

# Corporate Governance at PETRONAS

## Board Independence

The Board assesses the independence of its NEDs annually. The independence assessment takes into account whether the NEDs have demonstrated an independent state of mind and objective judgment in their deliberations and decision-making process. The assessment on the independence of the NEDs may be undertaken in the following circumstances:

1 Prior to the Appointment of Non-Executive Directors	2 Annual Review	3 Notice of Change of Circumstances
Prior to the appointment of NEDs, the independence of each individual candidate will be reviewed and determined by the Board based on the recommendations from the NRC upon reviewing his/her criteria per the PETRONAS Independent Directors Guidelines.	The Board determines the independence of each NED annually, based on the recommendations from the NRC per the PETRONAS Independent Directors Guidelines.	Each NED has an affirmative obligation to notify the NRC of any change in circumstances that may affect his/her independence status. Once notified, the NRC shall re-evaluate the independence status and make the necessary recommendations to the Board.

The INEDs have been appointed for their specific experience and expertise and are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. NEDs may serve on the boards of other companies provided this does not involve a conflict of interest and that the appointment does not restrict their ability to discharge their duties to PETRONAS in any way.

In line with the exemplary practices of corporate governance, the Board has adopted a tenure policy whereby an INED's total tenure on the Board is capped at nine years. As at the date of this Statement, none of the INEDs has served the Board for more than nine years.

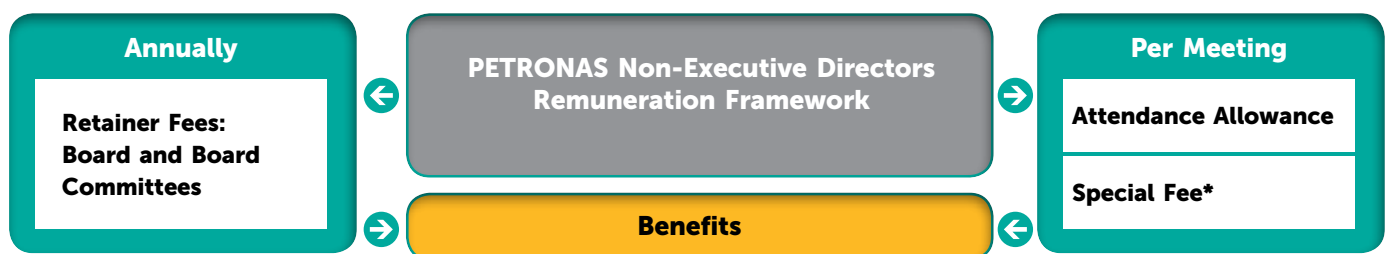
## Conflict of Interest

In ensuring transparency and integrity of the decision-making process as well as to prevent any conflict of interest, a declaration of interest by Directors is a fixed agenda item at the start of every Board meeting. A Director who has direct or indirect interest in a transaction shall recuse himself/herself when required and abstain from deliberations and voting to allow unbiased and free discussions and decision-making. Disclosure of the nature and extent of the Directors' interest and abstention from decision making proceedings are recorded in the minutes of the Board meetings. The Principles of Directorship for the PETRONAS Group was established to govern the way Directors conduct themselves in a conflict-of-interest situation, which corresponds with the Companies Act 2016 and the Code of Conduct and Business Ethics (CoBE) of the Company.

The Directors are also required to declare their interests annually, in line with the requirements on the disclosure of Director's interests in the Company's Audited Financial Statements.

## Board Remuneration Policy

Given the highly competitive market, PETRONAS designed a robust fee structure to attract, retain and appropriately compensate the diverse and internationally experienced NEDs. The fee framework is illustrated below:



\* Only for eligible Non-Executive Directors

## Board Onboarding and Professional Development Programme

The Board recognises the importance of ensuring that new Directors have a complete introduction to the business so that they are able to make a full and meaningful contribution to the Board. To that end, the Board has adopted a comprehensive and extensive onboarding programme for new Directors, including meetings with key senior leadership as teams, bespoke training on relevant regulatory and legal obligations and onboard procedures and processes.

Directors have full access to roundtable discussions, seminars and other events, covering topics relevant to the Group and their roles. The Company provides Directors with the necessary resources to update their knowledge and capabilities throughout the year.

A suite of development programmes, known as the PETRONAS Board Excellence, tailor-made to the requirements of Directors across the Group, has been in place since 2016 to chart the Directors' development plans in a structured manner.

Suite	PETRONAS Board Excellence (PBE)								
Solution	Onboarding	Foundational*		Advanced			Continuous Education	Conference	
Programme	Onboarding Programme for New Directors	Essentials for Directorship	Rising Above 2	Best Practices for Board Excellence (Advanced 1)	Effective Strategy for Stakeholder Management (Advanced 2)	Round Table	Updates on trends	Directors Conference	Audit Committee Forum
Continuous Programme	E-Learning (5 Critical Legal Areas, Code of Conduct, Anti Corruption, Data Privacy)								
	Board Assessment (Observation, Interview and Digital)								
* The Foundational programmes only apply to the directors who are employees of the PETRONAS Group, thus, the PETRONAS Directors, upon their onboarding, will attend the Advanced programmes of the PBE.									

The PETRONAS PBE programme is developed upon the occurrence of new concern for the Directors' awareness and knowledge that may involve the Directors' roles and responsibilities. Moving forward, sustainability has been identified for inclusion in the PBE programme, which will be carried out in 2023. In this instance the programme is intended to create awareness among the directors on the importance of sustainability and the accountabilities of Directors as part of the Environmental, Social and Governance requirements.

### Qualified and Competent Company Secretaries

The Company Secretaries of PETRONAS are qualified to act as company secretary by virtue of Section 235 of the CA 2016. Both of the Company Secretaries are legally qualified. They act as advisors to the Board, particularly with regard to the PETRONAS' Constitution, policies and procedures and its compliance with regulatory requirements, codes, guidelines and legislations.

The Company Secretaries act as an important link between the Board and the Management. Through effective communication, they provide the Management with the understanding on the expectations of, and value brought by the Board.

The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented, and subsequently communicated to the Management for appropriate actions. The Company Secretaries update the Board on the follow-up of its decisions and recommendations. The Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging their functions in the financial year under review.

The Company Secretaries also constantly keep themselves abreast of the evolving regulatory changes and developments in corporate governance through continuous training.

### Board Evaluation

The Board, through the NRC, endeavours to conduct annual performance evaluation of the Board and its Committees, facilitated by the Company Secretary. Evaluation results are reported to the NRC. Individual Director's evaluation results are made available to the NRC Chairman and reported directly to the Chairman of the Board. The Chairman of the Board will then conduct feedback sessions through peer-to-peer meetings.

## 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]*