

MD/CEO'S Statement

Dear Shareholders,

After two years of pandemic-related restrictions, 2022 was a welcome reprieve. As engines of economic recovery were re-ignited, demand for fuel increased and we capitalised on the opportunity to meet this demand as we pursued our Moving Forward Together (MFT) strategy. Though certain challenges persisted, we were also presented with various opportunities. Capitalising on these, we have achieved some amazing results. Indeed, it gives me great pleasure to share that we ended the year with one of PDB's best performances in history.

AZRUL OSMAN RANI

Managing Director/Chief Executive Officer



The Group's volume increased by 28% to 15,033.7 million litres, with Retail-Fuel recording its highest ever sales. This was complemented by a 26% increase in revenue from our Convenience segment, with *Kedai Mesra* recording higher sales and our newly-launched *Café Mesra* contributing a new income stream. Together with a strong showing from all our other businesses, the Group's Profit Before Tax (PBT) increased by 53% year-on-year to hit RM1,135.0 million which was higher than our pre-pandemic PBT in 2019. Comparatively, our Profit After Tax (PAT) also saw an increase of 48% against 2021 to RM787.8 million. Excluding the one-off inclusion of *Cukai Makmur* in 2022, our numbers reflect the strength of our business, with PAT exceeding 2019 figures when considered against normal operating conditions.

Of note, we have grown our core businesses safely, protecting our people and assets while living up to our promise of making everyday life simpler and better through our expanded offerings. We are also taking small yet sturdy steps towards the transition to a low-carbon economy, contributing to national and international agendas in managing and mitigating climate change for environmental sustainability.

The fact that we achieved all of this in a year that marked PDB's 40th anniversary was an added bonus. Hitting milestone anniversaries is always a cause for introspection. Upon reflecting, it is clear that our successes today are the result of four decades of strategic investments and decisions made by previous leadership. Thanks to the legacy they have created, we

are in a strong position to move forward. However, to do so successfully we need to keep evolving to remain relevant. Today, perhaps more than ever, we are in an environment of great flux. The energy transition that began some years back is gaining momentum. Meanwhile, our customers seek increasing convenience. Recognising these systemic shifts, PDB is investing significantly into transforming our business and the way we create value for our customers.

In 2022 itself, we have made good progress in our new direction and I am pleased to provide an account of what we have achieved as well as what we plan to do to carve even greater successes in the years to come.

Through the three pillars of Value, Growth and Sustainability, we are ensuring continued growth of our core businesses as we adapt to customers' increasingly digital lifestyles, while meeting Environmental, Social and Governance (ESG) imperatives.

registering a Gross Domestic Product (GDP) of 8.7% compared to 3.1% in 2021.

The most significant impact of the macroeconomic factors outlined above on PDB has been the price of oil. Already increasing in the first quarter of 2022 along with economic recovery and supply restrictions by OPEC+, the price peaked in the second quarter due to a shortage following the war in East Europe exacerbated by a spike in travel during the summer months. Although demand subsequently decreased in the third and fourth quarters of the year in tandem with inflationary pressure, the average Brent price jumped by 43% from USD71 per barrel in 2021 to USD101 per barrel in 2022.

In addition to the increase in oil price, Bank Negara Malaysia (BNM) raised the Overnight Policy Rate (OPR) four times in 2022 ending the year at 2.75%. Nevertheless, fuel sales in the retail and commercial sectors in Malaysia remained strong. This enabled PDB to increase its average selling price by 26% year on year. Indeed, heightened demand and price of fuel during the year were among the most salient contributors to our outstanding performance.

OUR ONGOING TRANSFORMATION

The economic recovery in 2022 presented an ideal environment to press ahead with our MFT journey, which we embarked on in 2021. Specifically, through the three pillars of Value, Growth and Sustainability, we are ensuring continued growth of our business as we adapt to customers' increasingly digital lifestyles, while meeting Environmental, Social and Governance (ESG) imperatives.

Our core businesses will always define us; PDB was established to supply fuel to various sectors, and will continue to perform this critical service to the best of our ability. However, due to climate change, we need to re-look the types of fuels that we supply. And, given increasing competition, it is imperative that we meet the broader needs and expectations of our customers to sustain their loyalty. These considerations are encapsulated in MFT which is guiding us to diversify from carbon-based to cleaner forms of energy, and to win our customers' hearts by listening to them intently, using insights gained to guide our product and service development.

OUR OPERATING LANDSCAPE

After a sharp recovery in 2021, the global economy slowed down in 2022, mainly as a result of the Russia-Ukraine conflict, continued COVID-19 lockdowns in China, continuing supply chain disruptions and the interest rate hikes by the U.S. Federal Reserve. Along with most of ASEAN, fortunately, Malaysia was largely immune to these headwinds, buffered by domestic as well as external demand, together with an improved labour market. This was supported by marked recovery in the services, construction and manufacturing sectors, which led to the country



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Three Strategic Pillars	
<p>Value</p> <p>Sustain PDB Core Businesses</p> 	
<p>Growth</p> <p>Diversification Through Convenience</p> 	
<p>Sustainability</p> <p>Creating Positive Environmental, Economy and Social Impact</p> 	

Value: Sustain PDB's Core Business

During the year, we leveraged the surge in demand for fuel prompted by the economic recovery to operationalise 10 new PETRONAS stations. Meanwhile, continuing to delight our customers in every way possible, we have fully digitalised our stations, transforming them into highly efficient one-stop centres that meet every Retail-Fuel customer's need. We also launched the latest iteration of our signature *Mesra Bonanza Lagi Onz!* campaign, offering customers the chance to win exciting prizes. Our efforts were substantiated by **Retail-Fuel Business'** achievement in recording its highest ever revenue with over 40% increase in volume.

In the **Commercial Business**, our volume increased by 19% as we focused on high-value segments. Along with targeted sales, we also enhanced our customer relationships by focusing more intently on catering to their needs. Recognising that some of our customers were struggling to meet the surge in demand for their products and services amid supply bottlenecks, we stepped in to fill the gaps where possible such as via product importation to make up for the domestic supply shortfall. In addition, we reviewed our customers' credit limits to

support them as they started ramping up operations. In return, revenue from the Aviation sector quadrupled while revenue from Construction and Agriculture grew by strong double digits.

Despite challenges in the eateries segment, with restaurants hampered by a manpower shortage, our **LPG Business** maintained its market leadership with a 2% growth in sales volume as the manufacturing, hospitality and retail sectors picked up. This was further complemented by growing our commercial customer base and expanding the network of Gas PETRONAS@Station as well as Gas PETRONAS@Mini Market nationwide. We have also appointed new dealers to serve currently underserved markets.

Meanwhile, the **Lubricant Business** was able to capitalise on a confluence of factors, including amplified demand from OEM and B2B clientele, as well as the burgeoning expansion of PETRONAS AutoExpert outlets. While the Market Execution Partners (MEP) were impeded by financial constraints and experienced a downturn in revenue, we were able to offset these losses through robust growth in other areas. We also made noteworthy advancements to our product portfolio with the successful launch of two products, namely PETRONAS Syntium with CoolTech+™ and PETRONAS Urania with StrongTech™. This was accompanied by a series of highly effective brand campaigns and a strategic promotional partnership with Formula One™ and MotoGP™, which collectively bolstered customer perception of our brand. As a result of these efforts, we were pleased to observe a 3% increase in total domestic volume for the year.

Growth: Diversification Through Convenience

Key developments in our non-core business this year were the rollout and expansion of our very own F&B brand Café Mesra, and the introduction of more Mesra own-label products. Officially launched on 7 July 2022 at PETRONAS station USJ 20, by year end we had a total

of 41 Café Mesra outlets – inclusive of cafes in PETRONAS stations, standalone outlets/kiosks and mobile trailers. More than their financial contribution, Café Mesra is symbolic of a new culture that we are creating in PDB – one in which our people are challenged to step out of their comfort zones and to face competition head on. The early successes we are enjoying is immensely gratifying because it indicates a real mindset shift. Meanwhile, we expanded our range of Mesra own-label products, from just 41 at the end of 2021 to 85 in 2022.

Catering to digital lifestyles, we continued to re-invent and enhance our Setel app with more features and functions to create an increasingly better customer experience. Customers purchasing conventional fuel at stations can do so with just one tap on the app. Owners of electric vehicles (EV) can use the app to locate and activate EV charges, from the comfort of their vehicles. Beyond fuel, customers can purchase insurance and request for various auto-related services, from battery replacement to towing cars. We also introduced PETRONAS Shop, an e-commerce platform for all PETRONAS products including merchandise from PETROSAINS and the PETRONAS Twin Towers Gift Shop in addition to our own brands such as PRYSM.

Beyond developing MESRA and Setel, we have diversified our business by venturing into alternative cleaner fuels. Given the urgency to mitigate and manage climate change, there has been a marked increase in investments into research and development on low-carbon and no-carbon fuels, accompanied by growing demand for them. As a result, green technologies are becoming more affordable. EV batteries, for example, cost about 90% less than they did 12 years ago, prompting greater adoption of zero-emission cars. Playing our part, we launched our first EV charging facilities in 2017 and by end 2022, had equipped more than 60 PETRONAS stations with EV chargers. This included our first EV hub at PETRONAS station Bandar Baru Ayer Hitam along the North-South Expressway where

we have installed three direct current (DC) fast chargers and two alternating current (AC) Gentari EV chargers. Of note, we now have a total of 21 DC chargers in 19 stations across our network in the country.

In the aviation sector, having launched Sustainable Aviation Fuel (SAF) in 2021, we trialled its use in passenger flights operated by Malaysia Airlines, Firefly and MASwings. Our partnership with Malaysia Aviation Group (MAG) places us on a strong footing to supply the national aviation group with its SAF requirements once the fuel becomes economically viable.

Sustainability: Creating Positive Environmental, Economy and Social Impact

Our foray into cleaner fuels is indicative of PDB's commitment to incorporating sustainability into the DNA of the organisation. We no

longer look at sustainability as a nice add-on to what we do, but as being integral to our operations. In addition to our alternative fuel business, we are transitioning into a low-carbon organisation via reduced emissions from our own operations. Over the years, we have adopted various initiatives to reduce our carbon footprint, such as installing solar panels and LED lights at our stations and terminals. In 2022, Gentari installed solar panels at another six PETRONAS stations and we look to solarise even more of our network in the near future.

As a measure of our carbon reduction commitment, we have begun the process of assessing our Scope 3 emissions. With this data, we will be in a position to adopt the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and respond more effectively to climate-related risks and opportunities.



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2022

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Another focus area for PDB, as a retailer of consumer goods is responsible waste management. In addition to ongoing initiatives, in 2022 we embarked on a pilot programme with strategic partners to collect used plastic bottles and aluminium cans for recycling using reverse vending machines (RVMs). Two machines were installed at PETRONAS stations in November 2022, which helped to divert 12,562 bottles and cans from landfills by the end of the year.

We also contribute significantly to socioeconomic upliftment by nurturing an expanding ecosystem of suppliers and partners. As of end 2022, we had more than 1,800 SMEs registered to supply our *Kedai Mesra*. Through the PETRONAS AutoExpert network, we support automotive entrepreneurs, who also have access to affordable financing and various development programmes offered by MARA, PUNB and SME Bank, with whom we have partnerships. During the year itself, we added 32 new PETRONAS AutoExpert outlets to our network. With the launch of Café Mesra, we are providing yet another platform that will create more job opportunities. As at end 2022, 147 staff were employed across the 41 cafés that had been established.

We believe strongly that those who are differently-abled should be given the opportunity to be part of mainstream economic activity, hence we are in support of Enable OKU (ENOKU), a social enterprise under SEEd.Lab, by providing structured pathways to facilitate our dealers in hiring persons with disabilities (PwDs).

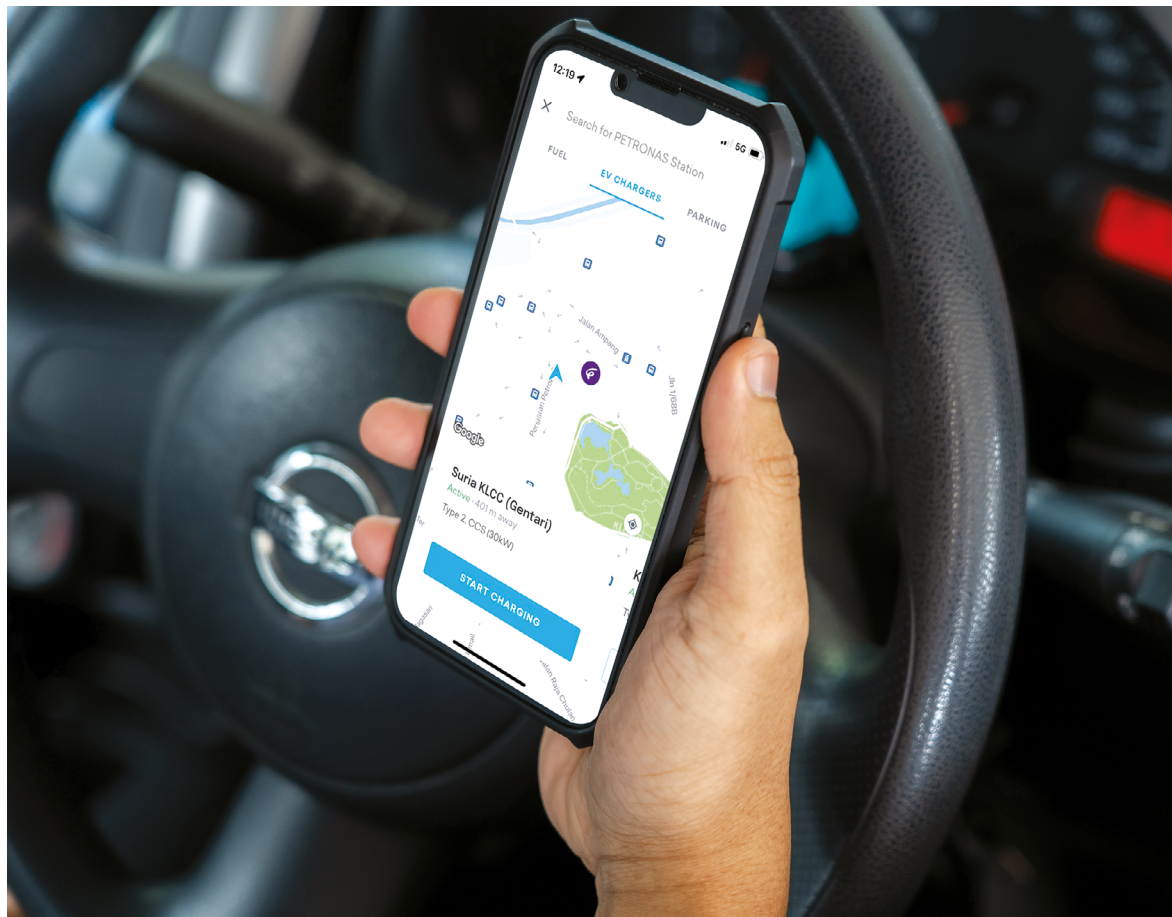
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DIGITALISATION @PDB

At PDB, we embrace digitalisation not only to make the lives of our customers simpler and better, but also to enhance our own operational efficiencies and effectiveness. Our digital journey is guided by a Digital Blueprint, namely a roadmap that ensures the timely delivery of digital modernisation and automation which is expected to help us realise business value, drive growth and contribute to the sustainability of our business operation.

As we transform into a data-driven organisation, we are enhancing our data literacy by upskilling our employees. We fully recognise the power of data and are working to equip everyone across the Group with the skills necessary to leverage the data available to them for optimum business outcomes. With the maturity of our data platform, PDB is set to explore the use of AI and advanced analytics that will future-proof our organisation.

Digitalisation at PDB is also contributing to our sustainability agenda through reduced carbon emissions. Migration of most of our applications to cloud platforms, which look to utilise sustainable energy sources and upgraded network connectivity in all PETRONAS stations has enabled centralised monitoring, resulting in greater energy efficiency and a reduction in our digital carbon footprint. At the same time, we are also empowering our employees with the flexibility of working



from home which helps to lower the impact of daily commutes.

The more we digitalise our services and operations, the more important it is to protect all the data within our systems and platforms. Therefore, we ensure our cyber security governance and controls are strengthened and up to date while creating better awareness among employees of risks related to data privacy and security.

SAFETY, ALWAYS OUR PRIORITY

Given the nature of our business, the safety of PDB's extended community is our top priority. We have in place a very secure safety framework which is continuously reviewed and strengthened as we seek to achieve zero incidents. Despite our best efforts, however, accidents will happen; but when they do, we use the incidents as learnings to further reinforce our safety nets.

During the year, there were injury cases within our offices and terminals, as well as two incidents involving our road tankers. In response, we conducted a hazard hunt in our offices to identify unsafe acts or conditions and put in place mechanisms to prevent incidents. We also initiated a PDB I-Role Model and a Generative Culture Intervention at our terminals to remind everyone to take responsibility for their own safety as well as that of others. In 2023, we will be conducting a Zero is Possible rally involving all staff and contractors.

To enhance the safety behaviours of our hauliers, we have revised our Land Transport Operations Model for simpler and more effective management. In addition, we assessed the safety parameters at 20 of our hauliers' parking bays, and drafted action plans to rectify gaps identified. Subsequently, I personally met with the CEOs of the haulier companies for updates on their remedial actions.

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CULTURAL TRANSFORMATION

As noted by our Chairman, the successes we enjoyed in 2022 boil down to our people. Similarly, the success of our ongoing transformation depends on them. We therefore have a parallel transformation going, focused on bringing out the best in our people. Our objective is to empower and inspire our employees to become change agents – to keep looking for different ways of doing things to make a real difference. We have embarked on building an Empowered, Enabled & Agile (EMAN) workforce. This requires our people to be proactive in delivering solutions; and supported by leaders providing psychologically safe space for our people to practice “Progress over Perfection”.

Through EMAN and other initiatives, we are building competencies and confidence. Both are important in order to achieve true disruption – the first to develop potentially powerful ideas, and the second to be able to accept that failure is part of any recipe for success.

At the same time, we keep reinforcing PETRONAS' Cultural Beliefs, which are about personal accountability in achieving the organisation's goals. Anchored on these beliefs, our people have a sense of purpose which will drive them to be enterprising and innovative as they contribute to PDB's onward journey.

OUR OUTLOOK

The outlook for Malaysia in general is looking positive. Amid fears of inflation and a global recession, the economy is expected to grow at 4.0% in 2023, driven by private spending as construction projects are revived and the unemployment rate further reduces to 3.5%.¹ Malaysians will also be relieved by stabilising oil prices, with the price of Brent expected to average USD89 per barrel, about 13% lower than in 2022.

In addition to the economic recovery, business and leisure tourism into the country is expected to surge along with the government's revocation of quarantine and testing requirements in Malaysia starting from 1 August 2022. International air passenger arrivals in Malaysia is anticipated to hit 9.6 million in 2023 from an estimated 2.5 million a year ago on the back of the reopening of international borders.² This will catalyse further demand for fuel, not just from the aviation sector but also hospitality, F&B and transport.

PDB is committed to leveraging this demand by continuing to grow our core businesses in line with customers' evolving preferences, while at the same time enhancing our revenue stream from the non-fuel segment. More Café Mesra outlets will be launched in 2023 at various locations outside of PETRONAS stations. We will also expand the range of PRYSM merchandise offered on PETRONAS Shop via the Setel App.

Committed to supporting Malaysia's aspiration to become a low-carbon nation, we will ensure that our growth is sustainable. Following the launch of our first EV charging hub, we will not only expand our EV charging network but will ensure a seamless customer experience by integrating our EV charging facilities with the Setel App. Within PDB itself, we will install more solar panels at PETRONAS stations and look for other ways to lower our carbon footprint. Our

¹ *Malaysia Economics Monitor, World Bank Group, February 2023*

² *Kenanga Research, 30 January 2023*

efforts will not be confined to environmental initiatives, but will include various ESG practices for the benefit of our communities. We will be guided towards this end by various standards including the FTSE4Good.

Having mainstreamed sustainability, we seek to make it an increasingly bigger part of our business, as we believe it is important not only for the sustainability of the planet but also the long-term sustainability of PDB.

ACKNOWLEDGEMENTS

In celebrating our 40th anniversary, it is only fitting to acknowledge not just our current but all previous Board of Directors and Leadership Team of PDB and PETRONAS Group, as well as employees who have played a role in shaping the organisation as it stands today. My heartfelt gratitude goes to all of you, as well as to all our external stakeholders – our customers, shareholders, *Rakan Niaga*, dealers, partners, suppliers and contractors – for your varied and highly valuable contributions over the years.

A special mention goes to the appointment of Khalil Jaffri Muhammad Muri as our Chief Operating Officer (COO). To accelerate our onward journey, the Board and Leadership Team felt it was judicious to have a COO to overlook our diverse businesses and create synergies for their synchronised growth. Khalil, previously Head of Retail Business, is replaced by Norazlan Subaha as our new Head of Retail-Fuel. We also welcome Anton Salleh Hashim, who replaced Pramela Vallinayagan as Head of LPG; Cheok Yen Kwan, Head of Marketing Strategy and Communication; P Sujatani Poosparajah, Head of Strategic Communications; Ahmad Yusmadi Mohamed Yusoff, who replaced Suria Kamarul Baharin as Head of Legal; and Ian Malcolm Cruddas, Chief Executive Officer of Mesra Retail & Café Sdn. Bhd. Meanwhile, we would like to express our gratitude to Mohd Imran Mohd Ashraf, Head of Technical Services and Rosnan Hamzah, Head of Safety and Environment for their contributions throughout their stints as part of the Leadership Team.

With our strengthened Leadership Team, guided by the Board and supported by our employees, PDB is now fully geared in Moving Forward Together to achieve more successes and create greater value for everyone.