

Letter from the Chairman

Dear Stakeholder,

The year in review has proven that the challenges faced by the energy industry has never been more uncertain or complex – where heightened volatility is its only constant feature.

The world has emerged gradually from the pandemic, with most economic sectors steadily recovering. However, the Russia – Ukraine conflict has profound implications for the energy industry. The conflict unfurled even as the world contended with an uneven and still-fragile post-pandemic recovery.

Oil and gas supply disruption has pushed up energy prices causing widespread inflation throughout the world. Elevated general prices globally compelled central banks to tighten the monetary policy, even after two years of aggressive stimulus packages.

The convergence of geopolitical instability, economic recovery post-pandemic and accelerated energy transition have shaped the contour of the energy market. Nevertheless, any perceived progress toward energy market equilibrium was observed as short-lived.

As a Group, PETRONAS navigated 2022 with a firm commitment to ensure the security of energy supply for Malaysia and our customers around the world. The responsibility was discharged with focused delivery of PETRONAS' strategy, paired with strong integrated operational performance to maximise our cash generators, and grow the business portfolio.

I am proud to recognise how our people continued to step up and delivered a strong performance for 2022, in line with our strategy of creating long-term sustainable value and achieving Net Zero Carbon Emissions by 2050 (NZCE 2050).

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



Letter from the Chairman



We were resolute in responsibly managing the hydrocarbon resources entrusted to PETRONAS and growing the size of the value pie for the benefit of our stakeholders.

Fulfilling Our Amanah to the Nation and the Countries Where We Operate

The PETRONAS Board and Executive Leadership Team were resolute in steering the organisation to responsibly manage the hydrocarbon resources entrusted to PETRONAS and to grow the size of the value pie for the benefit of our stakeholders.

We contributed to our stakeholders in the form of cash payments, tax, export duties, state sales tax and dividends by adopting continued prudent financial management and discipline in reinvesting to generate profitable growth responsibly and sustainably.

In 2022, PETRONAS made the scheduled dividend and additional dividend payment of RM50 billion in total to the Government of Malaysia after careful assessment of the Group's affordability to continue to fund its operations, service its debts and meet its obligations as well as invest for the future growth of the organisation.

PETRONAS contributed close to

RM 900 million

in 2022 for Social Impact activations.

Over

1.5 million

people at home and abroad benefitted from our Social Impact programmes.

PETRONAS recognises its responsibility to also create a positive social impact for Malaysians and the communities in the countries where we operate. In 2022, PETRONAS contributed close to RM900 million for its Social Impact activations efforts under the pillars of education (Powering Knowledge), community well-being and development (Uplifting Lives) and environment (Planting Tomorrow). Over 1.5 million people at home and in the countries where we operate have benefitted from our Social Impact programmes during the year in review.

PETRONAS also continued to contribute to federal and state agencies nationwide to aid flood preparedness efforts in view of the year-end monsoon season. The initiative is part of PETRONAS' RM25 million flood assistance contribution announced in December 2021, to assist thousands displaced by heavy floods in many parts of the country.

PETRONAS' commitment to Malaysians and the communities we serve remains intact, even as we continue to operate in a volatile and uncertain business landscape. Anchored on our Statement of Purpose, as a progressive energy and solutions partner, we recognise the importance of enriching the lives around us.

Seizing Opportunities in the Energy Transition

PETRONAS recognises the need for a responsible energy transition and the risk of climate change to its business. At the same time, the need to continue investing in reliable sources of energy is infinitely clear from the soaring energy prices that consumers are having to contend with.

While oil and gas will remain as our core portfolio, it will be a key anchor contributor to cash generation which is especially important as the organisation is seizing opportunities to produce oil and gas as well as cleaner energy solutions as differentiated products that are produced safely, responsibly, cost-optimised and emissions-abated.

Therefore, the decision to declare a NZCE 2050 aspiration was both to demonstrate our stronger commitment to sustainability, as well as galvanise us as an organisation towards the necessary shifts and changes that would be needed to achieve such a target.



Letter from the Chairman

As a result, the PETRONAS Board has endorsed the PETRONAS Energy Transition Strategy that will see the organisation intensify delivery of its growth strategy with pace, supported by consistent investment allocation to support our NZCE 2050 aspiration:



The Board also focused on strengthening PETRONAS' business resilience for long-term sustainability. Among the sustainability-related governance initiatives approved by the Board include PETRONAS Corporate Risk Profile and endorsement of PETRONAS' position on Nature and Biodiversity.

Upholding our Shared Values as a Trusted Partner

The PETRONAS Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness have long been the defining qualities that have drawn collaborating parties into genuine partnerships with PETRONAS. We believe in recognising the aspirations of our valued stakeholders from the Federal Government of Malaysia, State Governments and the Governments of our host countries, industry partners and customers.

Over the years, PETRONAS is honoured and grateful to have the strong support of our stakeholders as we strive to continue realising their aspirations through commercial arrangements and contributions.

In this respect, at this time of uncertainty and turbulence with the energy transition rapidly evolving the energy landscape – it is important for PETRONAS to continuously adapt and transform itself to continue becoming the progressive energy and solutions partner our stakeholders would seek.

To this end, the Board remains resolute in its commitment to ensure PETRONAS demonstrates best practices in transparency, governance, reporting frequency and profitability in creating and delivering long-term sustainable value.

In this same stride, PETRONAS will continue to uphold the highest standards of integrity and safety, in discharging our obligations and responsibilities as a national oil company and global energy player. The organisation has in place a Code of Conduct and Business Ethics, the PETRONAS four Sustainability Lenses and other relevant commitments. PETRONAS also has a zero-tolerance approach against bribery and corruption with strict consequence management.

As we continue to expand our presence across the globe, PETRONAS will continue to enhance and safeguard our ability to uphold the trust of our stakeholders by exercising respect and abide by the relevant laws and regulations of Malaysia and the countries where we operate.

The Year Ahead

As we look ahead to 2023, the oil and gas industry could potentially see prices moderating given an anticipated economic slowdown, on the back of prolonged market volatility. In this environment, PETRONAS will continue to drive operational excellence in our core business while we pursue our growth and sustainability targets.

On the back of the strong performance recorded this year, PETRONAS will no doubt progress with the drive, passion and spirit to provide energy for shared prosperity in a just and responsible approach to energy transition.

2022 is also a year that we bid farewell to a member of our Board of Directors, Puan Zakiah Jaafar. I would like to express my sincere thanks and appreciation for her contribution. Her experience and insights have been valuable for the organisation and we wish her every success in her new undertakings.

At this opportunity, I would like to extend a warm welcome to our new Board members namely, Datuk Seri Asri Hamidon and Datuk Johan Mahmood Merican (Alternate Director). These new additions to the Board collectively bring diversity of perspectives and wealth of experience that will be crucial to PETRONAS.

On behalf of the Board, I would like to extend my heartiest appreciation to Datuk Tengku Muhammad Taufik, President and Group CEO of PETRONAS, and his Executive Leadership Team for delivering our business strategies with pace and agility, whilst strengthening our foundation for future growth. My deepest gratitude also to our employees for their courage and perseverance in fully embracing our statement of purpose, shared values and holding the organisation to high standards of safety and integrity.

Finally, to our valued stakeholders – I would like to express my deep gratitude for the trust and confidence in PETRONAS that will see us pave the way for more shared successes to come. Let us continue to make a positive difference by providing energy for the betterment of societies today and for generations to come.

Tan Sri Dato' Seri Mohd Bakke Salleh
Chairman

Letter from the President and Group Chief Executive Officer

**Datuk Tengku
Muhammad Taufik**

President and
Group Chief Executive Officer





We executed our strategy aligned to our Net Zero Carbon Emissions by 2050 Pathway. The Group is committed to deliver energy for the growing needs of today and develop solutions that will help us move closer to a lower-carbon future.

Esteemed Stakeholder,

Two years have now passed since the pandemic began, and the world in 2022 grappled with the challenges of an uneven and fragile post-pandemic recovery. Even as you read this, the world continues to remain vulnerable to the combined threat of geopolitical conflict, the rising cost of living, energy and climate crises.

Energy security concerns are still top of mind for leaders globally as chronic underinvestment and shrinking spare capacity continued to roil already-volatile energy markets. At the same time, many countries and companies remained steadfast in their longer-term commitment to the Paris Agreement.

With these realities in mind, PETRONAS responded by executing our strategy aligned to our Net Zero Carbon Emissions by 2050 Pathway. The Group is committed to deliver energy for the growing needs of today and develop solutions that will help us move closer to a lower-carbon future.

PETRONAS sees the energy transition as an opportunity as much as it is a responsibility to produce oil and gas alongside cleaner energy solutions as differentiated products that are safe, responsibly produced, cost-optimised and emission-abated for our customers.

I am proud to share that PETRONAS made substantial progress during the year in review and strengthened our portfolio in order to be well-positioned to continue creating long-term sustainable value.

Alhamdulillah, in this stride PETRONAS recorded a strong performance in 2022, encapsulating our commitment to solving the energy needs of our customers as their progressive energy and solutions partner enriching lives for a sustainable future.

With a motivated and passionate workforce driving our efforts, I remain confident that the PETRONAS Group is on track to deliver meaningfully towards a just and responsible energy transition.

Letter from the President and Group Chief Executive Officer



PETRONAS is committed to stepping up with our partners and contractors to nurture a generative HSE culture where everyone returns home safely as a shared responsibility.



Safety of Our People

PETRONAS' priority is to undertake our business activities with an unwavering focus and emphasis on safety.

For an industry that is unavoidably hazardous and fraught with risks, our employees and partners delivered our strong performance in 2022 with diligence and dedication to upholding safety as our license to operate responsibly and sustainably. However, we also had challenges.

Regrettably, we recorded four incidents which resulted in the loss of lives. The Group responded by identifying its root causes and has undertaken the necessary actions to prevent any recurrence. We aim to do better by strengthening our guidelines and processes to ensure we create a safe working environment. PETRONAS is committed to stepping up with our partners and contractors to nurture a generative health, safety and environment (HSE) culture where everyone returns home safely as a shared responsibility.

Delivering Excellence: Performance Highlights

In line with our industry peers, in 2022 PETRONAS delivered a robust full-year performance with Profit After Tax registered at RM101.6 billion on the back of RM375.3 billion in revenue. EBITDA stood at RM170.7 billion for the year in review.

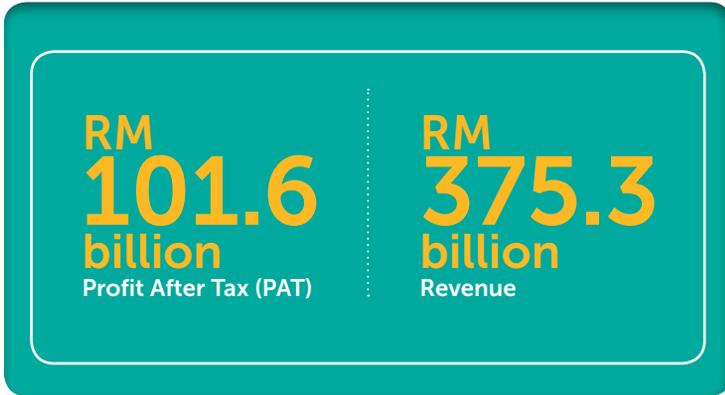
Throughout the year in review, PETRONAS focused on commercial and operational excellence of our integrated value chain, supported by an upward surge in commodity prices in an environment heightened by supply-demand volatility driven by sudden shifts in the market and an accelerated energy transition.

Amid an uncertain and volatile business operating environment, PETRONAS continued to exercise prudent financial management and made every effort to reinvest with discipline to future-proof the portfolio and preserve our ability to deliver profitable growth responsibly and sustainably.

Our priority is in reinvesting towards reshaping and decarbonising our portfolio – which means continuing to explore, develop and produce hydrocarbons that the markets we serve still need, but with greater efficiency and lower emissions.

We intensified our efforts and progressed steadily in our strategy with milestones that include:

- First significant oil discovery in Brazil's Sepia field made with an asset designed with gas and CO₂ reinjection to lower the emissions from its operations. PETRONAS also won the Agua Marinha exploration block in the Campos Basin with our consortium partners.



- Agreement with Abu Dhabi National Oil Company (ADNOC) to explore and appraise its first-ever unconventional oil concession, incorporating plans to manage GHG emissions.
- Expanded PETRONAS Chemicals Group Berhad (PCG)'s future offerings for the market with the acquisition of Perstorp Holding AB, a global leader in specialty chemicals.
- Entered Australia's renewable energy market with Gentari's acquisition of WIRSOL Energy, a leading renewable energy solutions provider with integrated solar and battery energy storage system capabilities.
- Partnership with Mercedes-AMG PETRONAS F1 team to develop advanced sustainable fuel for the sport and consumers.
- Portfolio high grading for our assets in South Sudan, Chad and South Africa are currently ongoing.

In the same stride, it is with pleasure that I also share that PETRONAS pursued more partnerships at home and internationally to capture opportunities in the energy transition.

- Collaboration with Sabah and Sarawak to expand value creation opportunities in lower carbon solutions which include Final Investment Decision for Sabah's first nearshore LNG facility and Memorandum of Understanding (MoU) with Sarawak Economic Development Corporation (SEDC) Energy to develop green hydrogen technologies and renewable oil from algae.

We have crystallised our Three-Pronged Growth Strategy into the PETRONAS Energy Transition Strategy that will see us grow our business profitably and responsibly with a clear ambition to be a progressive energy and solutions partner for a lower carbon future.

Letter from the President and Group Chief Executive Officer

- Signed MOUs with Tenaga Nasional Berhad and Proton to accelerate the development and access to cleaner energy solutions for Malaysia.
- Forged 14 strategic commercial partnerships in Carbon Capture and Storage (CCS) value chain with energy players, cross-industry partners and institutions to establish a viable ecosystem positioning Malaysia as a CCS solutions hub for the region.
- Signed MOU with YPF to collaborate in the potential of an integrated LNG project and other areas, including upstream oil, petrochemicals and clean energy solutions.
- Initiated feasibility study with Eni S.p.A (Eni) and Euglena Co. Ltd. (Euglena) to develop and operate a biorefinery plant in Pengerang Integrated Complex to supply sustainable solutions including Sustainable Aviation Fuel for aircraft and Hydrogenated Vegetable Oil (HVO/Renewable Diesel) for on-road vehicles.
- Launched a novel initiative in the form of Race2Decarbonise, a US\$250 million hackathon to seek out decarbonisation ideas and solutions. The winners have been identified to scale and deploy their innovations within 24 months to accelerate PETRONAS' journey to Net Zero Carbon Emissions by 2050.

PETRONAS is on a stronger footing today, having laid the necessary foundation with our strategy and ambition for Net Zero Carbon Emissions by 2050. We will continue to strengthen our portfolio and pursue new opportunities for growth to provide more energy with lower emissions to remain relevant and resilient in the energy transition.

Progressing with Purpose: Our Strategic Journey

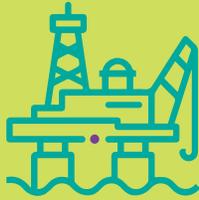
The frequency and magnitude of energy disruptions seen over the past year indicate the need for a balanced approach to the transition. We have observed the widespread economic implications when an immediate switch from hydrocarbons, **before** an attempt is made to realise an alternative energy system is fully ready to shoulder the heavy burden of global demand.

At the end of the day, PETRONAS believes it is about getting the balance right with secure, affordable and sustainable energy.

For PETRONAS, we intend to seize the opportunities and provide the world with the energy it needs today with consideration for the climate goals of the Paris Agreement. Our priority is to be in step with the progress of the societies we serve.



The myriad of challenges in energy transition are complex, but it is our duty to take credible actions to chart a viable pathway to net zero carbon emissions.



Core Business
*More Energy,
Less Emissions*



New Business
*Capturing New
Growth
Opportunities*



**Net Zero
Carbon
Emissions**
Pathway to Zero

PETRONAS is driven to accelerate our efforts towards shaping a just and responsible energy transition with equitable outcomes where nobody is left behind. In this regard, I am pleased to share that we have crystallised our Three-Pronged Growth Strategy into the PETRONAS Energy Transition Strategy that will see us grow our business profitably and responsibly with a clear ambition to be a 'progressive energy and solutions partner' for a lower carbon future.

The myriad of challenges in energy transition are complex, but it is our duty to take credible actions to fulfil our commitment. The Energy Transition Strategy will see PETRONAS take bold yet realistic and deliberate steps with investments undertaken towards:

- Accelerating and intensifying exploration, development and production of Malaysia's oil and gas fields with a focus on becoming a low cost and low emissions producer.
- Providing greater access to gas and LNG as a transition fuel.
- Capitalising on the opportunities of high commodity prices for our Downstream business through continuous operational and commercial excellence.
- Advancing our ambition to establish Malaysia as a carbon capture and storage (CCS) hub for the region.

- Providing customers with cleaner energy solutions such as renewable energy, hydrogen and green mobility under Gentari.
- Offering lower carbon maritime services and solutions.

Delivery of these efforts is anchored to our Net Zero Carbon Emissions by 2050 Pathway which sets out in detail the short, medium and long-term targets to manage emissions from our operations and strengthen the resilience of our business.

As we look ahead, PETRONAS will require significant investments to chart a viable pathway to net zero carbon emissions. To this end, we have committed up to 20 per cent annual CAPEX for the next five years to intensify our decarbonisation efforts and pursuits in cleaner energy solutions.

Consequently, I believe these efforts will continue to support key government stakeholders in shaping a conducive ecosystem for investments in cleaner energy solutions to thrive and contribute long-term to Malaysia's Nationally Determined Contributions to the Paris Agreement.

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

Letter from the President and Group Chief Executive Officer

Nurturing Talent And Shaping An Ecosystem To Thrive

At PETRONAS, our people are our greatest asset.

We recognise that a shifting energy landscape will require significant focus on building a sustainable pipeline of talent equipped to keep pace with change and embrace the energy transition.

In 2022, we invested RM264 million in employee training and development programmes towards improving core competencies and new skills to improve our competitive advantage in delivering the PETRONAS Energy Transition Strategy.

As we position the company for the future, our employees will continue to uphold accountability for the resources entrusted to PETRONAS. Our Shared Values of Integrity, Professionalism, Cohesiveness and Loyalty will continue to guide our actions and conduct as a trusted partner for our stakeholders.

From an ecosystem perspective, we recognise that we can only achieve a lower carbon future with support and effective coordination from our industry partners.

PETRONAS acknowledges its role as a catalyst for Malaysia's Oil and Gas Services and Equipment (OGSE) sector. Accordingly, PETRONAS remains committed to working with our partners, especially as the business environment demands the industry to decarbonise operations as part of the energy transition.

The Group has initiated programmes to elevate the robustness of the OGSE as far back as 1993. The Vendor Development Programme (VDP), VDPx programme, Vendor Financing Programme by Financial Institutions and the Road to Bursa Programme are among the initiatives to improve the resiliency and maintain the stability of the ecosystem at large.

PETRONAS remains committed to increasing domestic investment as outlined in the PETRONAS Activity Outlook on the oil and gas activities planned for the next three years. Nevertheless, our OGSE partners must also pursue innovation in lower-carbon technologies to be competitive globally.

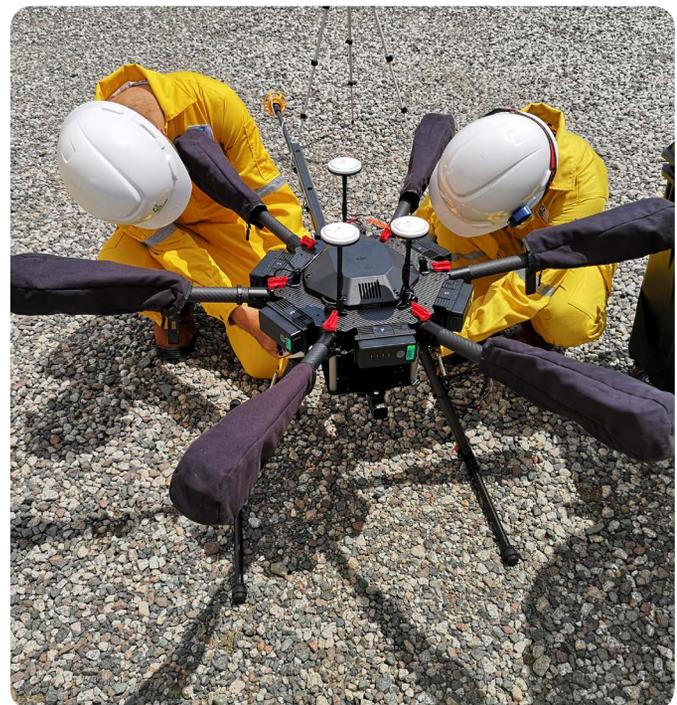
With a resilient OGSE ecosystem, I am confident that the energy industry will continue to effectively contribute to Malaysia's economic growth.

Forging Ahead

Along with the Board and leadership of PETRONAS, I am grateful that PETRONAS' performance in 2022 has enabled the Company to continue delivering long-term sustainable value with discipline as a national oil company (NOC). In the same stride, the execution of our strategy demonstrates our continued focus on future-proofing the portfolio with a solid foundation to intensify our growth as a global energy player.

We remain committed to growing the value pie for our stakeholders and OGSE partners to thrive alongside PETRONAS. We will also continue to discharge our duty in ensuring the well-being of Malaysians and societies wherever we operate with secure, affordable and sustainable energy.

As the macro environment will continue to be shaped by the events of 2022 – PETRONAS must remain cautious and rigorously ensure prudent financial management while strengthening our integrated value chain with a sharper focus on commercial and operational excellence. Even as we do this, we will also exercise equally firm discipline in reinvesting for our future growth to deliver our Energy Transition Strategy.





As we gear towards seizing opportunities for profitable growth, we will do so responsibly and sustainably with integrity and professionalism.

Permit me to place on record my utmost gratitude to the employees of PETRONAS for their dedication and valuable contribution to the Group's performance. I would also like to extend my appreciation to our Chairman, Tan Sri Dato' Seri Mohd Bakke Salleh and members of the PETRONAS Board of Directors for their stewardship and counsel for the Company to remain resilient amid prolonged marked volatility. I would also like to acknowledge the PETRONAS Executive Leadership for their collective effort in strengthening our portfolio to continue pursuing growth and progress towards our sustainability targets. My sincere thanks to our valued

stakeholders – Federal and State Governments, the Host Governments of our international operations, agencies and authorities, our business partners, vendors and customers for their trust in PETRONAS.

Executing a just and responsible energy transition is an agenda that must progress as we contemplate and accept our responsibility to the next generation. With unwavering commitment, PETRONAS remains resolute in its mission and will drive action across all our stakeholders to shape an energy future that will benefit all.

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

The Financial Year In Review

The year 2022 was a time of heightened uncertainty and volatility for the oil and gas industry. The ongoing conflict between Russia and Ukraine triggered energy price spikes and supply chain disruptions, bringing with it concerns over energy security. Even as supply concerns emerged, the call for energy transition remains strong with augmented demand for cleaner energy. Investors and financial institutions are putting a high level of scrutiny on oil and gas players to ensure we measure up to what we have committed in terms of climate change, emissions targets and cleaner energy sources.

Amidst the confluence of these seemingly opposing factors, PETRONAS leveraged on our strong integrated value chain, demonstrated agility and resilience to capitalise on the opportunities from the market uptrends. We remain focused on delivering our strategy and Net Zero Carbon Emissions by 2050 (NZCE 2050) Pathway by exercising discipline in capital allocation. As a global energy player with commitments and responsibilities towards uplifting communities and supporting net zero ambitions in Malaysia as well as



PETRONAS leverages its strong portfolio and integrated value chain to capture opportunities from the market uptrends, delivering a sterling financial performance for the year 2022.

the countries where we operate, we are future-proofing our portfolio by investing responsibly to preserve our ability to deliver long-term value to provide energy that is secure, affordable and sustainable.

Our Profit After Tax (PAT) for FY2022 was RM101.6 billion, a 100 per cent higher than RM50.9 billion in FY2021. This was driven by the substantial increase in revenue, as well as the effectiveness of our prudent financial management that we continue to practice. Our PAT Margin for FY2022 was

→ Revenue
RM375.3 Billion
 2021: RM248.0 Billion

→ PAT
RM101.6 Billion
 2021: RM50.9 Billion

→ Total Assets
RM710.6 Billion
 2021: RM635.0 Billion

27 per cent, a significant increase from 21 per cent in FY2021, testament to our commercial and operational excellence as well as effective cost control measures. Some examples of such measures include fuel consumption management and vessel optimisation.

Our revenue for FY2022 was RM375.3 billion compared to RM248.0 billion in FY2021, representing a 51 per cent increase. The substantial rise in revenue was driven by higher average realised prices for all products against the backdrop of concerns in relation to energy security, coupled with favourable impact from foreign exchange. More than 70 per cent of PETRONAS' revenue was contributed by customers outside Malaysia, demonstrating our strong global presence.

Our Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) for FY2022 was RM170.7 billion, a 70 per cent increase in line with the higher profit recorded.

Businesses across the value chain took bold choices and displayed operational resilience and commercial excellence, allowing us to capture market uptrends, resulting in the strong financial performance.

Strong Financial Position

The unpredictable energy markets, coupled with the possibility of a global economic slowdown as well as rising inflation has led to increase in operating costs. Despite these challenges, PETRONAS continues to maintain its strong liquidity by exercising effective cost management and delivering solid financial performance.

We recorded robust cash flows from operating activities of RM135.3 billion, a 72 per cent increase from FY2021, enabling us to increase investments required for growth, make higher dividend payments, service our debt obligations and increase contributions to support economic and social development. Additionally, we recorded gearing of 20.3 per cent in FY2022, 2.8 per cent lower than FY2021. This strengthened the Group's net cash position to RM108.0 billion. Our net cash position compares favourably with that of our peer group comprising international oil majors.

Total assets stood at RM710.6 billion as at 31 December 2022, an increase of 12 per cent against the previous year. This was mainly contributed by the higher cash position as well as higher property, plant and equipment and intangible assets following new acquisitions during the year.

Capital Allocation

Amid the continued volatility of the energy market and the increasing call for energy transition, we remain steadfast in strengthening our portfolio through strict capital discipline, ensuring sufficient allocation for our core cash generators, as well as investments in new business and intensify emissions abatement efforts.

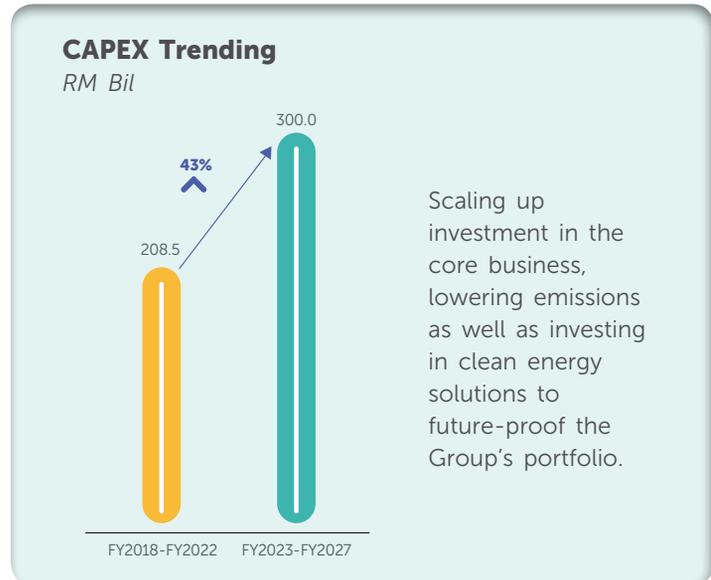
As activity started to pick up across the globe, our capital investment spending in FY2022 grew 65 per cent from the previous year to RM50.1 billion. 25 per cent of the capital investment spent in FY2022 was on New Business.

Letter from the Executive Vice President and Group Chief Financial Officer

Domestic Capital Expenditure (CAPEX) increased by 24 per cent against the same period last year, contributing to the growth of the Malaysian oil and gas industry.

International CAPEX also increased as investments were channeled mainly to non-traditional businesses such as specialty chemicals. Excluding international acquisitions made during the year, the CAPEX spent was almost equal for Malaysia and international projects.

Capital investment allocation over the next five years i.e. between FY2023 to FY2027 is expected to be 43 per cent higher than the last five years i.e. between FY2018 to FY2022, mainly as a result of scaling up investments in the core business, lowering our emissions as well as investing in new business to future-proof the Group's portfolio.



Contributions to the Government

We contributed RM93.1 billion to the Federal and State Governments of Malaysia in the form of dividends, taxes and cash payments, higher by RM44.8 billion or 93 per cent compared to the previous year. This also includes contributions made to National Trust Fund (NTF) of RM500 million.

To date, our cumulative contributions to the Federal Government of Malaysia, state governments and NTF amounts to RM1.4 trillion.

In FY2022, we paid total dividends to the Federal Government of Malaysia of RM50.0 billion, higher by RM25.0 billion as compared to FY2021, in line with our profitability and affordability.



Additionally, PETRONAS also supported Peninsular Malaysia's power and non-power sector in respect of the regulated gas pricing mechanism imposed on the supply of sales gas, which resulted in total accumulated revenue forgone from FY1997 until FY2020 amounted to RM261.04 billion. By the end of FY2020, all contracts have reached convergence between the regulated price and contract price.

Governance and Transparency

PETRONAS adopts the highest standards of governance and transparency, delivering efficient operations and maximising shareholder's returns. As a result, PETRONAS' credit ratings remain strong, with a rating of A2, A- and BBB+ from Moody's, Standard & Poor's (S&P) and Fitch respectively. Our standalone credit profile is four notches above PETRONAS' credit ratings, as assessed by S&P and Fitch. These ratings affirm PETRONAS' robust financial strength, solid business fundamentals and strong governance practices.

Our financial statements are audited by global accounting firms and comply with Malaysian and International Financial Reporting standards, at par with other Fortune Global 500® companies.

We also adhere to the best principles of corporate governance in line with the Malaysian Code on Corporate Governance:

- 
 Awarded the Platinum Awards in Excellence Awards (Non-Listed Organisation) category in 2021 and 2022 for our annual issuance of Integrated Report by the National Annual Corporate Report Awards (NACRA).
- 
 PETRONAS is progressing towards full adoption of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) by FY2024.

Additionally, we have further strengthened our commitment towards our NZCE 2050 Pathway by adopting the following:

- 
 Relevant sustainability disclosures in the audited financial statements.
- 
 Elevated carbon accounting approach to fully adhere to the GHG Corporate Accounting and Reporting Standard (2004), Ipieca Climate Change Reporting Framework (2011) and ISO 14064-1:2018.
- 
 Allocated funding for decarbonisation and energy transition.

Looking Forward

Oil and gas prices could potentially moderate in 2023 as the world anticipates an economic slowdown, while grappling with prolonged market volatility. We will continue to drive operational excellence in our core business while we pursue growth and sustainability targets.

Driven by the urgency of the energy trilemma of security, affordability and environmental sustainability, PETRONAS aims to provide leadership in Southeast Asia's discourse on efforts to accelerate collaborations in net zero carbon solutions and will continue to support the government's efforts to ensure an effective and just energy transition.

Liza Mustapha

Executive Vice President and Group Chief Financial Officer



Letter from the **Vice President and Chief Sustainability Officer**

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We remain steadfast in using our scale, technology and talents to provide the energy solutions our customers desire for a sustainable future.

Charlotte Wolff-Bye
Vice President and
Chief Sustainability Officer

Dear Stakeholder,

Over the past year, PETRONAS has made significant progress in our sustainability journey. We continued integrating sustainability in our strategic execution and the future of our business. As a global energy company, this is no simple feat. Our ability to create long-term value is not only driven by market forces – we also have broader responsibilities to bear. We are committed to contribute towards government efforts to decarbonise economic development while delivering reliable energy that supports progressive growth. Our impact is far-reaching and we remain steadfast in using our scale, technology and talents to provide the energy solutions our customers desire for a sustainable future. Therefore, I am pleased to share my assessment of the Group’s sustainability performance and journey for 2022.

Trends Signal a Sustainable Energy Future

2022 was another tumultuous year. The extraordinary health crisis brought by the COVID-19 pandemic, was overtaken by a global energy crisis, high inflation, supply disruptions and compounding effects of climate change. Instability continues to surround economic activity, weakening long-term prospects for global growth and social progress. Energy security remains a key concern for political leaders across the world, yet the underlying trend of decarbonisation remains strong with renewed momentum.

Despite volatile geopolitics, addressing climate change, nature loss and persistent inequality continue to serve as a common ground for international collaboration. The United Nations convened conferences on climate change (COP27) and biodiversity (COP15) in 2022 demonstrated strong participation and engagement by all relevant parties. Overall, sustainability considerations continue to drive developments in public policy, regulation, investment decisions and business development.

The scale of change brought on by the energy transition is hard to overstate. Today, we see transformative policy instruments at play internationally, driving large-scale shifts into new renewable and low carbon energy value chains.

In Malaysia, broad climate aspirations are translated into more specific policy developments and practical deliveries. The National Energy Policy (NEP 2040) was launched in September 2022. It frames the context for optimising the value of national oil and gas resources, while capitalising on growth opportunities from the global energy transition. NEP 2040 presents low carbon growth pathways that include a higher share of renewable energy, financing and incentives to drive energy efficiency, green mobility, hydrogen, circular economy, biofuels and carbon capture, utilisation and storage (CCUS).

In December 2022, Bursa Malaysia Bhd launched the Bursa Carbon Exchange (BCX), a voluntary carbon market and the world's first shariah-compliant carbon exchange.

A Sustainable Approach to Value

The strong emphasis we have on sustainability gives PETRONAS a vital understanding of how changes in society affect our risk landscape. It helps us be responsive, operate effectively, align new opportunities for

investment and attract talents. We do not see a trade-off between value creation and sustainability. We can only succeed, if we use our scale, technology and skills to provide the energy solutions our customers desire.

Each country has energy accessibility, affordability and sustainability concerns that require tailored responses. PETRONAS is building strength and expertise in responding effectively to the evolving context in energy markets, while balancing short-term demands of continued energy supply with long-term responsible growth.

In support of our strategy, we have launched our Net Zero Carbon Emissions by 2050 (NZCE 2050) Pathway that sets clear milestone targets for reducing our operational emissions and frames our growth ambitions in new areas.

Becoming a Net Zero Energy Company

For PETRONAS, we intend to capture the opportunities and provide the world with the energy it needs with consideration for the climate goals of the Paris Agreement. With our integrated energy portfolio, we serve as the custodian of Malaysia's hydrocarbon resources, while transforming in line with our published NZCE 2050 Pathway.

Our NZCE 2050 Pathway stipulates emissions reduction from our own operations and growth ambitions for clean energy solutions, enabled by a 20 per cent allocation of total capital expenditure over the period of 2022-2026. Delivery of these targets is anchored on our business context, national policies, international frameworks and scientific consensus on climate change.

2022 saw growth in our energy production, after the disruptive years of the COVID-19 pandemic prior. Our Groupwide absolute greenhouse gas emissions have also risen. While some of it can be attributed to changes in our accounting method, we are determined to decouple growth of our business from emissions. To this aim, we have set ourselves absolute emissions targets.

Our near-term target is to cap operational emissions at 49.5 million tonnes of carbon dioxide equivalent (Million tCO₂e) by 2024 in Malaysia. Our 2030 target is to achieve a 25 per cent absolute emissions reduction Groupwide, based on 2019 emissions data, for our own emissions and the emissions from the energy we buy (Scopes 1 and 2).

Letter from the Vice President and Chief Sustainability Officer

We are on track to meet our 2024 target and we have reduced our GHG emissions by 8.49 per cent against our 2030 target of 25 per cent absolute emissions reduction against 2019 baseline.

Our targets include specific provisions for methane emissions reduction: 50 per cent by 2025 and 70 per cent by 2030, from 2019 levels, for PETRONAS' groupwide natural gas value chain. In support of Malaysia's commitment to the Global Methane Pledge of reducing national methane emissions by 30 per cent by 2030 from 2020 levels, PETRONAS is going beyond its own operations and has set a 50 per cent methane emissions reduction target for Malaysia's natural gas value chain.

Key levers for reducing our operational emissions are: zero routine flaring and venting, energy efficiency, electrification and carbon capture and storage (CCS).

CCS is an essential component in global decarbonisation, providing substantive emissions reduction potential for oil and gas and hard-to-abate industrial sectors. Towards this aim, we now have a centralised Carbon Management Division to drive emissions management, including CCS, laying the foundation for such practice in Malaysia to serve both domestic and international commercial industrial customers.

Gentari has been established to deliver clean energy solutions that will assist customers to achieve their respective net zero carbon emission aspirations. Gentari has strong growth ambitions for 2030: 30-40GW of renewable energy capacity, up to 1.2 million tonnes per annum of hydrogen and 10 per cent market share of public electric charging points across Asia Pacific.

We are also making inroads into the biofuels market with plans for a greenfield biorefinery and co-processing at existing facilities, slated for 2025. The biorefinery will provide Sustainable Aviation Fuel (SAF) with operational flexibility and generate hydrogenated vegetable oil or renewable diesel.

We launched our NZCE 2050 Pathway to our top leaders in October 2022, followed by master classes to ensure a common vision and accelerated delivery by our highly skilled engineering teams, across all parts of the business.

The targets set forth by the NZCE 2050 Pathway are bold and ambitious. Buoyed by strong performance of the past decade of reducing emissions by 18.1 million tonnes of carbon dioxide equivalent cumulatively and our recent impactful acquisitions of specialty chemicals businesses with strong sustainability credentials, will hold us in a good stead to reach our stretch targets.

In support of our NZCE 2050 Pathway, since 2022, senior leader's long-term incentive plan includes a 20 per cent environmental, social and governance (ESG) element encompassing measures relating to the attainment of our Pathway and diversity and inclusion.

Protecting Our Natural Environment

In December 2022, the United Nations brokered a milestone agreement of halting and reversing biodiversity loss by 2030 through conserving at least 30 per cent of land, freshwater and oceans globally.

We recognise the importance of conserving nature and biodiversity and the interlinkages with climate change. Both areas need to be addressed in parallel. This is why with the approval of the PETRONAS Board, we have established PETRONAS' Position on Nature and Biodiversity, through which wherever possible, we aim to conserve, protect and restore nature.

As one of the most recognised brands in the region, we see the need to demonstrate visible leadership in countries where we operate, not least in Malaysia that is regarded as one of only 17 mega biodiversity countries in the world.

To attain net zero carbon emissions by 2050, PETRONAS will require carbon offsets for residual emissions that cannot be avoided or mitigated. For this purpose, PETRONAS will invest in nature-based solutions.

Our near-term target is to cap operational emissions at 49.5 Million tCO₂e by 2024 in Malaysia.

In Malaysia, we promote the development of high-quality nature-based projects to generate carbon credits certified in accordance with credible international standards. Project development would help channel much needed funds towards land use impact mitigation, forest conservation, peatland management, as well as mangrove, seagrass and coral reef conservation.

Environmental management remains a key focus for our continuous improvement efforts. During 2022, we saw a negative trend for some of our key indicators, most notably for sulphur oxide emissions and hazardous waste, which we are determined to reverse in the coming year.

Supporting Our People and Enriching Lives

The safety and well-being of our employees, contractors and surrounding communities is central to the success of our daily operations.

In 2022, we placed a particular importance on employees' mental well-being. Our Executive Leadership Team was directly involved through sharing of personal experiences,

thus lifting the stigma that may typically be associated with mental health issues. An end-to-end prevention and support programme was established, with early signs of making a positive impact. During the year, efforts to enhance diversity and inclusion were undertaken to create a more progressive work environment, focusing on leadership and governance, communication, education and culture.

Recognising the need to upskill existing talents to deliver our NZCE 2050 Pathway, we have also prioritised sustainability capability development. Beyond our own workforce, our extensive value chain and global presence exposes the Group to potential human or labour rights breaches, which will only broaden through the energy transition that implies new interactions, business relations and infrastructure development. Thus, we continue to strengthen our approaches to respect human rights, guided by the United Nations Guiding Principles on Business and Human Rights. Third party assurance of suppliers' and vendors' requirements to uphold human rights, showed some level of awareness, but with further work required to uplift human rights commitments and delivery of such.



Letter from the Vice President and Chief Sustainability Officer

We are also committed to contribute to the well-being and development of surrounding communities. In 2022, close to RM900 million was invested towards Social Impact programmes, benefitting over 1.5 million beneficiaries worldwide. Ninety five per cent of the amount invested focused on education, including a doubling of scholarships to directly benefit 587 students. We have also enhanced efforts to increase the marketability of unemployed Malaysian graduates through the Graduate Employability Enhancement Scheme (GEES), benefitting 4,683 graduates with a total contribution of RM73.7 million since the inception of the programme.

Transparency in Sustainability Performance and Promoting Good Governance

Brand Finance ranked PETRONAS as the most valuable ASEAN brand in terms of sustainability perceptions. This achievement was undoubtedly helped by our efforts to strengthen transparency of our sustainability impacts and performance.

As we uphold the principle of accountability and earning trust with key stakeholders, we strive to improve both internal management reporting of key sustainability indicators, as well as external disclosure of our strategies and performance in line with recognised international disclosure frameworks.

We have revised our carbon emissions accounting method to adhere to sector-specific guidance and to give us a robust emissions baseline. Our strengthened reporting will improve external benchmarking and provide a better correlation between financial and greenhouse gas emissions accounting. To this aim, we account for our methane emissions, flaring and venting management through the publicly available reports issued by the Methane Guiding Principles and the World Bank's Zero Routine Flaring by 2030 initiative and report through CDP (formerly Carbon Disclosure Project).

New for this integrated report, is our phased adoption of climate-related disclosures as per the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). These disclosures will provide greater transparency around our approach to climate risk.

Throughout the year, efforts were underway to drive accountability and embed sustainability in advisory bodies and decision-making processes across the enterprise. While this work is still underway, important milestones include board deliberations around the development of the Pathway to Net Zero Carbon Emission 2050 and the introduction of sustainability-linked key performance indicators in senior leadership's long-term incentive plans.

Promoting Progress Through Engagement and Partnerships

The challenge of achieving net zero carbon emissions is too complex for any organisation to deliver on its own. To create momentum on the need to accelerate and scale up sustainable business models, we have continued to elevate our engagement with a broad set of discussion partners nationally and internationally.

The Malaysian Oil and Gas Services and Equipment (OGSE) ecosystem is facing raised expectations on environmental, social and governance (ESG) grounds. In response, the Malaysia Petroleum Resource Corporation (MPRC) is devising a national OGSE sustainability strategy. PETRONAS also works with vendors to identify barriers and help define opportunities for greater ESG adoption among local businesses.

Malaysia recently launched a voluntary carbon trading facility and has plans to develop a domestic emissions trading scheme. These are regarded as important instruments to drive the country's net zero ambitions. In support of this aim, PETRONAS has joined the International Emissions Trading Association (IETA).

At a regional level, we are active in the APEC Business Advisory Council (ABAC). In 2022, we delivered a proposal around building Small and Medium Enterprises' resilience in a low-carbon economy. We also joined the International Renewable Energy Agency's Alliance for Industry Decarbonisation to foster action for the decarbonisation of industrial value chains, promote understanding of renewables-based solutions and their adoption by industry to contribute to country-specific net zero goals.

Furthermore, we are active contributors towards the Global Methane Pledge Energy Pathway and other regional and global initiatives that address methane emissions in oil and gas value chains. In 2022, we signed up to the United Nations Environment Programme’s Oil and Gas Methane Partnership 2.0. Through this initiative, we strive to improve the accuracy and transparency of our methane emissions reporting, guided by a comprehensive and measurement-based reporting framework.

Since 2021, we have convened the ASEAN Energy Sector Methane Roundtable, in collaboration with PTT Public Company Limited (PTT) of Thailand, Pertamina of Indonesia and since last year the United States Agency for International Development (USAID). The roundtables continue to engage a diverse set of stakeholders from across ASEAN through information sharing, technical exchange and open conversations, to advance strong performance and effective methane emissions management.

Outlook

Economic growth across Southeast Asia will put decarbonisation and broader sustainability goals to the test. Each country and each sector need tailored approaches to unlock new business models, without compromising broader development. Conducive policy and regulation will be critical in defining country-specific pathways and in unlocking private sector investment for the next generation of energy systems.

During the year, we stepped up in many ways, from setting measurable targets for our Pathway to Net Zero Carbon Emission by 2050 to investing in real emissions reduction projects, renewables and clean energy solutions. PETRONAS’ leading stance on sustainability will not only grow the business, but galvanise innovation, investment and long-term sustainable growth.

For PETRONAS to succeed at speed and scale we will need to work even more intensely across sectors. New value chains need to be defined and deployed. Such can only be achieved through greater collaboration between the private sector, regulators and investors internationally to realise the benefits of e.g., carbon capture and storage (CCS), hydrogen, biofuels and nature-based solutions fully.

With our commitments and plans to address climate change and nature loss in place, next, we will engage with stakeholders across our value chain to better understand what a just and equitable energy transition may look like and what our role should be.

The energy transition is not just a technology and investment play, the associated large-scale investments is a once in a generation opportunity to strengthen social progress and reverse nature loss. As Malaysia’s oil and gas resource custodian, we strive for socially inclusive and sustainable resource development.

With our commitments and plans to address climate change and nature loss in place, next, we will engage with stakeholders across our value chain to better understand what a just and equitable energy transition may look like and what our role should be.

The coming year will undoubtedly continue to be volatile. As we move forward, we will encounter obstacles in advancing sustainability and an equitable energy transition. However as demonstrated over recent years, PETRONAS remains resilient. Our focus on sustainability and strategic priorities coupled with milestone achievements will cement our position as a dynamic and reliable partner in the energy transition set for long-term success.

Charlotte Wolff-Bye
Vice President and Chief Sustainability Officer