Safeguard the Environment

Transition Risks

Transition risks refer to potential risks arising from the global shift towards a more sustainable, net-zero economy, which encompasses policy, regulatory, market and technological changes that could impact our business operations.

One of the transition risks identified is the impact of oil and gas pricing or margins, which may reduce commercial returns stemming from the change in consumer preferences, regulatory pressure and/or our approach to sustainability. This in turn may result in diminished revenue, cash generation and returns realisation.

International Energy Agency (IEA) scenarios provide oil and gas prices, which are built on underlying assumptions of socio-economic growth and climate policies and commitments' development. For instance, oil prices are expected to be the lowest in the Net Zero Emissions by 2050 Scenario (NZE), due to reduced demand for oil. This would have a material impact on our upstream business. We also recognise carbon pricing as a means of driving emissions reduction across economic activities. Carbon pricing is used to assess our potential cost impact based on the different climate scenarios.

Furthermore, the energy transition calls for better disclosures and enhanced transparency given the impact of significant climate-related issues or risks to our financials. Our inability to respond at pace will lead to reduced access to capital, inflated capital cost and limited investment types. In addition, a downgrade of our ESG score may lead to higher borrowing costs, which further limits capacity to access capital markets.

Strategic measures to manage the implication of transition risks to our organisation are highlighted in the Our Approach to Climate-related Risks and Opportunities section. These measures are aligned with the mitigations and Key Risks Indicators of the identified principal risks in the PETRONAS Corporate Risk Profile, which are Sustainability Risk, Financial Liquidity Risk, Market Risk, and Legal and Regulatory Risk in the Risks Linked to Creating Value section.

[Further information on actions to address climate-change-related risks by our businesses can be referred to in the Business Review section]

Physical Risks

Physical risks resulting from climate change can be in the form of acute risks due to one-time events or chronic risks due to longer-term changes in climate patterns such as rise in sea levels and average global temperature, water shortages, and intense precipitation. Our physical assets and ongoing projects are exposed to physical risks as we have presence in more than 30 countries globally. Thus, we are not and will not be spared from the direct and indirect damages brought about by the impact of physical climate-related risks.

While actions are ongoing to manage physical risks, we continuously re-assess implications, taking into consideration the changing outlook for geographical locations where we are present. The re-assessment outcome serves as an imperative to strengthen our existing mitigation strategy in ensuring robustness and sustainability of our organisation moving forward.

Taking into account these factors, we will continue to pursue a deliberate energy transition strategy, balancing Core Business and New Business with our NZCE 2050 Pathway aligning with changing customer preferences, evolving regulations and increasing expectations by stakeholders for low-carbon energy solutions.

[Details of PETRONAS Energy Transition Strategy can be referred to on page 102]