

Climate Change Framework

This framework is intended for Hibiscus Petroleum Berhad (“Hibiscus” or “the Company”) and all subsidiary companies within the Hibiscus Group (hereinafter referred to as “the Group”).

Climate Position

The Group is cognizant of the global urgency to address climate change and the goal set in the Paris Agreement 2015 of limiting average temperature increase to well below 2 degrees Celsius above pre-industrial levels. We will endeavour to align our actions in order to contribute towards the climate goals of the jurisdictions which we operate in. To this end and pursuant to the Group’s Sustainability Policy, the Group has adopted the relevant United Nations’ (“UN”) Sustainable Development Goals (“SDGs”) in our Climate Change Framework to reinforce our alignment with the UN’s call for their Decade of Action.

Climate Policy Principle

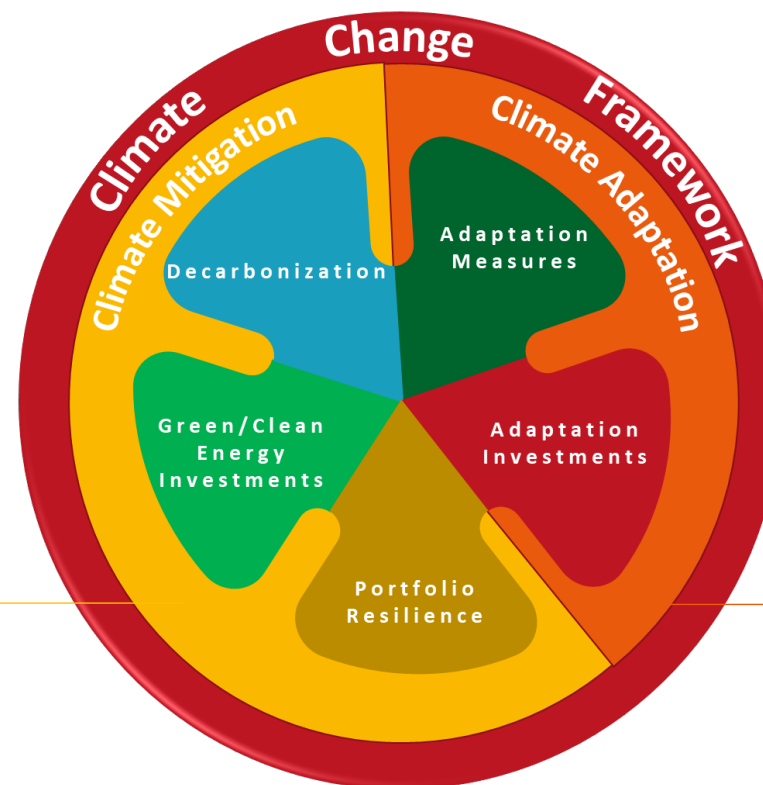
Climate change is a huge global issue to address. In that regard, no single person, organisation, or country can resolve this issue alone. Addressing climate change requires the collective and concerted efforts of the private and public sectors. Against this backdrop, Hibiscus’ effort to address climate change shall be premised on the principle of **common but differentiated responsibilities** (“CBDR”), prescribed within the United Nation Framework Convention on Climate Change (“UNFCCC”). We will endeavour to collaborate with our key stakeholders to develop and implement climate actions based on this principle within our **respective capabilities**.

Climate Mitigation Strategy

The objective of this strategy is to reduce the cause of climate change. This shall primarily be done via the reduction of greenhouse gas (“GHG”) emissions to the atmosphere caused mainly by anthropogenic activities. Energy transition is regarded as a crucial strategy as the world transits to lower carbon and cleaner forms of energy supplies.

Climate Mitigation Strategy is in turn underpinned by three key pillars:

- **Portfolio Resilience:** This includes increasing gas in our assets as gas will have an important role in the future electricity mix as it replaces coal in the power sector and has the ability to manage intermittency of variable renewable energy;
- **Decarbonization:** This involves reducing Scope 1 and Scope 2 GHG emissions from Hibiscus’ operations;
- **Green/Clean Energy Investments:** This includes investment in opportunities that reduce GHG emissions e.g., renewable energy, energy efficiency, clean and low carbon technology.



Climate Adaptation Strategy

The objective of this strategy is to reduce the impact of climate change. According to the Intergovernmental Panel on Climate Change (IPCC)’s 6th Assessment Report released in August 2021, the global surface temperature was 1.09 degrees Celsius higher in the decade between 2011 - 2020 than between 1850 - 1900.

To this end, it is inevitable that the world will experience the effects of climate change such as rising sea level, extreme heat, and drought. Hence, climate adaptation is crucial for all businesses to address.

Climate Adaptation Strategy is in turn underpinned by two key pillars:

- **Adaptation Measures:** This involves steps to increase the operational and business resilience of Hibiscus;
- **Adaptation Investments:** This includes investment in opportunities that fortify resources under climate threat e.g., food and water security.



Climate Change Framework as a Business Strategy

Globally, climate change has gained much importance, and this is exacerbated by the COVID-19 pandemic, and the call by world leaders for a race to achieve net zero emissions by 2050. In this respect, our **Board** maintains its oversight and is actively involved in the development of Hibiscus’ Climate Change Framework through their advisory leadership. This framework shall serve as a guide to our business planning to enhance our environment stewardship as we earn our social license to operate. The inclusion of climate change framework in our business strategy has the potential to secure lower cost of funds, attract environmentally conscious investors, appeal to a wider human capital talent pool, and reduce exposure to climate-related risks.

The following table is an **assessment of climate-related risks and opportunities**, and the relevant action plan to progress forward. The climate-related risks and opportunities are based on the recommendations of the **Task Force on Climate-related Financial Disclosures (TCFD)**¹ in which TCFD has broadly categorized climate-related risks into transition and physical risks. Transition risks arise as a result of transitioning to a lower carbon economy and the risks include market, technology, policy and legal whereas physical risk arise as a result of direct and indirect impact of climate change on business operations and resources. TCFD has also identified climate-related opportunities which include resource efficiency and cost savings, adoption of low-emission energy sources, development of new products and services, access to new markets, and building business resilience and these opportunities, just like the climate-related risks, also have their potential financial impact.

In the table, the commitment period represents when the action plan will be implemented. A **short-term** period refers to a tenure of up to 5 years whereas **long-term** period refers to a tenure of more than 5 years. The action plan provides **indicative and possible measures** including **climate-related opportunities** for implementation whereas the **baseline status** reflects the measures which have been taken/deployed.

Assessment of Climate-Related Risk² & Opportunities

Transition Risk				
Threats	Opportunities/Action Plan	Climate Strategy	Commitment Period	Baseline Status (FY2021)
Market				
1. Possible decline in market demand for oil resulting in stranded assets.	Create a resilient portfolio through: <ul style="list-style-type: none"> Increasing gas in portfolio as gas has a relevant role as bridging fuel in energy transition; Integrating internal carbon pricing as part of investment criteria. 	Mitigation	Long term	<ul style="list-style-type: none"> The Group's strategy is to acquire new assets which increase its gas reserves significantly; The Group has applied internal carbon price for new development projects in the UK since early 2021, the carbon price applied is based on the prevailing UK Allowance of circa USD60/tonne (as of June 2021).
2. Price volatility of oil and gas.	Resource efficiency – Optimizing the use of resources by reducing waste and improving operational efficiency. This will help to reduce unit production cost.	Mitigation	Short term	This has been demonstrated through the successful reduction of unit production cost for both North Sabah and AOC, and this effort shall be applied to all future acquisitions.
Technology				
Widespread adoption of green/ disruptive technologies (e.g., EV, ESS) and fuel (e.g., hydrogen) displacing demand for oil.	Explore opportunities to invest in products and services relating to climate mitigation and adaptation businesses. This will provide earnings diversification and increase shareholders' value through introduction of climate-related investments.	Mitigation & Adaptation	Short term	In 2021, the Board has approved the investment criteria with an objective to create a balanced portfolio of established businesses and emerging climate-related technologies through investments in prioritized markets.

Assessment of Climate-Related Risk² & Opportunities

Transition Risk				
Threats	Opportunities/Action Plan	Climate Strategy	Commitment Period	Baseline Status (FY2021)
Policy & Legal				
Tightening government policies on climate rules, implementation of domestic and cross border carbon tax.	Addressing this transition risk through:	Mitigation	Short term	Our commitment to the climate agenda has been expressed in our Mission Statement (aspirational Net Zero Emissions Producer by 2050 ⁴), Business Drivers (Energy Transition) ⁵ , Sustainability ⁶ and Environment ⁷ Policies since 2014.
	(a) Our commitment to address climate impact through policy statements.			
	(b) Establish unquantified, process targets;	Mitigation	Short term	Convert diesel generators in unmanned platforms of North Sabah to hybrid of solar photovoltaic (PV) & wind (2018-2023).
	Setting of base year, and emission reduction target for Scope 1 & 2 on a short/long term basis.			Long term aspirational target ⁸ of Net Zero for operational Scope 1 & 2 with base year of FY 2020 and corresponding base year emissions of 589,673 tonnes CO ₂ e.
	(c) Scope 1: Reduce operational GHG emissions through:	Mitigation	Short term	North Sabah has been progressively deploying solar PV & wind turbine systems in remote platforms since 2018.
	<ul style="list-style-type: none"> Energy Use: <ul style="list-style-type: none"> Fuel switching of energy source from fossil fuel to renewable energy; Improving energy efficiency; Improving operational efficiency. Reducing flaring & venting; Improving uptime & reliability of gas compressors; Carbon, capture, utilization & storage; Carbon offsets. <p>On-going capability development in decarbonizing for our operations will strengthen our future bid opportunities.</p>			AOC is investigating the programme of lamp change to LED;
				Since 2021, North Sabah has carried out leak detection and repair in LCOT ⁹ & their platforms.
				Existing decarbonizing efforts have resulted in reduction in the Group's absolute emission (CO ₂ e) and aggregate emission intensity by 6% and 18% respectively in FY 2021 compared with base year of FY 2020.
	(d) Scope 2: Reduce emissions from purchased grid electricity where practically possible through:	Mitigation	Short term	The Group is in the midst of exploring on-site consumption of solar PV for building use as a measure to reduce Scope 2 GHG emissions.
	<ul style="list-style-type: none"> Direct consumption of on-site solar PV electricity; Improve energy efficiency. 			
	(e) Continuous engagement with key stakeholders e.g., regulators, trade associations on climate matters including being a member of trade associations that engage on climate-related issues. It is the Group's intention to align our climate change policy and the positions taken by the trade associations of which we are members.	Mitigation	Short term	The Group is active in engaging relevant O&G regulators (e.g., MPM ¹⁰ , OGA) in their jurisdiction of operations, and contribute to developing public policies with related government entities and trade associations. As an example, AOCL is a member of the Oil and Gas UK (OGUK) which is the leading representative body for the UK offshore oil and gas industry. In September 2019, the OGUK released a Roadmap 2035: A Blueprint for Net Zero, the roadmap was jointly developed with the industry members.

Assessment of Climate-Related Risk² & Opportunities



Stigmatization of the O&G sector due to perceptions of the sector's contribution to climate change or detraction from energy transition.

Earning trust through strengthening our climate & social governance:

- Transparent disclosure and independent verification by third party for Scope 1 & 2 GHG emissions including energy consumption;
- Fostering social cohesion through regular stakeholders' engagement including earning social license to operate via community initiatives;
- Maintaining constituency on FTSE4Good Bursa Malaysia Index.

Mitigation & Adaptation

Long term

- Hibiscus has been reporting operational Scope 1 & 2 GHG emissions including energy consumption in our Sustainability Report since FY2018/2019. Global warming potential (GWP) used in our reporting is adapted from the IPCC 5th Assessment Report (2014);
- Currently independent verification of GHG emissions is carried out by AOC;
- Hibiscus engages frequently with regulators in respective jurisdictions of operation while CSR¹¹ is an integral form of community engagement by the Group;
- Hibiscus has been a constituent of FTSE4Good Bursa Malaysia index since December 2020.

Physical Risk

Potential business disruption and impact on portfolio of hydrocarbon assets due to increasing extreme weather event (acute) and shifts in climate pattern (chronic).

- Capability development on climate adaptation through training;
- Physical risks based on climate-related scenarios of 2 degrees Celsius and lower be identified, and adaptation and mitigation strategies be established as part of Business Continuity Plan and strategic asset management;
- On-going capability development in adaptation for our operations will strengthen our future bid opportunities.

Mitigation & Adaptation

Long term

To this end, the impact of climate change to our upstream operations in UK and Malaysia are still manageable. Nevertheless, the Covid-19 pandemic has brought forward the need for rapid and effective responses to operational disruptions caused by natural catastrophes. In that regard, from the start of the pandemic, the asset teams had demonstrated rapid response to risks and deployed adaptive SOP measures to ensure minimal operation disruption while fostering the safety and wellbeing of our people.

Disclosures

The Group shall report the progress of our action plans under the Climate Change Framework in the Group's annual Sustainability Report.

References

- ¹ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf> (June 2017)
- ² Foreseeable
- ³ Emission Trading Scheme
- ⁴ Includes Scope 1 & Scope 2, with base year of FY2020 (April 2021)
- ⁵ <https://www.hibiscuspetroleum.com/vision-and-mission/> (April 2021)
- ⁶ <https://ir2.chartnexus.com/hibiscuspetroleum/docs/sustainability/Sustainability-Policy.pdf> (July 2021)
- ⁷ <https://ir2.chartnexus.com/hibiscuspetroleum/docs/sustainability/Environment-Policy.pdf> (2014)
- ⁸ Target setting was based on the GHG Protocol Corporate Accounting and Reporting Standard (revised edition)
- ⁹ Labuan Crude Oil Terminal
- ¹⁰ PETRONAS MPM – Malaysia Petroleum Management, OGA – Oil & Gas Authority in UK
- ¹¹ <https://www.hibiscuspetroleum.com/csr/>