versus the previous year. Average selling prices remained relatively unchanged from the previous quarter and down 3 percent year-on-year. Borouge achieved a Premia above benchmark price of \$187 per tonne for PE and \$111 per tonne for PP during the fourth quarter, up 7 percent and 4 percent respectively, from the previous quarter. For the full year, premium for PE of \$215 per tonne (above management's over-the-cycle guidance of \$200 per tonne) while premium for PP of \$125 per tonne (below management's over-the-cycle guidance of \$140 per tonne).

For the full year 2023, Borouge reported an adjusted EBITDA of \$2,171 million, operating profit of \$1,597 million, and a net profit of \$ 1,001 million. Fourth quarter net profit came in at \$288 million, up 16 percent from the previous year. Adjusted EBITDA is up 11 percent year-on-year to \$600 million, operating profit is up 17 percent to \$452 million for the same period.

The Value Enhancement Program delivered \$607 million in the year versus a 2022 baseline, outperforming the revised target of \$500 million and playing a critical role in supporting the bottom-line in a weak polyolefins pricing environment.

Cash conversion in the fourth quarter is 88 percent versus 97 percent in the previous quarter mainly due to higher capex spend associated with upcoming operational maintenance. Net Debt stood at \$2,957 million as of 31 December 2023.

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Revenue	1,497	1,593	-6%	1,496	0.0%	5,791	6,727	-14%
Cost of sales	(896)	(1,010)	-11%	(915)	-2%	(3,627)	(3,792)	-4%
Gross profit	601	583	3%	581	3%	2,164	2,935	-26%
General and administrative expenses (excluding D&A)	(50)	(59)	-15%	(41)	22%	(183)	(176)	4%
Selling & distribution expense	(100)	(148)	-33%	(95)	5%	(399)	(703)	-43%
Other income and expenses	2	13	-87%	4	-56%	16	19	-19%
Operating profit	452	388	17%	449	1%	1,597	2,075	-23%
Profit for the period	288	247	16%	282	2%	1,001	1,409	-29%
Profit margin (%)	19%	16%		19%		17%	21%	
Total Comprehensive Income	285	269	6%	282	1%	993	1,419	-30%
Adjusted EBITDA(1)	600	541	11%	592	1%	2,171	2,646	-18%
Adjusted EBITDA margin (%)	40%	34%	18%	40%	1%	38%	39%	-5%
Basic earnings per share (US\$)	0.01	0.01		0.01		0.03	0.05	
Diluted earnings per share (US\$)	0.01	0.01		0.01		0.03	0.05	
Net debt	2,957	3,010	-2%	3,173	-7%	2,957	3,010	-2%

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

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
Total sales volumes (kt)	1,359	1,415	-4%	1,395	-3%	5,116	5,083	1%
Polyethylene	751	733	3%	733	3%	2,715	2,676	2%
Polypropylene	608	628	-3%	642	-5%	2,285	2,126	8%
Ethylene and others	-	54	-100%	20	-100%	116	281	-59%
Average selling price (\$/t)	1,039	1,071	-3%	1,035	0%	1,077	1,276	-16%
Polyethylene	1,077	1,116	-3%	1,093	-1%	1,129	1,318	-14%
Polypropylene	991	1,016	-2%	967	2%	1,016	1,222	-17%
Product premia (\$/t)								
Polyethylene	187	217	-14%	174	7%	215	311	-31%
Polypropylene	111	117	-5%	107	4%	125	208	-40%

2. Operational Review

During 2023, we secured the highest product quality while introducing a significant volume of new advanced and diversified grades to support Borouge's strategic focus on delivering high value added and differentiated products. We remain committed to operational and commercial excellence, with a detailed efficiency enhancement strategy focused on safety, plant reliability and integrity, and opex optimisation.

In the fourth quarter, production operated at very high utilisation rates of 112 percent and 99 percent for PE and PP, respectively. In the full year, high production utilisation rates of 101 percent for PE and 97 percent for PP resulted in over 4.9 million tonnes of polyolefin production (5.1 million including ethylene and others) despite the executed Borouge 2 turnaround in Q1 2023.

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
Production capacity (kt)	1,255	1,255	-	1,255	-	4,980	4,939	1%
Polyethylene	693	693	-	693	-	2,750	2,750	-
Polypropylene	562	562	-	562	-	2,230	2,189	2%
Utilisation rate								
Polyethylene	112%	99%	14%	104%	8%	101%	91%	11%
Polypropylene	99%	102%	-3%	109%	-8%	97%	92%	5%

The Olefin Conversion Unit (OCU), which allows Borouge to internally produce large amounts of propylene from ethylene also operated at a high utilization rate of 92% in the fourth quarter. Ethylene is typically prioritized for use in maximizing PE production and the additional quantities are sent to the OCU. Any excess ethylene can be sold in the market.

A planned turnaround of the Borouge 3 plant and feedstock-related operations is scheduled for 2024 with a total volume impact of 500kt in FY2024. This will take place in two phases as follows:

- (1) **Q1 2024:** c. 170kt volume impact from a feedstock-related operational stop
- (2) **Q4 2024:** c. 330kt volume impact from Borouge 3 plant shutdown

Borouge continued to focus on safe and reliable operations while maximizing production and achieving some of the highest ever utilization rates. Growth in scale has been achieved while maintaining industry leading levels of asset reliability and operational excellence. This underscores Borouge's commitment to operational excellence and ambitious future growth and is a testament to Borouge's capability.

3. Revenue & Pricing

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
Sales volumes by product (kt)	1,359	1,415	-4%	1,395	-3%	5,116	5,083	1%
Polyethylene	751	733	3%	733	3%	2,715	2,676	2%
Polypropylene	608	628	-3%	642	-5%	2,285	2,126	8%
Ethylene and others	-	54	-100%	20	-100%	116	281	-59%
Polyethylene (US\$ / t)								
Average sales prices	1,077	1,116	-3%	1,093	-1%	1,129	1,318	-14%
Premia	187	217	-14%	174	7%	215	311	-31%
Benchmark	890	899	-1%	919	-3%	914	1,007	-9%
Polypropylene (US\$ / t)								
Average sales prices	991	1,016	-2%	967	2%	1,016	1,222	-17%
Premia	111	117	-5%	107	4%	125	208	-40%
Benchmark	880	899	-2%	860	2%	891	1,014	-12%
	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
Revenue by product	\$m	\$m		\$m		\$m	\$m	
Polyethylene	858	880	-3%	840	2%	3,276	3,775	-13%
Polypropylene	620	672	-8%	637	-3%	2,402	2,706	-11%
Ethylene and others	19	41	-52%	20	-0.3%	113	247	-54%
Total revenues	1,497	1,593	-6%	1,496	0%	5,791	6,728	-14%

- (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.

Strong sales volumes of 5,116kt partially counteracted the price declines in 2023. PE sales volumes are up by 2 percent and PP sales volumes are up by 8 percent on a year-on-year basis.

Sales volumes from infrastructure solutions represent 39 percent of overall sales for the year, exhibiting Borouge's strategic focus on high value-add products. The Asian market continues to be the top destination for Borouge's differentiated products with 62 percent of sales volumes, followed by Middle East and Africa at 29 percent.

In the fourth quarter, sales volumes are down by 4 percent from the previous quarter to 1,359kt. Sales volumes from infrastructure solutions represent 36 percent of total quarterly volumes. Asia Pacific region accounted for 63 percent of total sales volumes during the same period.

In 2023, blended average selling prices were down by 16 percent from the previous year. Average selling prices for Polyethylene (PE) and Polypropylene (PP) were down by 14 percent and 17 percent respectively on a year-on-year basis.

Despite tough market conditions, Borouge maintained a healthy Premia above benchmark prices in all four quarters of 2023. In 2023, Borouge achieved a premium over benchmark for PE of \$215 per tonne (above management's over-the-cycle guidance of \$200 per tonne) and premium over benchmark for PP of \$125 per tonne (below management's over-the-cycle guidance of \$140 per tonne). In the fourth quarter, premia for PE and PP were up 7 percent and 4 percent respectively on a quarter-on-quarter basis.

Despite challenges, Borouge remains committed to its strategic focus on differentiated and durable products and strives to be a leader in specialty and value-add segments. Further progress was made in the year towards the circular economy with more than 18 new recyclates partnerships to explore sustainable applications and two new mobility grades made from up to 70 percent recycled materials were also launched. The Company maintains its focus on innovation, with approximately 20 percent of Borouge's annual sales volume comprised of new products. The 2024 product pipeline includes new applications including the introduction of healthcare grades.

Segmental revenue breakdown (includes polyolefins and olefins)

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
By product group								
Polyethylene	57%	55%	4%	56%	2%	57%	56%	1%
Polypropylene	41%	42%	-2%	43%	-3%	41%	40%	3%
Ethylene and others	1%	3%	-49%	1%	0%	2%	4%	-47%
By end market								
Consumer solutions	56%	48%	16%	53%	5%	52%	47%	9%
Infrastructure solutions	40%	46%	-14%	43%	-6%	44%	46%	-5%
Other	4%	6%	-21%	4%	3%	5%	6%	-25%
By geography								
Asia Pacific	63%	65%	-4%	62%	2%	62%	60%	3%
Middle East & Africa	29%	26%	13%	31%	-4%	29%	30%	-2%
Rest of World	6%	6%	5%	6%	0%	6%	6%	3%
Ethylene & others	1%	3%	-49%	1%	0%	2%	4%	-47%

(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)

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
By product group								
Polyethylene	55%	52%	7%	53%	5%	53%	53%	1%
Polypropylene	45%	44%	1%	46%	-3%	45%	42%	7%
Ethylene and others	0%	4%	-100%	1%	-100%	2%	6%	-59%
By end market								
Consumer solutions	61%	52%	17%	58%	5%	57%	50%	14%
Infrastructure solutions	36%	42%	-12%	38%	-4%	39%	42%	-9%
Other	3%	6%	-59%	4%	-36%	5%	8%	-41%
By geography								
Asia Pacific	63%	65%	-2%	62%	2%	62%	61%	2%
Middle East & Africa	30%	26%	18%	30%	-1%	29%	28%	4%
Rest of World	7%	6%	14%	6%	4%	7%	6%	14%
Ethylene & others	0%	4%	-100%	1%	-100%	2%	6%	-59%

(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

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Revenue	1,497	1,593	-6%	1,496	0%	5,791	6,727	-14%
Cost of sales (excluding D&A)	(754)	(861)	-12%	(773)	-2%	(3,062)	(3,237)	-5%
...Feedstock costs	(335)	(332)	1%	(323)	4%	(1,357)	(1,226)	7%
...Other variable and fixed production costs	(419)	(530)	-21%	(450)	-7%	(1,704)	(1,971)	-14%
...as % of revenue	50%	54%		52%		53%	48%	
General and administrative expenses (excluding D&A)	(46)	(59)	-23%	(40)	15%	(177)	(176)	1%
...as % of revenue	3%	4%		3%	15%	3%	3%	
Selling and distribution expenses	(100)	(149)	-33%	(95)	5%	(399)	(703)	-43%
...as % of revenue	7%	9%		6%	144%	7%	11%	
Other income and expenses	2	13	-87%	4	-56%	16	19	-19%

Depreciation and amortization	(146)	(149)	-2%	(143)	2%	(572)	(555)	3%
Operating profit	452	388	17%	449	1%	1,597	2,076	
...as % of revenue	30%	24%		30%		28%	31%	

The Value Enhancement Program significantly outperforms the initial and revised targets of \$400 million and \$500 million respectively, reflecting management's focus on cost discipline and the strong execution from across the organisation.

In 2023, the overall cost base decreased by 10 percent versus the previous year. Total cost per tonne is down by 15 percent during the same period. In the fourth quarter, the overall cost base is down 13 percent and total cost per tonne is lower by 15 percent versus the same period last year.

For the full year 2023, cost of sales is down by 5 percent driven by a 14 percent decrease in other variable and fixed costs. Selling and distribution expenses are down by 43 percent on a year-on-year due to significant reduction in unit costs over the period, primarily driven by logistics. General and admin expenses remained flat year-on-year.

5. Cash Generation

	Q4 2023	Q4 2022	YoY (%)	Q3 2023	QoQ (%)	FY 2023	FY 2022	YoY (%)
	\$m	\$m		\$m		\$m	\$m	
Profit for the period	288	247	16%	282	2%	1,001	1,409	-29%
Income tax expense	112	94	19%	116	-3%	400	564	-29%
Net finance loss, including foreign exchange loss	52	46	12%	51	1%	196	102	92%
Depreciation of property, plant, and equipment	138	142	-3%	137	1%	540	530	2%
Depreciation of right-of-use assets	1	1	1%	1	6%	4	4	2%
Amortisation of intangible assets	7	5	32%	6	21%	28	21	36%
Impairment loss on property, plant & equipment	2	4	-56%	0	-	2	16	-89%
Adjusted EBITDA (1)	600	541	11%	592	1%	2,171	2,646	-18%
Capital expenditure (2)	74	76	-2%	20	273%	199	189	5%
Adjusted operating free cash flow (3)	526	465	13%	573	-8%	1,972	2,457	-20%
Cash conversion (%)	88%	86%	2%	97%	-9%	91%	93%	-2%

(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 for the fourth quarter increased by 11 percent on a year-on-year basis to \$600 million. Adjusted operating free cash flow of \$526 million represents an increase of 13 percent versus the same quarter last year. Cash conversion in the fourth quarter of 88 percent versus 97 percent in the third quarter due to capex spend related to upcoming operational maintenance.

Throughout 2023 Borouge has managed to repay \$850 million debt under the Commercial Facility and disposed of a further \$500 million Revolving Credit Facility, which was fully undrawn at the 31 December. Cash and Cash equivalents stood at \$354 million at the period end.

Full year 2023 adjusted EBITDA of \$2,171 million down 18 percent versus the previous year, and cash conversion remained strong at 91 percent.

6. Current Trading & Outlook

The polyolefins market remains challenging in 2024 against the backdrop of macroeconomic and geopolitical uncertainty, short term polyolefin capacity increases and muted global demand. Market analysts anticipate a soft pricing environment to continue until a delayed recovery materializes. Borouge management expects pricing in Q1 2024 to be slightly higher than levels achieved in Q4 2023 for both PE and PP.

An operational update in relation to Borouge's regular plant maintenance program in 2024. A planned turnaround of the Borouge 3 plant (330kt impact in Q4 2024) and feedstock-related operational stop (170kt impact in Q1 2024) will have a total production volume impact of 500kt in FY2024.

The Borouge 4 project being built on behalf of the current project owners, ADNOC and Borealis, has crossed the halfway construction phase and is to be completed by the end of 2025. With the re-contribution of Borouge 4, Borouge's production capacity will increase by 1.4 million tonnes per annum to 6.4 million tonnes per annum. The plant, powered by third generation Borealis Borstar® technology will enable Borouge to increase production of more innovative and differentiated polyolefins solutions.

Borouge is well-positioned from an overall cost basis going into 2024, following the successful implementation of the Value Enhancement Program in 2023. Within Borouge's cost base, ethane costs will remain essentially fixed under a long-term pricing agreement with ADNOC, which provides Borouge with significant long-term feedstock security, a key competitive advantage. Propylene costs, which broadly track oil prices, remain elevated. The OCU will continue to be run at high rates in the coming quarter, generating cost effective propylene feedstock for PP production.

Management intends to pay a dividend of \$1.3 billion for FY 2024, demonstrating the Company's strong through-the-cycle cash flow generation and focus on shareholder returns.

Borouge management updated guidance for 2024 is summarised below:

Metric	Management Guidance
Production impact from (1) B3 turnaround and (2) related feedstock operational stop	▪ Q1 24: -170kt (feedstock-related stop) ▪ Q4 24: -330 kt (Borouge 3 planned turnaround)
Through-the-cycle product premia	▪ Polyethylene: \$200 / tonne ▪ Polypropylene: \$140 / tonne
FY2024 Dividend	▪ \$1.3 billion (\$0.043 / share)

Borouge will announce its Q2 2024 results on 31st July 2024.

Management Q4 / FY 2023 Earnings Call

Borouge management will host its Q4 / FY 2023 earnings call on 1 February 2024 at 1:30 pm UAE time. Webcast and call access details are provided below.

Webcast Link:

<https://webcast.openbriefing.com/borouge-feb24/>

Conference Call Dial-in Details:

Operator Assisted Dial-In:

UAE (Toll-Free): 800 0357 04553

United Kingdom (Local): +44 20 3936 2999

United Kingdom (Toll-Free): +44 800 358 1035

Global Dial-In Numbers

Access Code: 615322