

Ensuring We Remain Relevant in the New Normal



Dear Stakeholders,

The year in review was undoubtedly one of the most testing years for the oil and gas industry with the twin shocks of the COVID-19 pandemic and the oil prices free plunging the industry to an unprecedented low.

As lockdown measures were swiftly implemented to stem the tide of the pandemic, economies the world over suffered with many coming to an abrupt standstill. At the same time, an oil price rout amidst a supply overhang wreaked further havoc on an already despondent industry. Like all oil majors, the PETRONAS Group felt the full brunt of this onslaught with a never-before-seen contraction in our revenue. Through prudent liquidity and cost management, PETRONAS continued to operate cautiously and efficiently.



Tan Sri Ahmad Nizam Salleh
Chairman



The industry was already contending with an energy mix shifting from a fossil fuel dominated to one that will see a significant rise in cleaner energy sources before the pandemic. More governments the world over and stakeholders are sending strong signals on the value of sustainability and intensifying their shift towards low carbon priorities.

To counter the effects of the energy transition combined with the impact of the pandemic, PETRONAS is upholding its strategies and implementing timely mitigation measures while drawing a new map of recovery and growth pathways with full support from the PETRONAS Board. The road ahead will require us to move forward with pace, while having the resilience to weather this long-drawn-out storm.

My Board and I are grateful for the relentless spirit shown by our people, and our partners who pushed through this tumultuous time to keep delivering energy while churning out value through their passion and dedication. They worked around stringent standard operating procedures (SOPs) and constraints to sustain operations in the safest possible manner, while stepping up to stay true to our Purpose – A progressive energy and solutions partner enriching lives for a sustainable future.



Committed to Enriching Lives

PETRONAS was formed to deliver value from the trust bestowed upon us in managing the nation's hydrocarbon resources. At a time where lives, lifestyles and economic activities are completely altered, we remain unwavering in our commitment to enrich lives wherever we operate. In 2020, PETRONAS staff came together to raise a voluntary salary contribution of RM6.4 million for 'Tabung COVID-19' under the National Disaster Management Agency (NADMA). This was part of our total contribution valued at RM50.6 million, which included the timely disbursement of medical supplies, protective gear and other essentials for frontliners and the public in Malaysia as well as in our countries of operation. In 2020, the Group's Corporate Social Responsibility (CSR) activities fronted by Yayasan PETRONAS (the PETRONAS Foundation), primarily focused on COVID-19 relief efforts, while we ensured that other philanthropic efforts were proportionately carried out to continue delivering value in meaningful and scalable ways.

For more details of our Corporate Social Responsibility activities, go to the Positive Social Impact section on pages 178 to 189.

With the pandemic precipitating a health and economic crisis, the livelihoods of lower income groups and small businesses have become even more vulnerable. Recognising this, in August 2020, Yayasan PETRONAS announced Program MEKAR which aims to elevate the socio-economic capacity of 3,400 low-income (or B40) families over the next two years by transforming ideas into sustainable businesses to narrow income gaps for a more equitable society. These families from eight states in Malaysia are expected to benefit from the MEKAR programme through targeted mentoring and training schemes. This is in support of the Malaysian government's stimulus packages to "build back better" which includes leveraging on the digital economy to empower communities to overcome economic hardship throughout the pandemic.



PETRONAS is also in tune with the ambitions and struggles of homegrown companies in becoming globally competitive, having gone through the ups and downs of the oil and gas business ourselves. As Malaysia's national oil company (NOC), we have taken it upon ourselves to safeguard and shape the resilience of the domestic oil and gas ecosystem. We collaborate with the Ministry of Entrepreneur Development and Cooperatives (MEDAC) to champion the Vendor Development Programme (VDP) which has helped produce four listed companies from a total of 99 local vendors who have graduated from the programme since 1993. A conducive environment for emerging Oil and Gas Service Equipment (OGSE) vendors will not only help them leap into more complex areas of the business but also enhance their business acumen to develop sustainably.

In 2020, over 200 of our high performing vendors received timely support from our Vendor Financing Programme and Road to Bursa initiatives, which enabled them to thrive in challenging circumstances and keep the domestic economy flowing from their earnings.

For more details of our Labour and Supply Chain activities, go to the Positive Social Impact section on pages 172 to 177.

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Our total COVID-19 contribution valued at **RM50.6 million** included the timely disbursement of medical supplies, protective gear and other essentials for frontliners and the public in Malaysia as well as in our countries of operation

Approximately **3,400 low-income families** from eight states in Malaysia are expected to benefit from the MEKAR programme which transforms ideas into sustainable businesses to narrow income gaps for a more equitable society

Paving Recovery and Growth Pathways




For PETRONAS, recovery and growth go beyond just the confines of business and financial returns. We recognise that we have a responsibility to balance out our economic ambitions with positive social and environmental considerations. We draw on our strength and ability to balance our unique position to fulfill our commitment as Malaysia's NOC as well as live up to growing expectations in our position as an international oil company (IOC). To this end, PETRONAS' Sustainability Agenda is at the heart of all our value creation efforts, and this in turn is supported by four sustainability lenses.

-  Continued Value Creation
-  Safeguard the Environment
-  Positive Social Impact
-  Responsible Governance

The Agenda enables us to remain committed to our sustainability endeavours.

PETRONAS will continue to evolve as we brace for lower-for-longer oil prices and demand for low-carbon energy. The Board is fully supportive of the deliberate steps and new portfolio objectives that will see us pursuing superior performing and high value offerings and solutions, which are robust and sustainable in the long run, while positively contributing to society. This will be met through strengthening our core by being increasingly cost efficient, ensuring active portfolio management and accelerating our Stepping Out strategy into speciality chemicals and renewables such as solar and hydrogen.

I am pleased to share that despite the headwinds, PETRONAS has continued to deliver its Three-Pronged Growth Strategy and made great strides in providing new and innovative energy solutions to our customers which include:

-  **Expanding our offerings with Liquefied Natural Gas (LNG) Bunkering, delivery of LNG via ISO tanks to off-grid customers** via a Virtual Pipeline System (VPS) and a range of IONA e-fluids to serve the electric vehicle market.
-  **Enhancing customer experience at our local PETRONAS Mesra Stations with Setel, Deliver2Me and Makan@Mesra** that have contributed to increased growth in non-fuel retail income for PDB.
-  **Providing access to renewable energy with M+ by PETRONAS, a flagship solar rooftop solution** for commercial and industrial customers.

On the home front, PETRONAS is committed to ensure the domestic oil and gas ecosystem continues to thrive and Malaysia is recognised as a world class investment destination. In our five-year plans, the bulk of our capital expenditure (CAPEX) will be invested domestically. With this move, we hope to rejuvenate the domestic oil and gas sector, to stimulate the recovery of the economy and generate growth for the longer term.

We are positioning ourselves to embrace a low-carbon energy future via our aspiration to achieve net zero carbon emissions by 2050 (NZCE 2050). It will not just be our licence to operate but is also integral in supporting our organisation's resilience moving forward. It presents opportunities for us to pursue new top line and bottom-line value creation and ensure the Group's market valuation strengthens over time.

Our enduring partnerships with stakeholders have already taken a new turn with the establishment of formidable

alliances to further grow the value pie for our stakeholders. In 2020, PETRONAS concluded a historical commercial settlement on oil and gas matters in the state of Sarawak. The evolution of this partnership will see the State having more active participation in the management of onshore oil and gas resources. It also paves the way for our new collaboration with Sarawak Energy Berhad (SEB) to explore commercial production of green hydrogen in meeting the demand for global clean energy.

PETRONAS has been an advocate for natural gas' pivotal role as a cleaner, more secure and abundant resource for the energy transition which will make up a quarter of the primary energy mix by 2040.

As one of the world's largest exporters of LNG, backed by an integrated value chain, customer-centric solutions and strategically located global assets, we are in an advantageous position to meet future gas demand which is anticipated to come mainly from Asia. PETRONAS is also supporting the formulation of Malaysia's Natural Gas Roadmap, a key part of the National Energy Policy under the 12th Malaysia Plan, 2021-2025.

This collaboration realises the ideal synergy of companies working closely with policy makers to move the needle in tackling climate change issues in an effective and sustainable manner.

Integrity Anchored on Shared Values

At PETRONAS, we believe good governance translates into good business. As such, we remain committed to upholding high standards of corporate governance as well as applying robust risk management and internal control measures to our business. These elements are not only helping us ensure the delivery of sustainable and long-term business growth, they are also safeguarding PETRONAS' reputation as a trustee of the nation's oil and gas resources while ensuring continued shareholder value creation. Business ethics and corporate governance are the guardrails that keep our organisation on track and in check.

In the course of acting at pace in response to the highly challenging environment, individual and organisational integrity must be upheld as a way of life and must not be compromised at any cost.

To this end, Integrity is upheld as one of our Shared Values alongside Loyalty, Professionalism and Cohesiveness to guide and drive us forward.

PETRONAS practices zero tolerance against bribery and corruption and implements global practices to combat such acts. We were one of Malaysia's first companies to obtain and have since maintained our International Organization for Standardization 37001 certification. We have strengthened the tone from top where leaders model the way and speak on hard-hitting topics surrounding integrity. The Group also makes every effort to roll out compulsory training and e-learning programmes on PETRONAS' guidelines while our policies govern business conduct across the Group.

A single assurance platform, the PETRONAS Integrated Assurance platform is pervasively used across the Group's operations to prevent and mitigate risks that could impact the organisation, including unethical acts of bribery and corruption. This is one of our control measures to promote proactive self-assessment in regulating one's own behaviour and actions while performing daily work routines, in accordance with the PETRONAS Integrity Compliance Framework.

PETRONAS holds the nation's hydrocarbon resources in trust, and we share the accountability to ensure its well-being, while we harness its potential for the benefit of the people and the nation. To this end, we will continue to ensure individual and organisational integrity becomes a way of life at PETRONAS.

PETRONAS Practices Zero Tolerance Against Bribery and Corruption

One of Malaysia's first companies to obtain and have since maintained our

International Organization for Standardization 37001 certification

Rollout of compulsory training and e-learning programmes



Moving Forward amidst a Challenging Outlook

As we embrace a new year, the economic outlook remains uncertain and challenging. Evidence points to the acceleration of the energy transition, while the impact from the pandemic-induced demand destruction and oil price rout remains. While there has been good progress made on the vaccination front and several pockets of recovery are already underway, new strains of the COVID-19 virus have caused some countries to consider stricter lockdowns. All in all, clouds of uncertainty still loom over the horizon as early economic indicators are showing the return to pre-pandemic normalcy will only be in 2022.

Moving forward, PETRONAS maintains a cautious outlook for 2021 as the events of the past year continue to shape the challenges that we see today. Our mandate is to ensure that future generations inherit a strong and sustainable company. We have behind us 46 years of impressive growth that will drive us to take on the change and innovation that have become the business norms of today.

If we are to make real progress amidst today's challenging landscape, we must not derail from our efforts of upholding the highest levels of integrity and governance. We must also stay true to our Shared Values and our accountability for the resources we have been entrusted with, to create new value for our customers who have given us the opportunity to serve and grow; resource owners who have entrusted us to become their partner in progress; and the nation for its support in allowing us to continue growing as a FORTUNE Global 500 company.

In Appreciation

Many parties helped PETRONAS weather the very challenging year that was 2020 and we are indeed grateful for all their support and trust. On behalf of the PETRONAS Board of Directors, I wish to convey my deep gratitude to Tengku Muhammad Taufik, President and Group Chief Executive Officer (CEO) of PETRONAS, his Leadership Team, and each and every one of our loyal employees for stepping up to the plate and

remaining resilient amidst the year's challenges. It is because of your perseverance, hard work and team spirit that we were able to remain resolute in the face of 2020's extremely challenging operating environment.

I also wish to express my heartfelt appreciation to our valued stakeholders, particularly our customers and partners for their unwavering support and confidence in PETRONAS. My utmost appreciation to the government of Malaysia, the state governments and the governments of PETRONAS' host countries for their invaluable cooperation and backing that helped us keep our people safe and our businesses operational. Over and above, my sincere gratitude to my colleagues on the Board for their astute counsel and insights which helped us navigate safely through last year's highly taxing playing field.

In 2020, we bid farewell to two Directors namely Tan Sri Wan Zulkiflee Wan Ariffin, our former President and Group CEO who resigned in June 2020, and Encik Ahmad Faris Rabidin, an Independent Non-Executive Director who resigned in August 2020. We thank both gentlemen for their worthy contributions to PETRONAS and our nation and wish them every success in their future endeavours.

We extend a warm welcome to our three new Independent Non-Executive Directors, namely Tan Sri Datin Paduka Zaharah Ibrahim, Dato' Haji Razali Mohd Yusof and Dato' Hj. Ibrahim Hj. Baki, all of whom were appointed on 17 August 2020. We certainly look forward to the collective experience and expertise as well as the diverse perspectives that they bring to the table.

PETRONAS did not emerge from 2020 unscathed. The year taught us some very hard lessons and accorded us solid insights into what our next steps should be if we are to remain relevant as a progressive energy and solutions partner. As we steadily put the building blocks in place and move forward into the new normal, I am confident that PETRONAS will once again attain credible, sustainable progress. Last but not least, I call upon all our stakeholders to move forward together and lend PETRONAS their unstinting support. Thank you.

Tan Sri Ahmad Nizam Salleh
Chairman