

# Corporate Governance

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ON CALL DUTY PERIOD

PERIOD

DUTY OFFICER  
LOCAL ENGINEER  
ENGINEER  
LOCAL ENGINEER  
EAD TECH  
TECH

## Corporate Governance Statement

The Board of Directors of PETRONAS Gas Berhad (PGB) recognises that its primary responsibility is to safeguard and promote the interests of the shareholders and to enhance the long-term value of the Company. The Board is fully committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders.

The Board has applied in full the Principles of Corporate Governance and the Best Practices in Corporate Governance as set out in the Malaysian Code on Corporate Governance.

### THE BOARD AND BOARD COMMITTEES

The Board of Directors is entrusted with the responsibility to exercise reasonable and proper care of the Company's resources for the best interests of its shareholders and to safeguard the Company's assets. Members of the Board have been selected based on their character, calibre, extensive experience and expertise in a wide range of related and unrelated industries, as well as their ability to add strength to the stewardship of the Company.

The Directors are equally accountable under the law for the Company's activities, strategy and financial performance. Particular attention is given to ensure that the strategies proposed by the Management of the Company are fully discussed and critically examined by the Directors.

### BOARD COMPOSITION

As at the date of this report, the PGB Board comprises the following:

Executive Director (also the Managing Director/ Chief Executive Officer)	1/9	(11.1%)
Independent Non-Executive Directors	3/9	(33.3%)
Non-Independent Non-Executive Directors (including the Chairman)	5/9	(55.6%)

The profile of each Director is presented in this Annual Report on pages 12 to 15.

There is a clear demarcation of responsibilities within the Company to ensure a balance of power and authority. The positions of Chairman and Managing Director are separately held. The Chairman is primarily responsible for running the Board and ensuring that all Directors have full and timely access to all relevant

information necessary for informed decision-making. The Managing Director who is also the Chief Executive Officer oversees the implementation of Board policies, the day-to-day running of the business and operational decision-making. The Managing Director/Chief Executive Officer also manages the respective responsibilities of the divisions and departments in the Company and he is assisted in the management of the business by the Management Committee, which he consults regularly.

All Non-Executive Directors have the necessary expertise and skill to ensure that the strategies proposed by the Management are fully evaluated, taking into account the long-term interests of the shareholders. In addition, they contribute to policy formulation and are actively involved in decision-making. They provide guidance and promote professionalism and competence among Management and employees.

The presence of the Independent Non-Executive Directors is essential in providing unbiased and independent views, advice and judgement as well as safeguarding the interests of other parties such as minority shareholders of the Company. The concept of independence adopted by the Board is in accordance with the definition of an Independent Director in Paragraph 1.01 of the Bursa Malaysia Listing Requirements. Each new Director is given a comprehensive understanding of the operations of the Company through regular briefings on Company history and financial control systems and plant visits are arranged to ensure firsthand understanding of the Company's operations. It is the Company's policy that all Directors undergo relevant training courses to enable them to effectively discharge their duties and responsibilities.

Dato' Sadasivan s/o N.N. Pillay has been identified and appointed as the Senior Independent Non-Executive Director to whom any concerns pertaining to the Company may be conveyed.

The Articles of Association of the Company further provides that at least one third of all Directors are subject to retirement by rotation at each Annual General Meeting but shall be eligible for re-election in line with the Bursa Malaysia Listing Requirements.

### PROVIDING INFORMATION TO THE BOARD

Board meetings are held at quarterly intervals with additional meetings held whenever necessary. The Board met four (4) times during the year under review. All Directors attended more than 50% of Board meetings.

## Corporate Governance Statement

The meeting attendance record of the Directors are as follows:

**Table 1: Attendance Record**

<b>Name of Directors</b>	<b>Attendance</b>
Tan Sri Dato Sri Mohd Hassan bin Marican	4/4
Wan Zulkiflee bin Wan Ariffin	3/4
Dato' Sadasivan s/o N. N. Pillay	4/4
Dato' Chew Kong Seng	4/4
Datuk Mohd Zain bin Haji Abdul Majid	4/4
Muri bin Muhammad	4/4
Datuk Abdul Rahim bin Haji Hashim	4/4
Mohammed Azhar bin Osman Khairuddin	4/4
Abd Hamid bin Ibrahim	4/4

The Board may, whenever required, as provided by the Articles of Association, set up Board Committees delegated with specific powers and responsibilities.

Prior to Board meetings, every Director is given an agenda and a set of Board papers covering the agenda items to facilitate informed decision-making. The Managing Director/Chief Executive Officer leads the presentation of Board papers and provides comprehensive explanation on pertinent issues. All proceedings of Board meetings are minuted and signed by the Chairman of the meeting in accordance with the provisions of Companies Act 1965.

The Board is kept updated on the Company's activities and operations on a regular basis. All Directors have the same right of access to information, including monthly reports on Company activities, both financial and operational, via the Company's intranet or in hard copy.

In addition, whenever independent professional advice is required by the Directors, outside experts may, and have been engaged at the Company's expense.

The Directors have access to the advice and services of the Company Secretaries, whose appointments and resignations are subject to Board approval.

The Board is fully aware of, and acts on matters for decision to ensure proper direction and control of the Company. Such matters, outlined in the Company's Limits of Authority, clearly establish the authority of the Board and the Management.

### AUDIT COMMITTEE

The Audit Committee has specific terms of reference including the review of the interim and full year financial statements and preliminary announcements, internal financial controls and the reports of the Internal Audit Department. It ensures the adequacy and integrity of the Company's internal control system and management information system and that they are in compliance with Company's policies and procedures, applicable laws and regulations and Bursa Malaysia Listing Requirements. Following the adoption of the Company's Risk Management Policy, the Audit Committee monitors the effective implementation of programmes to ensure compliance to the policy. It will continue to ensure that the principal risks facing the Company are identified and monitored and appropriate measures are undertaken to manage these risks.

### FINANCIAL CONTROL

For each financial year, the Board will, in advance, approve the Company's Plans and Budget including cash flow forecast for the year and projections for the four (4) subsequent years, preparation of which is one of the key responsibilities of the Managing Director/Chief Executive Officer. These are prepared by respective operating units and support services units and reviewed by the Company's Management Committee before submission for Board approval. The Company's business performance results are reviewed periodically by both the Management and the Board. Results are reported to the Board on a quarterly basis together with an in-depth explanation and analysis of variances to the budget by the Managing Director/Chief Executive Officer.

### DIRECTORS' NOMINATION AND REMUNERATION

The Board as a whole serves as the Remuneration and Nomination Committee. No smaller committee is recommended as the Company believes that all members must be equally responsible for the duties of such a committee, stated as follows:

- to assess and recommend new Directors to the Board,
- to review annually the mix of skills and experience, and other qualities to enable the Board to function completely and efficiently,

## Corporate Governance Statement

- to implement a formal appraisal process for the evaluation of the effectiveness of the Board as a whole, the committees and the individual contribution of each Board member.
- to recommend to the Board the remuneration of all Non-Executive Directors; individual Directors do not participate in the discussion on their own remuneration.

The Board will deliberate on the above during the normal proceedings of the meeting of Directors.

With the exception of the Managing Director/Chief Executive Officer, all Non-Executive Directors are paid Directors' fees as approved by the shareholders at the Annual General Meeting, based on the recommendation of the Board. For the year of review, the breakdown of fees received by each Director is as follows:

**Table 2 : Details of Directors' Fees**

Name of Directors	Directors' fees (RM)	BAC fees (RM)	Total (RM)
Tan Sri Dato Sri Mohd Hassan bin Marican	60,000	–	60,000
Dato' Sadasivan s/o N. N. Pillay	36,000	12,000	48,000
Dato' Chew Kong Seng	36,000	8,400	44,400
Datuk Mohd Zain bin Haji Abdul Majid	36,000	8,400	44,400
Muri bin Muhammad	36,000	–	36,000
Datuk Abdul Rahim bin Haji Hashim	36,000	–	36,000
Mohammed Azhar bin Osman Khairuddin	36,000	8,400	44,400
Abd Hamid bin Ibrahim	36,000	–	36,000
<b>Total</b>	<b>312,000</b>	<b>37,200</b>	<b>349,200</b>

The Managing Director/Chief Executive Officer, an employee of PETRONAS, is seconded to the Company as an Executive Director. In consideration of the above service, the Company is required to pay a management fee to cover all payroll-related costs and benefits ordinarily incurred by him in the course of his employment. During the year, the Company paid RM736,800 as management fee. The Company also reimburses all reasonable expenses incurred by the Directors, where relevant, in the course of carrying out their duties as Directors.

In addition to the Managing Director/Chief Executive Officer, other Management staff have also been seconded from PETRONAS. Their training and succession planning are aligned to the PETRONAS' Human Resources Division. The Board ensures that only appropriate personnel with the relevant skills and experience are appointed to Management positions of the Company.

### RELATIONSHIPS WITH SHAREHOLDERS

The Company recognises the importance of timely and equal dissemination of information to shareholders and stakeholders. In this regard, it adheres strictly to the disclosure requirements of the Bursa Malaysia.

The Annual General Meeting (AGM) is a crucial mechanism in shareholder communication. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report 21 days before the meeting. At each AGM, the Board presents the progress and performance of the Company and provides shareholders with an opportunity to ask for more information, without limiting the time and types of questions asked, prior to seeking approval by show of hands from members and proxies on the Audited Accounts.

During the meeting, the Chairman and Board members respond to all queries and undertake to provide sufficient clarification on issues and concerns raised by the shareholders. The external auditors are also present to provide their professional and independent clarification on issues and concerns raised by the shareholders. The status of all resolutions proposed at the AGM is submitted to the Bursa Malaysia at the end of the meeting day. A summary of the discussions at the AGM is kept by Management for future reference.

The Board has ensured that each item of special business included in the notice of the Annual or Extraordinary General Meeting is accompanied by a full explanation of the effects of the proposed resolution.

In providing shareholders with the opportunity to gain first-hand exposure on the Company's operations, several visits to its Gas Processing Plants and its Centralised Utility Facilities were organised during the year. Shareholders were given a presentation on the Company's operations and the opportunity for direct dialogue with Management. The Management believes that shareholders, by having a better understanding of the Company's activities, will have a greater sense of belonging to the Company. Such two-way communication increases corporate transparency and helps shareholders take a longer term view of their investment on the back of a better understanding of the Company's corporate strategy and operations.



# Corporate Governance Statement

Institutional investors and analysts were also given the opportunity to meet with the Management on performance, corporate governance and other matters affecting the shareholders' interests.

In all circumstances, the Company is cautious not to provide undisclosed material information about the Company and continually stresses the importance of timely and equal dissemination of information.

## ACCOUNTABILITY AND AUDIT

### 1. Financial Reporting

The Board aims to present a balanced and understandable assessment of the Company's position and prospects. This also applies to other price-sensitive public reports and reports to regulators. The Directors' responsibility statement is enclosed in page 59 of the Annual Report.

### 2. Internal Control

The Board continues to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets. The principle is further elaborated under the Internal Control Statement by the Directors in pages 54 to 55 of the Annual Report.

### 3. Relationship with the Auditors

The external auditors, Messrs. KPMG Desa Megat & Co., have continued to report to members of the Company on their opinions which are included as part of the Company's financial reports with respect to their audit on each year's statutory financial statements. In so doing, the Company has established a transparent arrangement with the auditors to meet the auditors' professional requirements. From time to time, the auditors highlight to the Board Audit Committee and the Board of Directors on matters that require the Board's attention. The Report by the Board Audit Committee on the review of audit reports is enclosed in pages 56 and 57 of the Annual Report.

This statement is made in accordance with the resolution of the Board of Directors.



**Tan Sri Dato Sri Mohd Hassan bin Marican**

Chairman



**Wan Zulkiflee bin Wan Ariffin**

Managing Director/Chief Executive Officer

30 May 2005

## ADDITIONAL COMPLIANCE INFORMATION

### 1. Non-Audit fees

The amount of non-audit fees paid to the external auditors by the Company for the financial year ended 31 March 2005 was RM534,941.

### 2. Sanctions

During the financial year, there were no sanctions and/or penalties imposed on the Company, directors or management by the relevant regulatory bodies.

### 3. Material Contracts

There were no material contracts entered into or subsisting between the Company and its Directors/substantial shareholders during the financial year, other than the Gas Processing and Transmission Agreement effective from 1 April 1994 between the Company and its substantial shareholder, Petroliaam Nasional Berhad (PETRONAS), for the provision of separating natural gas into its components and storing, transporting and distributing such components thereof for a fee.

## Internal Control Statement

### BOARD'S RESPONSIBILITY

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets and for reviewing the adequacy and integrity of the system. In view of the limitations that are inherent in any system of internal control, this system is designed to manage, rather than eliminate, the risk of failure of achieving the corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or losses. The system of internal control covers, inter alia, risk management and financial, organisational, operational and compliance controls. Following the publication of the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("the Internal Control Guidance"), the Board confirms that there is an on-going process of identifying, evaluating and managing all significant risks faced by the Company, that has been in place for the year and up to the date of approval of the Annual Report and Financial Statements, and that this process is regularly reviewed by the Board so as to be in accordance with the Internal Control Guidance.

### CURRENT RISK MANAGEMENT FRAMEWORK

Risk management is firmly embedded in the Company's management system. It is the Company's policy to adopt an effective and progressive corporate risk management system to identify, analyse, approve and monitor the ever changing risks facing the Company and to take specific measures to mitigate the risks.

Risk Management Unit is a unit established within the Company to identify, analyse, appraise and monitor risks facing the Company. The unit provides quarterly updates to the Board Audit Committee on the Company's Risk Profiling status. Detailed risk events identified are discussed, highlighted and approved by the Board together with the appropriate measures, efforts and control. This has resulted in various improvements and mitigations carried out to reduce the likelihood of certain risk events occurring.

During the year, the Company launched its Risk Monitoring On-line System. The system is designed to monitor and update status of the Company's risk events. The system is also used to assess the risk management awareness and gauge the effectiveness of its implementation in the Company.

The Company had incorporated the approved Project Risk Management and Credit Risk Management guidelines into the Company's Quality Management Document System. In addition, Projects and Contractors risk assessments on critical projects were undertaken during the year. Reports were presented together with the mitigation plans to reduce the risks exposure identified. The Company utilises PETRONAS' Credit Risk Rating System to be in line with the credit assessment process adopted by the PETRONAS Group of Companies. This allows the Company to assess the customers' credit worthiness and assign credit risk rating to all existing and new customers. Reviews are conducted to confirm the assigned credit risk rating for all customers. During the year the Company conducted such review on all customers.

During the Planning & Budgeting cycle exercise, the Company conducted risk assessment reviews on the planned business activities. As a result, the required mitigation and alternative actions have been identified and will be monitored to ensure that the objectives of the Company's Business Plans for financial year 2005/06 will be met.

### MOVING FORWARD

To further embed a full understanding and commitment on risk management process within the culture of the Company, the Company plans to conduct more risk awareness sessions and workshops. The Company continues to incorporate risk management practices within its business processes and activities. In addition, the Company conducts periodic reviews to assess the effectiveness of its risk management practices.

### INTERNAL AUDIT FUNCTION

The Internal Audit function of the Company will continue to be outsourced to the Group Internal Audit Division of PETRONAS, the holding company. They maintain their impartiality, proficiency and due professional care by having their plans and reports directly under the purview of the PETRONAS Gas Bhd Board Audit Committee.

Internal audits are undertaken to provide independent assessments of the Company's internal control systems, in anticipating potential risk exposures over certain business processes and in controlling the proper conduct of business within the Company. The Board Audit Committee has full access to reports on all audits performed by the internal auditor.

The internal audit function reviews the internal controls of various activities of the Company's businesses based on the annual internal audit plan which is presented to the Board Audit Committee for approval. The internal audit function adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the operating divisions of the Company.

The resulting reports from the audits undertaken are reviewed by the Board Audit Committee and then forwarded to the Management for attention and necessary corrective action as recommended. The Management is responsible for ensuring that appropriate corrective actions on the reported weaknesses are taken within the required time frame. The Company submits quarterly reports to the Board Audit Committee on outstanding audit issues.

During the year, System & Control Section of Finance Division participated in an audit focal points forum organised by Group Internal Audit of PETRONAS. The objective of the forum is to enhance understanding on matters relating to corporate governance and audit processes.

## Internal Control Statement

The key activities of the internal audit function are set out in the Audit Committee Report on pages 56 to 57 of the Annual Report.

### OTHER RISKS CONTROL PROCESSES

Apart from risk management and internal audit, the Board has the following control processes in place:

- The Board meets at least quarterly in order to maintain full and effective supervision. The Managing Director/Chief Executive Officer will lead the presentation of Board Papers and provide comprehensive explanation of pertinent issues. In arriving at any decision, on recommendations by the Management, a thorough deliberation and discussion by the Board is a prerequisite. In addition, the Board is kept updated on the Company's activities and its operations on a regular basis.
- The Managing Director/Chief Executive Officer together with the Board reviews any significant issues arising from changes in business environment which result in significant risks to the Company. The General Manager of the Finance Division provides the Board with quarterly financial information. These include, amongst others, the monitoring of results against budget, with major variances being followed up and Management action taken, where necessary. Where areas for improvement in the system are identified, the Board considers the views and recommendations made by the Board Audit Committee and Management.
- A documented delegation of authority with clear lines of accountability and responsibility. It sets out the decisions that need to be taken and the appropriate approving authority at various levels of Management including matters that require Board approval.
- An organisational structure, as set out in page 9 of the Annual Report, with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provides a documented and auditable trail of accountability.
- Inventory and warehouse management activities review was conducted by the System and Control section of the Finance Division. The objective of the review is to provide reasonable assurance to the management of compliance to policies and guidelines and the integrity of records and information. A report had been presented to the Management highlighting significant findings in respect of any non-compliances and the agreed corrective actions.
- Group Internal Audit of PETRONAS had conducted audit reviews on Pipeline Maintenance and Service contract management, Plant Rejuvenation & Revamp Project management and General Information Technology control at Centralised Utility Facilities Division. Reviews conducted were to confirm that adequate controls have been established in order to adhere with the Company's business objectives, policies and procedures.

- Tender Committees structure with defined level of responsibilities has been established to review all major contracts, both capital and operational. Subsequent to the review by the relevant tender committees, the contract will be subject to approval by the relevant approving authority who are independent from the tender committees. At least three quotations are called for and tenders are awarded based on factors such as quality, track record, speed of delivery and cost.
- Internal control procedures are documented in standard operating procedures manuals with established guidelines on business planning, capital expenditure, financial operations, performance reporting, human resource and health, safety and environment.

The Five Quality Principles which are:

- Conformance to Requirements
- Prevention
- Right Things Right Every Time
- Price of Nonconformance
- Proactive Leadership At All Levels

have already been inculcated within the Company's Quality Culture with strong emphasis on risk assessment and prevention.

### WEAKNESSES IN INTERNAL CONTROL THAT RESULT IN MATERIAL LOSSES

There were no material losses incurred during the current financial year as a result of weaknesses in internal control. Management continues to take measures to strengthen the control environment.

This statement is made in accordance with the resolution of the Board of Directors.



**Tan Sri Dato Sri Mohd Hassan bin Marican**  
Chairman



**Wan Zulkiflee bin Wan Ariffin**  
Managing Director/Chief Executive Officer

30 May 2005



## Audit Committee Report



The Board Audit Committee (BAC) of PETRONAS Gas Berhad is pleased to present the Audit Committee Report for the year ended 31 March 2005.

### MEMBERSHIP

The BAC was formed by the Board pursuant to its meeting on 14 August 1995. Currently the BAC comprises four (4) directors as follows:-

1. Dato' Sadasivan s/o N.N. Pillay - Chairman  
(Independent Non-Executive Director)
2. Dato' Chew Kong Seng  
(Independent Non-Executive Director,  
member of the Malaysian Institute of Accountants)
3. Datuk Mohd Zain bin Haji Abdul Majid  
(Independent Non-Executive Director)
4. Mohd Azhar bin Osman Khairuddin  
(Non-Independent Non-Executive Director)

The BAC is governed by the Terms of Reference as stipulated in pages 58 to 59 of the Annual Report. All the requirements under the Terms of Reference were fully complied with and the BAC did not see any matters in breach of the Listing Requirements of the Bursa Malaysia that warrant reporting to Bursa Malaysia.

### SUMMARY OF ACTIVITIES OF THE BAC

During the year, the BAC met four (4) times. By invitation, the Managing Director and the Company Secretary were present at all the meetings. External and internal auditors and the General Manager of Finance Division were also present during deliberations which required their inputs and advice.

Meeting attendance record of the members is as follows:

Name of Directors	Attendance
Dato' Sadasivan s/o N. N. Pillay	4/4
Dato' Chew Kong Seng	4/4
Dato' Mohd Zain bin Haji Abdul Majid	4/4
Mohd Azhar bin Osman Khairuddin	3/4

The following activities were carried out by the BAC during the financial year ended 31 March 2005:-

1. Reviewed the annual internal audit plan for the year including its scope, basis of assessments and risk ratings of the proposed areas of audit.
2. Reviewed and deliberated on reports of audits conducted by the Group Internal Audit Division of PETRONAS.
3. Reviewed financial statements including quarterly financial announcements to the Bursa Malaysia and year end financial statements and recommended the same for approval by the Board of Directors, upon being satisfied that, inter alia, the financial reporting and disclosure requirements of the relevant authorities had been complied with. Any significant issues resulting from the audit of the financial statements by the external auditors were also deliberated.
4. Reviewed significant accounting policies that were affected by the introduction of the new Malaysian Accounting Standards.
5. Reviewed the adequacy of the internal control system.
6. Reviewed the appointment of external auditors and their remuneration thereof.

## Audit Committee Report

7. Reviewed with the external auditors the audit strategy and scope for the statutory audit of the Company accounts for the financial year ended 31 March 2005.

### INTERNAL AUDIT

The internal audit function of the Company was carried out by the Group Internal Audit Division of PETRONAS, the holding company. They maintained at all times their impartiality, proficiency and due professional care by having their plans and reports directly under the purview of the BAC.

The internal audits were undertaken to provide independent assessments on the adequacy, efficiency and effectiveness of the Company's internal control systems in anticipating potential risks exposures over key business processes within the Company. The BAC had full access to internal auditors and received reports on all audits performed.

During the year, the internal auditors had carried out audits according to the internal audit plan which had been approved by the BAC. Internal audits were done on:-

- Gas Processing Plant 1 and Export Terminal Rejuvenation and Revamp Project, looking at the implementation of the project to ensure policies and guidelines are adequate and adhered to, all required records and information are complete and accurate, whilst integrity is protected and all applicable laws and regulations are complied with.
- Transmission Operations Division, looking at the pipeline maintenance and service contract management. The objective is to determine the adequacy and effectiveness of internal controls, operations are effective and efficient, management information and reporting is reliable, relevant and timely and all policies, procedures, guidelines and contract terms are adhered to.
- Information Technology ("IT") Operation and Management at the Centralised Utility Facilities Division to determine the adequacy of IT general controls. The objective is to provide reasonable assurance that IT services procured are effectively delivered in meeting business needs, IT operations are managed in a controlled manner, IT resources on hardware, data and programs are adequately protected from unauthorised access and IT processes are in line with the established procedures and guidelines.

The resulting reports from the audits undertaken were forwarded to the Management for attention and necessary corrective actions as recommended. The Management is responsible for ensuring that corrective actions on reported weaknesses are taken within the required time frame.



**Dato' Sadasivan a/I N. N. Pillay**

Chairman  
Board Audit Committee

## Board of Audit Committee's Terms of Reference

### CONSTITUTION

The Audit Committee was formed by the Board pursuant to its meeting on 14 August 1995.

### MEMBERSHIP

- The members of the Audit Committee shall be appointed by the Board from amongst their number and shall consist of not less than 3 members of whom a majority shall be Independent Directors. Independent Director shall be one who fulfills the requirement as provided in the Bursa Malaysia Listing Requirements.
- At least one member of the Audit Committee must be a member of the Malaysian Institute of Accountants or must have at least 3 years working experience and passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or must have at least 3 years working experience and is a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
- The members of the Audit Committee shall elect a Chairman from amongst their number who shall be an Independent Director.
- If a member of the Audit Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, the Board shall within 3 months of that event, appoint such number of new members as may be required to make up the minimum number of 3 members.
- No alternate director can be appointed as a member of the Audit Committee

### MEETING

- A quorum shall be two members, both being Independent Directors and one of whom shall be the Chairman of the Audit Committee. At least once a year the Audit Committee shall meet with the External Auditors without any Executive Director present. The External Auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Committee when required to do so by the Audit Committee.
- The Company Secretary shall be the Secretary of the Audit Committee. Minutes of the meetings shall be duly entered in the books provided therefor.

- Meetings shall be held not less than three times a year. The External Auditors may request a meeting if they consider it necessary. The Chairman of the Audit Committee shall convene a meeting of the Committee to consider any matters the External Auditor believes should be brought to the attention of the Directors or Shareholders.

### AUTHORITY

- The Audit Committee is authorised by the Board to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Audit Committee.
- The Audit Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

### DUTIES AND FUNCTION

The duties and functions of the Audit Committee shall be:-

- To consider the appointment of the External Auditors, the audit fees, and any question of resignation or dismissal of the External Auditors before making recommendation to the Board;
- To discuss with the External Auditors before the audit commences the nature and scope of the audit, and ensure coordination where more than one audit firm is involved;
- To review with the Management and the External Auditors the quarterly results and year-end financial statements prior to the approval by the Board, focusing particularly on:
  - any change in accounting policies and practices
  - significant and unusual events
  - major judgmental areas
  - significant adjustments resulting from the audit
  - the going concern assumption
  - compliance with accounting standards
  - compliance with stock exchange and legal requirements
- To arrange for periodic reports from Management, the External Auditors, and the Internal Auditors to assess the impact of significant regulatory changes, and accounting or reporting developments proposed by accounting and other bodies, or any significant matter that may have a bearing on the annual examination;

## Board of Audit Committee's Terms of Reference

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| <p>e) To discuss problems and reservations arising from the interim and final audits, and matters the auditors may wish to discuss (in the absence of Management where necessary);</p> <p>f) To review the internal audit programme, consider the major findings of internal audits and Management's responses, and ensure coordination between the Internal and External Auditors;</p> <p>g) To review any related party transaction and conflict of interest situation that may arise in the Company including any transaction, procedure or course of conduct that raises questions of management integrity;</p> <p>h) To keep under review the effectiveness of internal control systems, and the Internal and/or External Auditors' evaluation of these systems and in particular review the External Auditors' Management Letter and Management's responses;</p> | <p>i) To review the audit reports;</p> <p>j) To direct and where appropriate supervise any special project or investigation considered necessary;</p> <p>k) To prepare periodic reports to the Board of Directors summarising the work performed in fulfilling the Audit Committee's primary responsibilities; and</p> <p>l) To consider other topics, as defined.</p> |
|--|--|

### REPORTING PROCEDURES

The Secretary shall circulate the minutes of meetings of the Audit Committee to all members of the Board.

## Statement of Directors' Responsibility

in relation to the Financial Statements

The financial statements as set out on pages 83 to 104 of the Company, are properly drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 March 2005 and of the results of its operations and cash flows for the year ended on that date.

The Directors consider that in preparing the financial statements,

- the Company has used appropriate accounting policies and are consistently applied;
- reasonable and prudent judgements and estimates were made; and
- all applicable approved accounting standards in Malaysia have been followed.

The Directors are also responsible for ensuring that the accounting and other records and registers required by the Companies Act, 1965 to be retained by the Company have been properly kept in accordance with the provisions of the said Act.

The Directors also have general responsibilities for taking such steps that are reasonably available to them to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities.

# Corporate Responsibilities

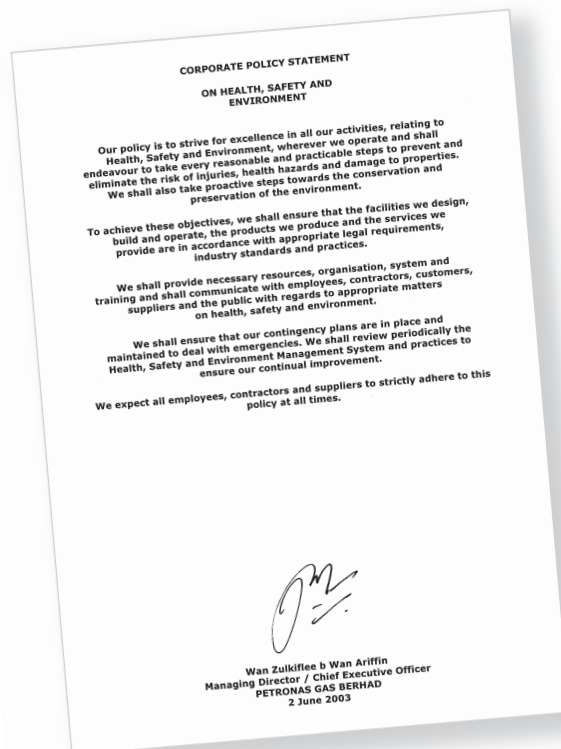
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## Health, Safety & Environment

### OUR CORPORATE POLICY STATEMENT ON HEALTH, SAFETY & ENVIRONMENT (HSE)



### CHALLENGES AND ACHIEVEMENTS

#### Health and Safety of Our People

##### *Competency and Training*

The Company believes that our employees' HSE knowledge plays a critical role in ensuring safe and efficient operations. Our staff's learning needs are regularly assessed on an individual and collective basis.

FY 2004/05 has seen the Company proactively pursuing a safety mindset change through implementation of behavioural safety programmes encompassing staff at all levels. The Company engaged a reputable safety consultant to assist in the facilitation of the behavioural safety programmes.

In addition, trainings conducted during the year covered regulatory-related environmental issues, safe work system and practices, hazards identification and risk management.

A total of 4,426 training mandays were clocked, which translates to approximately 2.5 HSE training mandays per staff. We believe that this concerted effort in improving behavioural safety contributes towards our excellent HSE performance in the period under review.

##### *Emergency Preparedness*

Familiarity with in-house Emergency Response and Incident Command System is key to effective crisis management. During the year the Company has conducted several joint emergency response exercises evolving around planned scenarios related to hazards inherent to our operations.

These joint exercises were held with local authorities such as Jabatan BOMBA dan Penyelamat Malaysia, Kementerian Kesihatan, Polis Diraja Malaysia and neighbouring plants. The objective was to gauge our emergency preparedness, effectiveness of emergency command system and other important aspects of emergency management including communication.

## Health, Safety & Environment

### Emergency Exercises

#### POD

Major Emergency Exercise 'GAS ex5'

17 March 2005

GPP A

#### TOD

Major Emergency Exercise: 'Ex-Tawar'

14 March 2005

Sitiawan\*

Emergency Response (Field) Exercise

27 April 2004

Tg Langsat Lateral (PGRO)

28 June 2004

Segamat\*

24 September 2004

Kuantan\*

22 February 2005

KCS

Emergency Response (Table Top) Exercise

26 November 2004

Seremban\*

30 March 2005

Pasir Gudang\*

#### CUF

Major Emergency Exercise 'Ex-Kembara 4'

29 March 2005

CUF Kertih

Emergency Response (Field) Exercise

17 March 2005

CUF Gebeng

14 April 2004

CUF Kertih

16 June 2004

CUF Gebeng

25 July 2004

CUF Kertih

16 September 2004

CUF Kertih

25 November 2004

CUF Gebeng

Evacuation Drill

20 December 2004

CUF Gebeng

#### HEAD OFFICE

Emergency Management Team Table-Top Exercise

30 August 2004

KLCC

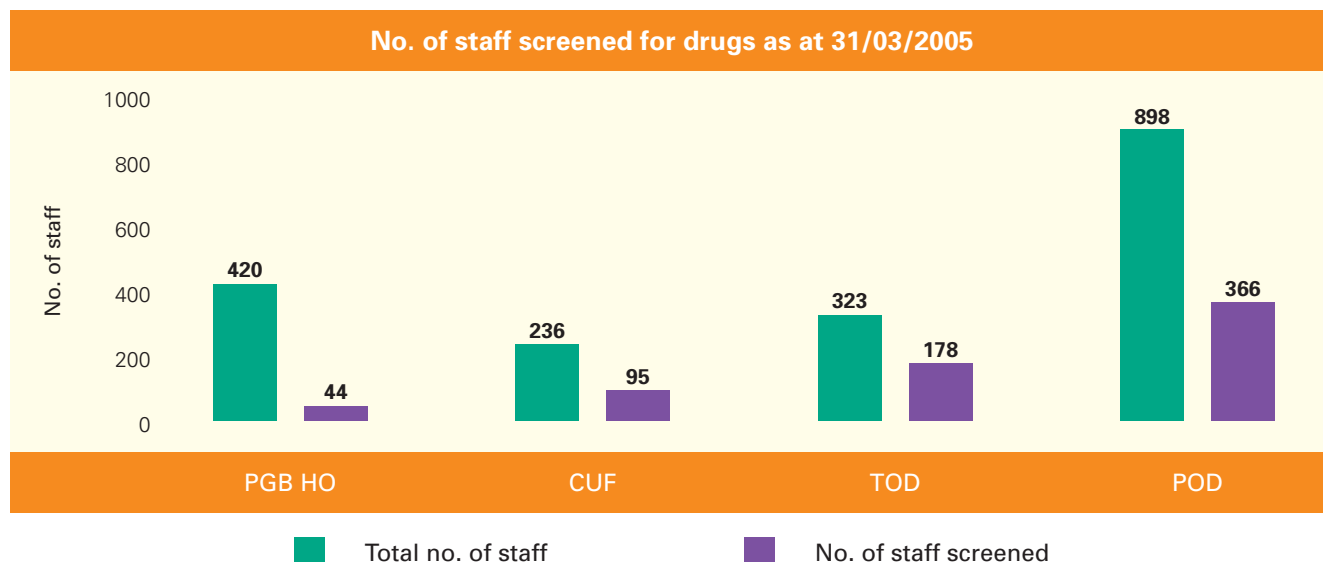
\* Regional Office

### Drug and Alcohol Free Programme

As a responsible employer, the Company has proactively introduced and enforced a strict policy of drug and alcohol free workplace.

Prior to the implementation, staff awareness briefings were conducted throughout the Company.

Random drug and alcohol testing were conducted on our staff and contractors. During the year, 27 sessions of Random Drug Screening on 683 staff (36%) have been conducted at various locations within the Company.





## Health, Safety & Environment

### *Industrial Health Management*

The Company strives to protect our employees from exposure to chemicals that could be hazardous to health, in line with the Occupational Safety and Health Regulations (USECHH) 2000.

To further improve the management of hazardous chemicals, the Company has introduced a structured and comprehensive chemicals health and risk management programme. This programme involves monitoring health surveillance, personal protective equipment (PPE) and relevant training on handling of chemicals.

### *Hearing Conservation Programme*

A Hearing Conservation Programme has been successfully instituted in the Company. Noise mapping exercises were conducted at Plant Operations Division (POD), Transmission Operations Division (TOD) and Centralised Utility Facilities (CUF) to ensure compliance to Factories and Machinery (Noise Exposure) Regulations 1989. The noise mapping exercises were extended to our plant boundaries in order to gauge our compliance to the Department of Environment's requirement of boundary noise level. In addition, employee noise exposure monitoring, audiometric testing and noise control through engineering and administrative procedures were also carried out.

### *Hazardous Gas Warning System*

CUF Kertih has been installed with perimeter detectors to provide early warning of accidental gas release from neighbouring plants.

### *HSE Awareness Programme*

The Company engages local communities and the relevant authorities during its HSE days at the respective operating divisions. These programmes provide an avenue to strengthen relationships and rapport with these parties.

TOD, through its nine regional offices actively participated in many community service-related activities, ranging from public awareness programmes to "gotong royong". These activities serve as a platform for interaction between local communities and the Company. This has been successful at heightening public awareness of TOD's operations.

### **Communication Sessions**

#### **POD**

HSE-Dept of Occupational Safety & Health Communication Session	11 July 2004
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HSE Day	15 September 2004
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#### **TOD**

Public Awareness Programme with students from Institut Latihan Perindustrian	2 June 2004
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Public Awareness Programme with students from Institut Kemahiran Mara	29 July 2004
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Gotong-royong at Surau & Tabika KEMAS Taman Yayasan	21 August 2004
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HSE & Quality Day	20 September 2004
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Public Awareness Programme at Kg Paya Rawa	17 March 2005
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#### **CUF**

HSE Day	10 March 2005
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### **MANAGEMENT OF CONTRACTORS' HSE COMPLIANCE**

Our contractors' safety is an integral part of the Company's operations and they have been actively engaged in our HSE activities. They participate in HSE committee meetings and HSE training as well as acting as auditors for project safety audits.

The Company achieved an aggregate of 5,306 contractor training mandays for the year. Training conducted covered safety procedures and required competency development.

To further strengthen relationships with contractors, the Company held its inaugural Contractors Forum in September 2004 with Turnaround Contractors. This forum served as a platform to communicate HSE requirements and concerns between the parties.

### **PRESERVATION AND CONSERVATION OF THE ENVIRONMENT**

#### *Improving Our Processes*

During the year, the Company embarked on numerous projects to improve plants operations and ensure sustainable safe environment.