

BOARD SUSTAINABILITY AND RISK COMMITTEE REPORT

The Committee diligently monitors and oversees the Group’s strategic and high-impact business matters, sustainability, risk management practices and integrity management implementation to ensure they align with regulatory guidelines and compliance requirements.



Warren William Wilder
Chairman

Roles	Composition	Terms of Reference
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<https://www.petronas.com/pcg/about-us/governance>

Members accessed meeting agendas and papers through a secure digital platform, made available at least five business days prior to each meeting, ensuring sufficient time for preparation and review. Minutes from these sessions were formally approved during subsequent BSRC meetings and later submitted to the Board for notation, ensuring a transparent and documented decision-making process.

Chairman	
Warren William Wilder <i>Independent Non-Executive Director</i>	4/4 100%
Members	
Yeoh Siew Ming <i>Senior Independent Non-Executive Director</i>	4/4 100%
Dr. Zafar Abdulmajid Momin <i>Independent Non-Executive Director</i>	4/4 100%
Datin Seri Sunita Mei-Lin Rajakumar <i>Independent Non-Executive Director</i>	4/4 100%

BSRC'S ACTIVITIES 2024

The following activities were carried out in 2024:

- 1 Reviewed the PCG Sustainability Performance for each quarter
- 2 Reviewed the Corporate Risk Profile (CRP) and Monitoring Update for each quarter
- 3 Reviewed the Corporate Risk Appetite Monitoring Update for each quarter
- 4 Reviewed the BSRC Report and SORMIC for inclusion in the 2023 Integrated Report
- 5 Reviewed Business Continuity Management Update FY2023
- 6 Assumed integrity oversight function
- 7 Reviewed the strategic and high-impact business matters, including growth and sustainability projects as well as project financing
- 8 Reviewed the revised HSE Policy and the adoption of PETRONAS Human Rights Policy
- 9 Integrity Management Review
- 10 Reviewed the misconduct cases within PCG Group and its joint venture companies
- 11 Reviewed the BSRC TOR to enhance governance in risk management, sustainability, and integrity oversight

HOW THE COMMITTEE OPERATES

During the year under review, the Board Sustainability and Risk Committee (BSRC) convened four meetings, with the Company Secretary providing dedicated support as the Committee’s secretary. Attendees included the MD/CEO, Chief Financial Officer, Chief Sustainability Officer (CSO), and Head of Risk Management Department (RMD), who provided detailed insights, advice and pertinent information to facilitate informed discussions.

The CSO presented regular updates on the progress and execution of the Group’s Sustainability Agenda, while the Head of RMD reported on risk management activities, including updates on risk monitoring and the corporate risk profile. For business proposals with significant strategic or sustainability implications, the BSRC received comprehensive risk assessments, addressing aspects such as carbon emissions and other sustainability metrics.

The PETRONAS Group Chief Integrity Officer (CIO) has been appointed as the Company’s CIO in February 2024. The CIO updates the BSRC on integrity management status in line with the Committee’s role in overseeing the Group’s integrity management.

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1. GOVERNANCE

The BSRC TOR was reviewed and approved by the Board in November 2024 to enhance governance in risk management, sustainability and inclusion of integrity oversight function to be carried out by BSRC.

Key updates to TOR are as follows:

Inclusion of Integrity Oversight:

The BSRC is now tasked with overseeing integrity-related matters, consolidating this function within the committee to strengthen governance.

Sustainability and Climate-Related Governance:

The BSRC's role now includes oversight of the management and mitigation of sustainability and climate-related risks and opportunities, as well as reviewing related performance to strengthen oversight mechanisms, focusing on risk mitigation, capturing opportunities in decision-making, and setting, monitoring, and controlling sustainability-related targets.

External Assurance and Disclosure:

The BSRC is responsible for overseeing independent assurance processes and external disclosures on sustainability and climate-related matters to uphold transparency and accountability.

2. SUSTAINABILITY

During the year under review, the Group engaged in comprehensive discussions and decisions encompassing various key sustainability and governance areas. These deliberations included an extensive review of PCG's sustainability performance indicators, focusing on metrics such as energy intensity, greenhouse gas (GHG) emissions, GHG reduction, air emissions, freshwater withdrawal, wastewater discharge, hazardous waste management, corporate social responsibility initiatives, human rights, and talent development.

The Committee also reviewed the progress of sustainability projects and conducted carbon footprint assessments (CFA) for current projects at both the basic engineering design stage and post-Final Investment Decision (FID) phases, ensuring alignment with our net zero goals.

Key updates were incorporated into the PCG Sustainability Report 2023. Enhancements included a Board Responsibility Statement, improved reporting content, adoption of the Taskforce on Climate-related Financial Disclosures (TCFD) framework and recommendations, external limited assurance for non-financial indicators, alignment with IFRS S1 and S2 standards, and a comprehensive review and update of material matters to reflect evolving priorities.

Additionally, the BSRC endorsed the adoption of the PETRONAS Human Rights Policy as the Company's policy, reinforcing PCG's commitment to advancing human rights management through a systematic and consistent risk management approach.

3. CORPORATE RISK PROFILE

During the year under review, the PCG CRP underwent a comprehensive assessment and received endorsement for Board approval. Following this, the BSRC conducted quarterly evaluations to review the adequacy and effectiveness of risk mitigations and key risk indicators. The Committee identified and endorsed 11 principal risks for Board consideration, with eight classified as critical risks requiring continued monitoring and strategic attention.

Key decisions endorsed by the Committee included:

Integration of Sustainability Risk:

The approach to managing sustainability risks was refined to incorporate critical elements such as Climate Change, Circular Economy, Nature & Environment, and Human Rights. Dedicated mitigation strategies were tailored to address each of these areas, ensuring alignment with PCG's materiality matters. These efforts underscore the Group's commitment to embedding sustainability considerations within business operations, enhancing the resilience and effectiveness of risk management.

Elevation of Plant Operation Risk as a High risk:

Recognising the increasing challenges in plant operations, which include equipment reliability issues and disruptions in feedstock and utility supply leading to plant slowdowns and shutdowns, the Committee elevated Plant Operational Risks to a high risk compared to medium risk last year. This decision reflects the need for prioritised attention to mitigate these risks through targeted measures aimed at ensuring operational reliability, minimising downtime, maximising plant utilisation, and meeting production targets while optimising costs.

4. EMERGING RISKS

The Group actively undertakes a comprehensive assessment of emerging risks that may impact its ability to achieve business objectives. This assessment considers both internal and external factors, including environmental shifts, geopolitical tensions, socio-economic developments, and technological advancements. After careful evaluation, these risks are analysed for potential inclusion in the PCG CRP to ensure they are effectively managed and addressed.

Throughout the year, the BSRC demonstrated its commitment to robust risk oversight, aligning its deliberations with the principles outlined in the Statement on Risk Management and Internal Control (SORMIC). In August 2024, the BSRC reviewed and formally endorsed three emerging risks for presentation to the Board, recognising their potential to significantly influence the Group's strategic direction:

Environmental Risk – Decarbonisation:

The global shift towards a low-carbon and circular economy presents complex challenges. Disorderly transitions could require significant changes to the business and operations, requiring strategic alignment to manage these risks effectively.

Technological Risk – Digital Transformation:

The rapid growth of Artificial Intelligence (AI) technologies offers unprecedented opportunities. However, failing to capitalise on these advancements amidst ongoing digitalisation efforts could result in significant opportunity loss and diminished competitiveness.

Geopolitical Risk – Global Instability:

Persistent geopolitical uncertainties remain a significant concern, with the potential to undermine the sustainability and resilience of the Group's operations.

The integration of these emerging risks into the BSRC's deliberations reflects the Group's proactive approach to risk management. By addressing these challenges within its strategic framework, PCG ensures resilience and readiness to adapt to an evolving risk landscape as well as safeguarding long-term business sustainability.

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5. RISK APPETITE

Risk management within the Group is reinforced through the implementation of clearly defined risk appetite statements, tolerances, and thresholds across Operational, Financial, Reputation, and Compliance domains. These measures establish a robust foundation for aligning risk-taking activities with the Group's strategic ambitions.

During the year under review, the BSRC endorsed enhanced risk thresholds for Project Delivery under the Operational focus area, focusing on Project Schedule and Cost for growth and sustainability projects. These enhancements aim to provide clearer insights, enabling timely discussions and early interventions when needed.

To ensure adherence to the established parameters, the BSRC undertakes quarterly reviews to monitor for any breaches of the defined thresholds. This diligent oversight ensures that risks are effectively managed and aligned with the Group's strategic objectives, reinforcing a commitment to sound governance and proactive risk management practices.

6. HIGH IMPACT BUSINESS MATTERS

Throughout the financial year 2024, the BSRC carefully reviewed and assessed risks linked to strategic and high-impact business initiatives. This encompassed growth and sustainability projects, project financing, and joint venture arrangements. The Committee's evaluations were focused on determining the feasibility and commercial viability of these proposals, ensuring alignment with the Group's long-term objectives and risk appetite.

Over the period, the BSRC deliberated on 15 significant business proposals. Notable among these were the Advanced Chemical Recycling Plant, the Maleic Anhydride (MAAn) Plant, and various specialty chemical projects. Each assessment was conducted with a view to identifying opportunities while addressing associated risks.

7. CRISIS AND BUSINESS CONTINUITY IMPLEMENTATION

Reviewed PCG's holistic risk management framework, with a focused evaluation of three critical components: Enterprise Risk Management, Crisis Management, and Business Continuity Management. This integrated approach ensures a cohesive strategy to anticipate, mitigate, and respond to potential risks, safeguarding the Group's operations and objectives.

8. INTEGRITY

The PETRONAS Integrity Governance Unit (IGU) operates under Group Integrity. The PETRONAS Group Chief Integrity Officer (CIO) was appointed as the Company's CIO in February 2024.

The IGU was established with the objective of fostering a workplace culture rooted in strong morals and ethics among employees. Its mission is to combat corruption, abuse of power, and malpractice through its four core functions: detection and verification, integrity strengthening, complaint management, and governance. Since May 2024, the BSRC was updated on integrity report by the CIO on a quarterly basis save for November 2024 in view that there was no material update.

In FY2024, a range of integrity and governance programmes were implemented across the Group, including:

Focused Integrity Engagements:

Tailored events targeting specific focus groups with content designed to address relevant integrity concerns.

Leadership-Driven Tone from the Top:

Senior leaders actively championed integrity discussions to reinforce the organisational commitment to ethical practices.

Collaborative Implementation Efforts:

Initiatives were executed in partnership with Integrity Focal (IF) across the group, Group Integrity, Group Legal, and Group Human Resource Management to ensure alignment and consistency.

Adoption of PETRONAS Integrity Management System (PIMS):

PCG formally adopted the PIMS framework to institutionalise integrity practices across operations.

9. MISCONDUCT CASES

The Board approved Integrity Management oversight function to be carried out by the BSRC in February 2024 and thus, the BSRC will be overseeing Integrity Management implementation and its compliance. This role includes supporting the implementation and ensuring compliance with the Group's integrity management practices.

In line with the above, the BSRC reviewed the Misconduct Cases Report from Q3 2024 onwards.

ANNUAL REPORTING

The BSRC conducted a thorough review of the BSRC Report and the SORMIC for the financial year ended 31 December 2024. This evaluation ensured that both documents were prepared in compliance with the requirements and guidelines set forth under the MMLR of Bursa Malaysia.

BSRC EFFECTIVENESS REVIEW AND PERFORMANCE

For the year under review, the Board assessed the performance of the BSRC through an annual Board Effectiveness Evaluation. The Board believes that the BSRC has effectively performed its duties and functions during the year, thus providing valuable contribution to the Board in deliberating strategic and high business impact proposals. The Board is satisfied that the BSRC has effectively discharged its functions, duties and responsibilities in accordance with the BSRC Terms of Reference. Full details of the evaluation and the outcomes can be found on page 97.

WARREN WILLIAM WILDER

Chairman, Board Sustainability and Risk Committee