

PETRONAS TECHNICAL STANDARDS

HEALTH, SAFETY AND ENVIRONMENT

HSE GUIDELINE FOR DUE DILIGENCE

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This new **PTS 60.0113 - HSE Guideline for Due Diligence** has been developed to provide structured guidance to the PETRONAS Group in managing HSE Due Diligence assessment.

This PTS also refers to PTS 60.3201 Environmental Assessment Guide and PTS 60.3006 PETRONAS Group Minimum Environmental Management Standards.

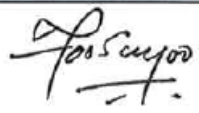
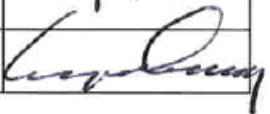
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PREFACE

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1.0 INTRODUCTION

1.1 PURPOSE

The purpose of this document is to provide structured guidance to the PETRONAS Group in managing HSE Due Diligence assessment.

1.2 SCOPE

- This Guideline is applicable to PETRONAS Holding Company Units, Operating Units and Joint Venture companies.
- This Guideline is applicable to HSE Due Diligence carried out for the purpose of mergers and acquisitions (M&A), handovers, divestitures and closures.
- This Guideline provides structured guidance to the management of HSE Due Diligence through identification of HSE issues and determining their business consequences.
- This Guideline covers the roles and responsibilities as well as competency level for HSE Due Diligence team members, and the stages of the assessment process.
- This Guideline does not provide guidance to the conduct of HSE audit, which is undertaken in accordance with PTS 60.0301 HSE Assurance Guideline, and PTS 60.0102 Tier 3 HSE Assurance.
- This Guideline does not provide guidance on intrusive investigations or environmental site remediation, which is undertaken in accordance with PTS 60.3005 Management of Potentially Contaminated Land.

1.3 TERMINOLOGY

Definitions and descriptions of key terms used in this Guideline are provided below;

Due Diligence - The process of inquiring into characteristics of an asset for the purpose of evaluating it in connection with a proposed transaction. The type of due diligence vary according to the objective of assessment.

Asset – targeted business that is subject of the HSE Due Diligence assessment described in this Guideline. Asset can be in the form of organisation (company, corporation, firm, enterprise, institution, or part or combination thereof) or property.

Property – real property that may includes buildings and other fixtures and improvement located on the property and affixed to the land.

HSE Due Diligence - HSE Due Diligence is a process to objectively identify the HSE risks and to determine the business consequences of an asset as a result of past, current and expected future activities.

Business consequence – actual or potential impact (financial or other, positive or negative, qualitative or quantitative) of identified and evaluated HSE issues.

HSE issue – issue for which validated information on HSE elements deviates from acceptable conditions and may result in liabilities, impact on PETRONAS's public image, or other costs.

1.4 REFERENCE DOCUMENT

- Environmental Assessment Guide (PTS 60.3201)
- PETRONAS Group Minimum Environmental Management Standards
- ISO14015 Environmental Assessment of Sites and Organisations
- ASTM E-1528-00 Standard Practice for ESA: Transaction Screen Process (Transaction Screen)

2.0 DUE DILIGENCE ASSESSMENT IN PETRONAS

PETRONAS business activities such as M&A, handovers, divestitures and closures require evaluation processes due to the inherent risks they posed. To avoid unplanned corrective expenses as well as to understand financial exposures of such transactions, it is important to uncover critical financial, operational and strategic information to make an informed decision on the way forward.

Typical key focus areas in due diligence assessment are;

- History of asset
- Structure of organisation
- Financial
- Accounting and tax
- Health, Safety and Environment (HSE)
- Insurance
- Human resource
- Legal
- Technical and operations
- Commercial and marketing
- Research and development
- Information technology

2.1 Objectives of Due Diligence assessment

The objectives of due diligence assessment are as follows;

- Determine purchase consideration by taking into account risks, upsides and value of the asset.
- Determine optimal transaction structure (financial scheme and amount of equity) for PETRONAS to enter into transaction agreement.
- Identify potential issues to be addressed within Sales and Purchase Agreement (SPA) or post acquisition.
- Identify risk protection structures, in the form of insurance, warranties or indemnification obligations.
- Ensure good corporate governance.

The execution of due diligence assessment shall highlight the following matters;

- Identify and quantify deal breakers.
- Recognise potential legal and contractual impediments in completing the transaction and developing the basis of final agreements.
- Identify key issues to be considered in the deal structuring such as legal and capital structures, ownership level, management control and exit mechanics.

2.2 Types of Due Diligence assessment

There are three types of due diligence;

- **High level due diligence**
 - Interested parties receive a limited scope of information from the asset owners.
 - Documents may only cover confidential high level information regarding financial, commercial and legal matters.
 - Typically, high level due diligence is restricted to document review and is usually associated with non-binding process.
- **Virtual due diligence**
 - Interested parties are given access of information to a secured online website, which houses a wider breath of confidential information.
 - The information will be arranged according to relevant folders in the website. Typical areas are commercial, financial, accounting, HSE, technical, legal, etc.
 - Typically, virtual due diligence is also restricted to document reviews and is associated with non-binding process.
- **Confirmatory due diligence**
 - The most comprehensive type of due diligence, where interested parties are granted access to a wider breath of confidential information in a dataroom, typically located at the target business site. In most cases, interested parties are also given access to conduct site visits to applicable plants or assets.
 - The information will be in hard copies and arranged according to relevant files, covering areas such as commercial, financial, accounting, HSE, technical, legal, etc.
 - Normally access to confirmatory due diligence will be given to shortlisted bidders and is associated with a binding bid process.

2.3 Due Diligence Process

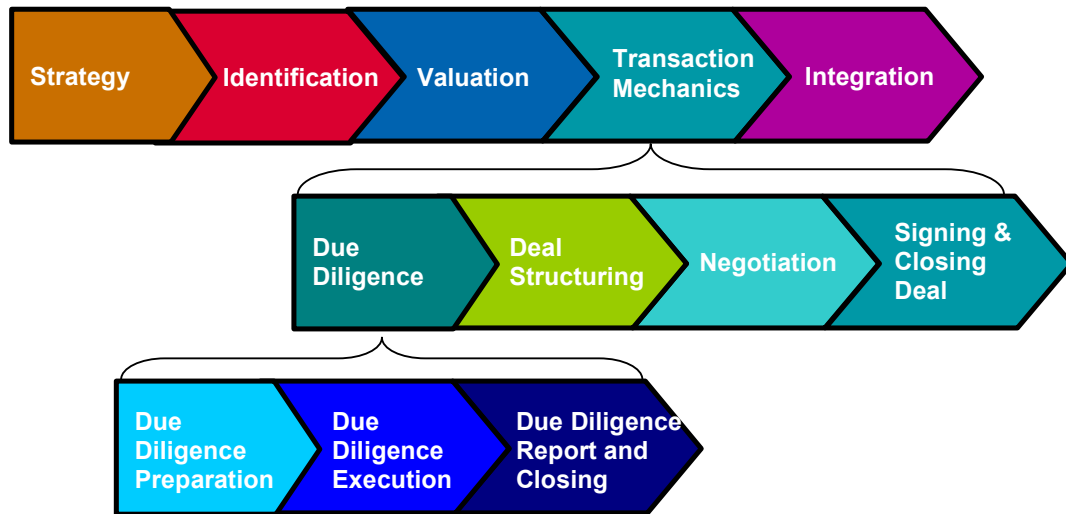
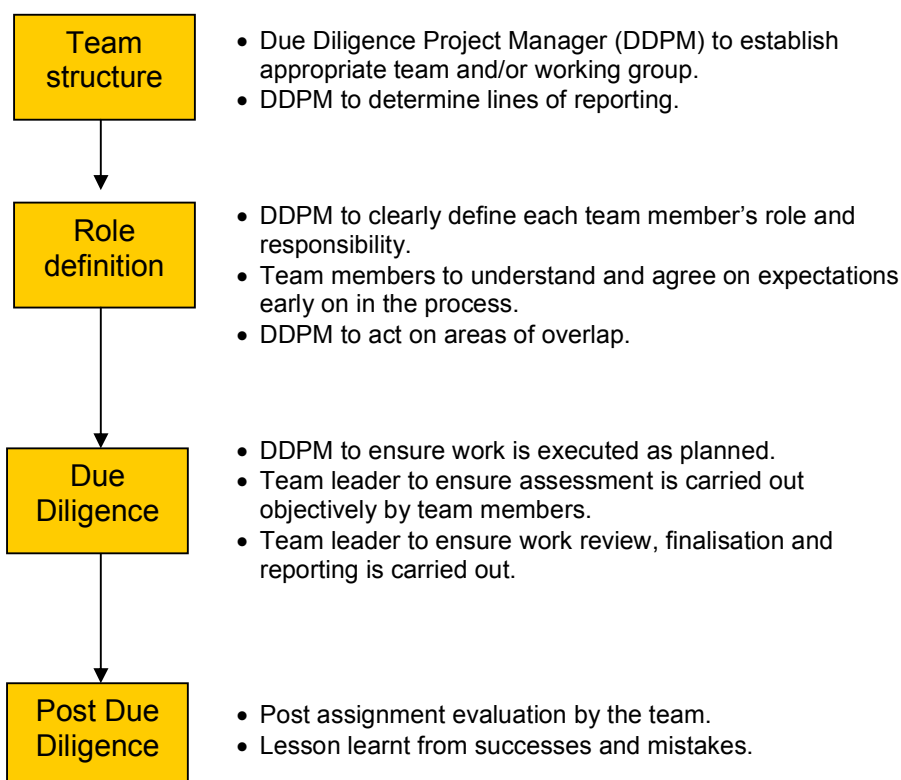


Diagram 1: Due Diligence process within merger and acquisition exercise

Diagram 1 depicts the type and the process of due diligence in the M&A chain. Due Diligence assessment may occur at any stage of the transaction mechanics;

- Prior to submitting bid documents (either binding or non-binding).
- Prior to signing definitive agreements, such as Sales and Purchase Agreement (SPA).
- Post signing of SPA whereby the buyer will include a clause that purchase consideration is subject to due diligence.
- Post acquisition whereby the buyer will identify focus areas for integration issues.

Typical workflow in Due Diligence assessment is shown below.



2.4 Due Diligence Deliverables

Typical deliverables of a due diligence assessment are as follows;

