

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

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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.

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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

Delivered projects and commercial solutions as a safe, resilient, low-cost and low-carbon exploration and production (E&P) business.

- Recorded total daily production average of 2,275 thousand barrels of oil equivalent (boe) per day.
- 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.
- 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.
- 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 (tCO₂e) per year.

Gas + New Energy

Strengthened reliability to meet customer needs for lower-carbon energy at a cost to serve to support the energy transition.

- Safe delivery of more than 12,000 LNG cargoes from the PETRONAS LNG Complex (PLC) in Bintulu since operations began in 1983.
- Providing customers in Japan and China with reliable supply of carbon neutral LNG cargoes, supporting their respective transition to a low-carbon economy.
- 960 Virtual Pipeline System (VPS) and LNG bunkering deliveries completed in 2021, ensuring greater access to LNG for off-grid customers.
- Close to 1 GW of solar capacity in operation and under development.

Downstream

Sustained operational performance and expanded its offerings with innovative customer-focused solutions.

- Recorded stable operations with Overall Equipment Effectiveness (OEE) sustained at 93.3 per cent, on the back of strong asset reliability.
- 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.
- 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.
- 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.

Project Delivery and Technology

Maximised value for PETRONAS’ businesses with project delivery excellence, technical innovations and digital synergy.

- Managed 587 projects valued at more than RM9 billion.
- RM25 million registered in commercialisation revenue through the deployment of 17 technologies and 98 TechApps softwares.
- Created RM830 million in total value creation through ARIES, our digital enabling engineering solutions.
- Achieved RM818 million in cash generation through Alpha Series, a digital transformation of our value chain.

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

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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.

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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 (CO₂) 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 tCO₂e, below our 2024 mid-term target which is to cap GHG emissions to 49.5 million tCO₂e 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

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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

