

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 3042  
**COMPANY NAME** : PETRON MALAYSIA REFINING & MARKETING BHD  
**FINANCIAL YEAR** : December 31, 2017

## OUTLINE:

### **SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE**

*Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.*

### **SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

*Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.*

## SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

*Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.*

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has nine members (as of the end of 2017), with five Independent Directors, one Non-Executive Director and three Executive Directors (including the Chairman). Independent Directors form a majority on the Board. Together, the Directors form the mind and management of the Company. Each Independent Director brings invaluable judgment and skills to bear on issues of strategy, performance, resource allocation, risk management and standards of conduct. Balance in the Board is achieved and maintained with the composition of both Executive and Independent Directors. In recognition that the Independent Directors have a primary role in providing unbiased and independent views, the Company has selectively appointed highly qualified individuals of integrity and character, with broad experience and proven business and management expertise. Currently, Y. Bhg. Dato' Zainal Abidin bin Putih is the longest serving Independent Director of the Company. Shareholders are at liberty to approach Y. Bhg. Dato' Zainal Abidin bin Putih, or any of the other Independent Directors, should there be any concerns relating to the Company and its Management.</p> <p>The Board leads and controls the Company.</p> <p>The strategic plans of the Company, operating plans for the year to grow the business, including the key factors taken into consideration in determination of the plans, as well as the budget for the year (all as proposed by Management), are considered and approved by the Board. The progress of plans as approved are reviewed mid-year (following an internal mid-year review at senior management level) with corrections made where deemed necessary. Adherence to the budget is also monitored in conjunction with the periodic review of the financials. The key to the strategic plans of the Company has always been long-term sustainability. This is exemplified by the success of the Company since 2012 with the Company's rapid growth,</p>

	<p>establishment of the 'Petron' brand in the Malaysian market, the introduction of innovative products such as the only RON100 gasoline in Malaysia and the high-end Euro 5 Turbo Diesel fuel, strengthening financials and the impressive gains in the Company's share prices that benefit the shareholders of the Company via healthy yields in investments.</p> <p>Apart from the adoption of the Company's Vision and Mission Statements (adopted in 2012), to drive the Company's growth, the Company issued in 2016 its Value Handbook, entitled "ExCITES" incorporating key values that will ensure the Company's success and long term sustainability. 'ExCITES' stresses on six (6) key values namely - Excellence, Customer Focus, Innovation, Teamwork, Ethics and Safety. This is driven by Management and employees alike to ensure each employee takes ownership of the values and helps drive those values.</p> <p>To ensure that it is able to fulfil its obligations to the Company and its stakeholders/shareholders and to ensure proper management the Company, the Board meets at least four times a year, with additional matters resolved by way of circular resolutions as and when required. Special meetings of the Board may be called when necessary.</p> <p>To manage risk, the Company's risk matrix (based on a likelihood/impact analysis) is reviewed annually to establish risks based on existing and projected factors. The risks identified are those which may have a high financial risk or a non-financial risk such as health and safety, environmental, regulatory and reputation risks. Key risks are identified and the processes to manage these risks are determined. These include the business recovery processes that are put in place. For 2018, the key risks identified include, major incident that disrupts supply of products and/or operations, oil spill during shipment that causes catastrophic environmental impact and cyber-security risks. The review of risk management issues are a permanent agenda item at the Board Audit &amp; Risk Management Committee Meetings. The Board recognizes that the business of the Company is one that has a moderate to high level of risk in terms of business, financial, economic outlook, environmental, safety and community/social risks. These are at all times kept in mind in planning and executing any venture that is to be undertaken. The Board nevertheless acknowledges that it is there to manage a business, and risk (as in all businesses) is an inherent part of the business. The Board recognizes that identifying and adopting solutions to manage those risks is imperative in business and finding a successful balance between managing risks and promoting the business objectives of the Company is a consideration the Board fully recognizes as necessary for its sustainability which the Board (and the Company's Management) prides itself in being able to achieve.</p> <p>Apart from various controls processes in place, to ensure financial matters are properly managed, the Board regularly reviews the necessary delegation of authority in the Company on various functions</p>
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including the formulation and designation of authorized signatories with respect to various business and functional matters based on the value of any given transaction. Controls are also incorporated to ensure that each approval goes through a strict process and various levels of independent 'cold eye' reviews prior to approval, thus preventing any abuse of authority and ensuring thorough review prior to any decision being taken. The powers of the Management Committee are spelt out in the Committee's Charter. The Management Committee's Charter can be viewed on the Company's website [www.petron.com.my](http://www.petron.com.my). All matters that are not within the purview of Management Committee (per the Charter) are powers specifically reserved for the Board of Directors.

By engaging the Independent Directors (who by the 4<sup>th</sup> Quarter of 2017 formed a majority on the Board), the Management is able to elicit their views, and benefit from the Independent Directors' vast experience and expertise in various fields of business including the downstream oil and gas business. The engagement with the Independent Directors also enables the Company to manage Minority Shareholders' expectation that their rights continue to be protected.

The Board in ensuring the success of the Company's plans and operations, has in place a highly energetic and motivated team of senior management personnel (that form the Management Committee), led by the Chief Executive Officer. The Management Committee is comprised of a mix of Malaysian personnel as well as senior personnel seconded from parent company (Petron Corporation) each of whom have impeccable qualifications, vast experience in the industry and the management skills necessary to deliver on the plans and objectives of the Company. Each key department is headed by a Head of Department with subordinate(s) identified – and groomed – to eventually succeed the Head of Department as part of the succession plan. This is part of an on-going review and the plans include rotation of the subordinates' assignments to various functions within the Company to gain experience and exposure on the overall business and management of the Company.

The Company has written guidelines on shareholders communication that are incorporated in the Company's Corporate Communication and Disclosure Guidelines that can be accessed on the Company's website [www.petron.com.my](http://www.petron.com.my). The guidelines also incorporate the parent company's best practices. The Board and Management recognize the need to communicate effectively with shareholders. The Board values and encourages dialogue with the shareholders to establish better understanding of the Company's objectives and performance. To this end, suggestions made by shareholders have been incorporated, where appropriate, including the improvement of financial presentations at general meetings as well as enabling shareholders to visit the office for dialogues or clarification on matters disclosed or pertaining to the Company. The Annual General Meeting provides a suitable forum for the shareholders to hold dialogues with the Board.

Additionally, queries from investors and potential investors are dealt with by our Investor Relations. The Company's website has a Management Committee Member as its named contact person with contact details, to ensure that shareholders' queries are promptly addressed. The Company holds open discussions with investors and analysts upon request. Needless to say, material information relating to the Company is disclosed to the public by way of announcements to Bursa Malaysia Securities Berhad ("BMSB"), as required by the Main Market Listing Requirements of BMSB ("MMLR"). There is a clear framework in place for reporting on internal controls and compliance. The Management Committee meets weekly to review all matters in the preceding week and plan for work for the future. This allows the members of the Management Committee to review all issues pertaining to compliance, not only with laws including the Listing Requirements, but also compliance with the Company's policies on expected conduct of the Company and its employees. Any issue of non-compliance is referred to the Company's independent Internal Audit Group for review and investigation and, where recommended, necessary action. The review will also highlight process gaps that have to be corrected to ensure that such non-compliance does not recur. The Company also has an established 'whistle-blower' protection system in its Standards of Business Conduct that is in place to safeguard employees from any recriminations for highlighting any non-compliance by any employee (including by a Director).

The Company has a written code of conduct called the Standards of Business Conduct ("Code of Conduct") in place that can also be accessed on the Company's website [www.petron.com.my](http://www.petron.com.my). The Code of Conduct contains policies and systems designed to create and support a strong system of corporate governance. The Code of Conduct has been communicated to the Company's employees, contractors and vendors, so that they have a clear understanding of the Company's requirements. These include policies on business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships. The Code of Conduct was updated in 2017 to incorporate revised guidelines issued by the parent company in relation to enhanced restriction on receipt of gifts. Periodic training is also carried out for employees, contractors and vendors to ensure understanding of the requirements. Standard contracts of the Company (including employment contracts and contracts with third party vendors/contractors), also incorporate key provisions of the Code of Conduct as standard terms in such contracts, thus ensuring the Code of Conduct will be adhered to at all times. All employees of the Company have undergone training on the Standards of Business Conduct and new hires are required to also undergo a comprehensive and compulsory training on the Standards of Business Conduct. Such training for new hires was continued in 2017, and is conducted twice yearly to facilitate training of new employees joining the Company. In 2018, a 'refresher' training program on the Code of Conduct will be implemented for all employees.

	<p>The management systems that are in place are designed to achieve high standards of performance in the areas of safety, operations integrity, internal control, and legal and environmental compliance. As these systems have been previously adopted by the Board and were used by the Company for many years, upon the take-over of the Company by Petron Corporation in 2012, these management systems were deemed to continue in operation and employees, contractors and vendors by contract and training, continue to be guided by these same systems until such time these systems are amended. As the systems involve employees, contractors and vendors whose engagement spanned the take-over, it was recognized that a sudden change in the systems (and providing fresh training to the employees, contractors and vendors) would cause undue strain on the Company's resources. In this regard, the Company has opted to gradually change the systems (where necessary) by introducing new or revised set of management systems to govern the Company that are in line with the policies and systems of the parent company, Petron Corporation. The Board and the Board Audit &amp; Risk Management Committee with the assistance of an independent Internal Audit function, help ensure that the policies and the management systems are fully implemented and consistently enforced.</p>	
<p><b>Explanation for departure</b> :</p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b> :</p>		
<p><b>Timeframe</b> :</p>		

## Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Chairman of the Board, Mr. Ramon S. Ang was appointed by the Board on April 2, 2012 upon the take-over of the Company by Petron Corporation on March 31, 2012; a takeover that he was instrumental in driving.</p> <p>Mr. Ang is also the President of ultimate holding company, San Miguel Corporation and Chief Executive Officer of parent Company Petron Corporation. With his senior executive positions at the Group level, he has and continues to provide the vision and executive leadership that has in a span of some six (6) years since the takeover, led the Company to its present success as a major downstream oil &amp; gas company in Malaysia.</p> <p>Mr. Ang in his capacity as Chairman, reviews and approves the Agenda for every Board Meeting. Similarly all Board papers and Board Resolutions (including those completed via circulars) are reviewed and approved in order that the papers and resolution meets the needs of the Board in relation to information necessary for the Board to make a determination. As Chairman, with the assistance of the Company Secretary, he ensures that the relevant Board papers are disseminated to the Directors in advance of the Board meetings to enable the Directors to read, understand, evaluate and raise issues for discussion or clarification, before a determination is made by the Board. As a general rule, the Board papers are disseminated at least five (5) days before a meeting.</p> <p>The Chairman chairs all meetings of the Board (and leads the Board at the Annual General Meeting). The Chairman seeks the input from members of the Board and encourages Members of the Board to express their views; even where the views may be divergent to a proposal moved by Management with the support of the Executive Directors. The Chairman strongly believes in unanimous decisions by the Board as Directors take collective responsibility for decisions. As a general practice, where there are divergence in views, the matter will be referred by the Chairman to Management for a further review (to take into consideration views expressed by Board members) and for Board to make a determination at a later date.</p> <p>As a further measure to encourage active discussions in a candid</p>

	<p>manner (without the presence of the Chairman at such discussion), as a general practice, all matters that are to be referred to the Board (be it for approval or notation) are first reviewed by either the Board Audit &amp; Risk Management Committee or – on matters within its purview – the Nominating Committee. Discussions and views expressed at these meetings are then shared with the Chairman and the Board.</p> <p>The Chairman in his capacity as an Executive Director, is actively involved in day-to-day management issues especially when it relates to strategic acquisitions or disposals, procurements and plans for business development. The Chairman also is provided an extensive management and business update monthly by Management, from which Management receives instructions from the Chairman on expectations.</p> <p>The Chairman reviews plans by Management in engaging stakeholders and shareholders. Communication plans and proposed meetings (eg with potential investors, plant visits requests, visit by regulators and other Government officials) including plans on discussion and presentation to shareholders during general meetings, are reviewed with the Chairman. The aim is to provide meaningful information to the shareholders and stakeholders whilst avoiding providing information that may be confidential or business sensitive that could prejudice the Company and its interests.</p> <p>To ensure adherence with the governance requirements, the Chairman ensures that the Board is provided updates on all new laws and regulations pertaining to corporate matters including governance. In 2017, the Directors received in-house training on the impact of the new Companies Act 2016 as well as measures taken by the Company to manage certain new but unclear provisions that may impact the Company. Directors also received a briefing on the new Malaysian Corporate Governance Code 2017. Directors were also encouraged to attend additional training programs. This in turn enables the Directors to ensure that the Company and Management not only adheres to the requirements on governance but also continues to practice the well-entrenched principles and policies of its Code of Conduct in managing the Company as a well-managed and sustainable business entity.</p>
<p><b>Explanation for departure</b> :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p><b>Measure</b> :</p>	



<b>Timeframe</b>	:		
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### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.3

The positions of Chairman and CEO are held by different individuals.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The position of Chairman and Chief Executive Officer are held by different persons.</p> <p>Mr. Ramon S. Ang is the Chairman of the Board. He is also an Executive Director.</p> <p>Mr. Lubin B. Nepomuneno is the Chief Executive Officer. He is also an Executive Director and the Chairman of the Management Committee that is tasked with the day-to-day operational management of the Company.</p> <p>The separation was implemented previously in 2013 as recommended by the then Malaysian Corporate Governance Code 2012. The Company and the Board will continue with the practice.</p> <p>The separation in offices is also expressly stated in the Company's Board Charter. The Board Charter further specifies the separate roles and responsibilities of the Chairman and the Chief Executive Officer.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

## Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Board has full access to the service and advice of the Company Secretary.</p> <p>The Company Secretary, who is also the General Counsel of the group of Petron companies in Malaysia and a member of the Management Committee, has over 28 years of experience in legal matters and over 21 years of experience as a Company Secretary including that pertaining to a public listed company. He has been the Company Secretary of the Company since 2006.</p> <p>The Company Secretary is responsible for all arrangements in relation to Board and Committee meetings, Annual General Meeting (including preparing and maintaining minutes thereof), Annual Reports, as well as ensuring the Company's timely and accurate disclosure to BMSB and ensuring adherence to the Company's Memorandum and Articles of Association, compliance by the Company with MMLR and other securities and corporate laws and regulatory requirements.</p> <p>The Company Secretary is responsible for the compilation and dissemination of the Board and Committee files to the Directors in a timely manner. As a general rule, the files are disseminated at least five (5) days before the meeting.</p> <p>The Company Secretary (in his role as General Counsel) is responsible for the overall corporate compliance by the Company and its Directors (including in relation to the Company's Code of Conduct). He provides advise to the Board on new legal or quasi-legal requirements on governance, such as provided briefings to the Board on the applicable provisions of the Companies Act 2016, proposing solutions to issues that arose therefrom, as well as providing a briefing on the new Corporate Governance Code 2017. He further provides the Directors with information on available training to ensure Directors undergo continuous training that can enhance their ability to discharge their duties to the Board and Company.</p> <p>The Company Secretary is also the focal point for all investor related queries and manages requests for meetings and information, in collaboration with other relevant Departments in the Company.</p>

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>Information regarding the Company's business and affairs are normally provided to the Board by the Company's Management and staff. Towards meeting this objective, Board and Committee meetings are structured with a pre-determined agenda. Board and Committee papers covering the Company's operational and financial performance, strategic plans on any significant matters and developments, together with the minutes of the previous Board and Committee meetings, are circulated to the Directors (or Members of the Committee, as the case may be) in advance of each meeting. This allows the Directors time to study and deliberate on the issues to be raised and discussed at each meeting.</p> <p>As a general practice, the Board and Committee papers are circulated to the Directors at least five (5) days prior to the date of the meeting. Where there are any subsequent changes to the papers, these are brought to the Directors' attention at the first reasonable opportunity.</p> <p>Where a Director is unable to attend a Board or Committee meeting, arrangements will be made, where possible, for the Director to be briefed by Management on matters to be tabled before the Board or Committee and the said Directors views will be informed to the Board or Committee (as the case may be) during the meeting. This is done to ensure that all Directors views are taken into account in any deliberation.</p> <p>The Board and Committee meetings can also be attended by the Directors via video or tele-conferencing in the event that they are unable to attend a meeting in person due to some unavoidable circumstances.</p> <p>Notes of the meeting are taken contemporaneously during the Board or Committee meetings. As a general rule, draft minutes are prepared within two (2) weeks of the meeting and following internal reviews are forwarded to the Directors for their comments and suggested amendments. These suggestions are incorporated or edited into the draft and filed for subsequent confirmation at the next meeting of the Board or Committee as the case may be.</p>

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

### Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company does have a Board Charter that has been in place since 1974 and periodically updated. The most recent update was on May 24, 2016. The Board Charter in 2018 underwent further revisions to meet the requirements of the new Malaysian Corporate Governance Code 2017.</p> <p>In 2016, as an avenue to communicate the company's approach to important governance practices, the Company formalized its Board Charter and made it public by providing the access to it on the Company's website at <a href="http://www.petron.com.my">www.petron.com.my</a>.</p> <p>The Board Charter deals with its purpose, authority, role of the Board, the Board Committees, the relationship between the Board and Management, responsibilities specifically reserved for the Board and the Board's other responsibilities, the Board composition, the individual roles of the Chairman and the Chief Executive Officer, annual assessment of the Board, Committees and individual Directors, tenure of Independent Directors, annual election/re-election of Directors, Directors responsibilities in relation to the Board and Committees, meetings of the Board, minutes and review of the Charter. Whilst the Board has not appointed a Senior Independent Director, relevant provisions have been incorporated into the Charter.</p> <p>However, recognising that the Board cannot manage day to day operational matters, necessary delegation of authority by the Board (as is permitted by law and the constitution of the Company) is in place. This delegation of authority, as approved by the Board, acts to identify the roles and responsibilities of the Board and Management Committee members and the relevant authority levels of Management personnel. This document is reviewed periodically by the Board and updated as necessary.</p> <p>For day to day operational management purposes, there is a Management Committee – whose members are appointed by the Board . The Management Committee is headed by the Chief Executive</p>

	<p>Officer. The Management Committee has a charter that spells out the Management Committee’s roles and responsibilities. Thus, where any act or approval is not stated to be within the purview of the Management Committee, by default it is deemed to be within the purview of the Board. The Charter of the Management Committee can be accessed on the Company’s website <a href="http://www.petron.com.my">www.petron.com.my</a>. The Management Committee Charter was last reviewed and amended in April 2012 and reviewed again in 2018 in conjunction with amendments to the Board Charter.</p>	
<p><b>Explanation for departure</b> :</p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b> :</p>		
<p><b>Timeframe</b> :</p>		



### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Company has a written Code of Conduct in place that can also be accessed on the Company's website <a href="http://www.petron.com.my">www.petron.com.my</a>.</p> <p>The Code of Conduct contains policies and systems designed to create and support a strong system of corporate governance. The Code of Conduct has been communicated to the Company's employees, contractors and vendors, so that they have a clear understanding of the Company's expectations. These include policies on business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships. The Code of Conduct was updated in 2017 to incorporate revised guidelines issued by the parent company in relation to enhanced restriction on receipt of gifts. Periodic training is also carried out for employees, contractors and vendors to ensure understanding of the requirements. Standard contracts of the Company (including employment contracts and contracts with third party vendors/contractors), also incorporate key provisions of the Code of Conduct as standard terms in such contracts thus ensuring the Code of Conduct is at all times adhered to at all times. All employees of the Company have undergone training on the Standards of Business Conduct and new hires are required to also undergo a comprehensive and compulsory training on the Standards of Business Conduct. Such training for new hires was continued in 2017, and is conducted twice yearly to facilitate training of new employees joining the Company. In 2018, a 'refresher' training program on the Code of Conduct will be implemented for all employees.</p> <p>Employees have also been given guidance on need for vigilance to ensure that parties they deal with on behalf of the Company are not seeking to 'launder' moneys in their dealings with us. There are strict internal procedures on receipt of moneys, all of which must be via a licensed banking facility and there is further strict vetting of customers and vendors who deal with the Company.</p>

	As financial and non-financial unpublished price sensitive information may be known to personnel, the need for them to maintain confidentiality and not profit from such information is periodically reminded to Directors and employees. To this end, quarterly reminders on the impact of insider trading and the restrictions on trading on the Company's shares are circularized.	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>A key factor toward ensuring that the Code of Conduct is effective, is the flow of information to Management of any violations or purported violation of the same. The Code of Conduct already provides for 'whistle-blower' protection.</p> <p>In order for such information to be forthcoming, the employees are (as part of their training on the Code of Conduct) provided guidance on how they should report violations and are provided assurance of the protection of 'whistle-blowers'.</p> <p>All investigations are carried out expeditiously and confidentially by the relevant Head of Department, and all such investigations are conducted with the support of the Office of the General Counsel and Human Resources Department. The process for any investigations on purported misconduct will be carried out in accordance with the Company's written guidelines on managing misconduct.</p> <p>The policies on protection of 'whistle-blower' protection is to be enhanced in 2018 and the protection accorded to 'whistle-blowers' reinforced during the planned 'refresher' training program for employees in 2018.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>As at January 1, 2017, the Company was neither a company that was on the FTSE Bursa Malaysia Top 100 Index nor a company with a market capitalization of RM2 billion. As such on January 1, 2017, the Company was not a 'Large Company'.</p> <p>In the early part of 2017, the Company had a Board of eight (8) Directors, of which fifty (50) percent were Independent Directors.</p> <p>The Board appointed an additional Independent Director on November 23, 2017, thus having a majority of Independent Directors on the Board by the 4<sup>th</sup> Quarter of 2017.</p> <p>The Company's Board of nine (9) members is now comprised of:</p> <ul style="list-style-type: none"><li>(a) three (3) Executive Directors (including the Chairman);</li><li>(b) one (1) Non-Executive Director; and</li><li>(c) five (5) Independent Directors</li></ul>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

## Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

<b>Application</b>	: Applied - Two Tier Voting
<b>Explanation on application of the practice</b>	<p>Independent Director, Y. Bhg. Dato' Zainal Abidin Putih has exceeded a tenure of nine (9) years on the Board. The Company recognizes the rationale for the imposition of a 9-year-tenure limit as familiarity with main shareholders, executive directors and senior management may, over a long duration, impinge upon the Independent Directors' ability to objectively and independently discharge their roles and responsibilities.</p> <p>The Company however wishes to highlight that whilst Y. Bhg Dato' Zainal may have joined the (then Esso Malaysia Berhad) Board in 2002, the Board, and senior management of the Company, had substantially changed with the takeover by Petron in 2012. As such issue of familiarity may not necessarily be a matter for consideration.</p> <p>The Company further takes the view that, the guidance of an experienced and respected Independent Director such as Y. Bhg. Dato' Zainal Abidin bin Putih, with his impeccable reputation and vast knowledge and understanding of the Company's business, will benefit the Company and the Executive Directors in furthering the successful implementation and plans for the development and sustainability of the Company's business. Y. Bhg. Dato' Zainal Abidin bin Putih's presence on the Board will also enable him to assist in the selection and training of his eventual successor as Chairman of the Board Audit &amp; Risk Management Committee.</p> <p>The Board recognizes the need to have a succession plan for the Independent Directors and in this regard, the Board determined that a phased succession plan would be in the best interest of the Company. Induction of new Independent Directors, for this purpose is in progress.</p> <p>At the 2017 Annual General Meeting on June 15, 2017, Y. Bhg. Dato' Zainal Abidin bin Putih was elected for a further one (1) year term in office as an Independent Director. The voting was by poll and Y . Bhg.</p>

	<p>Dato Zainal Abidin bin Putih was voted into office with a result of 99.996% in favour of his re-appointment.</p> <p>At the 2018 Annual General Meeting, Y. Bhg. Dato' Zainal Abidin Putih will be proposed by the Board for re-appointment for another one (1) year term in office as an Independent Director. The voting on this resolution at the Annual General Meeting will be by poll and on a two (2) –tier voting system as prescribed by the Malaysian Corporate Governance Code 2017.</p>	
<p><b>Explanation for departure</b></p>	<p>:</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>	<p>:</p>	
<p><b>Timeframe</b></p>	<p>:</p>	

**Intended Outcome**

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

**Practice 4.3 - Step Up**

The board has a policy which limits the tenure of its independent directors to nine years.

<b>Application</b>	:	Adopted
<b>Explanation on adoption of the practice</b>	:	The Board in its revision to the Board Charter in 2018 has adopted the limitation in the cumulative tenure of an Independent Directors to nine (9). However the Board Charter also adopts the exception to the rule in the Malaysian Code on Corporate Governance 2017 on the process of voting to be adopted if such an Independent Directors is to seek a further term in office as an Independent Director.

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board of Directors is currently comprised of persons with a diverse range of qualifications, experience and skills. These include qualified engineers, accountants, lawyers and bankers with diverse experience including in the downstream oil and gas industry, banking, corporate advisory and finance – all of which brings to the Board a diverse pool of highly talented individuals who are able to critically review and provide the Board and Senior Management candid views and advice on the strategy, business plans, operations, finance, products and other areas including customer relations and marketing. Their diverse cultural backgrounds (both Malaysian and Filipino) provides the Board with a balance of understanding in managing expectations of the stakeholders and at the same time the Company's business needs.</p> <p>The Board of nine (9) members has three (3) women Directors; two of whom are Independent Directors and one an Executive Director.</p> <p>Senior Management personnel are made up of nine Heads of Department / Managers that are in charge of key Departments. These are the Chief Executive Officer, the Operations Manager, the Chief Finance Officer, Head of Retail Business, Head of Commercial Business, Head of Refinery, the Terminal and Distribution Manager, the Supply Manager and the General Counsel/Company Secretary.</p> <p>These Heads of Departments / Managers form the Management Committee of the Company. They are professionally qualified (with many having post graduate qualifications) and each have decades of experience in the downstream oil and gas business (and their respective fields of expertise) that helps the Board in implementing the strategies and managing the day-to-day business and operations.</p> <p>Of the Management Committee of nine (9) members, three (3) are women holding key portfolios as Chief Finance Officer, Head of Retail Business and Head of Refinery.</p>
<b>Explanation for departure</b>	:	



*Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.*

<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board Charter and the Nominating Committee Terms of Reference can be found on the Company's website at <a href="http://www.petron.com.my">www.petron.com.my</a>. The Company's Diversity Policy can also be found in the same website.</p> <p>The Board Charter specifies that the Board will at all times endeavour to ensure that at least 30% of the Directors of the Company are women. The Company has practiced the same for many years. The Company also does not seek to look at the 30% as a target but a minimum number and when considering appointment of new Directors, also seek to give preference of women directors. Since 2012 following the takeover of the Company by Petron, two male Independent Directors have retired and the Company has engaged since then four (4) new Independent Directors; two of whom are women – one of whom is also the Chairperson of the Nominating Committee.</p> <p>The Company's Code of Conduct (also found in the same website) specifies that the Company is an equal opportunities employer and does not discriminate on gender, race or religion in relation to employees, including in relation to hiring and promotions.</p> <p>The Company operates purely on a merit based process in determining hiring and promotions. Gender play no role whatsoever in the process. For instance, the Company engaged women managers to replace the men in key positions such as the Head of Refinery and as the Chief Finance Officer.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	

<b>Timeframe</b>	:		
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### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board sees the need to have a proper mix of talent on the Board that will support the objectives of the Company. Being able to be analytical, provide constructive views and even criticism and provide guidance from their own experience and knowledge is what leads to the Board making a proper decision in the best interest of the Company.</p> <p>Despite its diversity, the Board works well together and as a team in seeking to achieve the Company's goals. The Board however in selecting candidates is mindful of the various factors including qualifications, experience, skills, time to devote to the Company as a Director and equally important, the person's character, for there to be boardroom harmony.</p> <p>Thus the Board does rely on not only the Board members but also external consultants to recommend potential candidates for appointment to the Board.</p> <p>Of the five (5) Directors appointed to the Board since the take-over by Petron in 2012, two (2) were proposed by Directors, one (1) was proposed by Management and two (2) by a consultant. In each case there was extensive review undertaken (including an interview) before the candidate is proposed to the Nominating Committee for consideration, and recommendation thereafter to the Board.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	The Nominating Committee is comprised of 3 Directors of whom two (2) are Independent Directors and one (1) a Non-Executive Director. The Chairperson of the Nominating Committee is an Independent Director. The Nominating Committee Members are:  (1) Ms Chua See Hua (Chairperson/Independent Director) (2) Y. Bhg. Dato' Zainal Abidin Putih (Independent Director) (3) Mr Ferdinand K. Constantino (Non-Executive Director)
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

## Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>For the Annual Evaluation, the Nominating Committee considered amongst others, the roles played by Directors (individually and as a group) during the year. The Committee also considered their role in charting the course for the Company, setting out the strategic plans for the Company, and stewarding the implementation process. The Committee also reviewed other matters such as trainings attended, attendance record at meetings (including their respective participation) as well as their level of compliance with legal requirements, including the MMLR.</p> <p>A customized evaluation survey as recommended by the Nominating Committee and approved by the Board in 2014 was implemented for the 2017 annual evaluation. The survey comprises 5 sets of form of questionnaires required to be completed by the respective Directors evaluating, by self-assessment and/or peer-assessment, in relation to (i) the independence of the Independent Director (ii) the performance of the Board Committees (iii) the performance of the main Board (iv) the Board members' skills set and (v) the Director's performance and contribution to the Board.</p> <p>The 2017 annual evaluation was completed in January 2018 and the results were presented to the Nominating Committee and the Board on February 22, 2018. A summary of the results are as follows:</p> <ul style="list-style-type: none"><li>• <b>Independent Director's 'Independence'</b> - <u>All five (5) Independent Directors</u> meet the necessary criteria for 'independence' and they are in compliance with the MMLR and the 2017 Corporate Governance Code.</li><li>• <b>Board Committee Evaluations</b> – There were no adverse findings and the average rating of the Audit Committee was 4.83 and the Nominating Committee's average rating was 4.75. The ratings are consistent with the ratings in 2016.</li><li>• <b>Board Evaluation</b> - The ratings received indicated an overall average of 4.51 indicating 'Consistently Good'. The overall</li></ul>

	<p>average rating received in 2016 was 4.6; comparable with the ratings in 2017.</p> <ul style="list-style-type: none"> <li>• <b>Board Skill Evaluation (Peer Assessment)</b> - The Directors were rated between 4.50 and 4.74, again indicating that, on the average, each Director was ranked as 'Consistently Good'. The ratings received in 2016 were between 4.72 to 4.83, indicating a consistency with 2017.</li> <li>• <b>Performance Evaluation (Self-Assessment and a Peer Assessment by each Director)</b> - Each Director was rated between 4.56 and 4.87, again indicating that, on the average, each Director was ranked as 'Consistently Good'. The ratings received in 2016 were between 4.30 and 5.00; indicating consistency with ratings in 2017.</li> </ul> <p>The evaluation in relation to the independence of the Independent Directors indicated that all the Independent Directors fulfilled all the necessary requirements, under the MMLR, of independence. One (1) of the Independent Directors namely Y. Bhg. Dato' Zainal Abidin bin Putih has exceeded the recommended nine (9) cumulative years in office but his continued presence on the Board, approved at the preceding Annual General Meeting, also fulfils the necessary requirements as recommended by the Malaysian Corporate Governance Code 2017.</p> <p>The Board was satisfied with the results of the other evaluations, which showed the Directors, the Committees and the Board having achieved overall ratings of 'Consistently Good', and noting that the Board composition has the right mix of skills and experience and has individuals of integrity.</p> <p>The evaluation results were also used by the Nominating Committee in considering and determining its endorsements in relation to the re-election of retiring Directors.</p> <p>The Board also noted that the Chief Executive Officer, Chief Finance Officer, Company Secretary and other members of the Management Committee (collectively "Senior Management Personnel") are full-time employees and undergo a rigorous annual performance evaluation and rating process based on set goals and Key Performance Indicators. This is done as part of the Petron Group's annual employees' performance evaluation. The evaluation is done independently of each of the individual Senior Management Personnel concerned and who does not have any role in determining the results of the evaluation, the rating, the salary increments and other remuneration, if any.</p>
<p><b>Explanation for departure</b> :</p>	

<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



### Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Board has policies in place in regard the determination of the Independent Directors remunerations. These are stated in the Board Charter as follows:</p> <p>“The Board shall be responsible for the annual review and recommendation to shareholders (for approval at the Annual General Meeting) on the benefits payable to Independent Directors. In this regard, the Board:</p> <ul style="list-style-type: none"><li>▪ shall have a fair and transparent process to annually review the benefits;</li><li>▪ as part of the review, shall also take into account Independent Directors' contribution towards the success of the key strategic initiatives and the performance of the Company;</li><li>▪ in reviewing the benefits, will also bench-mark the proposal against benefits offered by other (similar) entities, as appropriate, based on available data or industry studies; and</li><li>▪ in reviewing the benefits, will consider the need to attract to and retain Independent Directors on the Board.</li></ul> <p>Independent Directors on the Board may provide their input to the Board on any proposal regarding the benefits, but shall otherwise abstain from any decision making process at the relevant Board Meeting that decides the said recommendation to be made to shareholders.”</p> <p>The Board does not have a policy in place for the remuneration of the Executive Directors as the Executive Directors do not receive remunerations from the Company. The Remuneration Committee also plays no role in relation to the remunerations received by Senior Management Personnel. Each Senior Management Personnel on the Management Committee are regular employees who individually undergo an annual performance appraisal conducted by their superiors. These appraisals, determination of ratings and the resulting level increments and performance bonus (if any) are conducted and</p>

	determined independent of the said Senior Management Personnel. This process includes reviews by the Chairman and Executive Directors. Each Senior Management personnel has no control over the determination of the appraisal results, or changes in their remunerations following from the said appraisal process.	
<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Company is in a unique position in that the Executive Directors (that include the Chairman as well as the Chief Executive Officer) and the Non-Executive Director (nominated by the major shareholder), do not receive remunerations from the Company. This is by virtue of the fact that they are Directors and/or senior executives of the parent company and restrictions/internal policies therein.</p> <p>As such the only Directors who receive benefits from the Company (such as fees and allowances) are Independent Directors of the Company. The Independent Directors on the erstwhile Remuneration Committee also do not review the remunerations paid to Senior Management Personnel, all of whom are regular employees and who each undergo an annual performance evaluation where they have no say on the outcome of the evaluation or the determination in relation to any increments, bonuses or even promotions.</p> <p>The Independent Directors that formed the erstwhile Remuneration Committee concluded that for the Remuneration Committee to be solely considering and recommending their (Independent Directors') own remuneration may give rise to potential conflict of interest.</p> <p>Based on the recommendation of the Independent Directors, Board at its meeting on August 22, 2014, determined to disband the Remuneration Committee. Effective the same day, the Board of Directors assumed the role of the Remuneration Committee and manages the role by assuming the charter and procedure of the Remuneration Committee.</p>

	<p>The Board reviews and makes recommendations on the Independent Directors benefits for approval at the Annual General Meeting. The Independent Directors during deliberations at the Board Meeting may be asked to provide their views but would otherwise abstain from any other discussion or voting regarding such proposal.</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>	<p>:</p>	
<p><b>Timeframe</b></p>	<p>:</p>	<p>Choose an item.</p>

## Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

## Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

<b>Application</b>	:	Applied																																				
<b>Explanation on application of the practice</b>	:	<p>As approved by the Board at the Annual General Meeting on June 15, 2017, the benefits paid to the Independent Director for 2017 is as follows:</p> <ul style="list-style-type: none"> <li>(a) an Annual Fee of RM65,000 per Independent Director</li> <li>(b) Attendance Allowance of RM3,000 for the Independent Directors who are Chairpersons of the Board Audit &amp; Risk Management Committee and the Nominating Committee, AND an Attendance Allowance of RM2,500 for each other Independent Director. The Attendance Allowance is for each meeting of the Company attended by the Independent Director.</li> <li>(c) A Fuel Reimbursement of up to RM500 per month for each Independent Director; and</li> <li>(d) An ex-gratia payment of RM15,000 each for each Independent Director who served a full term in 2016 (and pro-rated for those who served a shorter term in office).</li> </ul> <p>An analysis of the remuneration paid by the Company to the Independent Directors for the financial year ended 31 December 2017 is set out below:</p> <table border="1"> <thead> <tr> <th>Independent Directors</th> <th>Ex-Gratia Benefits (for 2016) (RM)</th> <th>Directors' Fees (RM)</th> <th>Attendance and Other (RM)</th> <th>Fuel Reimbursement (RM)</th> <th>Total (RM)</th> </tr> </thead> <tbody> <tr> <td>Y. Bhg. Dato' Zainal Abidin Bin Putih</td> <td>15,000</td> <td>65,000</td> <td>32,500</td> <td>4,195</td> <td>116,695</td> </tr> <tr> <td>Ms Chua See Hua</td> <td>15,000</td> <td>65,000</td> <td>35,000</td> <td>4,292</td> <td>119,292</td> </tr> <tr> <td>Y. Bhg. Dato Zuraidah Binti Atan</td> <td>15,000</td> <td>65,000</td> <td>25,000</td> <td>4,106</td> <td>109,106</td> </tr> <tr> <td>Mr Fong Seow Kee</td> <td>5,625</td> <td>65,000</td> <td>25,000</td> <td>4,815</td> <td>100,440</td> </tr> <tr> <td>Mr Antonio Martin Cailao (appointed on 23 November 2017)</td> <td>-</td> <td>6,250</td> <td>-</td> <td>-</td> <td>6,250</td> </tr> </tbody> </table>	Independent Directors	Ex-Gratia Benefits (for 2016) (RM)	Directors' Fees (RM)	Attendance and Other (RM)	Fuel Reimbursement (RM)	Total (RM)	Y. Bhg. Dato' Zainal Abidin Bin Putih	15,000	65,000	32,500	4,195	116,695	Ms Chua See Hua	15,000	65,000	35,000	4,292	119,292	Y. Bhg. Dato Zuraidah Binti Atan	15,000	65,000	25,000	4,106	109,106	Mr Fong Seow Kee	5,625	65,000	25,000	4,815	100,440	Mr Antonio Martin Cailao (appointed on 23 November 2017)	-	6,250	-	-	6,250
Independent Directors	Ex-Gratia Benefits (for 2016) (RM)	Directors' Fees (RM)	Attendance and Other (RM)	Fuel Reimbursement (RM)	Total (RM)																																	
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Mr Antonio Martin Cailao (appointed on 23 November 2017)	-	6,250	-	-	6,250																																	

	The above payments were as approved by the Annual General Meeting on June 15, 2017.	
<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

### Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The top five (5) Senior Management Personnel for this reporting are:</p> <ul style="list-style-type: none"><li>• Mr. Lubin B. Nepomuceno (Chief Executive Officer)</li><li>• Mr. Jaime O. Lu (Operations Manager)</li><li>• Ms. Myrna C. Geronimo (Chief Finance Officer)</li><li>• Pn. Faridah Ali (Head, Retail Business)</li><li>• Cik Fadzilah Mohd Tahir (Head, Refinery)</li></ul> <p>Three of the above Senior Management Personnel, namely the Chief Executive Officer, Operations Manager and Chief Finance Officer, are employees of Petron Corporation.</p> <p>The Operations Manager and Chief Finance Officer are seconded to Petron in Malaysia.</p> <p>Due to privacy requirements, the Company opts not to disclose the components of their remunerations.</p> <p>The total remunerations of the top five (5) Senior Management Personnel (attributable to the Company) is RM3,363,526.</p> <p>In relation to the above total remunerations paid to the said Senior Management personnel, the following is to be noted:</p> <ul style="list-style-type: none"><li>• Like all staff, the top five (5) Senior Management Personnel, may be employees of the parent company or a sister company, that provides service to Petron Malaysia Refining &amp; Marketing Bhd via agreements to share resources. The sum of RM3,363,526 stated above is that attributable to Petron Malaysia Refining &amp; Marketing Bhd. The percentage employed is based on a pre-determined service sharing ratio that would vary depending on the function that they serve. This service sharing ratio may be updated as needed for changes in activity level within each affiliated company.</li></ul>

	<ul style="list-style-type: none"> <li>• The sum is inclusive of salaries, fixed allowances and bonuses paid in 2017. The Company does not provide any share option scheme for Senior Management Personnel.</li> <li>• The total bonuses paid in 2017 comprised of : <ul style="list-style-type: none"> <li>• two (2) months contractual bonus as per the regular employment terms for the Senior Management Personnel; and</li> <li>• an ex-gratia of one (1) month based on the Senior Management Personnel’s performance and the Company’s financial performance for the year.</li> </ul> </li> </ul> <p>The provision of the above three (3) months bonus and ex-gratia was the same as in 2016.</p>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p><b>Measure</b> :</p>	
<p><b>Timeframe</b> :</p>	



**Intended Outcome**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.3 - Step Up**

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee’s findings and recommendations. The company’s financial statement is a reliable source of information.

**Practice 8.1**

The Chairman of the Audit Committee is not the Chairman of the board.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	The Chairman of the Board Audit & Risk Management Committee is Y. Bhg. Dato’ Zainal Abidin Putih.  He is not the Chairman of the Board of Directors.  The Chairman of the Board of Directors is Mr. Ramon S. Ang
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

### Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The policy on such restriction is stated in the Company's Board Charter that can be viewed on the Company's website at <a href="http://www.petron.com.my">www.petron.com.my</a>. The restriction was inserted as part of the amendments to the Board Charter arising from the Malaysian Corporate Governance Code 2017.</p> <p>As a general practice, the Company does not appoint former partners of its external audit firm(s) to become a Director on the Board. This is done to ensure that there is sufficient separation between the functions of the external auditor and the Board as well as the Board Audit &amp; Risk Management Committee, and avoiding any undue influence on the Board in relation to the financials.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

### Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The policy on such assessment is stated in the Company's Board Audit &amp; Risk Management Committee Charter that can be viewed on the Company's website at <a href="http://www.petron.com.my">www.petron.com.my</a>. The assessment although was used in practice at all times, is now expressly mentioned in the Committee's Charter as part of the amendments to the Board Charter arising from the Malaysian Corporate Governance Code 2017.</p> <p>In evaluating the suitability of the external auditor, the Committee , with input from Management, considers the following:</p> <ul style="list-style-type: none"><li>(a) The external auditor's reputation, resources and quality of audit;</li><li>(b) Nature and extent of non-audit services rendered and the level of fees; and</li><li>(c) The independence and continued independence of the external auditor and seek written assurances of the same</li></ul> <p>This process includes obtaining assurances from the external auditor that each of its partner(s) and personnel are free of any conflict or potential conflict of interest that may impair their judgment or objectivity. The external auditors further provide the Committee with an assurance that the external audit staff undergo stringent reviews based on their global practice to ensure that the staff assigned to audit the Company are indeed free of any conflicts or potential conflicts of interests.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

### Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

<b>Application</b>	:	Adopted
<b>Explanation on adoption of the practice</b>	:	<p>The Board Audit &amp; Risk Management Committee is comprised solely of Independent Directors. All the current Independent Directors are members of the Committee. The said Independent Directors on the Committee are:</p> <ul style="list-style-type: none"><li>(a) Y. Bhg. Dato' Zainal Abidin Putih (Chairperson)</li><li>(b) Ms. Chua See Hua</li><li>(c) Y. Bhg. Dato' Zuraidah Atan</li><li>(d) Mr. Fong Seow Kee</li><li>(e) Mr. Antonio Martin Cailao (<i>appointed to the Committee on February 22, 2018</i>)</li></ul>

## Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

### Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman of the Board Audit &amp; Risk Management Committee, Y. Bhg. Dato' Zainal Abidin Putih, is a chartered accountant and the current chairman of a major bank.</p> <p>Ms Chua See Hua is a practicing lawyer specializing mainly in corporate finance matters.</p> <p>Y. Bhg. Dato' Zuraidah Atan is a practicing lawyer with investment banking experience. She sits on the Boards of several public listed companies.</p> <p>Mr Fong Seow Kee, is a chartered accountant. He is also the chairman of the audit committee of another public listed company.</p> <p>Mr Antonio Martin Cailao is a former senior banker with an international banking group and later headed the Philippines National Oil Company.</p> <p>Apart from their financial literacy, each member of the Board Audit &amp; Risk Management Committee brings to the job, their ability to grasp and understand complex business and financial related issues that are considered by the Committee and the Board. They also have considerable experience dealing with management (in various other companies) and possess the necessary ability and independence to probe and seek clarifications on the financials as presented by management as well as progress made and weaknesses detected in any financial or business matters or transactions moved by management.</p> <p>The Independent Directors are presented with the financials in</p>

	<p>considerable detail at all quarterly meetings. Much time is spent discussing questions on the financial and operations (and its impact on the financials) and action taken by management to address matters of concern, if any.</p> <p>The Committee has also the ability to summon the presence of the internal and external auditors to provide independent advice whenever deemed necessary.</p> <p>All Members of the Board Audit &amp; Risk Management Committee underwent training in 2017, including those organized by external training service providers. Where the training programs with such external parties are arranged by the Company, the cost of such training is borne by the Company.</p> <p>The training attended by each Director in 2017 are as stated in the Company's Annual Report (in pages 58-60 therein).</p>
<p><b>Explanation for departure</b> :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p><b>Measure</b> :</p>	
<p><b>Timeframe</b> :</p>	

## Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

## Practice 9.1

The board should establish an effective risk management and internal control framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board recognizes that managing a publicly listed downstream oil and gas company has many challenges and inherent risks. These risks include financial, foreign exchange, legal compliance, crude and product supply, distribution, environment issues, industrial requirements, safety, and managing the human resources of the Company.</p> <p>To this end, the Board had previously put in place a management integrity system that over the years, proved to be highly effective as a controls mechanism.</p> <p>Following the take-over by Petron Corporation in 2012, these management integrity systems continue to be adhered to by the Company to ensure seamless continuity of the business and safe operations. The Company has since made necessary changes as was deemed necessary to enhance and 'localize' its controls and risk management systems. Recognising that the parent company, Petron Corporation, too is in downstream oil and gas business and the management integrity systems it has in place, the Company has opted to align or adopt, where possible, best practices from Petron Corporation's own systems.</p> <p>In this regard, the Company continues to receive technical advice and support from Petron Corporation via its technical advisers based in Malaysia. The Company also receives technical support via formal arrangements with ExxonMobil.</p> <p>In 2017, the key focus on risk management has been to review the business continuity plans in critical areas. This was a follow through action from the fire incident in 2016 at the refinery where the business continuity plan was successfully employed.</p> <p>For 2018, the key risks identified include, major incident that disrupts supply of products and or operations, oil spill during shipment that causes catastrophic environmental impact and cyber-security risks.</p>
<b>Explanation for departure</b>	:	



<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board recognizes that risks can be mitigated and even eliminated by having in place an effective system of internal controls. Key elements of the Company's internal controls include:</p> <ol style="list-style-type: none"><li>1. The alignment or adoption of best practices from Petron Corporation. These not only assist the Company in identifying the principal risks faced by the Company, but also prescribes the appropriate systems to manage these risks that includes the overall control framework, the required control checks and the required assessment on the system's effectiveness;</li><li>2. A defined organisational structure with clear lines of accountability and delegation of authority;</li><li>3. Reviews of controls including through internal audits have been performed periodically and financial audits are subject to annual review by external auditors. The results are reviewed with various levels of Management and any major concerns are raised to Senior Management and the Board Audit &amp; Risk Management Committee;</li><li>4. Key policies covering, among others, business ethics, conflicts of interest, alcohol and drug use, gifts and entertainment, harassment in the workplace and employees' outside directorships are in place in the form of the Code of Conduct. These include requirements to comply with all applicable laws and regulations. The revised Code of Conduct has been communicated to employees, vendors and contractors. Effective from year 2014, trainings are provided periodically to employees, vendors and contractors. All new employees for example are required to undergo a mandatory training on the Code of Conduct. Where there are any serious violations, a 'controls stand-down' with employees will be carried out to reinforce the need for adherence. Employees are also reminded annually to adhere to the requirements of the Code of Conduct and to disclose to the Company any areas of concerns. This includes where there are potential conflicts of interests and receipt of</li></ol>

festive gifts and adherence to our internal guideline on such receipt of gifts. Revised guidelines on receiving of gifts (based on the new policy implemented by San Miguel Corporation), were implemented in 2017;

5. A management integrity system based on Petron Corporation's best practices to assess and sustain the effectiveness of the organisation's system of controls; and
6. The effective lines of communications within the Management with regular Management Committee meetings where all matters pertaining to each business unit and function are reviewed. This way any controls related issues are highlighted weekly and the action plans on any identified gaps are dealt with immediately.

The Board Audit & Risk Management Committee (a Committee comprised solely of Independent Directors) has oversight on the Company's Risk Management framework and policies.

It should be noted that systems of internal controls and risk management are designed to manage or mitigate rather than eliminate the risk of failure to achieve business objectives, and any system can only provide reasonable and not absolute assurance against material misstatement or loss.

In 2014, the Company embarked on a program to revisit its risk management by employing Petron Corporation's Enterprise-Wide Risk Management tools. The exercise pointed out that the key risks previously identified continue to be the main risk that must be managed even today. The Company, recognizing this is an evolving endeavor, will embark on an exercise to revisit the risk management preparations that are already in place with intent to update the tools and assessment, where necessary. Examples of such evolution of this was the deletion previously of the risk of subsidy removal by the Government (following the removal of subsidies and the successful management of that subsidy removal by the Company), as well as the removal of GST implementation related risks following successful implementation and management by the Company on all GST related requirements. In 2017, cyber-security risk was given more prominence following a spate of world-wide incidence of hacking and ransomware.

As part of the Risk Management review, all Business Continuity Plans of the Company will be periodically reviewed to ensure that the business recovery process in the event of an emergency is sound and effective. In 2016, a fire incident at the Company's Port Dickson Refinery, caused a temporary shutdown of the facilities. The business continuity plan was immediately activated. The areas covered included two critical areas, namely repairs and re-starting operations at the Refinery, and in the interim, management of incoming crude supply and continued supply of petroleum products to customers. Both these

critical factors were successfully managed in accordance with the business continuity plans in place. The successful activation of the Business Continuity Plans during the fire incident in 2016 prompted a review in 2017 of other critical areas and the adequacy of the Business Continuity Plans in those critical areas.

Key control-related matters in relation to the Company's Corporate Governance include:

1. Timely reporting of any changes to the prevalent delegation of authority that has been approved by the Board and ensuring that amendments are approved by the Board in a timely manner so as to not cause any disruption to the business;
2. Quarterly notice to all Directors and staff on Insider Trading and risks as well as restrictions on trading in the Company's shares during a 'closed period';
3. Quarterly reporting to the Board Audit & Risk Management Committee of all Trade Accounts Receivables that are written off;
4. Review of any contracts over the value of RM5 million that were not in the ordinary course of business;
5. Full review with the Board Audit & Risk Management Committee on a quarterly basis of all inter-company transactions to ensure compliance with laws pertaining to Related Party Transactions;
6. Review of amendments to the Company's List of Authorized Signatories; and
7. With effect from 2017, Risk Management updates was included as a fixed item in all Quarterly Board Audit & Risk Management Committee Meetings

The risk management framework is internally developed based on the Company's experience in the down-stream oil and gas business requirements and honed over 50 years of experience in the business.

The Company's Port Dickson Refinery and Terminals at Port Dickson and Bagan Luar had also obtained the ISO certification in 2017. The Company has also embarked on a Total Quality Management program using the internationally recognized Malcolm Baldrige Excellence Framework (locally adapted as Malaysian Business Excellence Framework).

From a day to day management perspective, certain other controls are in place for reviews and approvals are at various levels and Departments. Such authorization process minimizes the risk of any possible abuse of authority. These include some critical areas such as approvals required in the procurement process for various

Departments and acquisition of land for retail station expansion. Critical processes are also reviewed periodically by Internal Audit to ensure independent evaluation of the effectiveness of such controls. Overall, the Company's various risks and internal controls are not only periodically reviewed internally but are also the subject matter of review by Internal Audit and recommendations by Internal Audit are implemented within set time frames.

The Board has also received assurance from the Chief Executive Officer and Chief Finance Officer that the Company's risk management and internal control systems (for financial year ended 2017 and up to the date of this Report) are operating adequately and effectively, in all material respects.

A summary of how the process of controls and risks are reviews and managed are as follows:

#### Controls

- (a) Controls are formulated, implemented and enforced strictly at each function and process no matter the level or how critical. This ensures that all matters including day to day operations, procurement of materials and supplies and financial transactions follow set protocols and levels of independent verification. This includes set authority levels for independent approvals.
- (b) The controls are applicable in all Departments be it a business or support function.
- (c) As regulatory compliance is key to ensuring the continued operations of the company, all corporate regulatory matters are reviewed including with Law/Controllers/Tax. Matters pertaining to security, safety, health and environment ("SSHE") are managed by the SSHE Department in collaboration with the Government Affairs unit. Other day to day business regulatory matters are also managed by the respective Departments, that have controls processes in place that is strictly followed.
- (d) The Management Committee and other Head of Department meet weekly to review the business and the controls issues or any non-compliance (if any) and corrections form part of the discussions.

These process and controls are also subjected to reviews by internal audit where any deficiencies are highlighted to the Department concerned with suggestions on improvements. The implementation of suggested improvements in the processes and controls are then monitored by internal audit in order to close out audit issues.

#### Risk Management

- (a) Each Department has a risk management process peculiar to that Department's business/function, and a business recovery process in the event of a business/operations disruption
- (b) In some areas of high risk especially when there could be high

	<p>financial impact there are inter-departmental groups tasked with evaluating risk and seeking solutions. Such would include weekly meetings on hedging (for commodity – both crude and finished product - as well as foreign exchange risk associated with the Company’s business)</p> <p>(c) The Management Committee that meets weekly also review risks in each department</p> <p>(d) The Risk Management Group then meets once every 2-3 month to review the updates and findings. The Group also reviews the risk matrix for the year and considers any updates that need to be done.</p> <p>(e) The Board Audit &amp; Risk Management Committee is then updated every quarter on risk management issues.</p>	
<p><b>Explanation for departure</b></p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>		
<p><b>Timeframe</b></p>		

### **Intended Outcome**

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### **Practice 9.3 - Step Up**

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

<b>Application</b>	:	Adopted
<b>Explanation on adoption of the practice</b>	:	<p>The Board Audit &amp; Risk Management Committee is the Board committee that oversees the risk management framework and policies.</p> <p>The Committee has as a regular agenda item on risk management at its quarterly meetings.</p> <p>The Company's Statement of Risk Management and Internal Controls is reviewed by the external auditor as part of a special engagement for that purpose. The external auditor also reports to the Board Audit &amp; Risk Management Committee on its review.</p>

### Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

### Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Company's internal audit function is undertaken by an internal audit group based in Manila, at Petron Corporation, that also undertakes audit work for all Petron Corporation companies in the region.</p> <p>The internal audit group which reports directly to the Company's Board Audit &amp; Risk Management Committee, also takes functional guidance from Petron Corporation's internal audit function. This structure allows the Company to benefit from the application of Petron Corporation's internal audit best practices and assures the Company of internal audit independence.</p> <p>The current arrangement ensures that management of the Company has no control over the function of the internal audit. To ensure independence from management, the internal audit personnel assigned to the Company's internal audit are not subject to any determination of their remuneration (or increase thereto) by the Company's management. In order to maintain total independence from the Company's management, their remunerations are not set or paid by the Company.</p> <p>The cost of the internal audit work for 2017 payable by the Company was RM196,844.</p> <p>The internal audit function undertakes independent, regular and systematic audit reviews of the Company's system of internal controls to assess the adequacy and effectiveness of those controls and overall control environment. This is to provide reasonable assurance that such systems are operating effectively. The basic framework of the Company's system of internal controls is as described earlier in Practice 9.2. The internal audit process covers the audit of selected units and operations based on risk assessment and the periodic and annual review with the Board Audit &amp; Risk Management Committee of audit results and audit plans for the subsequent year. Where there are any amendments to the audit plan, such amendments to the plan will require approval from the Board Audit &amp; Risk Management Committee.</p> <p>The Board Audit &amp; Risk Management Committee had reviewed the Internal Audit findings in 2017 as well as the closing out of</p>



	<p>recommendations made by Internal Audit. The Board Audit &amp; Risk Management Committee had also been informed of the new Audit Rating System that was implemented in 2017 in line with the system adopted by the parent company.</p> <p>With effect from 2018, per amendments made to the Board Audit &amp; Risk Management Charter in light of the Malaysian Code on Corporate Governance 2017, the Committee will:</p> <ul style="list-style-type: none"> <li>(a) Satisfy itself of the independence of the internal audit function;</li> <li>(b) Satisfy itself that the resources allocated to the internal audit function are adequate;</li> <li>(c) Identify the name of personnel assigned to internal audit of the Company and their qualification and experience; and</li> <li>(d) If the internal audit is carried out to recognized standards framework</li> </ul> <p>This will be in addition to the review and approval of the annual Internal Audit Plan, as well as the mid-year review, on the audits carried out, follow through action and close-out of audit issues.</p> <p>It is to be noted that a key function of internal audit is to not only identify weaknesses and recommend improvements but also to be mindful of new concepts and techniques used in the industry and at Petron Corporation and to suggest improvements and seek process and controls synergy. This has been an important focus area for internal audit since 2012.</p>	
<p><b>Explanation for departure</b> :</p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b> :</p>		
<p><b>Timeframe</b> :</p>		

## Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

### Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>(a) Independence: At its meeting on November 23, 2017, when reviewing the internal audit plan for 2018, the Board Audit &amp; Risk Management Committee obtained confirmation from the Manager of the Internal Audit Department of the independence and continued independence of the internal audit personnel. From 2018, the said Manager will also provide annually, written confirmation of the same to the Board Audit &amp; Risk Management Committee</p> <p>(b) Resources: The number of personnel normally assigned to the internal audit work at the Company are between 3 -5 in numbers. These personnel are based in Manila and travel and stay in Malaysia for the duration of the audit as necessary. The personnel assigned to a particular audit will have requisite expertise in the particular field of audit based on their vast experience having worked in Petron Corporation. The cost of the internal audit work is charged to the Company. In 2017, the cost of the internal audit work for the Company was RM196,844.</p> <p>(c) The person who is in charge of the Company's internal audits is Mr. Ronald Ferrer, who is also the Manager, Internal Audit Department, Petron Corporation. He is a Certified Public Accountant and a Certified Internal Auditor (as certified by the Institute of Internal Auditors).</p> <p>(d) The internal audits of the Company are carried out in accordance with the International Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors (with its Global Headquarters in Florida, USA)</p>
<b>Explanation for departure</b>	:	

<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

### Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company has a Corporate Disclosure Policy that can be found on the Company's website <a href="http://www.petron.com.my">www.petron.com.my</a>.</p> <p>The Board recognises the need for engaging stakeholders and maintaining a healthy line of communication with the stakeholder. The Board is also mindful that:</p> <ul style="list-style-type: none"><li>(a) The downstream oil &amp; gas business in Malaysia is highly competitive and much of the information (especially on strategy and business plans and investment) are highly confidential in nature; and</li><li>(b) There are no other public listed integrated downstream oil &amp; gas company (with both a refinery and a retail/commercial business) in Malaysia that (like Petron Malaysia Refining &amp; Marketing Bhd) are also subject to stakeholder engagement recommendations under the Malaysian Code on Corporate Governance 2017. Competitor companies that are not public-listed are not required to make public disclosures.</li></ul> <p>As such in order to be a sustainable business, be responsible to the investors in general and in the best overall interest of the Company, the Board and management recognises the need for transparency to be tempered with discretion.</p> <p>The Board and management nevertheless understands the need for and value of stakeholder engagement and in this regard take the following steps in its communication with the Company's stakeholders:</p> <p><u>Shareholders</u></p> <p>Annual General Meeting ("AGM") forms the most important avenue for shareholders to question/seek clarification from the Board and management. Questions are even sent in advance in writing from shareholders including the Minority Shareholders' Watchdog Group, all of which are addressed the AGM.</p>

The AGM also enables the Board and Management to update shareholders with the year's business and financial performance as well as to provide some input on what the business and oil industry outlook would be.

In addition, there are questions that are directed to the Company via the Company Secretary as lead for investor relations. Where the information sought is not unpublished price sensitive information, written responses or verbal responses are provided.

Further the Company ensures that all disclosure requirements mandated by the Listing Requirements as well as voluntary disclosures (where necessary) are made to provide the investing public with relevant information.

#### Potential Investors

Management often engages with investment banks and fund managers' request for a briefing for itself or its major clients who are keen on investing in the Company.

#### Regulators

Engaging the Company's regulators is an important facet of stakeholder communication. Over the years, the Company has maintained a close rapport with its regulators as we believe a working partnership with the relevant agencies in realizing the Company's business aspirations and that of the downstream oil & gas industry, are synonymous and interlinked.

#### Customers

As our customers are crucial to the success of our business, our communication with our customers via various means (including print and social media, and in collaboration with other partners), enable our current and potential customers to know and appreciate the products and services on offer as well as benefits of being a customer of the Petron brand. This is also in line with our 'Customer Focus' values.

#### Dealers

Our dealers and their frontline personnel are our ambassadors with our customers and our communications with them on our plans and aspirations, our requirements, and our set targets are an important part of our stakeholder engagement.

#### Employees

Communication with our employee is key to ensuring that they are fully aware of the Company's plans and goals and how they can help grow the business as desired. To this end, the various Departments have annual 'kick-off' session with the personnel to ensure that everyone is fully on board and will fulfil their part in making the Company a success.

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

**Intended Outcome**

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

**Practice 11.2**

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:	Not applicable to the Company for its 2017 reporting.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

**Practice 12.1**

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Notice of Annual General Meeting – “AGM” - is (as per normal practice) issued by the end of April in every year. The AGM is normally held in June of the same year. As such more than 28 days of notice is generally given to ensure shareholders have sufficient time read and understand the Notice, proposed resolutions and the contents of information (including and circulars) provided with said notice. The time also enables the shareholders to make arrangements to attend or send a proxy to the AGM	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		



**Intended Outcome**

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

**Practice 12.2**

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>All Directors have attended the Annual General Meetings in the past with rare exceptions when any were unable to attend due to unforeseen circumstances.</p> <p>The Chairpersons of the Board Audit &amp; Risk Management Committee and the Nominating Committee normally respond to any questions directed to them or if it relates to their respective Committees.</p> <p>Questions at the AGM are normally responded to by the Chairman, the Chief Executive Officer as well as senior management personnel present.</p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

### Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The number of shareholders of the Company as at December 31, 2017 was 7,559. This is not considered a large number.</p> <p>It is to be also noted that the average number of shareholders who register to attend at AGMs every year form approximately 7% of that number.</p> <p>The Company since 2012 has been holding its AGMs in convenient locations (either at a hotel or at a convention centre) in or near Kuala Lumpur; with ease of access for shareholders, being a priority.</p> <p>Thus we do not believe circumstances exist for the Company at present to consider voting in absentia or for remote participation. Further the availability of necessary infrastructure and facilities to hold such meetings, may be few and the cost may not make the proposition viable at the moment.</p>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES  
PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA  
MALAYSIA**

*Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.*

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