



PETRONAS



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ENERGISING GROWTH



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SUSTAINABILITY REPORT 2018

Cover Rationale

Energy that is accessible and affordable is the foundation of inclusive growth. As we continue to build off the momentum to bring sustainable energy to all corners of the Earth, we are reminded of the daily lives that we touch and empower from the work that we do.

As global energy demand continues to grow, we take pride in our ability to deliver uninterrupted energy and the life-changing possibilities that it carries.

Moving forward, we will continue using the transformative power of energy to improve the quality of life, build trust and develop leading-edge solutions, so that we can energise growth wherever we go.

Introduction

We have structured this report according to our sustainability priorities, providing an outline of the business context and our strategic responses, followed by an overview of our actions and performance. The scope encompasses our business that is integrated across the energy value chain where we have deep knowledge and expertise across the upstream and downstream segments.

In this report, to be read as part of our reporting suite alongside the Annual Report, we disclose PETRONAS' sustainability impact as a responsible, safe and efficient business. The wider context of the energy transition and how PETRONAS is balancing business needs with sustainability requirements is explained throughout the report.

We publish sustainability indicators that give an at-a-glance view of our performance over the past years. Additionally, we communicate our initiatives and activities through various channels, including publicly-available reports, our corporate website, newsletters and stakeholder panels.

For more information, refer to About This Report on page 94.

Stakeholder Inclusiveness

The progress of our business depends on the support of our stakeholders. It is a business prerequisite to understand and be responsive to stakeholder needs and interests – it is how we can create and enhance value in a meaningful way.

Our goal is to nurture relationships that are built on respect and trust. Understanding the needs and perspectives of stakeholders helps us make more informed decisions that take into account a diverse range of views. We engage with a wide range of stakeholders – refer to page 95 for a list of our key identified stakeholders.

Sustainability Reporting Frameworks

Our disclosure is guided by the International Petroleum Industry Association's Oil and Gas Industry Guidance on Voluntary Sustainability Reporting (2015). IPIECA is the global oil and gas association for environmental and social issues. Additionally, the International Integrated Reporting Framework <IR> informs our assessment of financial and non-financial capitals.

Materiality Topics

The structure of this year's Sustainability Report is based on our classification of material matters into six topics. Please refer to page 20 for an overview of material sustainability topics.



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WE ARE PETRONAS

PETRONAS At a Glance

We deliver energy efficiently and reliably, having built capabilities across every stage of the oil and gas value chain.

We maximise the value of every molecule through our fully integrated business model. We continue to strengthen our portfolio of conventional and unconventional resources, broaden our offering of diverse petrochemical products and maintain our track record of successful project delivery.

As we progress towards a low-carbon energy future, we continue to leverage technology, technical capabilities and our diverse, resilient and competent workforce to sustainably deliver energy to the world.



UPSTREAM



Total LNG sales volume of
28.94
million metric tonnes



Over 390
BCE LNG loadable
delivered from the
PETRONAS LNG Complex
in Bintulu, Sarawak



Average production
2,361 kboe/d

DOWNSTREAM

Revenue of
RM128.0
billion

Sales volume at
25.2 billion
litres

Total of
265 million
manhours

Launch of

NEW
PETRONAS
PRIMAX 95
with Pro-Drive

5-Time
Consecutive
World
Constructors'
Champion
in Formula One™

Roll-out of
Setel and **ROVR**
to drive new
customer
experience

Reliability

97.9%

Overall Equipment Effectiveness

94.4%

Petrochemical Plant Utilisation

91.9%
*Nexant

Pengerang Integrated Complex (December 2018)

97%

Refer to Annual Report 2018

Please refer to the PETRONAS Group Annual Report 2018 for more information, accessible at www.petronas.com

PETRONAS AROUND THE WORLD

NORTH AMERICA

Upstream

• Canada – (Unconventional) Exploration, Development, Production, LNG • Mexico – Exploration

Downstream

• Canada – Lubricants • Costa Rica – Lubricants • Dominican Republic – Lubricants • El Salvador – Lubricants • Guatemala – Lubricants • Honduras – Lubricants • Mexico – Lubricants • United States of America – Petrochemicals, Lubricants

LATIN AMERICA

Upstream

• Suriname – Exploration • Argentina – (Unconventional) Development, Production

Downstream

• Argentina – Lubricants • Bolivia – Lubricants • Brazil – Lubricants • Chile – Lubricants • Colombia – Lubricants • Ecuador – Lubricants • Guyana – Lubricants • Paraguay – Lubricants • Peru – Lubricants • Suriname – Lubricants • Uruguay – Lubricants

AFRICA

Upstream

• Angola – Exploration • Chad – Production • Egypt – Development, Production, LNG • Gabon – Exploration • Gambia – Exploration • Republic of South Sudan – Development, Production • Republic of Sudan – Development, Production • Senegal – Exploration

Downstream

• Algeria – Lubricants • Angola – Lubricants • Botswana – Retail, Lubricants • Burundi – Lubricants • Cameroon – Lubricants • Chad • Cote D'Ivoire – Lubricants • **Democratic Republic of the Congo – Retail, Lubricants • Ethiopia – Lubricants • **Gabon – Retail, Lubricants • Ghana – Retail, Lubricants • **Kenya – Retail, Lubricants • Lesotho – Retail, Lubricants

EUROPE

Upstream

• Ireland – Production • United Kingdom – LNG & Gas Trading, Gas Storage

Downstream

• Austria – Lubricants • Belgium – Lubricants • Bulgaria – Lubricants • Czech Republic – Lubricants • Denmark – Lubricants • Finland – Lubricants • France – Lubricants • Germany – Lubricants • Greece – Lubricants • Hungary – Lubricants • Italy – Lubricants • Moldova

– Lubricants • Netherlands – Lubricants • Norway – Lubricants • Poland – Lubricants • Portugal – Lubricants • Romania – Lubricants • Russia – Lubricants • Slovakia – Lubricants • Slovenia – Lubricants • Sweden – Lubricants • Switzerland – Lubricants • United Kingdom – Lubricants

Project Delivery & Technology

• Italy • Spain • United Kingdom

• **Malawi – Retail, Lubricants • Mali – Lubricants • Mauritania – Lubricants • Mauritius – Retail, Lubricants • Morocco – Lubricants • **Mozambique – Retail, Lubricants • Namibia – Retail, Lubricants • Republic of South Sudan • Republic of Sudan • **Reunion – Retail, Lubricants • **Rwanda – Retail, Lubricants • South Africa – Refinery, Retail, Lubricants • Swaziland – Retail, Lubricants • **Tanzania – Retail, Lubricants • Togo – Lubricants • Tunisia – Lubricants • **Zambia – Retail, Lubricants • **Zimbabwe – Retail, Lubricants

** Engen Holdings (Pty) Limited entered into a transaction with Vivo Energy plc, which saw Engen's operations now transferred to Vivo Energy.

Project Delivery & Technology

• Egypt • Mauritania • Republic of Sudan • Republic of South Sudan

MIDDLE EAST

Upstream

• Iraq – Development, Production • Oman – Development, Production

Downstream

• Egypt – Lubricants • Iran – Lubricants • Iraq – Lubricants • Jordan – Lubricants

• Saudi Arabia – Lubricants • United Arab Emirates – Lubricants

Project Delivery & Technology

• Iraq • United Arab Emirates

CENTRAL ASIA

Upstream

• Azerbaijan – Development, Production • Turkmenistan – Development, Production

Downstream

• Turkey – Lubricants

Project Delivery & Technology

• Azerbaijan • Turkmenistan

ASIA PACIFIC

Upstream

• Australia – Development, Production, LNG • Brunei – Exploration, Development • China – LNG Marketing • India – LNG Marketing • Indonesia – Exploration, Development, Production • Japan – LNG Marketing • Malaysia – Exploration, Development, Production, LNG • Malaysia-Thailand Joint Development Area – Exploration, Development, Production • Myanmar – Exploration, Development, Production • South Korea – LNG Marketing • Taiwan – LNG Marketing • Thailand – LNG Marketing • Vietnam – Production

Downstream

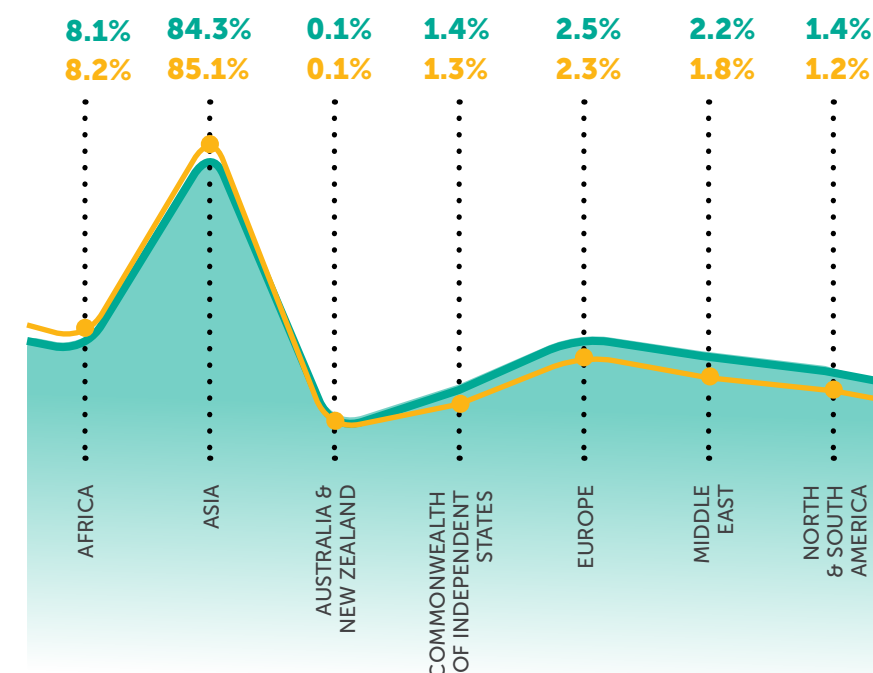
• Australia – Petrochemicals, Lubricants • Bangladesh – Lubricants • Cambodia – Lubricants • China – Petrochemicals, Lubricants • India – Petrochemicals, Lubricants • Indonesia – Petrochemicals, Lubricants • Japan – Petrochemicals, Lubricants • Malaysia – Petrochemicals, Retail, Refinery, Lubricants • Myanmar – Lubricants • Nepal – Lubricants • New Zealand – Petrochemicals, Lubricants • Pakistan – Lubricants • Philippines – Petrochemicals • Singapore – Petrochemicals, Lubricants • South Korea – Petrochemicals • Sri Lanka – Lubricants • Taiwan – Petrochemicals • Thailand – Petrochemicals, Lubricants • Vietnam – Petrochemicals, Lubricants

Project Delivery & Technology

• Brunei • China • India • Indonesia • Japan • Malaysia • Myanmar • Philippines • South Korea • Vietnam

OUR WORKFORCE

Breakdown of talents by region (%)



Total number of talents

48,001 49,911

Employment type

87% Permanent 85%
13% Contract 15%

Gender distribution

73% Male 72%
27% Female 28%

Breakdown of employees

Other Nationalities

20% 20%
80% 80%
Malaysia

Our Profile

VISION

A LEADING OIL AND GAS MULTINATIONAL OF CHOICE

MISSION

We are a
business entity

Oil and gas is
our core business

We add value
to this resource

We contribute to the
well-being of society

Petroleum Nasional Berhad (PETRONAS) is Malaysia's national oil and gas company, ranked amongst the largest corporations on Fortune Global 500®.

Since 1974, we have built our capabilities across every stage of the oil and gas value chain. We seek opportunities in hydrocarbon investments across the globe and maximise the value of every molecule through our integrated business model.

Our portfolio includes conventional and unconventional resources and a diverse range of fuel, lubricant and petrochemical products. This is further strengthened with a successful product delivery track record.

Our customers are at the heart of everything that we do and our businesses are anchored on meeting their needs.

Our technology is our differentiator and the key to ensuring excellence in all that we offer – energy, products and solutions, as well as unlocking new opportunities.

Sustainability is at the core of everything that we do, as we believe in harnessing the good in energy to add quality to everyday lives.

People are our strength and our partners for growth.



SHARED VALUES

Loyalty

Loyal to corporation

Integrity

Honest and upright

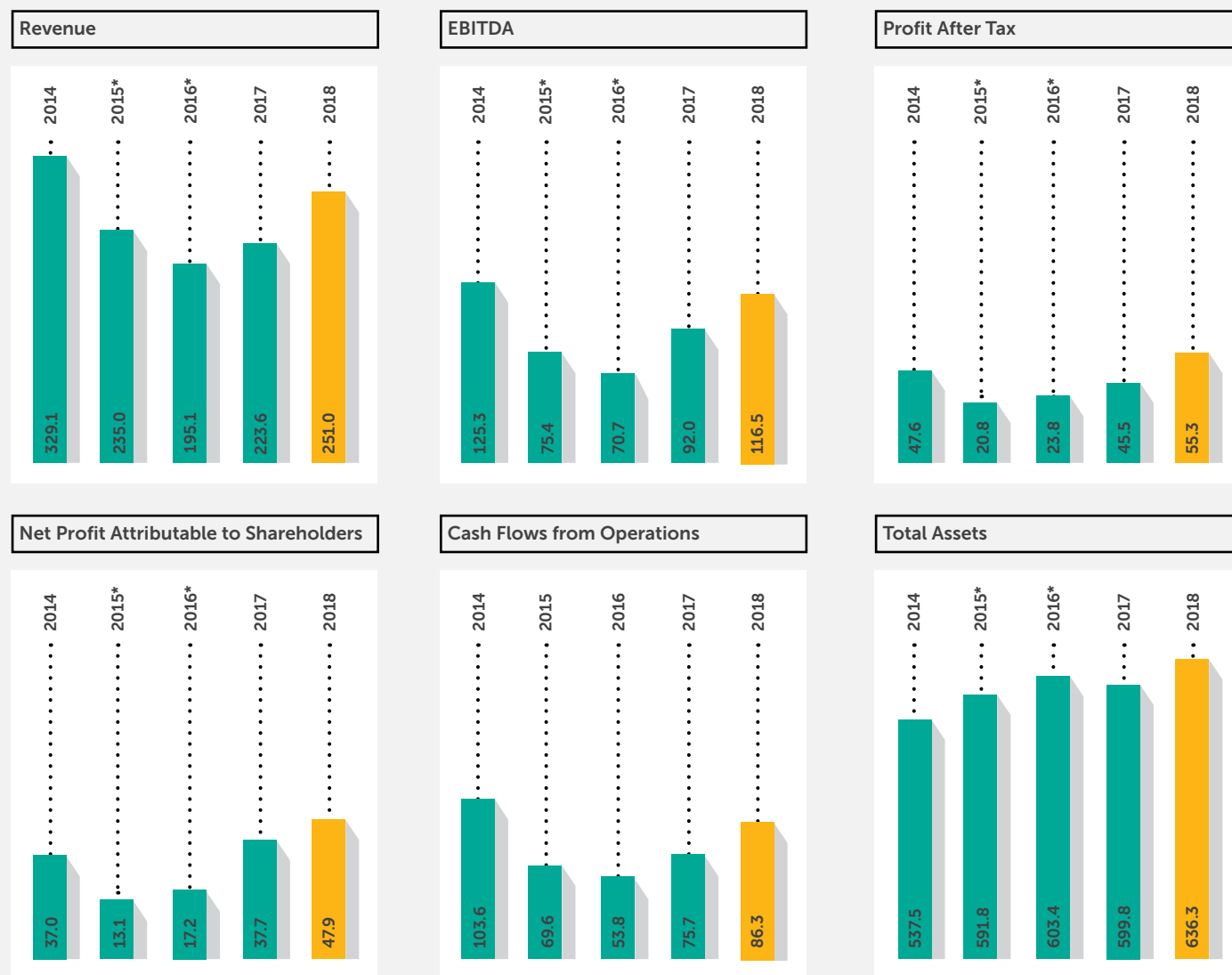
Professionalism

Strive for excellence

Cohesiveness

United, trust and
respect for each other

PETRONAS' FIVE-YEAR KEY FINANCIAL INDICATORS (RM BILLION)



Financial Ratios	FY2014	FY2015*	FY2016*	FY2017	FY2018
PAT Margin	14.5%	8.8%	12.2%	20.3%	22.0%
Return on Total Assets (ROTA)	14.1%	5.8%	5.4%	10.7%	11.8%
Return on Average Capital Employed (ROACE)	11.9%	5.1%	5.4%	9.8%	12.0%
Debt/Assets Ratio	0.07x	0.10x	0.11x	0.11x	0.11x
Gearing Ratio	12.6%	16.0%	17.4%	16.1%	19.7%
Dividend Payout Ratio	53.6%	70.2%	>100%	93.0%	69.0%

* Certain financial information and its corresponding financial ratios have been restated due to the change in accounting policies with respect to revenue reporting and inventory valuation for gas trading activities.

MESSAGE FROM THE PRESIDENT AND GROUP CHIEF EXECUTIVE OFFICER



TAN SRI WAN ZULKIFLEE WAN ARIFFIN

"As we transition towards a low carbon economy, PETRONAS is committed to managing the impact of climate change through advancing operational discipline and capabilities as well as harnessing technological developments in ensuring a sustainable and better energy future for generations to come."

LETTER FROM THE CHAIRMAN, CORPORATE SUSTAINABILITY COUNCIL



IR M FIROUZ ASNAN

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The year 2018 was characterised by greater volatility in oil and commodity prices and diverging geopolitical and macroeconomic trends. While forecasting the state of the world in the next few decades is not easy, megatrends are providing indications of potential opportunities and challenges on the horizon.

LETTER FROM THE CHAIRMAN,
CORPORATE SUSTAINABILITY COUNCIL

The growth of the global population, rapid urbanisation, demographic change and changing societal needs will lead to an increased demand for energy and resources.

At the same time, a growing push for sustainability and collective action on climate change are disrupting how we work. Consumers, organisations and governments are now actively exploring ways for efficient energy use, putting environmental awareness into practice and at the fore of their focus.

In the face of rising concerns, PETRONAS aims to be more agile and resilient by enhancing our competitive advantage. We'll continue in our commitment to delivering safe, secure and clean energy solutions for the people and environment and enriching the lives of the communities where we operate.

THE ENERGY TRANSITION

Energy is an essential commodity - a clean, affordable and accessible energy is important for economic growth, particularly in developing nations. In moving towards a low-carbon future, businesses and government agencies are reducing the environmental impact of the way we work, travel and power economy with renewable energy and resources.

To manage the energy transition that is taking place, PETRONAS applies the three-pronged strategy for business sustainability: maximising cash generation, expanding our core business and stepping out to future-proof the organisation.

As a global player in the energy sector, we take a holistic approach across our businesses in addressing this shift in the energy world. We supply affordable energy reliably and at the same time we embrace the production of resources in a sustainable manner.

Here, we are guided by the PETRONAS Climate Change Framework, which is reinforced by extensive efforts, from measuring and reducing GHG emissions as well as adapting to the impact of climate change. We have recorded GHG reductions of over 12 million tonnes of carbon dioxide equivalent (tCO_{2e}), cumulatively between 2012 and 2018.

We have also made inroads into a low-carbon economy with the Company's investment in solar energy and embarked on a technology agenda that will strengthen our commitment to deliver cleaner energy.

Our efforts indeed reflect our commitment to move towards sustainable energy, which will ultimately result in a safe and prosperous future for our communities and stakeholders.

PEOPLE AS OUR ASSET

Our people are important assets to the Company and we strive to create a conducive working environment that allows talents to thrive, which includes a safe workplace with ample opportunities for them to progress in their careers through various programmes aimed at enhancing knowledge and skills. By embedding the principles of diversity and inclusion in the way we do business, we have created a diverse workforce and an inclusive environment that nurtures and respects different people.

In creating sustainable socio-economic development, we continue to empower local communities with the right knowledge, skills and capabilities, guided by the PETRONAS Corporate Social Responsibility (CSR) Framework. Our community development initiatives focus specifically on education, community well-being and environment.

1	2	3	4	5	6	7	8	9	10
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LETTER FROM THE CHAIRMAN,
CORPORATE SUSTAINABILITY COUNCIL

These CSR initiatives are invested and conducted in a sustainable manner, effectively achieved through our engagement and collaboration with relevant stakeholders. This active engagement is even more crucial when implementing high-impact programmes and projects that will benefit local communities.

SAFETY OF OUR PEOPLE

The safety of our people, both at operational and office facilities, remains our top priority. To ensure everyone goes home safely, it is our commitment to safeguard the people, the well-being of the environment as well as communities living in the vicinity of our operations.

We have continued to improve our Health, Safety, Security and Environment (HSSE) performance in 2018. We recorded improvements in Lost Time Injury Frequency (LTIF) from 0.17 number of cases per million man-hours in 2017 to 0.09.

Intensive efforts have also been channelled into improving the design, technical and operational integrity of our assets. This has resulted in improvements in the process safety incident. In 2018, we recorded a significant reduction in Tier 1 Process Safety Event (PSE) to eight cases this year from 12 in 2017.

To sustain HSSE excellence, we focus on building the right mindset. With this in mind, we have launched a series of "Because We Care" initiatives to foster and create a culture of genuine care in the workplace. This will translate not just to more engaged employees, but also the strengthening of PETRONAS Cultural Beliefs within the organisation in the long term.

OUR JOURNEY TOGETHER

Sustainability is a business prerequisite for long-term growth. The PETRONAS Corporate Sustainability Framework (CSF) outlines nine areas that are applicable to all aspects of our operations, group-wide. They guide the overall decision-making and underscore the Company's commitment to undertake business in a responsible and sustainable manner. To this end, I would like to call upon all our stakeholders to continue lending us your unwavering support in our journey towards a sustainable future.

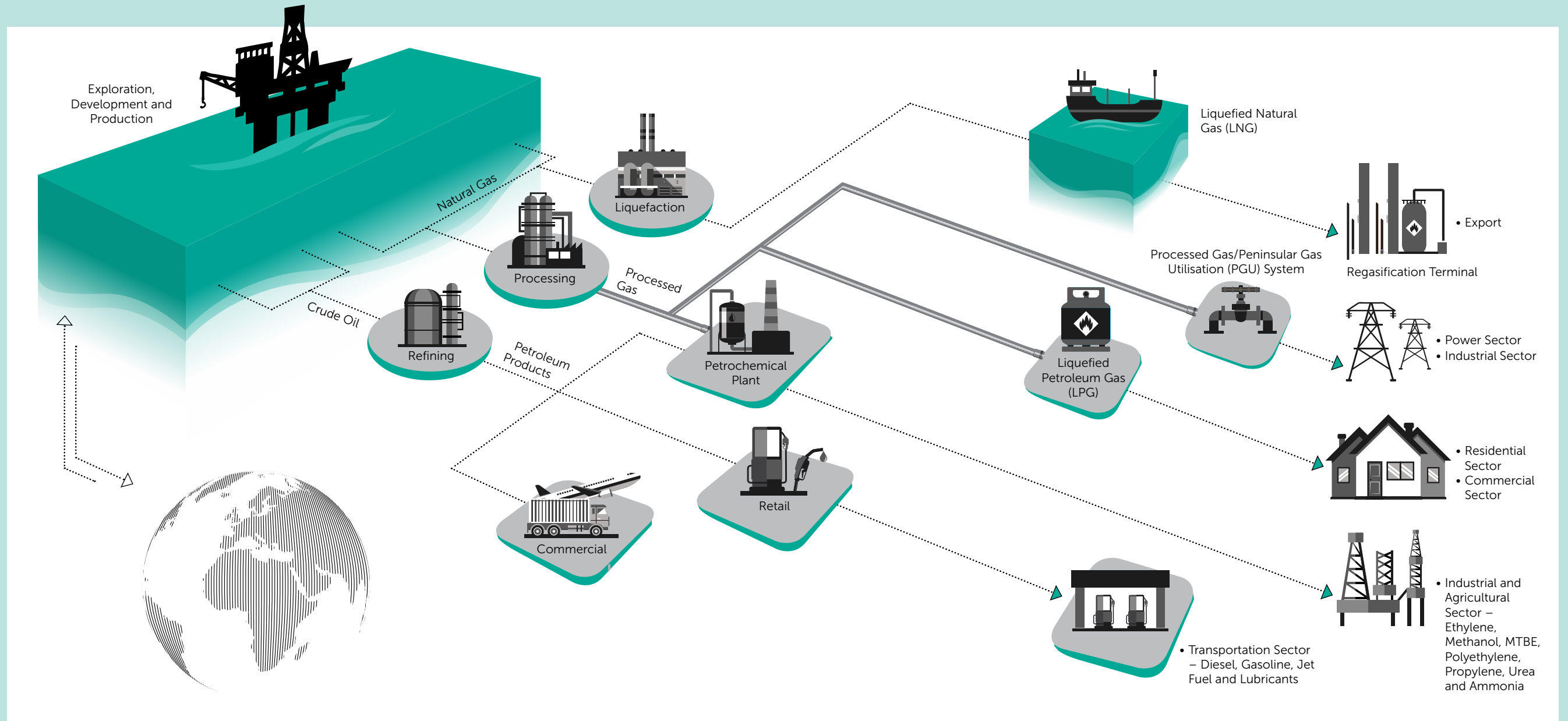
Thank you.

SUSTAINABLE VALUE CREATION

Every day, we work towards safe, secure and cleaner energy whilst striving towards prosperity for all.

For PETRONAS to deliver value, remain fit for the future and continuously generate social, economic and environmental impact, our strategies must adapt to changing times and address multiple challenges. Our purpose is to be a progressive energy and solutions partner enriching lives for a sustainable future. As the energy sector is in a phase of relatively rapid transition, our sustainability focus is not a static overview.

We are continuously moving forward with better solutions to respond to the risks and new opportunities presented to us. Our aim is to minimise the impact of our own footprint whilst developing and delivering climate-friendly strategies and solutions.



EXPLORATION AND PRODUCTION

EXPLORATION
Developing resource potential and building up commercial reserves.

DEVELOPMENT
Field development and construction (including supporting infrastructure).

PRODUCTION
Drilling and production of hydrocarbons.

PROCESSING

LIQUEFACTION
Converting gas into liquid state by increasing pressure and reducing temperatures to shrink the gas volume.

PROCESSING
Turning streams of natural gas into commercial products, in addition to treating gas deposits.

REFINING
Processing crude oil and condensates into useful petroleum products.

MARKETING AND DISTRIBUTION

RETAIL
Selling and marketing of fuel and non-fuel products and providing one-stop convenience centres at service stations.

COMMERCIAL
Trading and marketing of crude oil and petroleum products to individual and commercial customers.

PETROCHEMICAL PLANT
Processing of oil and gas into products from which other chemicals are derived.

LIQUEFIED PETROLEUM GAS (LPG)
Propane and butane components used as cooking fuel, transport fuel and feedstock for petrochemicals.

PROCESSED GAS/PENINSULAR GAS UTILISATION (PGU) SYSTEM
Natural gas is processed and fed into a pipeline system that delivers it to different sectors.

LIQUEFIED NATURAL GAS (LNG)
Natural gas that is liquefied under extremely cold temperatures to facilitate storage or transportation in specially designed vessels.

SUSTAINABLE VALUE CREATION