

Corporate Governance at PETRONAS

During the year under review, the NRC had engaged an independent third-party consultant to conduct the Board Effectiveness Evaluation (BEE). The process of the BEE involved a set of questionnaires consisting of evaluations by the Board, Board Committee and Self-Assessment which were developed to maximise the effectiveness and performance of the Board in the best interests of PETRONAS. The indicators for the performance of the Board include, among others, the Board composition, planning process, conduct, communication with the Management and stakeholders, as well as strategy and planning for the Company. The consultant thereafter performed an independent assessment on the findings and areas of improvement and presented to the NRC for its consideration.

The NRC reviewed the outcome of the 2022 BEE whereby the findings of the BEE indicated that the Board is committed to the highest standards of good governance and affirmed the effectiveness of the Board.

Directors' Indemnity

PETRONAS continues to provide and maintain indemnification for its Directors throughout the financial year as allowed under the CA 2016 to the extent it is insurable under the Directors' and Officers' Liability Insurance (D&O) procured by the Company. Directors and Officers are indemnified against any liability incurred by them in discharging their duties while holding office as Directors and Officers of the Company. All Directors may opt to obtain D&O insurance to provide insurance protection (to the extent it is insurable) against unindemnified liabilities by the Company or uninsured circumstances. The premium to be paid by all Directors is determined by the insurance company.

Succession Planning

The Board Succession Planning Framework had been adopted by the Board to assist the Company in ensuring a structured and timely identification and selection of new Non-Executive Directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, the expansion of the size of the Board, or otherwise. Such structured succession plan addresses the composition and effectiveness of the Board. The Board, through the NRC, has the responsibility in ensuring appropriate succession planning of Directors and reviewing the Board's required mix of skills and experience, as well as reviewing the tenure of INEDs on the Board.

In addition to succession planning for the Directors, the NRC also reviewed the succession plan of key management positions of the Company. The NRC continued to focus on conducting all relevant reviews and assessments of key management positions.

Board Commitment to Sustainability

The Board acknowledges that the well-being of the employees, customers, suppliers and other stakeholders as well as the environment and the society at large is central to sustaining our long-term performance and continued relevance. Careful consideration of the needs of a broader universe of stakeholders ultimately drives value for the shareholders.

The heightened materiality of sustainability to the business requires the Board to factor in these sustainability components, risks and opportunities into its deliberations at all times. The Board, being the highest authority in sustainability governance, has taken the initiative in the establishment of the Company's approach to sustainability and road map. During the year under review, the Board's engagement and oversight of sustainability related matters were broadened.

Board's Oversight of Climate-Related Risks and Opportunities

The Board recognises that climate is a critical business issue, contributing to a set of risks and opportunities. The Board is taking more deliberate actions in elevating sustainability, especially climate-related discussions to shape the long-term strategic direction of the company.

Key oversight by the Board on climate-related risks and opportunities in 2022 are as follows:

- Endorsement by the RC on the PETRONAS Corporate Risk Profile considering climate-related risk and its mitigation on quarterly basis for Board's approval.
- Approval of Net Zero Carbon Emissions by 2050 Pathway and alignment to the annual business plan and budget cycle.
- Approval of Nature and Biodiversity Position in support of the Net Zero Carbon Emissions by 2050 Pathway.
- Approval of Nature-based Climate Solutions strategy.
- Approval of climate-related matrix as part of the long-term incentive plan for senior leadership. In 2022, 20 per cent of the long-term incentive plan consists of ESG elements and this includes measurement of net carbon intensity as well as diversity and inclusion.
- Approved the formation of Gentari Sdn Bhd, an independent entity focused on providing clean energy solutions.
- Quarterly conversation series with global sustainability experts, with a dedicated session on climate change that includes Task Force on Climate-related Financial Disclosure (TCFD), human rights and just transition.

[The full report on Sustainability Governance is found on page 155 of this Report]