

Remaining Steadfast in Tough Times



Esteemed Stakeholders,

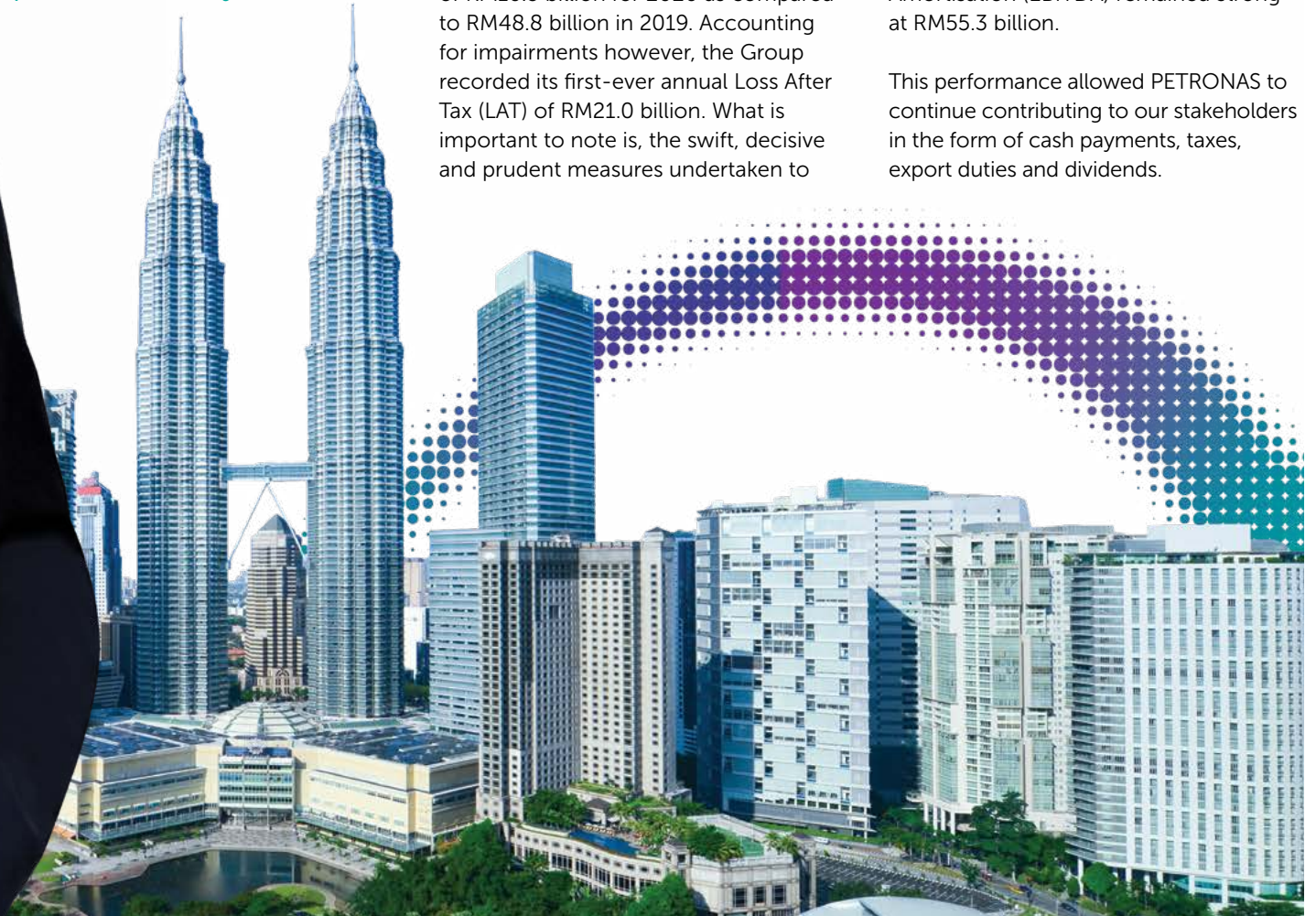
The year 2020 was an exceedingly difficult one for the industry. The unprecedented events that unfolded saw the industry contending with the challenges of the demand destruction brought about by the COVID-19 pandemic and fragile oil prices, following a sustained rout due to a prolonged supply glut. Within the broader energy space, the pandemic mercilessly tested the vulnerabilities in our current energy system. Since then, the push towards energy transition has become increasingly evident and accelerated. In totality, these developments have converged, forming an undeniable imperative requiring immediate reforms along the whole value chain. In short, the historic events of 2020 forced a Great Reset for the industry.



Tengku Muhammad Taufik
President and Group Chief Executive Officer



Amidst these disruptions, we have not wavered from our priority: to keep our people safe. We took **immediate measures** to ensure the safety of our 48,000-strong workforce, preserve business continuity across more than 33 countries as well as uphold the social well-being of communities in our areas of operation. To ensure PETRONAS' long-term survival, the Group embarked on **deliberate steps** to strengthen our resilience and steer the organisation towards a path to recovery.



Our focus is on becoming a more cost-efficient producer, de-risking our investments by pursuing opportunities that deliver quicker cash returns and are less volatile, as well as embarking on more innovative solutions while pivoting our portfolio. These efforts will continue to be driven by a stronger, more customer-centric workforce, committed towards the pursuit of our Three-Pronged Growth Strategy.

Despite the obstacles we faced, the PETRONAS Group has responded well to cushion the adverse impact of a turbulent year. This overview of our operational and financial performance is a testament to the mettle of our people, their appetite to innovate, as well as their commitment to working together to overcome all odds and progress with conviction.

Turning in a Resilient Performance

Before net impairment losses, PETRONAS posted a Profit After Tax (PAT) of RM10.5 billion for 2020 as compared to RM48.8 billion in 2019. Accounting for impairments however, the Group recorded its first-ever annual Loss After Tax (LAT) of RM21.0 billion. What is important to note is, the swift, decisive and prudent measures undertaken to

provide PETRONAS with a stronger foundation to ensure the resiliency and sustainability of its operational and financial positions today.

At the onset of the pandemic in March, PETRONAS announced a targeted capital investments reduction of 21 per cent and operating expenditures reduction of 12 per cent. The decision was taken after careful deliberation to protect groupwide profitability while preserving liquidity to weather what we anticipated to be an extremely volatile period. We also remained firm on our cost compression and resource optimisation efforts.

As a result, we recorded positive Cash Flows from Operating Activities (CFFO) of RM40.7 billion in 2020, albeit 55 per cent lower than the RM90.8 billion in the previous year. The healthy CFFO provided comfortable liquidity cover to meet the Group's Capital Investments of RM33.4 billion. PETRONAS' Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) remained strong at RM55.3 billion.

This performance allowed PETRONAS to continue contributing to our stakeholders in the form of cash payments, taxes, export duties and dividends.

Responding with Immediate Measures to 2020's Challenges

When the first hints of the pandemic emerged earlier in the year, the Group had to navigate operational and supply chain disruptions, demand disruptions, evolving market conditions and shifting consumer behaviour. We minimised the impact of these headwinds on our business by deploying **three immediate measures**:

#1

Activation of the PETRONAS Pandemic Preparedness and Response Team (PPRT) and Corporate Command Centre (C3)
– to ensure timely decisions were made to safeguard the health and safety of our people and to regulate critical cross-business decisions.

#2

Implementation of Liquidity Plus (L+)
– to provide steer on groupwide liquidity strategies to remain resilient while preserving credit metrics at Investment Grade.

#3

Rollout of Fast Forward (F2)
– to shape the organisation post COVID-19, in response to the complexities of the new normal.

I am pleased to report that PETRONAS' operations were able to run safely, reliably and efficiently with minimal interruptions despite having to address more than 2,000 cumulative COVID-19 cases within the Group at the peak of the pandemic. We activated the evacuation of employees who developed COVID-19 symptoms and evacuated as well as redeployed approximately 1,039 employees, dependents and students from 33 countries. We also ensured digital infrastructure readiness for our more than 48,000-strong workforce to work remotely and safely during the crisis.



Moreover, the Group recorded 272.8 million man-hours in 2020 and the Fatal Accident Rate (FAR) stood at 1.47 per million man-hours. Major Loss of Primary Containment (LOPC) was contained at five incidents, which is the lowest rate over the last five-year period. Major Fires recorded were sustained at two incidents – an improvement compared to three incidents in 2019.

Leveraging Three Deliberate Steps to Ensure Sustainable Growth

As I stated at the outset of this letter, the confluence of events in 2020 forced a Great Reset for the industry which resulted in energy players taking a long, hard look at the way we had been doing things. For PETRONAS, it was an impetus for the Group to clearly define our long-term portfolio objectives so we could take deliberate steps into potential new spaces that will enable us to thrive in the energy transition. We recognised new opportunities in pursuing 'green shoots' through close collaborations between our Upstream, Gas + New Energy, Downstream as well as Project Delivery and Technology (PD&T) business segments that, in our view, could strengthen our resiliency in responding to challenging market conditions.

The year under review saw PETRONAS focusing on **three deliberate steps** – the first was to act immediately on the levers that were within our control, while the other two steps were long-term measures that would steer the organisation through the crisis and ultimately, thrive in the long run. The deliberate steps, which were timely tactical interventions to minimise operational impact and preserve value across the Group, entailed:

Focused Execution at Pace

This centres on our core engine running efficiently to (i) ensure optimum value from our assets and resources in a better, faster and safer manner, and (ii) enable a smoother portfolio review and business pivot where necessary. At the heart of this are two key components, namely cost-to-serve and knowing our customers. These are among a few commendable examples of our achievements:

- A total of **ten discoveries** were made in 2020 comprising **seven discoveries** which contributed to our resource addition namely in **Malaysia, Suriname as well as Gulf of Mexico, USA and Gulf of Mexico, Mexico**
- 10% reduction in Upstream Unit Production Cost (UPC)** and energy optimisation initiatives to improve efficiency in reducing UPC for all Downstream Plants
- 600 million standard cubic feet per day (MMscfd) minimum daily gas** offtake during Movement Control Order (MCO)
- Secured **6.5 mtpa** LNG supply deals covering contract extensions, servicing new customer segments via Virtual Pipeline System (VPS) and LNG Bunkering Vessel (LBV) solutions, as well as entries into new markets
- Achieved an Overall Equipment Effectiveness (OEE) rate of **90%** across Downstream assets, **97%** for domestic refinery and **86.2%** for South Africa's refinery
- Achieved an OEE rate of **96.8%** across G+NE
- PD&T's efforts generated **RM2.9 billion in cost savings** realised across the Group

I am pleased to report that PETRONAS ensured a safe and sustainable supply of energy to support the requirements of its customers, partners and businesses across the globe with strict compliance to our Health, Safety, Security and Environment (HSSE) standards and guidelines by local authorities – all this was delivered despite the many vagaries we contended with as a result of the pandemic.

Reshaping Our Portfolio

This allows us to shape a superior performing and high-value portfolio which is robust and sustainable in the long run whilst positively contributing to society.

- Established the **Portfolio Intervention and Transition (PIT) team** – a multifunctional team with best-fit talents to accelerate the portfolio review with groupwide resilience and sustainability in mind
- Introduced new and accessible **LNG solutions encompassing the VPS and LBV solutions**
- Increased growth in the non-fuel retail segment with **Setel and Makan@Mesra**
- Close to a **1GW solar capacity** under operation and development in Malaysia, India and Dubai
- Stepping out through partnerships in specialty chemicals to meet the **increasing demand for gloves, pharmaceuticals and hygiene products**
- Venture capital investments in technology start-ups for growth in industries adjacent to and beyond oil and gas namely, **Braintree Technologies** for smart farming solutions with PETRONAS Chemicals Group Berhad
- PETRONAS through its corporate venture capital arm, PETRONAS Ventures, teamed up with SOLS Energy Sdn Bhd to invest in the **solar photovoltaic (PV)** system start-up that provides sustainable energy for residential and small-to-medium enterprise (SME) sectors in Malaysia
- Venturing into the **commercial production of green hydrogen**, for export to the Far East Asia market

These are among the 'green shoots' that will expand PETRONAS' offerings as an energy and solutions partner to fulfil the aspirations of consumers and governments for a low-carbon future.

Retooling Our Human Capital Equation

In simple terms, this entails taking a long hard look at how we deploy the talents we already have, expect to recruit or potentially lose through natural attrition, while focusing on building new types of capabilities to ensure PETRONAS retains a robust workforce that is equipped to face the energy transition.

This will be absolutely essential as we pivot our strategy to move forward. People are our most valuable assets and PETRONAS remains steadfast in ensuring its talents are continuously upskilled.

- 83% of 48,679 employees** worked from home with **47,127 online training sessions completed**
- TechnoDigital Agenda** to accelerate PETRONAS transformation on the technology and digital front with enhanced capabilities and resources to steer a future-ready organisation
- Leadership pipeline** through accelerated development of our talents to become more transformative, agile and inventive
- Diversity and Inclusion (D&I)** efforts across global operations

The deliberate steps of focused execution at pace, reshaping our portfolio mix and retooling our human capital equation enabled PETRONAS to weather the challenges of the year in review. As a Group, we will continue to remain focused on preserving value, pursuing growth and intensifying our sustainability efforts as we progress forward in our Three-Pronged Growth Strategy.

Strengthening Our Sustainability Agenda

For the year under review, we continued to make good strides forward on the sustainability front in several areas.

As an industry, we have before us the mammoth task of balancing the need to decarbonise the energy system while ensuring an energy supply that is affordable, secure and sustainable. For PETRONAS, our Purpose is to be a progressive energy and solutions partner enriching lives for a sustainable future. This signals our expansion beyond the traditional oil and gas portfolio into the broader energy space, while doing so in a way that benefits all.

PETRONAS recognises that sustainability is no longer optional - going forward, it is our licence to operate. Demonstrating this commitment, we have recently declared our aspiration to achieve net zero carbon emissions by 2050 (NZCE 2050).

This is part of our holistic approach to sustainability from the Environmental, Social and Governance (ESG) perspective. Our approach is guided by our four sustainability lenses of Continued Value Creation, Safeguard the Environment, Positive Social Impact and Responsible Governance.

On this note, I am pleased to share that PETRONAS appointed Ms Charlotte Wolff-Bye as Chief Sustainability Officer, PETRONAS effective 1 June 2021. With over 20 years' experience, Charlotte is an internationally recognised expert in delivering strategies that create positive and sustainable impact on society, the economy and environment. She brings to the table her in-depth experience and expertise in developing and deploying CSR and sustainability strategies across our integrated businesses.

We believe her immense experience will add momentum and value to PETRONAS' long-term sustainability journey. To this end, we will be developing a clear strategy for the Group to execute our NZCE 2050 aspiration, and together ensure we prudently navigate the energy transition while delivering the necessary portfolio impacts.

To date, PETRONAS has intensified its efforts through partnerships with the private and public sectors to accelerate sustainable industry practices globally and in Malaysia. The year's milestones included the following:

Organised the second Malaysia Energy Roundtable in partnership with the **World Economic Forum (WEF)** to facilitate public-private discussion on the future of Malaysia's energy landscape and the priorities for an effective energy transition.

Attained membership in the **World Business Council for Sustainable Development (WBCSD)** to collaborate with oil and gas industry peers, as well as the wider energy industry and other sectors, to share best practices, advocate and support policies, while developing solutions. PETRONAS is focusing on the Circular Economy where we will expand our involvement in areas such as Climate and Energy, People and Redefining Value via the WBCSD.

Became a signatory to the **WEF Stakeholder Capitalism Metrics** which aims to promote and steer convergence of global ESG standards.

It is in this spirit of collaboration that I believe we will be able to collectively move the needle towards the goal of NZCE 2050. With decisive, deliberate and coordinated action, I am confident that the industry will bring forth a sustainable energy equation for our shared future.

Contributing to Nation-building Efforts

Despite the turbulent year, we remain fully committed towards contributing to the well-being of society through various social initiatives.

The B40 Empowerment Programme for instance, is targeted at the agricultural and agro-based industry. Dedicated to addressing youth unemployment whilst leaving a positive impact on communities through social entrepreneurship, our SEEd.Lab initiative forges sustainable solutions to manage community pain points and bridge youth employment gaps in Malaysia.

In the area of Education, we awarded 370 scholarships under the PETRONAS Education Sponsorship Programme in 2020, which brings the total number of beneficiaries to more than 37,000 students since 1975, with investments in human capital totalling more than RM3.3 billion. We also contributed to the Discover PETRONAS @ Schools and Vocational Institution Sponsorship and Training Assistance (VISTA) programme.

On the local OGSE front, PETRONAS continues to run its Vendor Development Programme (VDP) to nurture local SMEs in the oil and gas services sector. The Vendor Financing Programme, with support from local and foreign financial institutions, continues to provide assistance to the local OGSE sector and this was especially evident during the challenging period last year.

I am pleased to share that the Group undertook other initiatives to support the local OGSE ecosystem amidst the pandemic. These measures included the following:

➔ **PETRONAS introduced the Contractors' Special Assistance Programme in March 2020 to support the local OGSE sector and to minimise the impact of the COVID-19 pandemic and low oil prices on local contractors.**

➔ **PETRONAS Chemical Group (PCG) worked closely with Small and Medium Enterprises (SMEs) within its supply chain, authorities and regulators to ensure business continuity was preserved without compromising PCG's value.**

I would like to take this opportunity to thank all of our industry partners for the ongoing support and commitment towards these initiatives as we continue to collectively face the volatile business landscape.

PETRONAS also recognises that managing a finite resource logically cannot be an infinite venture. For the benefit of the nation, we continued setting aside funds through this difficult period. On that note, regardless of the headwinds we faced, PETRONAS fulfilled its commitment to contribute to the National Trust Fund which stood at RM10.4 billion as at 31 December 2020.

These societal initiatives are driven by PETRONAS' responsibility as Malaysia's national oil company (NOC) to uphold the *Amanah* or Trust given to us to manage the nation's hydrocarbon resources for the benefit of the people. This is a value that is deeply embedded in the organisation.

Moving Forward into 2021 and Beyond

While we made strong strides forward in mitigating the impact of COVID-19 in 2020, we are not quite out of the woods yet. With fresh waves of COVID-19 cases still surging across the world, the economic outlook remains uncertain and difficult. While we remain hopeful given the pockets of recovery we are seeing in some parts of the world as vaccination programmes are rolled out in earnest, we anticipate a weakened growth trajectory for the rest of the year - putting 2021 on a fragile footing. Amid the ever evolving operating environment brought about by the pandemic as well as prolonged volatility of oil prices, PETRONAS is adopting a cautious outlook and anticipates that 2021 will be challenging all around.

In ensuring PETRONAS' ability to weather the storm in a resilient and sustainable manner, we must implement purposeful and laser-focused measures. To this end, we must ensure that we are able to be a more cost-efficient producer and are in a strong position to de-risk our business, while delivering more innovative solutions to pivot our portfolio. At the same time, we must be unrelenting in our focus to build a stronger, customer-centric workforce that is committed towards Focused Execution at Pace while strengthening our Sustainability Agenda. Ultimately, we must ensure that PETRONAS is able to continue contributing for the long term towards the shared prosperity of the nation and the industry as a progressive energy and solutions partner enriching lives for a sustainable future.

Acknowledgements

The year's resilient performance is due to the efforts of many parties whom we wish to acknowledge. Permit me to place on record my thanks to my immediate

predecessor, Tan Sri Wan Zulkiflee, for his many years of dedicated service and valuable contribution to the Group. Without question, my utmost gratitude is only rightly reserved for our diligent and dedicated employees whose resilience and commitment to excellence saw us through a very challenging time. As a result of the collective efforts throughout the Group, PETRONAS has maintained its position as the most valuable ASEAN brand in the Brand Finance Global 500 report this year and remained in the ninth spot amongst the brand valuation consultancy's listing of global oil and gas brands.

I want, in particular, to extend my heartfelt appreciation to our Chairman, Tan Sri Ahmad Nizam Salleh and all members of the PETRONAS Board of Directors for their astute insights, counsel, and stewardship during this difficult and challenging period. My sincere thanks to our valued shareholder for their confidence and trust in PETRONAS, and last but not most definitely not least, to our loyal business partners, vendors and other stakeholders for their support and continued belief in PETRONAS as their preferred energy and solutions partner.

As we move into the new normal, there is still much uncertainty about what lies ahead. However, with strategic imperatives clearly drawn up, a motivated workforce whose commitment remains undiminished, and the support of a shareholder keen to ensure we succeed come what may, I am confident we will be able to tackle all imminent challenges and capitalise on all opportunities that the future may bring.

Tengku Muhammad Taufik
President and Group Chief Executive Officer