

# Recharge with Passion

## Key Messages

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from the front line

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**Tan Sri Dato' Seri  
Mohd Bakke Salleh**  
Chairman

# Letter from the Chairman

## Dear Stakeholders,

Two years have passed since the pandemic began, and our world continues to be challenged by volatility and uncertainty on an unprecedented scale in living memory. Even as countries and industries alike strive to recover from the brutal impact of COVID-19, they now face newfound challenges in the wake of the ongoing Russia-Ukraine conflict whose consequences may well long outlast the hostilities themselves and which are likely to reshape the industry landscape in fundamental and complex ways.

## Letter from the Chairman

Notwithstanding the prevailing uncertainties, the role that PETRONAS plays as an energy company in the context of the wider society remains clear – namely, that it continues to serve as an effective engine that drives economic recovery for Malaysia and beyond by ensuring the safe, secure and reliable supply of energy, while taking vital steps that pave the way to gradually transition to a lower-carbon future in a just and equitable way.

In our efforts to fulfil this role, PETRONAS remains unwavering in the delivery of its *amanah* (trust), always striving to dutifully discharge its obligations and responsibilities despite the overwhelming odds and challenges. With prudent financial management and an unyielding commitment to upholding safety performance as well as delivery of commercial and operational excellence, PETRONAS registered a strong performance in 2021 after two years of extreme disruptions to the energy ecosystem. This achievement by the Group is credited to the courage, dedication and tenacity of our people. In this opportunity, I would also like to thank our stakeholders for their support and assistance that allowed us to continue operating safely and optimally throughout the lockdown periods.

Looking ahead, changes in the energy landscape will provide new challenges and growth opportunities that we must approach with a credo and mindset for progress and innovation. To this end, I am confident that with the right steer and support from the Board, PETRONAS is well-positioned to progress with pace and resilience to deliver profitable and sustainable growth aligned to our Three-Pronged Growth Strategy and net zero carbon emissions by 2050 (NZCE 2050) aspiration.



## Reflecting on 2021

PETRONAS' performance for the year in review demonstrates its relentless focus on operational and commercial excellence across the Group. The organisation ensured the reliability of its operations to leverage the recovery in global energy demand seen in 2021 with the safety of our people and assets as its highest priority.

Although some degree of stabilisation was seen with the rollout of vaccinations and economies recovering from easing of lockdowns and gradual removal of border restrictions, delivering the Group's performance did not come easily. During the year, the oil and gas industry continued to be very volatile and uncertain in the face of sudden shocks to the market, many of which were beyond our control. These included:

- 1 The threat of new and highly infectious COVID-19 variants derailing economic recovery which proved to be of grave concern for the safety of our people and its impact on our supply chain.
- 2 The oil and gas industry remaining fragile as the rebound in oil price was driven by the multi-speed reopening of economies, steadfast active market management by OPEC+ and an unfolding global energy supply crisis.
- 3 The increasing pace of the energy transition causing sustainability-driven structural changes to our industry with stakeholders demanding more visible, impactful results in our efforts to decarbonise.



## Letter from the Chairman



Nevertheless, PETRONAS successfully demonstrated its ability to respond and become part of the solution. Together, the PETRONAS Board and Leadership Team were able to not only preserve and enhance its core oil and gas portfolio but also grow in the new energy space for long-term business sustainability and resiliency.

As a result, PETRONAS was able to generate healthy financial returns and contribute to its stakeholders in the form of cash payments, tax, export duties, state sales tax and dividends. In 2021, we paid the scheduled RM25 billion dividend payments to the Government of Malaysia.

### Accelerating Sustainability

As a National Oil Company, hydrocarbons will still be part of our energy mix even as we seek to integrate renewables and lower-carbon solutions as well as specialty chemicals into our portfolio in a gradual and phased manner. It remains our duty to maximise the value of Malaysia's hydrocarbon resources to provide long-term economic value creation for shared prosperity and energy security – this, while also contributing to the low-carbon aspirations of the nation.

Reaching net zero carbon emissions is a monumental undertaking and requires a steady, evolutionary approach of continuous improvements on emissions reduction. For PETRONAS, we have responded decisively to accelerated energy transition with clarity and discipline with our 2024 sustainability targets and carbon commitments, supported by the right ecosystem for growth. We are making progress on zero venting and flaring, operational improvements, electrification and developing lower carbon solutions.

**It remains our duty to maximise the value of Malaysia's hydrocarbon resources to provide long-term economic value creation for shared prosperity and energy security – this, while also contributing to the low-carbon aspirations of the nation.**

## Letter from the Chairman



To enhance these efforts and further entrench momentum, the PETRONAS Board has expressed its support to incorporate environmental, social and governance (ESG) elements in our assessments of future investments in which decisions would consider value-creation from the perspective of the 3Ps of sustainability – people, planet and profits.

With the significant progress achieved under our core portfolio in 2021, PETRONAS will continue to focus on building a resilient portfolio that is not only robust to the energy transition but also captures attractive business opportunities which the transition presents. Since we announced our NZCE 2050 aspiration last year, the Group has undertaken deliberate steps in moving from a commodity player to a customer-centric solutions provider. PETRONAS' roadmap for our NZCE aspiration will see the organisation play its part in moving the needle towards the goal of net zero, contributing to Malaysia's Nationally Determined Contributions (NDC) to the Paris Agreement for the long-term, while supporting our customers in decarbonising their energy systems.

### Reinforcing Strong Governance

In an increasingly challenging environment characterised by market uncertainties and heightened geopolitical risks, PETRONAS must continue to reliably demonstrate its ability to deliver its core responsibilities while transforming to meet the energy needs of the future.

PETRONAS holds Malaysia's hydrocarbon resources in trust, and we have always striven to ensure its potential continues to be harnessed for the benefit of the people and the nation. Similarly, in our global ventures, we have sought to build partnerships and gain hand-in-hand support from our partners as well as customers in our journey towards progress.

With a strong foundation built on trust, PETRONAS has successfully balanced its unique position to fulfil its commitment as Malaysia's NOC while living up to the demanding expectations of being an international energy player. Over the years, our stakeholders have given us the opportunity to serve and create new value as their partners in progress, allowing us to continue growing as a FORTUNE Global 500 company.



## Letter from the Chairman

As we embrace a more enterprising way of work and position ourselves to seize opportunities for future growth, PETRONAS will continue to uphold the highest standards of governance and integrity as a culture in everything that we do. With our global footprint and commitment to enriching the lives of those around us, we must do our very best to strengthen our commitment to integrity at both individual and organisational levels. PETRONAS adopts zero tolerance standards on corruption, and a strict consequence management approach should the boundaries be crossed.

The foundational integrity embedded in our Shared Values along with Loyalty, Professionalism and Cohesiveness are the core principles of work ethics for all employees. We have in place a Corporate Governance framework and introduced our Code of Business Ethics (CoBE) in 2012 accompanied by an Anti-Bribery and Corruption Policy & Guidelines Manual. We have continued to step up our collaboration with the Malaysian Anti-Corruption Commission (MACC) to develop adequate measures as defined by Section 17A of the MACC Act.

In 2021, significant initiatives were implemented to strengthen groupwide awareness of the CoBE and the Anti-Bribery and Corruption Manual. This will empower employees to speak up on any wrongdoing, facilitated under the Whistleblowing Policy, to ensure secure and confidential disclosures.

A Leaders Speak Integrity series was also launched as a platform for leaders to pledge their commitment towards integrity and rally employees to always aim for exemplary conduct at all levels as a collective responsibility. Virtual dialogues were also held to provide a safe space for employees to discuss integrity-related topics.

I am also pleased to share that PETRONAS is a signatory of the World Economic Forum's Partnering Against Corruption Initiative (PACI). As part of the PACI Vanguard Board, PETRONAS leverages on the platform to collaborate with leaders from international organisations, academia and civil society to address and advocate the importance of anti-corruption measures, upholding business integrity, transparency, and accountability.

To this end, I would like to assure that the PETRONAS Board is wholly committed to upholding the highest standards of governance and steadfastly supports all Group initiatives on integrity-related matters.

### Delivering Our Amanah to The Nation

As we set out to serve our stakeholders safely and reliably, PETRONAS has never wavered from its commitment to ensure the well-being of society wherever we operate. Anchored on our Statement of Purpose, we recognise the importance of enriching the lives around us, especially in these prolonged trying times.

In 2021, PETRONAS' CSR contribution which is focused on Education, Community Well-being and Development, and the Environment totalled RM1.4 billion in a span of two years alone.

Following last year's efforts, we continued to support COVID-19 relief initiatives at home and abroad where we operate, amounting to more than RM75 million in 2021. Among the efforts were repeated contributions to the National Disaster Management Agency (NADMA) funds through staff and corporate donations, *Program Bakul Prihatin Negara*, and Program CERDIK, as well as the contribution of essential items to hospitals and communities to help ease the burden in coping with the effects of COVID-19.

PETRONAS also supported the Government of Malaysia's vaccination drive with the setup of six *Pusat Pemberian Vaksin Industri* (PPVIN) for the oil and gas sector. This is in line with our commitment to provide a safer environment within the oil and gas ecosystem by achieving herd immunity for its frontliners. We donated wheelchairs to *Pusat Pemberian Vaksin* (PPV) through Yayasan PETRONAS and also launched the PETRONAS Foodbanks at our Mesra stations across Malaysia. It was indeed heartening to see our people stepping up to adopt the Foodbanks, pooling their own resources to ensure a continuous and sustainable supply of essential items to the needy. Our people continued to demonstrate exemplary courage by banding together to lend a helping hand when Malaysia endured the effects of a devastating flood in December that severely affected up to eight States. The organisation actively participated in relief efforts and contributed RM25 million to assist the Government of Malaysia with post-flood recovery.

## Letter from the Chairman



Despite the cyclical and volatile swings in the energy market, I would like to reiterate that PETRONAS will continue giving back to society towards creating positive social impact for Malaysians and the countries where we operate.

In 2021, the organisation awarded 302 scholarships via the PETRONAS Education Sponsorship Programme and enhanced the technical and vocational capabilities of 93 students through the PETRONAS Vocational Institution Sponsorship & Training Assistance (VISTA) programme to nurture a market-ready future workforce.

PETRONAS expanded its community well-being and development programmes in South Sudan with the Water for Life programme which provides rural communities with access to clean water. Closer to home, a Solar Systems Project was launched to provide electricity to Kampung Orang Asli in Berasau, Johor. In collaboration with Tata Consultancy Services, PETRONAS onboarded 50 social entrepreneurs to SEEd.Lab, a social enterprise innovation hub to address youth unemployment in Malaysia through entrepreneurial opportunities.

Our ability to uplift societies to achieve a better and sustainable quality of life has been through effective collaboration. PETRONAS has long viewed its relationship with stakeholders as a partnership underpinned by common objectives and sustained by mutual understanding, respect and trust.

For a partnership to be successful for the long-term especially at a time of uncertainty and turbulence, the aspirations of each party which include industry partners, Oil & Gas, Services and Equipment (OGSE) players, customers, the community and indeed governments must be duly recognised, and the right balance achieved to produce outcomes that prove mutually beneficial for all.

On our part, PETRONAS will continue to adapt and transform to safeguard its ability to uphold the amanah to our nation and the well-being of the people around us, and we welcome meaningful participation as well as genuine support from all parties to ensure effective contributions that create value as we forge ahead together.



## Letter from the Chairman

### Moving Forward with Purpose

The year 2021 has proven that we need to constantly be prepared to pivot when faced with the unexpected. The unprecedented challenges of the past year offered PETRONAS an opportunity to reform strategies, expedite transformation and prioritise sustainability risks. It was imperative that PETRONAS emerged from this trying period more resilient, more agile, technologically stronger and financially more robust.

The achievements of 2021 demonstrate the dedication and strength of our people coupled with a robust integrated portfolio that provided PETRONAS with the strong foundation it needed to capitalise on price recovery. I am deeply grateful to the women and men who stood by PETRONAS amidst the turbulence and offer my sincere thanks to each and every one of them.

As we progress to capitalise on this period, PETRONAS will continue in its efforts to safely deliver commercial and operational excellence. We remain focused on maintaining fiscal discipline and careful operational spending as well as preserving liquidity to ensure resiliency and high performance across the Group. We are determined to seize new opportunities for sustainable, profitable growth as we uphold our commitment to our shareholder and lay the foundation for our future growth.

The PETRONAS of the future will still have hydrocarbons as a key part of its portfolio with products delivered safely, responsibly, cost optimised, and emissions abated. The new forays that we are making in step-outs today will complement our core portfolio to provide energy for a world that continues to progress and develop, while being in ever-greater need of solutions for emissions.

While the variety of our business offerings expands, the heart of the organisation, in its purpose and values are timeless and remain the same. Our Purpose, Cultural Beliefs, and Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness will continue to bind us together.

**PETRONAS will continue in its efforts to safely deliver commercial and operational excellence.**



## Letter from the Chairman

Looking ahead, the pressures on PETRONAS are only going to increase as we continue to bear the expectations and aspirations of Malaysia and the communities where we operate. We must make our move to navigate through the turbulence to find our position for the future. In our quest to create a sustainable legacy for the next generation, we must steer the business and shape an energy future that they deserve, one in which PETRONAS will continue to be their preferred energy and solutions partner.

### In Appreciation

On behalf of the PETRONAS Board, I would like to take this opportunity to record my sincere appreciation to Tan Sri Ahmad Nizam Salleh for all his contributions as Chairman since August 2018 and wish him every success in his new undertakings. I would also like to extend a warm welcome to three of our Directors who joined the Board during the year – namely, Mr Thayaparan S. Sangarapillai as Independent Non-Executive Director, Chairman of the Risk Committee and a member of the Audit Committee; Puan Liza Mustapha as Executive Director; and Datuk K Y Mustafa as Non-Independent and Non-Executive Director. I am confident that their collective experiences and diverse insights will be valuable additions in providing the right steer for the Group, especially as we navigate through these challenging times.

Furthermore, I would like to thank Datuk Tengku Muhammad Taufik, President and Group CEO of PETRONAS, and his Leadership Team for ensuring the company continues to dutifully discharge its obligations and responsibilities despite facing overwhelming odds and challenges. My deepest gratitude also to our employees for their perseverance in upholding the trust as we continue to brave these trying times.

Finally, I would like to express my deep gratitude for our valued stakeholders – the Federal Government of Malaysia, State Governments and the Governments of our Host countries, industry partners and customers for their strong support and understanding during these times of prolonged turbulence and uncertainty. With your trust and confidence in PETRONAS, I am optimistic that we will continue to grow and deliver the energy for today and tomorrow, as your progressive energy and solutions partner.

**Tan Sri Dato' Seri Mohd Bakke Salleh**  
Chairman

**We continue to bear the expectations and aspirations of Malaysia and the communities where we operate.**



# Letter from the President and Group Chief Executive Officer

The Group is fully committed to remain disciplined in its delivery of our Three-Pronged Growth Strategy, and resolute in our efforts to achieve the goal of net zero carbon emissions by 2050.

Profit/(Loss)  
After Tax  
**RM48.6**  
billion  
2020: (RM21.0) billion  
**+>100%**

Revenue  
**RM248.0**  
billion  
2020: RM178.7 billion  
**+39%**

Even as we contend with this volatile period, PETRONAS' priority remains to ensure the security of energy supply for Malaysia and our customers around the world. The Group is fully committed to remain disciplined in its delivery of our Three-Pronged Growth Strategy, and resolute in our efforts to achieve the goal of net zero carbon emissions by 2050 (NZCE 2050).

In discharging this daunting responsibility, I am pleased to report that PETRONAS delivered a strong performance in 2021. The results were delivered under challenging circumstances faced by every member of the PETRONAS family as the threat of the COVID-19 pandemic remains ever present in our day-to-day operations. It is with great pride that I am able to report that given the unwavering contribution and support of PETRONAS' employees and its partners, the Group remained on steady footing to weather possible market shocks. Given the resilience on display, I remain confident that PETRONAS can, and indeed will, continue to deliver even more meaningful results as a progressive energy and solutions partner enriching lives for a sustainable future.

## Upholding the Safety of Our People

Upholding our people's safety is PETRONAS' top priority. In 2021, the Group ensured operations continued to run safely, reliably and efficiently with minimal interruptions. Across our operations, significant efforts were undertaken where work practices were modified to build safe working environments and quality processes in accordance with COVID-19 guidelines, upholding zero compromises on safety and integrity.

Although Major Fire was contained to one incident, the lowest in the past 12-year period, we remain susceptible to high-risk situations in our work. Regrettably, we lost three colleagues in the line of duty. The Safety Stand Down was held for the Group to reflect on the incidents and its root causes. I cannot emphasise enough that we must learn from these incidents and do everything possible in strengthening a safe working environment and culture where everyone goes home safely.

Extensive vaccination programmes were also rolled out for employees, contractors and the community where we operate. Sadly, 64 deaths involving staff and contractors were recorded cumulatively due to COVID-19 since the

## Letter from the President and Group Chief Executive Officer

### Esteemed Stakeholders,

As we are now all too aware, recent events have overtaken the brief respite which the oil and gas industry experienced in 2021, following the unprecedented challenges of 2020. The impact of the tragic conflict between Russia and Ukraine, which continues to unfold as I write this, is still being felt globally and it is our hope that a peaceful resolution will be achieved soon.

This conflict has roiled energy markets and has presented fresh uncertainties that threaten an already uneven and extremely fragile post-pandemic recovery. Driven by heightened concern over disruption in energy supply in a market already facing structural supply issues, prices for human sustenance and economic activity have escalated to record highs- presenting even more complex challenges and added uncertainty to the economic recovery.

**Datuk Tengku Muhammad Taufik**  
President and  
Group Chief  
Executive Officer

pandemic started. Recognising the psychological impact of COVID-19 on mental health, various targeted interventions focused on employees' mental well-being were also implemented to provide employees with access to trained professionals to improve their physical and mental health.

By the end of 2021, the Group achieved 80 per cent vaccination and booster rates for employees. These deliberate efforts were absolutely essential for PETRONAS to continue serving our customers safely and efficiently, ensuring their energy security as we weathered the unavoidable challenges of operating during a pandemic.

### Strengthening Our Core and Growth Portfolio

PETRONAS recorded a commendable performance in 2021, significantly outperforming the previous reporting year. We achieved RM48.6 billion in Profit After Tax (PAT), in marked contrast to a Loss After Tax of RM21.0 billion in 2020. Revenue stood at RM248.0 billion in 2021.

The sustained operational resilience demonstrated by the Group contributed to its strong performance, further supported by surging commodity prices driven by the recovery in global energy demand as key economies reopened and travel restrictions eased amid higher COVID-19 vaccination rates around the world.

The results we registered for the year in review demonstrated the unwavering dedication of the PETRONAS workforce and the robustness of the Group's integrated portfolio. We remained resilient through two years of extreme disruptions to the energy ecosystem, eventually benefiting from the oil price and market recovery. Our consistent emphasis on ensuring strong integrated operational performance enabled us to maximise our cash generators.

Letter from the President and Group Chief Executive Officer

The Group achieved significant progress in line with our Three-Pronged Growth Strategy, further strengthening our core and growth portfolio to provide the energy needed for today while we invest for the future.

Upstream	Gas + New Energy	Downstream	Project Delivery and Technology
<p>Delivered projects and commercial solutions as a safe, resilient, low-cost and low-carbon exploration and production (E&amp;P) business.</p> <ul style="list-style-type: none"><li>Recorded total daily production average of 2,275 thousand barrels of oil equivalent (boe) per day.</li><li>Malaysia Bid Round 2021 – one of our most successful bidding rounds where close to 50 per cent of acreages offered were taken up by small and major players, further demonstrating Malaysia as a world class investment destination.</li><li>PETRONAS marked its entry into the prolific Santos Basin of Brazil with 21 per cent participating interest in the Sépia field, in line with the Group's global growth strategy.</li><li>Eight greenhouse gas (GHG) emissions reduction projects were completed in Peninsular Malaysia, Sarawak and Sabah with cumulative GHG reductions estimated to be 3.83 million tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) per year.</li></ul>	<p>Strengthened reliability to meet customer needs for lower-carbon energy at a cost to serve to support the energy transition.</p> <ul style="list-style-type: none"><li>Safe delivery of more than 12,000 LNG cargoes from the PETRONAS LNG Complex (PLC) in Bintulu since operations began in 1983.</li><li>Providing customers in Japan and China with reliable supply of carbon neutral LNG cargoes, supporting their respective transition to a low-carbon economy.</li><li>960 Virtual Pipeline System (VPS) and LNG bunkering deliveries completed in 2021, ensuring greater access to LNG for off-grid customers.</li><li>Close to 1 GW of solar capacity in operation and under development.</li></ul>	<p>Sustained operational performance and expanded its offerings with innovative customer-focused solutions.</p> <ul style="list-style-type: none"><li>Recorded stable operations with Overall Equipment Effectiveness (OEE) sustained at 93.3 per cent, on the back of strong asset reliability.</li><li>BRB International located in PCG's petrochemical complex in Gebeng, Kuantan – a 8,000 tonnes per year facility manufacturing cosmetic grade silicone gum blend, technical and food grade silicone emulsion and silicone antifoam is the first and only producer in Southeast Asia.</li><li>PETRONAS Marine – a one-stop marine solutions partner for the shipping industry completed its first LNG bunkering operations in Sabah, developing Malaysia as an LNG bunkering hub.</li><li>Malaysia Airlines' inaugural flight from Amsterdam to Kuala Lumpur using sustainable aviation fuel (SAF) supplied by PDB in collaboration with PETCO Trading (UK) Ltd, Malaysia Aviation Group and Neste demonstrates the viability of SAF in decarbonising the aviation sector.</li></ul>	<p>Maximised value for PETRONAS' businesses with project delivery excellence, technical innovations and digital synergy.</p> <ul style="list-style-type: none"><li>Managed 587 projects valued at more than RM9 billion.</li><li>RM25 million registered in commercialisation revenue through the deployment of 17 technologies and 98 TechApps softwares.</li><li>Created RM830 million in total value creation through ARIES, our digital enabling engineering solutions.</li><li>Achieved RM818 million in cash generation through Alpha Series, a digital transformation of our value chain.</li></ul>

As much as we contend with the inexorably accelerating energy transition, oil and gas continues to remain essential sources of energy to propel the global economy. In recognising this, PETRONAS will continue to focus and amplify its efforts towards the decarbonisation of our operations and seize new areas for growth. The Group will execute this even as it steadfastly adheres to ensure safety in pursuit of commercial and operational excellence. We will continue to exercise firm discipline when reinvesting to strengthen our core and grow our portfolio, given our responsibility to prudently manage our financial commitments and debt obligations.

During the year in review, PETRONAS also continued with its practice of enforcing effective portfolio management. It is necessary to emphasise that continuous portfolio management is part and parcel of any commercial entity's ongoing obligation to its shareholders. This ensures the assets under its care are capable of generating the required returns from the capital it deploys, given the risks it expects to undertake.

To this end, the Board of PETRONAS regularly examines the Group's portfolio and determines candidates for both growth and divestment. The recent conclusion of our

Letter from the President and Group Chief Executive Officer

divestment from Myanmar, Azerbaijan, and Chad signifies the ongoing effort to reshape our portfolio and redeploy capital to our identified areas of growth. The direction we are undertaking is centred on preserving and strengthening our core portfolio even as we grow our new energy business to remain relevant, resilient and sustainable given a lower carbon future.

In laying the foundation for our future growth and upholding our commitment to our shareholder for long-term economic value creation, PETRONAS' priority going forward is to deliver energy from our portfolio as differentiated products that are safe, responsible, cost-optimised and emissions abated for the energy security and sustainability of Malaysia and our customers across the globe.

Nurturing an Ecosystem for Collective Progress

In our role as the National Oil Company, PETRONAS fully recognises the *Amanah* – the duty of trust- it has to fulfil to its stakeholders to be their partner in progress. This sacred responsibility to maximise the value of the nation's hydrocarbon resources is enshrined in the 1974 Act that brought us into being and remains our duty for shared prosperity and energy security.

In 2021, PETRONAS together with the State Governments of Sarawak and Sabah have entered into mutually beneficial agreements which now secure the path to value creation opportunities for all parties. On our part, PETRONAS will continue to grow our heartlands in Sarawak and Sabah for shared prosperity, anchored on our mutual commitment to develop the respective State's oil and gas industry. PETRONAS will deliver this by inviting increased participation throughout the value chain- in effect, working closer together to grow the "value pie".

While the oil and gas industry has long been vulnerable to the boom-and-bust cycles, the unprecedented challenges of the past two years will very likely remain significant for a good while yet. Therefore, resilience will be required to respond to the

energy market shocks and navigate the challenges presented by energy transition – which includes nurturing a robust and strong Oil & Gas, Services and Equipment (OGSE) ecosystem.

In recognition of this, it is important to note that the Group's initiatives to elevate the robustness of the OGSE sector were initiated as far back as 1993 with the rollout of the Vendor Development Programme. Initiatives continue to be introduced and implemented to improve the overall resilience and maintain the stability of the ecosystem at large.

These initiatives have been wide-ranging: from facilitating financial assistance in collaboration with banks under the Vendor Financing Programme, to becoming the first Government Linked Company (GLC) to support the JanaNiaga initiative by the Ministry of Finance and Exim Bank to assist Small and Medium Enterprises (SMEs) under the Malaysia economic recovery plan.

We have also been continuously investing in upskilling OGSE capabilities under the PETRONAS Vendor Development Programme (VDP) since its inception. To this end, the VDPx programme launched in 2018 empowered VDP anchors to replicate the programme to develop their very own vendor ecosystem.

PETRONAS recognises its role as a catalyst for the Malaysian OGSE sector, and it remains committed in working together with our partners. This collaboration will become even more important, even as the oil and gas industry collectively accelerate its efforts to decarbonise operations as part of a far-reaching energy transition. Such a transition must be executed responsibly and sustainably, where we would need to deploy lower-carbon technologies strategically and systematically.

So, this next statement cannot be reiterated enough times, it has become absolutely critical for our OGSE players to pursue innovation, so they can ultimately be as competitive as global players in the course of doing business. This would ensure the

projects we pursue and the production we aspire can remain technically and economically feasible, despite the inevitable cyclical swings in the energy market.

Overall, PETRONAS will continue to nurture a robust OGSE ecosystem to strengthen our resilience in responding to these challenges and effectively contribute to Malaysia's economic growth. In this opportunity, I would like to thank our valued stakeholders – Federal and State Governments, agencies and authorities, and OGSE partners for their many efforts and support for PETRONAS to continue growing the value pie of the nation's hydrocarbon resources for the benefit of the nation and its people.

Accelerating Our NZCE 2050 Aspiration

As we navigate the increasingly challenging operating landscape, the call for greater action to manage the energy transition has never been stronger. As I write to you today, we now live in a time described by many as a "post-Glasgow" era. It has become abundantly clear to the world at large – after COP26 was convened in this Scottish city in 2021 – that a more intense focus on decarbonisation efforts must be accelerated, not later, but right now.

Governments are transitioning towards a low-carbon future where approximately 90 per cent of the world has committed to net zero targets. Malaysia is no exception: it too has pledged to reduce its carbon intensity by 45 per cent by 2030 and aims to deliver net zero by 2050, with its path to action outlined in the Twelfth Malaysia Plan.

On this front, PETRONAS had the privilege and opportunity to collaborate with the Economic Planning Unit (EPU) to develop clear targets and policies for the National Energy Policy and the Natural Gas Roadmap which aims to provide the optimal balance of energy equity, security and sustainability for Malaysia.



## Letter from the President and Group Chief Executive Officer

PETRONAS will indeed support these national ambitions and strengthen our own targets and governance towards progressing our NZCE 2050 aspiration. Our recent progress on this front includes the endorsement of the World Bank Zero Flaring Commitment and the successful organisation of the ASEAN Methane Roundtable. We are also leveraging on our partnership since February 2020 with the World Business Council on Sustainable Development (WBCSD) towards adopting the Task Force on Climate-related Financial Disclosures (TCFD) to ensure our continued ability to access financial markets.

Furthermore, through increased technological partnerships with industry players, PETRONAS is undertaking efforts to unlock Malaysia's potential as a regional carbon capture and storage solutions (CCS) hub. PETRONAS is also exploring opportunities in lower-carbon solutions through collaborations in carbon dioxide (CO<sub>2</sub>) storage technologies, deployment of DC Fast EV chargers at Mesra stations across Malaysia, and undertaking a joint feasibility study in carbon-neutral methane.

Through rigorous efforts in decarbonising our operations, I am pleased to share that we are on track with total reduced GHG emissions in Malaysia by 5.4 per cent in 2021 to 43.8 million tCO<sub>2</sub>e, below our 2024 mid-term target which is to cap GHG emissions to 49.5 million tCO<sub>2</sub>e in Malaysian operations. While our methane emissions intensity has also recorded a steady downward trend, more can be done and accordingly our efforts will be intensified on this front.

### Seizing Opportunities for Future Growth

Looking ahead to 2022, while there is a certain degree of recovery and growth expected with the reopening of economies, immense uncertainties still prevail. Therefore, PETRONAS will continue exercising prudent financial management given our cautious outlook amid an ultra-volatile geopolitical environment and an accelerating energy transition. At the same time, it is also imperative for the Group to seize the attractive opportunities which will surface as the energy transition unfolds.

In 2022, PETRONAS will be undertaking its next phase of growth by elevating the progress that has been achieved under the Gas + New Energy (G+NE) business. PETRONAS is determined to grow the new energy business profitably at scale and with pace by establishing a new, independent entity focused fully on cleaner energy solutions. This entity will be charged to capture opportunities at pace in the energy transition alongside our core portfolio by providing customers with lower-carbon solutions in three core offerings – Renewables, Hydrogen and Green Mobility. Our ambition is for the entity to eventually be uncompromisingly green, addressing our customers' growing need for cleaner energy solutions and supporting the shared global aspiration for a lower carbon future.

PETRONAS will also be accelerating decarbonisation efforts across its own entire integrated value chain by managing a carbon storage portfolio for emissions produced by its operations and establishing a regional storage hub for carbon emissions as a new revenue generator.

We are positioning ourselves to accelerate growth in these fast-developing spaces with the new entity and the Carbon Management Unit. The Group is confident that with the strength and reliability of its core portfolio combined with our new suite of offerings, PETRONAS will evolve to present itself to its customers as an 'energy superstore' that powers businesses and fuels progress in a just and sustainable manner.

I look forward to sharing more exciting updates with you in due course.

### Upholding the Trust Anchored on Shared Values

As PETRONAS positions itself for the future, it remains our sacred duty to manage and maximise the nation's hydrocarbon resources for the benefit of all, and we will continue to do so with integrity and professionalism.



PETRONAS has in place a fully functioning Corporate Governance framework. Our constituted organisational structure continues to see an Internal Audit function that reports directly to the independent directors on our Board Audit Committee.

Our employees are guided by the PETRONAS Code of Business Ethics (CoBE) and the Anti Bribery and Corruption Policy & Guidelines Manual in how they should ethically carry out his or her duties. PETRONAS also continues to leverage its collaboration with the Malaysian Anti-Corruption Commission (MACC) which was initiated since 2012. Following the formation of an Integrity Unit in PETRONAS, we have a fully functioning Whistleblowing Committee chaired by a Chief Integrity Officer who independently reports to the PETRONAS Board.

With collaboration as the cornerstone of all our endeavours, PETRONAS takes accountability of the resources we have been entrusted with. The organisation's actions are deeply embedded with the Shared Values of Integrity, Professionalism, Cohesiveness and Loyalty, living up to our purpose as a trusted partner for progress for our stakeholders.

Even as it discharges its duty of trust in managing the nation's valuable resources, PETRONAS fully recognises that managing such finite resource cannot be an infinite venture. For the benefit of the nation and the generations to come, PETRONAS contributed RM100 million to the

## Letter from the President and Group Chief Executive Officer

National Trust Fund during the year where the fund size stood at RM17.5 billion as at 31 December 2021. Since the Fund was created in 1988, PETRONAS remains its sole contributor with cumulative contributions of RM10.5 billion as at 2021.

Despite the obvious headwinds we faced and challenging markets we contended with, Alhamdulillah I am pleased to report that PETRONAS was able to continue with its social initiatives in the areas of Education, Community Well-being and Development, and the Environment. It is a great source of pride to the organisation that it was able to remain unwavering in its commitment to these causes, and registered RM1.4 billion in Corporate Social Responsibility (CSR) contributions in these areas within the past two difficult years alone.

PETRONAS' commitment – to Malaysians and the societies we serve – remains intact and we will continue to uphold the highest standards of governance and integrity for the well-being of the organisation, even as we continue to navigate in a volatile and uncertain business landscape.

### Acknowledgements

The stage is well and truly set for PETRONAS to step up even more meaningfully in pursuing its purpose and delivering profitable growth, responsibly and sustainably. To this end, we would be the first to recognise that the respectable performance we registered in 2021 was due to the contribution and efforts of many parties whom we now wish to acknowledge.

Permit me to firstly place on record my appreciation to members of the PETRONAS Board of Directors, for their wise counsel and vigilant stewardship that saw us navigate the challenging period to emerge a stronger and more resilient organisation.

Given this opportunity, please allow me to extend my personal and heartfelt appreciation to Tan Sri Ahmad Nizam Salleh, who will always be remembered as an upright and thoughtful leader who has made innumerable contributions - not only throughout his three-year tenure as Chairman, but over his many decades of service to the PETRONAS Group of Companies.

On 1 August 2021, it was the distinct privilege of PETRONAS to welcome Tan Sri Dato' Seri Mohd Bakke Salleh as its new Chairman. Given Tan Sri Dato' Seri Mohd Bakke's reputation for integrity, astute insights and commercial acumen, I am assured his vast experience will ensure that the organisation remains a trusted partner for progress.

In 2021, we bid farewell to two members of the PETRONAS Executive Leadership team – Encik Maliki Kamal Mohd Yassin, who retired as Senior Vice President and Group General Counsel and Haji Samsudin Miskon, who retired as Senior Vice President of Project Delivery and Technology (PD&T). We are immensely grateful for their dedicated service to the organisation and unwavering support to see us through the many challenges faced by the industry. They have now been ably succeeded by Encik Razman Hashim and Haji Bacho Pilong respectively.

In early 2022, we saw the departure of Datuk Md Arif Mahmood, Executive Vice President and CEO of PETRONAS Downstream Business, after 37 illustrious years with the company. A friend and mentor to many, he became known as a leader who pushes boundaries, as demonstrated in his pivotal role in our Pengerang Integrated Complex (PIC). In his stead, we welcome Datuk Sazali Hamzah, who previously served as Vice President and CEO for PETRONAS Chemicals Group Bhd (PCG).

No acknowledgment would be complete without thanking our employees, stakeholders and industry partners both at home and wherever we operate for their unwavering contribution, support and trust in PETRONAS.

The PETRONAS family looks forward to navigating this next phase of growth with you as we fulfil our purpose and become your preferred progressive energy and solutions partner.

**Datuk Tengku Muhammad Taufik**  
President and  
Group Chief Executive Officer





# Letter from the Executive Vice President and Group Chief Financial Officer



**Liza Mustapha**  
Executive Vice President and  
Group Chief Financial Officer

PETRONAS Group delivered a strong set of financial and operational results for the year as the company continued to accelerate its recovery efforts. Improvements in global energy prices have been fundamental this year, with the reopening of economies globally. Despite the rising trend in energy prices, the situation remained volatile and uncertain. The global landscape faces ongoing COVID-19 challenges, geopolitical factors and supply chain disruptions, which coincided with the acceleration of the energy transition. Therefore, the Group responded to the favourable market conditions with a disciplined approach. Despite the prevailing high oil price towards the end of the year, we exercised fiscal discipline to ensure long term sustainability and growth. As such, we remain prudent and maintain our long-term price outlook within the range of USD50-60/bbl. At the same time, the Group continued to strengthen the core business through commercial and operational excellence, while accelerating its efforts to pursue growth in non-traditional businesses. The focused execution of strategies coupled with agile and resilient operations, has been key to the Group's commendable performance in 2021.

## Letter from the Executive Vice President and Group Chief Financial Officer

### Our Financial Year in Review

PETRONAS achieved a Profit After Tax (PAT) of RM48.6 billion for 2021, which is a major turnaround from the Loss After Tax (LAT) of RM21.0 billion the previous year. PAT for the year also exceeded the RM40.5 billion recorded in FY2019, before the industry-wide disruptions caused by COVID-19. The substantial rise in profit was driven by a rebound in revenue and the effectiveness of cost discipline measures that PETRONAS continued to practice.

The Group saw a substantial rise in revenue to RM248.0 billion, a 39 per cent increase from the RM178.7 billion recorded in 2020, also exceeding the RM240.3 billion recorded in 2019. The significant increase in revenue was contributed by rising energy prices, following a rebound in demand for gas, petroleum products and Liquefied Natural Gas (LNG), amongst other market influences.

PETRONAS also saw stronger performance across other key financial metrics. In line with the higher revenue and effective cost management, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) rose to RM100.5 billion, an 82 per cent increase from the previous year's RM55.3 billion.

### Segmental Performance

PETRONAS Group recorded improved performance across all three business segments in 2021. While the volatile crude oil prices in 2021 had varying impacts across different business segments, the Group as a whole benefitted from the integrated business that encompasses the total oil and gas value chain.

**Upstream** business recorded revenue growth of 48 per cent to RM104.4 billion by capitalising on rising energy prices and higher gas demand from Malaysia and international operations. Upstream's PAT stands at RM34.5 billion for the year.

**Gas + New Energy (G+NE)** business recorded a 38 per cent increase in revenue, to RM85.8 billion. G+NE's overall performance was positively impacted by the increase in energy prices, maximising gas and LNG sales to fulfil the market supply-demand gap. G+NE also achieved growth by leveraging the increasing demand for new energy products.

**Downstream** revenue rose by 46 per cent to RM124.5 billion. The business saw a rise in the cost of inputs as energy and feedstock prices were higher than normal in 2021. Stronger financial results for the year can be attributed to an increased focus on cost discipline and securing more favourable commercial deals by being more customer-centric.

### Profit/(Loss) After Tax

2021	2020
<b>RM48.6 billion</b>	<b>(RM21.0) billion</b>

▲ >100%

PAT for the year also exceeded the RM40.5 billion recorded in 2019

### Revenue

2021	2020
<b>RM248.0 billion</b>	<b>RM178.7 billion</b>

▲ 39%

Revenue exceeds the RM240.3 billion recorded in 2019

**The Group saw a substantial rise in revenue to RM248.0 billion, a 39 per cent increase from the RM178.7 billion recorded in 2020, and exceeds the RM240.3 billion recorded in 2019.**



Letter from the Executive Vice President and Group Chief Financial Officer



**Total Assets**  
**RM635.0 billion**  
(2020: RM574.1 billion)



**CFFO**  
**RM78.6 billion**  
(2020: RM40.7 billion)



**CAPEX**  
**RM30.5 billion**  
(2020: RM33.4 billion)

Strong Financial Position

The Group's Cash Flows from Operations (CFFO) remained robust at RM78.6 billion, in line with higher cash operating profits. CFFO margin also increased to 32 per cent in 2021, up from 23 per cent in 2020. Stronger cash flow during the year resulted in a 29 per cent rise in the Group's net cash position to RM67.2 billion for 2021. The current solid cash position puts PETRONAS in the top quartile among its peer group of international oil majors.

Total assets stood at RM635.0 billion as of 31 December 2021, marking an 11 per cent rise from RM574.1 billion in the preceding year. Growth in assets during the year was attributable to higher cash and fund investments, as well as higher receivables, in line with higher benchmark prices.

Cash flows from operating activities grew by RM37.9 billion or 93 per cent from 2020, in line with higher cash from operations. Additionally, gearing ratio increased to 23.1 per cent from 21.3 per cent in 2020, which is primarily due to the issuance of notes and bonds.

Prudent Financial Management

Despite the more favourable operating environment, PETRONAS continued to maintain stringent financial discipline during the year. The Group worked to achieve the right balance between financial prudence and strategic investments to catalyse future growth.

During the year, PETRONAS continued to invest in growth projects. However, many projects were affected by the prolonged movement restriction order, coupled with supply chain interruptions. Both domestic and international projects experienced delays and deferrals, resulting in a nine per cent decrease in capital expenditure (CAPEX) to RM30.5 billion.

CAPEX continues to be divided almost equally between Malaysia and international projects. A total of RM15.0 billion was directed to domestic projects, principally in the Upstream segment, where the focus remained on the development of new fields. International expenditure continues to be primarily directed to the monetisation of gas in Canada and the shipping business in China and the Americas.



Letter from the Executive Vice President and Group Chief Financial Officer



**Both bond issuances were well received by investors in the international debt capital market, drawing high demand, resulting in the lowest coupon and tightest issue spreads in PETRONAS' 30-year issuance history.**

Additionally, the Group invested in innovative technologies that aim to improve the efficiency and costs of operations. For instance, Upstream adopted remote operations applications at eight drilling sites for improved cost savings.

The majority of the CAPEX for 2021 was directed to maintaining existing cash generators. However, significant investments were channelled towards future growth drivers, which includes non-traditional businesses such as solar and speciality chemicals.

Debt Capital Market

PETRONAS continuously assesses its funding requirements and evaluates financing strategies in order to optimise the cost of funding and capital. During the year, PETRONAS issued two bonds as part of the Global Medium-Term Notes programme. The first bond, worth USD600 million, was issued by PETRONAS Energy Canada Ltd (PECL) to fund its continued development and production activities in Canada. The second bond was issued by PETRONAS Capital Limited (PCL), amounting to USD3 billion, to refinance PETRONAS' maturing debts

in 2022. Both issuances were well received by investors in the international debt capital market, drawing high demand, resulting in the lowest coupon and tightest issue spreads in PETRONAS' 30-year issuance history. This is a testimony to the strength of its credit and investors' confidence in the Group's financial future. These issuances have further strengthened PETRONAS' balance sheet and extended its debt maturity profile.



Letter from the Executive Vice President and Group Chief Financial Officer

Credit Rating

PETRONAS’ credit ratings remain strong, with a rating of A2, A- and BBB+ from Moody’s, Standard & Poor’s (S&P) and Fitch, respectively. The standalone credit profile is four notches above PETRONAS’ credit ratings, as assessed by S&P and Fitch. These ratings bear testimony to PETRONAS’ robust financial strength and solid business fundamentals, which bolster our ability to adapt and remain resilient amidst the new normal for the industry and market.

Contributions to Governments

PETRONAS’ contribution to the Federal Government of Malaysia and state governments amounted to RM48.2 billion for the year ended 31 December 2021. This includes dividends, taxes and cash payments. In addition, PETRONAS paid RM100 million to the National Trust Fund (NTF) in 2021.

To this end, PETRONAS’ cumulative contributions to the Federal Government of Malaysia, state governments and NTF amounted to RM1.3 trillion.

Delivering on Our Purpose Beyond Profit

The year witnessed evolving stakeholder expectations and global pressure on businesses to identify and manage their environmental, social and governance (ESG) impacts. Within the energy industry, oil and gas producers are expected to devise strategies to respond to the energy transition as well as any direct implications on their business and operations. Against this backdrop, one of the biggest change for oil and gas (O&G) companies would be to redirect sizeable capital or investment towards other sustainable sources of energy and low carbon solutions such as carbon capture and storage (CCS) technologies.

In response to this changing landscape, PETRONAS has allocated approximately 20 per cent of total CAPEX over the next five years for green investments in pursuit of meeting the net zero carbon emissions by 2050 (NZCE 2050) aspiration. In 2021, close to RM1.0 billion of CAPEX was spent on stepping out beyond our



Cumulative Contributions to Governments and NTF  
**RM1.3**  
trillion

core business, mainly on renewables. In 2020, PETRONAS Group embarked on its first decarbonisation project for high carbon dioxide (CO<sub>2</sub>) gas field at the Kasawari gas field in the waters off Sarawak.

The project will deploy CO<sub>2</sub> reinjection technology into a storage reservoir, potentially preventing up to 90 per cent of emissions, or 3.7 million tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e), from being released into the atmosphere. This will entail significant initial investment. Under the annual Plan and Budget FY2022-2026, various investments shall be explored including carbon offsets and carbon technologies towards delivering NZCE 2050.

Moving Forward

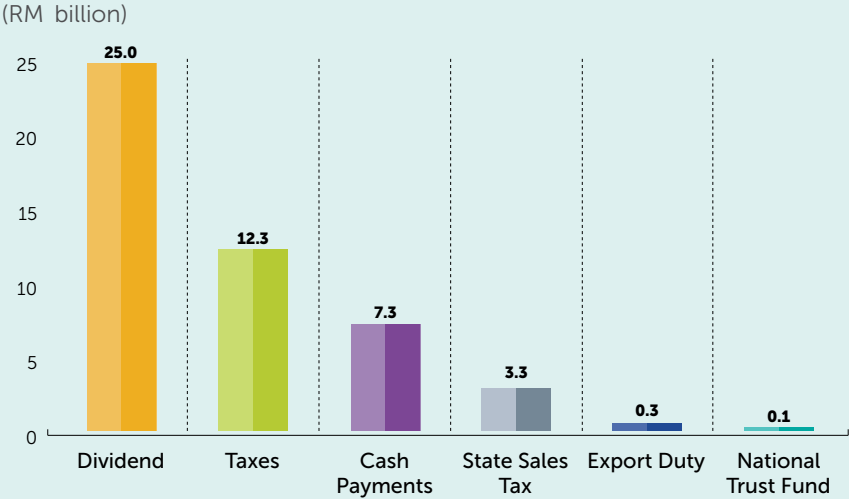
The outlook for the year ahead remains uncertain. Volatility in oil prices will continue to pose new challenges in the operating environment. The strong rebound in energy prices since the beginning of 2021 has been supportive of PETRONAS Group’s performance. Notwithstanding, the current state of higher prices could well be short-lived, given the uncertainties of geopolitical climate, along with other shocks that could hit the energy market. This is further aggravated by significant pressure arising from energy transition, which necessitates us to intensify efforts to decarbonise, and scale up investments in the renewables space. Accordingly, the business remains cautious and continues to focus on operational efficiencies, commercial excellence and prudent financial management.

The year 2022 will be critical to revive delayed or deferred projects mainly from the disruptions caused by COVID-19. An increase in capital expenditure from project launches and deals is expected, coupled with a steep rise in renewables and low carbon technology and solutions spending in the near to medium-term. PETRONAS is well-positioned to leverage this changing landscape, with its affordability matrix, where necessary investments have been earmarked towards future growth strategies and sustainability goals while exercising strict capital discipline.

As it enters a new year, PETRONAS will remain committed to its strategic planning process, driven by the energy transition and NZCE 2050 aspiration. The Group will achieve its ESG commitments and growth through risk assessments, cost controls, responsible governance and above all, strong fundamentals for sustainable value creation.

**Liza Mustapha**  
Executive Vice President and Group Chief Financial Officer

Components of contributions to the Federal Government of Malaysia, state governments and NTF



In 2021, close to RM1.0 billion of CAPEX was spent on stepping out beyond our core business, mainly on renewables.



## Dear Stakeholders,

I am pleased to join PETRONAS as its first Vice President and Chief Sustainability Officer during an exciting albeit trying time. The world is at a pivotal moment. The events of recent years have highlighted the importance of addressing societal and environmental challenges. From the socio-economic impacts of the COVID-19 pandemic to rising climate-related disasters, the need to build a more resilient and sustainable future is clearer than ever. People across society are looking at businesses to help drive this sustainability agenda, with increasing pressure from customers, investors, regulators and other stakeholders. For the energy sector, this means undergoing a radical shift towards greener, low-carbon solutions capable of meeting long-term energy demands. This energy transition is necessary to limit the worst effects of climate change and stimulate sustainable and inclusive economic development.

At PETRONAS, we are embracing these rising expectations for sustainable business practices. Sustainability to us goes hand-in-hand with our long-term strategic objectives. By taking a proactive stance we protect our business from environmental, social and governance (ESG) risks and improve our prospects to achieve long-term growth while supporting the needs of our stakeholders. Therefore, we view the rapid changes as a defining opportunity to create positive change benefitting more segments of the population – transforming the energy system to create economic growth, revitalising society and leaving behind a better planet for future generations.

### The Sustainability Landscape

At the 2021 United Nations' Climate Change Conference (COP26) held in Glasgow, United Kingdom, I sensed new levels of commitment to climate action. People from a range of groups, including the private sector, governments, investors, NGOs and activists, came together to try and solve the global climate crisis. The conference was framed by the findings of the 6th Assessment Report by the Intergovernmental Panel for Climate Change (IPCC), which warns that without drastic and immediate action to reduce greenhouse gas emissions, the world is headed towards a global temperature increase significantly above 1.5°C that is expected to result in irreversible consequences.

# Letter from the Vice President and Chief Sustainability Officer

## Letter from the Vice President and Chief Sustainability Officer



**Charlotte Wolff-Bye**  
Vice President and  
Chief Sustainability Officer



## Letter from the Vice President and Chief Sustainability Officer

COP26 is considered a significant turning point in collective climate action, as 90 per cent of global Gross Domestic Product (GDP) has now committed to achieving net zero carbon emissions. The pledges made alongside the COP26 event support the global shift to more sustainable solutions, with many international leaders taking a stance on the energy transition. For instance, over 100 countries signed the Global Methane Pledge, limiting methane emissions by 30 per cent by 2030, compared to 2020 levels. Several nations have also committed to phasing out the use of coal, including Malaysia. In support of the energy transition, the Glasgow Financial Alliance for Net Zero (GFANZ), a global coalition of leading financial institutions pledged over USD130 trillion of private capital to accelerate decarbonisation with a specific emphasis on developing countries.

Over the year, nature has become a key aspect in climate-related policy discussions. The alarming loss of biodiversity is now recognised as a critical factor in securing a stable climate and well-being for the world's population. Also here we can expect greater demands on corporate action.

Malaysia is classified as one of the most biodiverse-rich countries in the world. Going forward, we will seek to better understand our impact on nature and take more assertive action in promoting nature conservation.

The social aspect of sustainability has also gained much needed attention recently. The disproportionate impacts of COVID-19 on vulnerable communities highlighted severe inequalities faced by society, resulting in increased calls for action. Companies are scrutinised for their diversity and inclusion efforts, human and labour rights practices, and stance on other societal issues.

It is important to note that many economies are at very different stages of maturity in navigating the sustainability landscape. We are conscious that the energy transition needs to be just and equitable, especially in Asia, where major economic gaps exist between and within countries. This requires unprecedented collaboration between policymakers, industry, investors, community groups and society at large in driving an energy transition that creates better outlooks for the growing population of the region.

**The social aspect of sustainability has also gained much needed attention recently. The disproportionate impacts of COVID-19 on vulnerable communities highlighted severe inequalities faced by society, resulting in increased calls for action. Companies are scrutinised for their diversity and inclusion efforts, human and labour rights practices, and stance on other societal issues.**



**It is pertinent that PETRONAS, in its capacity as a national oil and gas company, develops its own unique narrative that is specific to Malaysia, building on the strength and ambition of the nation.**

### Institutionalising Sustainability

The inherent link between climate change, nature loss, persistent inequality, and business resilience and performance is now better understood. The debate has moved on from the 'why' to the 'how' we should be addressing these systemic sustainability challenges. We are seeing a rapid scale up in emissions-related regulation, ESG standards and frameworks that in turn drive investor confidence in low carbon technology and solutions.

PETRONAS recognises sustainability as a critical element in how we develop our business. We are responding to the external context by developing robust data collection and analysis as a basis for future target setting, firming up governance, capacity and capability around sustainability management. We are exploring better integration of ESG factors into PETRONAS' Enterprise Risk Management (ERM) process. Similarly, we conduct an annual materiality assessment to determine key ESG matters that impact our sustainable

value creation, which is considered during risk assessments and strategic decision making. All risks identified in our corporate risk profile are deliberated by the Board through the Board Risk Committee. In 2021, this included deliberation on ESG risks associated with climate change, health and safety, and human rights.

The establishment of my new role, Chief Sustainability Officer (CSO), reporting directly to the President and Group Chief Executive Officer, sets out to orchestrate PETRONAS' roadmap for our net zero carbon emissions by 2050 (NZCE 2050) aspiration, to guide future business propositions and PETRONAS' journey across the value chain in working towards this aspiration. It is pertinent that PETRONAS, in its capacity as a national oil and gas company, develops its unique narrative specific to Malaysia, building on the strength and ambition of Malaysia as a nation.



## Letter from the Vice President and Chief Sustainability Officer

### Towards a Low Carbon Future

We acknowledge the scientific consensus on climate change, and recognise the express need to cut our emissions in contribution towards global climate goals. In 2020, we announced our aspiration to reach net zero carbon emissions by 2050 (NZCE 2050) – the first oil and gas company in Southeast Asia to do so. Our aspiration underscores our ambition to meet higher sustainability goals for the longer term that address stakeholder concerns and support the ambitions of the Paris Agreement.

In 2021, we recorded a total of 45.2 million tonnes of carbon dioxide equivalent (MtCO<sub>2</sub>e) emissions across our global operations, a reduction of 6.4 per cent from 2020. In Malaysia, our greenhouse gas emissions decreased by 5.4 per cent to 43.8 MtCO<sub>2</sub>e from 46.3 MtCO<sub>2</sub>e, in 2020 mainly contributed by venting and flaring reduction projects in Upstream operations.

We understand that our NZCE 2050 aspiration will require a major shift in how we develop our business going forward. We are committed to expedite our emissions reduction, including a specific focus on methane emissions. To this end, PETRONAS has endorsed the World Bank's Zero Routine Flaring by 2030 Initiative, which aims to end routine flaring of associated gas from our oil production. We are also signatory to the international Methane Guiding Principles initiative that promotes collaboration between stakeholders to expedite emissions abatement.

The shift to cleaner, more sustainable energy sources present a major growth opportunity for our business. We are already on this journey. In 2021, we had close to 1 GW of solar capacity in operation and under development. We have also formalised our collaborations with customers, technology and industry partners to develop carbon capture and storage (CCS) technology as a viable abatement option for our own operations and other high emitting industries, studying the feasibility of producing carbon neutral methane and sustainable aviation fuel (SAF), to mention a few areas with promising growth prospects.

Our NZCE 2050 aspiration provides the necessary impetus for us to pursue more climate-friendly solutions and opportunities in the broader energy space that will create sustainable new values for the organisation.

To openly inform and engage our stakeholders in how climate change may affect our business both from downside risk and opportunity angles, PETRONAS will adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), with a target to commence our disclosures in 2023.

### Partners of Society

As we increase our efforts in protecting the planet, we remain steadfast in our commitment to providing positive social impact.

Our commitment to safeguarding people intensified with the COVID-19 pandemic. We swiftly introduced COVID-19 platforms and programmes with the aim to keep our people safe with minimal disruptions to our operations – a true testament to the agility of our organisation. Further details about our robust response to the pandemic is outlined on page 193 of this report.

Additionally, through Yayasan PETRONAS, the Corporate Social Responsibility arm of PETRONAS, we provided flood relief aid to hard-hit communities, delivering necessary supplies to prevent, control and treat impacted communities located across our assets. We mobilised our employee volunteers to offer on-the-ground assistance to local communities with an additional contribution of RM25.0 million towards relief and assistance for the victims.

The COVID-19 pandemic has forcefully exposed and exacerbated inequalities across the world. As partners of society, we recognise the need to accelerate our efforts in providing equal access to resources and opportunities, as well as the importance of putting human rights at the centre of our operations. We are continuously looking to improve and systemise our human rights assessments in the company and throughout the value chain.

### Strengthening Performance through Collaboration

As a national oil and gas company with an extensive international reach, we play a strong role in supporting sustainable development, particularly in driving a low-carbon energy future for Malaysia. The energy transition demands a whole transformation of society. To better prepare the organisation and our value chain, we need to bring our partners along the path to a low carbon economy, while ensuring our employees, partners and stakeholders are all upskilled on sustainability. We firmly believe that real positive change can only occur through collective action and a more assertive approach.

## Letter from the Vice President and Chief Sustainability Officer



In 2020, we became a member of the World Business Council for Sustainable Development (WBCSD), joining over 200 other forward-thinking multinational companies. Through WBCSD, we can shape and gain insights and collaboratively develop solutions to address pressing sustainability challenges. We can leverage WBCSD's wide networking platform across a variety of sectors.

To remain a WBCSD member, we need to adhere to stringent criteria, such as setting ambitious science-informed environmental goals, committing to becoming net zero by 2050, declaring support for the United Nations Guiding Principles on Business and Human Rights, supporting inclusion, equality and diversity, and operating at the highest level of transparency through sustainability disclosures.

We are also part of the CEO Action Network (CAN), Malaysia's first sustainability-focused coalition of leading CEOs and senior decision-makers. CAN focuses on changing the nation's market landscape through sustainability advocacy, capacity building, action and performance. PETRONAS President and Group Chief Executive Officer, as CAN chairperson of the steering committee, announced collective ESG commitments for 2023. These commitments will be pivotal to enabling Malaysia's transition to a net zero carbon future, as well as accomplishing the aspirations of Malaysia's Shared Prosperity Vision 2030.

We are also working closely with the Malaysian government to support policy development and further drive the nation's sustainability efforts. For example, we are engaging directly with the government in the development of voluntary carbon markets for nature-based carbon solutions. This will be an important tool in not only preserving biodiversity and the ecosystem, but also supporting a net zero carbon economy.

### What the Future Holds

In the years ahead, the need for green and sustainable practices will only grow. For PETRONAS, we are determined to seize new opportunities for sustainable, profitable growth as we uphold our responsibility as Malaysia's national oil and gas company and lay the foundation for our future growth. In 2022, we will be stepping up even more meaningfully in pursuing our purpose to become a progressive energy and solutions partner enriching lives for a sustainable future. This includes releasing more details about our pathway towards NZCE 2050 and how this will lay the foundation for other sustainability priorities.

**Charlotte Wolff-Bye**  
Vice President and Chief Sustainability Officer