

MARKET CONTEXT

THE WORLD WE LIVE IN

Our world of *energising communities* in high-potential countries is changing fast and we are changing with it. As we help to drive sustainable growth and prosperity across the Americas, Africa and Asia we believe we are well positioned to thrive in this world in the interests of all our stakeholders.

The world we live in is characterised by a number of key trends. We outline them here, focusing on what is happening, what it means for Puma Energy and how we are responding.



Key trends



The advent of a new growth cycle



The continued rise of renewables



The growing power and importance of customers



The criticality of environmental, social and governance (ESG) issues



The continuing demand for fuels



Following the extreme challenges of a year inevitably characterised by COVID-19, we see new opportunities opening up. Exciting opportunities for high-potential countries to grow faster and better, to forge ahead with new sustainable energy solutions, to advance and prosper like never before. We are looking forward to being at the heart of this future as we continue to pursue our purpose of *energising communities*.

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The advent of a new growth cycle

In the run-up to 2020, we saw the peak of the last cycle of global growth in 2018, followed by a period of slowing growth through much of 2019, characterised by the trade war between the US and China. However, towards the end of 2019 this began to turn around. Tensions eased; growth picked up. The prospects for 2020 were looking good.

Then COVID-19 hit. This had a devastating impact on societies and economies around the world. Countries were affected in different ways and to different degrees. Looking at the year as a whole, many of the high-potential countries we focus on were relatively less hard hit. Moreover, turning towards 2021 and beyond, the future for global growth looks positive, particularly if the global effort to control COVID-19 remains on track.

Beginning to rebound

Many economies started to rebound from the middle of 2020, led by strong growth in China and the rollout of vaccines is another major boost. The new administration in the US has indicated strong support for global efforts to mitigate climate change. So Puma Energy is well set for a new cycle of global growth in the years ahead.

High-potential countries are set to grow faster

If we focus on Puma Energy's core high-potential countries, the growth prospects are even more promising. Non-OECD countries are set to grow faster than OECD countries. There are a number of strong drivers for growth here including internal factors such as population growth, urbanisation, income growth and in turn, increased disposable income. Rising commodity prices are also good news for commodity-rich countries, as is a weakening US dollar, which increases purchasing power. Continued low interest rates will also be favourable for debt-financed investment. From China to Japan, from the US to Europe – as the rest of the world returns to growth, our high-potential countries will be major beneficiaries.

High levels of debt

Global debt reached unprecedented levels in 2020. It was set to exceed US\$277tn, equivalent to 365% of global gross domestic product (GDP), according to a report by the Institute of International Finance in November 2020. High levels of personal, corporate and national debt do create significant risks which need to be managed carefully. Indeed, there have been major issues, with Zambia for example becoming the sixth developing country to default or restructure debts in 2020. But broadly speaking, we see debt levels as sustainable, provided they are closely monitored and well managed, not least because interest rates are likely to stay lower for longer.



10%

The OECD forecasts that by the end of 2021 China's economy will be 10% larger than at the end of 2019.

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A dynamic market attracting many different players

Against the broader backdrop of a global recovery, downstream energy in high-potential countries offers a particularly compelling story of dynamic change and great growth. So it is no surprise that it is attracting traditional and new players and prompting continued M&A activity. International Oil Companies (IOCs) continue to expand into emerging markets and to extend their offer beyond oil, to both the fast-growing world of convenience retail and the world of renewables, which is at an earlier stage of development in those markets. At the same time, major retailers are expanding and acquiring convenience stores and petrol stations.

So, the big players are increasingly in action here and there are plenty of small players, too. In this busy market full of opportunity, Puma Energy's unique blend of global capabilities and expertise and deep-rooted local experience and know-how stands out.

What this means for Puma Energy

With our geographical footprint, experience and capabilities, strong local presence and relationships, we are well positioned to benefit from the growth in high-potential countries. Our five-year strategy focuses us on sustainable growth, notably by excelling for retail and commercial customers in these high-potential countries.

The continued rise of renewables

A green recovery

The new phase of global growth will not simply be a repeat of growth that has gone before. This time, it will be driven in great measure by investment in energy, infrastructure and development across the Americas, Africa and Asia - the parts of the world where Puma Energy operates. Moreover, in many ways it will be a green recovery focused on sustainable energy solutions.

The opportunity is to build back better. And the time to get involved is now - at the start of the new growth cycle, to catch the full energy of the rising wave, particularly in emerging markets.

Innovative, distributed, sustainable

To meet the future energy demands of this growth new, sustainable solutions will be required. These solutions will draw on innovative technologies, such as digital energy management systems and apps. They will be increasingly distributed, more local and smaller in scale, with for example micro-grids coming to the fore.

Individual consumers can become both producer and user of energy by combining solar panels on their roofs with batteries in their homes or cars and so largely manage their own power needs. Puma Energy is in active discussions with commercial customers to develop smart, new hybrid energy solutions for their businesses.



Electricity Access

Under the Stated Policies Scenario, there are still around 560 million people without access in 2030 in sub-Saharan Africa, in the face of rapid population growth and increased difficulties due to COVID-19.¹

¹ Source: IEA (2020), SDG7: Data and Projections, IEA, Paris

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80%

According to the International Energy Agency's World Energy Outlook 2020, renewables are expected to account for 80% of energy demand by 2050, with solar being the "king" technology in the mix.

Growth in Electricity Generation from Renewables 2020-2030 (excluding Hydro):¹

Sub-Saharan Africa: 589%

Americas: 131%

Asia-Pacific: 327%

¹ Source: Bloomberg New Energy Finance (BNEF)

The solar boom

The new world of energy will be a mix. Natural gas, for example, has a role to play in helping to provide security of supply. Wind is growing in popularity, for example in the UK, where there is a major commitment to offshore wind. But the real star of the story, particularly in our predominantly sunny parts of the world, is solar. Super-clean and increasingly cheap, solar is now often not just a competitive option but the most cost-effective choice. The economics are aligned with the environment here. Moreover, this is only the beginning – as the technology continues to improve and take up increases, the costs will come down further still.

Solar is being rolled out at an increasing pace across the developed world, but the biggest untapped potential is in emerging markets where there is a real demand for renewable solutions and, to date, little development to meet this demand.

Partnerships are key

Partnerships with technology experts, finance providers, governments, regulators, customers and communities are key for the energy transition. Public private partnerships, for example, will be increasingly important, where governments provide financing and companies provide the expertise, scale and technology.

Partnerships with customers will also be critical. The energy transition puts greater emphasis on customers, as choosers and consumers of energy, and increasingly as producers. Take a mine for example, deciding to produce its own solar energy and feeding excess energy back into the local grid.

This in turn puts a premium on local presence, knowledge and expertise. It takes a great deal of commitment and investment over time to build this advantage on the ground. It is at the heart of the local relationships we have developed over the years in the countries we focus on.

The opportunity to leap ahead

In high-potential countries, where there are fewer entrenched traditional energy supply networks and established interests, there is an opportunity to leap ahead with sustainable energy. Just as the lack of a fixed telecoms infrastructure in Africa encouraged the take-up of mobiles in previous decades, so the lack of a widespread, reliable energy grid leaves the field open for the new world of distributed, renewable energy solutions.

The commodity boost from energy transition

The transition to renewables will also increase demand for commodities such as copper, nickel, zinc and lithium. So looking ahead, commodity-rich countries are set to gain on both counts – from the transition to more sustainable energy and from the demand for materials that go into this transition. In a sense, it is a double boost to the growth and development of these countries.

What this means for Puma Energy

With the creation of our Future Energies business unit, we are helping customers, governments and communities to reap the benefits of the renewable energy transition. We aim to be the partner of choice in this transition in the countries and sectors that we serve.



I firmly believe that 2021 can be a new kind of leap year – the year of a quantum leap towards carbon neutrality.

António Guterres,
UN Secretary-General

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The growing power and importance of customers

The consumerisation of energy

In the new world of energy, consumers will be much more involved and powerful. Whether that is customers being able to choose between different providers, or managing their energy use via an app, or taking part in energy generation through their own solar panels. Call it the consumerisation of energy. This is where getting close to customers, really trying to understand them and being much more responsive and flexible to meet their needs becomes paramount.

Commercial customers

From mines to cement makers, construction companies to transport businesses – commercial customers increasingly need and demand value-adding, tailored solutions, rather than just products. This calls for relationship building and a genuine focus on delivering business benefits. Rather than just be sold fuel or lubricants for example, businesses want to buy energy solutions that help them save, make money and succeed.

Retail customers

Really getting to know what customers want and need is also at the core of retail excellence. It's the foundation for insight-driven value propositions that win customers and build loyalty.

What this means for Puma Energy

We are wholeheartedly customer-led. As a company, we are increasing our focus on data gathering and analysis, so we can make better-informed decisions and develop more compelling, insight-driven products, services and experiences for our customers. Examples here include the launch of our PRIS loyalty scheme for retail customers, the rollout of our new Super 7 convenience stores and our detailed segmenting and profiling of corporate customers in our Commercial business, all of which helps us to extract more value from the energy solutions we deliver.

The impact of COVID-19 as a change accelerator

COVID-19 has led to fundamental changes to many aspects of life but it has also accelerated and reinforced trends that have been developing around the world for some time.

Accelerating technology

Take the rise of technology. From ubiquitous smartphones to the growing internet of things – tech was well and truly there beforehand, but COVID-19 turbocharged it. In our personal and professional lives, we are all avid video conferencers now.

Accelerating innovation for customers

COVID-19 has encouraged innovation for customers, too – for example Click and Collect and home delivery services. These new products and services were in the Puma Energy pipeline; but the pandemic brought them forward, as we focused on responding to the changing needs of customers in the midst of the crisis.

Accelerating flexible working

Confronting a global pandemic in a technology age in turn added impetus to another change that was already growing: flexible working. With COVID-19, almost overnight in 2020 it became the new norm as working from home was the only option for many.

What this means for Puma Energy

We have embraced the opportunities to accelerate change for the better in Puma Energy. From fundamentally organising our operating model to introducing trust-based flexible working that changes the focus from time spent in a fixed place to value created from wherever works best. We looked for every opportunity to create meaningful positives from the crisis.



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The criticality of environmental, social and governance (ESG) issues

Another key trend that gained significant momentum in 2020 was the rise of environmental, social and governance (ESG) as a core consideration for companies, investors, employees and indeed all stakeholders.

ESG is closely allied to energy transition, of course. It also aligns with the UN SDGs and UN-supported Principles for Responsible Investment (PRI). Moreover, it complements and strengthens the broader groundswell behind the acceptance that strong, purpose-led, values-based companies will thrive now and in the long term.

A focus for increasing regulation

From new rules surrounding low sulphur fuels to mounting requirements on disclosing greenhouse gas emissions – much of the increasing regulation in our sector is focused around ESG. We make sure we stay on top of and abide by all the regulation, and support all moves to strengthen environmental, social and governance best practice. We partner with our commercial customers, for example in the marine and transportation sectors, to help them operate successfully in line with changing regulation. We also play an active part in working with governments to help raise standards. Our Lubricants business, for example, engages with governments to ensure quality in countries which are not currently highly regulated for lubricants products.

Towards standardised assessments

In a mark of its growing maturity, ESG assessments are becoming more rooted and recognised, and indeed more coordinated.

In September 2020, five global organisations, whose frameworks, standards and platforms guide the majority of sustainability and integrated reporting, announced a shared vision of what is needed for progress towards comprehensive corporate reporting. Going forward, Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) will be working together on this.

A must-have for long-term competitive advantage

So, strong ESG is not an optional add-on. It is a must-have. Indeed, it is becoming a signature, and a key source of long-term competitive advantage. Whether you look at it from the point of view of reinforcing relationships with shareholders, or accessing new opportunities for funding, or attracting and retaining top talent, or increasing customer loyalty, or simply doing the right thing for its own sake – ESG is a critical factor. It is here to stay – here for good, in both senses of that phrase.

What this means for Puma Energy

We are committed to ensuring we embed strong ESG throughout Puma Energy. To this end, we created and launched our ESG framework this year. The framework is designed to integrate best practice ESG into our everyday action throughout Puma Energy, and to create a bold and ambitious set of principles and accompanying commitments against which to hold ourselves accountable.



Looking ahead, there will be a premium for companies that have higher standards around ESG. This is the name of the game now. It is a source for growth, for new capital, for sustaining business, for innovation, for attracting, retaining and developing top talent, for reaching new customers. You need to embrace it and say: this is a catalyst, not a cost – take it to heart and grow with it.

61%

In 2019, 61% of global institutional investors increased their investment allocation to companies excelling in ESG factors.¹

¹ Source: 2019 Edelman Trust Barometer, Special Report, Institutional Investors.

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The continuing demand for fuels

Fuels are here to stay, for the time being

In our high-potential countries, energy transition is undoubtedly a big opportunity for the future. But at the same time, as these countries grow their populations and economies, there will still be major demand for traditional road transport fuels for some time to come. Peak oil demand in these countries will almost certainly come later than in the developed world, where regulation and demographics will hasten its arrival. Having said this, around the world COVID-19 has increased people's wariness of using public transport and their preference for using their own cars, which is in turn fuelling the demand for petrol and diesel, at least in the short-term.

A strengthening oil market

High levels of volatility, with demand and price plunges at the beginning of 2020, gave way to a relatively more stable period in the latter half, followed by a strengthening of both demand and prices at the tail end.

This upward trend in prices is likely to continue in 2021 and beyond. This will be due not only to growing demand from countries such as China, India and Puma Energy's high-potential countries. It will also be fed by limits on the supply side due to under-investment in new capacity.

What this means for Puma Energy

For Puma Energy, this means a growing demand from both people and businesses for fuel and lubricants, alongside the increasing desire for sustainable energy solutions. It also increases the importance of offering customers the fuels they want, such as lower-sulphur and higher-performance fuels. We are well positioned to serve both the immediate needs of retail and commercial customers for reliable, affordable fuels and the future needs of communities for renewable energy. We are looking forward to pressing on with meeting all these needs in our world of energy.



// We see a growing demand from both people and businesses for fuel and lubricants, alongside the increasing desire for sustainable energy solutions.