

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5681
COMPANY NAME : PETRONAS DAGANGAN BERHAD
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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board of PETRONAS Dagangan Berhad (the Company) is committed to high standards of corporate governance and strives to ensure that it is practiced throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and raise the performance of the Group.</p> <p>The duties, powers and functions of the Board are governed by the Constitution of the Company, the Companies Act 2016, Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) and other regulatory guidelines and requirements that are in force.</p> <p>In discharging its duties and roles effectively, the Board is also guided by the Board Charter, which sets out the principles and guidelines that are to be applied by the Board, whilst the Board committees are guided by its respective terms of reference. The Board Charter and the Terms of Reference for each Board Committee can be found at www.mymesra.com.my.</p> <p>The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. To discharge the Board's stewardship responsibilities, the Board has assumed the following principal roles and responsibilities: -</p> <ul style="list-style-type: none">• To review, approve and monitor the strategic business plans, goals and key policies proposed by the Management to ensure sustainability and optimisation of long-term returns;• To ensure that appropriate policies are in place, adopted effectively and are regularly reviewed;• To review and approve financial statements;

	<ul style="list-style-type: none"> • To review and manage principal risks and adequacy of the Company's internal control systems including systems for compliance with applicable laws, regulations, rules and guidelines; • To ensure that there is an appropriate succession plan for members of the Board and the Leadership Team in ensuring the appointment of the right leaders; and • To be accountable to its shareholders and stakeholders whom may be affected by the Company's decision such as employees, suppliers, customers, the local community and the state/country where the Company is operating. <p>The Board is collectively responsible in promoting the success of the Group in building a sustainable and profitable business admired by customers and stakeholders whilst achieving strong returns for the shareholders.</p> <p>The Company has adopted the PETRONAS Code of Conduct and Business Ethics (PETRONAS CoBE) that seeks to ensure that the Company's or Group's Directors, Group employees and third parties which perform work or services for the Company and/or Group will act ethically and remain above board at all times, and that their individual behaviour is in line with PETRONAS' Shared Values i.e. Loyalty, Professionalism, Integrity and Cohesiveness. PETRONAS CoBE also includes appropriate communication and feedback channels which facilitate whistleblowing.</p> <p>The Board acknowledges the importance of the following: -</p> <ul style="list-style-type: none"> • maintaining a sound system of internal control and a robust risk management practice for good corporate governance with the objective of safeguarding the shareholder's investment and the Group's assets. For this purpose, the Board has adopted a Risk Governance Framework, Risk Management Policy and Risk Agenda; • the need to safeguard and minimise the impact to the environment in the course of achieving the Company's objectives. The Board's agenda reflects the commitment to economic support for longer term sustainability with a focus on the positive impact on the environment, community and society; and • the need for effective Investor Relations and Communications with shareholders and to provide them with all relevant information affecting the Company, which can be accessed at the Company's corporate website at www.mymesra.com.my.
<p>Explanation for departure</p>	<p>:</p>

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

Measure :		
Timeframe :		

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.

Application	: Applied
Explanation on application of the practice	<p>The roles and responsibilities of the Chairman of the Board have been clearly specified in the Company's Board Charter, which is available on the Company's corporate website at www.mymesra.com.my.</p> <p>The Chairman of the Board is a Non-Independent Non-Executive Director, who is primarily responsible for the orderly conduct and function of the Board and ensures its effectiveness on all aspects of its roles.</p> <p>The Chairman of the Board shall also act as Chairman at general meetings.</p> <p>The role of the Chairman is summarised as follows:</p> <ul style="list-style-type: none">i) Leading the Board in setting the values and ethical standards of the Company.ii) Chairing the Board meetings and stimulating debates on issues and encouraging positive contributions from each Board member.iii) Consulting with the Company Secretary in setting the agenda for Board meetings and ensuring that all relevant issues are on the meetings' agendas.iv) Maintaining a relationship of trust with and between the Managing Director/Chief Executive Officer and Non-Executive Directors.v) Ensuring the provision of accurate, timely and clear information to Directors.vi) Ensuring effective communication with shareholders and relevant stakeholders.vii) Arranging evaluation of performance of Board members, its Committees and individual Directors, including assessment of the independence of Independent Directors.viii) Ensuring that all Directors are properly briefed on issues arising at Board meetings and there is sufficient time allowed for discussion on complex or contentious issues and where appropriate, arranging for informal meetings beforehand to enable thorough preparations.ix) Allowing every Board resolution to be voted on and ensuring the will of the majority prevails.x) Casting his votes in accordance with the prescribed Company's Constitution.

	<ul style="list-style-type: none"> xi) Ensuring that all Board members, upon taking up their office, are fully-briefed on the terms of their appointment, time commitment, duties and responsibilities, and the business of the Company. xii) Acting as liaison between the Board and Management, and between the Board and the Managing Director/Chief Executive Officer.
Explanation for departure :	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>	
Measure :	
Timeframe :	

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The distinct and separate roles and responsibilities of the Chairman and Managing Director/Chief Executive Officer (MD/CEO) are provided in the Board Charter, which is available on the Company's corporate website at www.mymesra.com.my.</p> <p>The Board practices a clear demarcation of duties and responsibilities between the Chairman and MD/CEO to ensure a balance of power and authority in the Board. The positions of Chairman and MD/CEO are held by two different individuals.</p> <p>The Company's Chairman, Datuk Md Arif Mahmood is a Non-Independent Non-Executive Director who was appointed to the Board on 16 April 2015 whilst the CEO of the Company who is also the MD, Dato' Mohd Ibrahimuddin Mohd Yunus was appointed to the Board on 1 February 2014.</p> <p>The Chairman is primarily responsible for the stewardship and smooth functioning of the Board, whilst MD/CEO is responsible for the overall operations of the business, organisational effectiveness and the implementation of the Group's strategies and policies. Given the Company's synergetic business operational integration with Petroliam Nasional Berhad (PETRONAS), it is in the best interest of the Company that the Chairman is a Non-Independent Non-Executive Director.</p> <p>The MD/CEO 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 Leadership Team (LT). The LT ensures that effective systems, controls and resources are in place to execute business strategies and decisions taken by the MD/CEO and/or the Board.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	

Timeframe :		
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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 1.4

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The named Company Secretaries of the Company, Hasnizaini Mohd Zain and Yeap Kok Leong are qualified to act as company secretary under Section 235 of the Companies Act 2016. One of them has a legal qualification and the other is a Fellow of the Malaysian Institute of Chartered Secretaries and Administrators. Each acts as an advisor to the Board, particularly with regard to Company's Constitution, Board policies and procedures, and its compliance with regulatory requirements, codes, guidance and legislations.</p> <p>The Company Secretaries ensure that discussions and deliberations at the Board and Board Committee meetings are well documented, and subsequently communicated to the relevant Leadership Team for appropriate actions. The Company Secretaries update the Board on the follow-up of its decisions.</p> <p>The Company Secretaries constantly keep abreast with the latest regulatory changes and developments in corporate governance through continuous training.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board meets at least quarterly with additional meetings convened as and when necessary. The Board, Board Committees and general meetings for the year under review were scheduled in advance to facilitate the Directors in planning ahead and incorporating the said meetings into their respective schedules.</p> <p>The Notice of the Board and Board Committees meetings are sent to the Directors via email at least seven days prior to the respective meeting. The agenda and Board papers encompassing comprehensive qualitative and quantitative information which include objectives, background, critical issues, implications, risks, strategic fit, recommendations and other pertinent information are circulated to the Directors to enable an informed decision making by the Board.</p> <p>The Board papers are circulated to all Directors at least five business days prior to each Board meeting. This enables the Directors to have sufficient time to peruse the Board papers and seek clarifications or further details from the Management or the Company Secretary before each meeting. Any Director may request matters to be included in the agenda. Urgent papers may be presented and tabled at meetings under the item "Any Other Business", subject to the approval of both the Chairman and Managing Director/Chief Executive Officer.</p> <p>Presentations and briefings by the Management and relevant external consultants, where applicable, are also held at Board meetings to advise the Board. In this regard, relevant information is furnished and clarifications are given to assist the Board in making a decision.</p> <p>Access to Board papers is carried out online through a collaborative software which allows the Directors to securely access, to read and review Board documents and collaborate with other Directors and the Company Secretary electronically.</p> <p>All proceedings of Board and Board Committees meetings are duly recorded in a minutes of each meeting and the signed minutes of each meeting are properly kept by the Company Secretary. Minutes of the meetings are tabled for confirmation at the next meeting whilst the minutes of the Board Committees are presented to the Board for notation.</p>

	<p>The Company Secretary will communicate to the relevant Management the Board’s decisions/recommendations via circulation of draft minutes of meetings for appropriate actions to be taken. The Company Secretary will also follow up with the Management on status of actions taken with reference to the previous minutes of meetings for updating the Board. Action items would stay as matters arising in the minutes of meetings until resolved.</p>	
<p>Explanation for departure</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>Measure</p>		
<p>Timeframe</p>		

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board has a Board Charter and Terms of Reference of its Board Committees, which are periodically reviewed and published on the Company's corporate website. The Board Charter and the Committees' Terms of Reference clearly identify:</p> <ul style="list-style-type: none">• the respective roles and responsibilities of the board, board committees, individual directors and management; and• issues and decisions reserved for the board. <p>Details of the roles and responsibilities of the Board, Board Committees, individual directors and management are accessible from the Company's corporate website at www.mymesra.com.my.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The PDB Group adopts and practices PETRONAS Code of Conduct and Business Ethics (CoBE). The CoBE, which is accessible to the public for reference on the Company's corporate website at www.mymesra.com.my, places significant importance in upholding the principle of discipline, good conduct, professionalism, loyalty, integrity and cohesiveness that are critical to the success and wellbeing of the Group. The CoBE detailed policy statements on the standards of behaviour and ethical conduct expected of each individual to whom the CoBE applies. The Group also expects that contractors, sub-contractors, consultants, agents and representatives and others performing work or services for or on behalf of the Group to comply with the relevant parts of the CoBE when performing such work or services. The CoBE expressly prohibits improper solicitation, bribery, insider trading, money laundering and other corrupt activity not only by employees and directors but also by third parties performing work or services for or on behalf of companies in the PETRONAS Group.</p> <p>In compliance with the CoBE, the Company adopts the PETRONAS Anti-Bribery and Corruption (ABC) Manual which governs the prevention of corruption and unethical practices within the Group. The ABC Manual sets forth the policy statement and guidelines on how to deal with improper solicitation, bribery and other corrupt activities and issues that may arise in the course of business.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	

Timeframe :		
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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.

Application	:	Applied
Explanation on application of the practice	:	<p>The PDB Group has adopted the PETRONAS Whistleblowing Policy (WBP) which provides an avenue for employees and members of the public to disclose any improper conduct committed or about to be committed in accordance with the procedures as provided under the policy. The WBP is accessible to the public for reference on the Company’s official website at www.mymesra.com.my.</p> <p>Under the WBP, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. An employee who whistle blows internally will also be protected against any adverse and detrimental action for disclosing any improper conduct committed or about to be committed within the Group, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistle blower is mistaken as to the facts and the rules and procedures involved.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board had in February 2018 appointed two additional Independent Non-Executive Directors (INEDs). Therefore, the current INEDs composition comprises 56% of the total Board composition.</p> <p>The current INEDs of the Company are as follows:</p> <ol style="list-style-type: none">1) Lim Beng Choon2) Vimala V.R. Menon3) Datuk Anuar Ahmad4) Shafie Shamsuddin5) Alvin Michael Hew Thai Kheam <p>All INEDs have declared their “independence status” to the Company.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Not applicable - Step Up 4.3 adopted	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Adopted
Explanation on adoption of the practice	:	<p>In line with the exemplary practice as recommended by the Malaysian Code on Corporate Governance 2017, the Nomination and Remuneration Committee at its meeting held in February 2018, approved the revision to the tenure policy where Independent Non-Executive Directors (INEDs) total tenure is now capped at nine years with no avenue for further extensions either as a Non-Executive Director or to remain as an INED.</p> <p>None of the INEDs have served the Board more than nine years.</p>

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company practices a formal and transparent procedure for the appointment of new directors. The nomination of Non-Independent Non-Executive Directors (NINEDs) to the Board is made by PETRONAS being the majority shareholder of the Company. The nomination of Independent Non-Executive Directors (INEDs) to the Board is made through the engagement of a professional recruitment firm to find suitable candidates to fill in the vacant positions.</p> <p>In its selection of suitable candidates, the Nomination and Remuneration Committee (NRC) refers to the Board Selection Criteria. All nominees to the Board are first considered by the NRC, taking into consideration the mix of skills, competencies, experience, integrity, personal attributes and time commitment required to effectively fulfil his or her role as a director. Diversity in terms of age, gender and ethnicity is also considered during the selection process.</p> <p>During the year under review, the Company engaged a professional recruiting firm to assist in the search for new INEDs based on the identified selection criteria approved by the NRC. The NRC shortlisted several candidates for engagement sessions to review the suitability of these candidates prior to recommending to the Board for approval.</p> <p>Having conducted all relevant reviews and assessments, the NRC in January 2018 recommended two candidates for appointment as INEDs and in February 2018, the Board approved the appointment of two additional INEDs. With these appointments, the INEDs comprise 56% of the total Board composition.</p> <p>The Senior Management are employees of PETRONAS and seconded to the Company. Their appointments adhere to the guidelines adopted by the PETRONAS Group.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

Measure :		
Timeframe :		

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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	Currently, the Board has two women directors namely Vimala V.R. Menon and Nuraini Ismail, which represents 22% of the Board's composition.	
		During the year under review, the Nomination and Remuneration Committee (NRC) interviewed few candidates including women to fill up the vacant position as an Independent Non-Executive Director.	
		Alternative Practice : Not applicable	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	The Board supports the country's aspirational target of 30% representation of women directors and will initiate search for potential candidates. The Board is considering to have an additional woman director to meet the target and timeline required by MCCG 2017.	
Timeframe	:	Within 3 years	

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.

Application	:	Applied	
Explanation on application of the practice	:	During the year under review, the Company has engaged a professional recruiting firm to assist in the search for new Independent Non-Executive Directors (INEDs) based on the identified selection criteria approved by the NRC. The 2 newly appointed INEDs were sourced through the professional recruiting firm.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied	
Explanation on application of the practice	:	The Nomination and Remuneration Committee of the Company is chaired by Lim Beng Choon, a Senior Independent Director.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company conducts its Board Effectiveness Evaluation (BEE) exercise on an annual basis. BEE comprises a Board Evaluation, a Committee Evaluation and a Directors' Self and Peer Assessment. The assessment methodology and its outcome was reported in the Annual Report.</p> <p>The Company has engaged an independent consultant to conduct the BEE exercise during the year under review. The Company will consider engaging an independent consultant for the BEE within the next 3 to 5 years to facilitate objective and candid board evaluations.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p><u>Directors' Remuneration Framework</u></p> <p>The Company has undertaken a review on the current Non-Executive Directors (NEDs) remuneration and a benchmarking exercise was carried out against selected companies in Malaysia. Based on the findings, the Board is recommending an increase in the Directors remuneration for the financial year ended 31 December 2018 in view that the current remuneration is not competitive compared to the market, as well as to reflect the increase in responsibilities of the Chairman and the NEDs for approval of the shareholders at the forthcoming AGM.</p> <p>The Board has approved the Directors' Remuneration Framework at its Board of Directors' meeting held on 26 February 2018. The remuneration framework will be uploaded to the Company's corporate website after the Company's Annual General Meeting (AGM) to be held on 25 April 2018.</p> <p><u>Senior Management Remuneration Framework</u></p> <p>Employees of the Company are seconded from PETRONAS. Their remuneration is aligned to the PETRONAS' Human Resources policies and strategies. The Board ensures that only appropriate personnel with the relevant skills and experiences are appointed to Senior Management positions of the Company.</p>
		Alternative Practice : Not Applicable
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		

Measure	: <u>Directors' Remuneration Framework</u> As stated above, the Directors' Remuneration Framework will be uploaded to the Company's corporate website on or after 25 April 2018, upon approval from the shareholders of the Company on the Directors' Remuneration package. <u>Senior Management Remuneration Framework</u> As the Senior Management staff of the Company are seconded from PETRONAS, their remuneration is based on the prevailing PETRONAS' Remuneration Philosophy and Guiding Principles, which can be found on the Company's corporate website at www.mymesra.com.my .
Timeframe	: Within 1 year

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.

Application	:	Applied	
Explanation on application of the practice	:	The Company has a combined Nomination Committee and Remuneration Committee. Their authority and duties as well as functions are clearly defined in the Terms of Reference of the Nomination and Remuneration Committee, which is accessible on the Company's corporate website at www.mymesra.com.my .	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board has established a Directors' Remuneration Framework which sets out retainer fees, special fees, meeting allowances and benefits in-kind.</p> <p>The remuneration breakdown of individual directors which includes the fees, salary, bonus, benefits in-kind and other emoluments is enumerated in Table 1 attached hereto.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Table 1

Name of Directors	Directors Fees	Board Meeting Attendance Fees^	Audit Committee Meeting Attendance Fees^	Nomination and Remuneration Committee Meeting Attendance Fees^	AGM	Fuel Allowance	Total
	(RM)	(RM)	(RM)	(RM)	(RM)	(RM)	(RM)
Datuk Md Arif Mahmood	108,000	16,000	Nil	Nil	4,000	Nil	128,000*
Dato' Mohd Ibrahimuddin Mohd Yunus	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Lim Beng Choon	72,000	12,000	8,000	9,000	3,000	6,000	110,000
Vimala V.R. Menon	72,000	12,000	12,000	6,000	3,000	6,000	111,000
Datuk Anuar Ahmad	72,000	9,000	8,000	2,000	3,000	6,000	100,000
Nuraini Ismail	72,000	9,000	4,000	Nil	3,000	Nil	88,000*
Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir (appointed on 31 July 2017)	30,000	6,000	Nil	2,000	Nil	Nil	38,000*
Erwin Miranda Elechicon (resigned on 31 July 2017)	42,000	6,000	Nil	4,000	3,000	Nil	55,000

Ir Mohamed Firouz Asnan (resigned on 31 July 2017)	42,000	6,000	Nil	4,000	3,000	Nil	55,000*
Total	510,000	76,000	32,000	27,000	22,000	18,000	685,000

* Fees paid and payable to PETRONAS

^ Meeting attendance fees are based on the number of meetings attended by the Directors.

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.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Company opts not to disclose the components of the remuneration of Senior Management, which include their salary, bonus, benefits in-kind and other emoluments by virtue that the information is subject to the Personal Data Protection Act, 2010, that requires written consent from the respective Senior Management personnel for disclosure of their personal data to the public at large.</p> <p>Alternative Practice:</p> <p>The Company has identified the top 5 Senior Management as follows:</p> <ul style="list-style-type: none"> i) Dato' Mohd Ibrahimuddin Mohd Yunus - <i>Managing Director/Chief Executive Officer</i> ii) Cik Norliwati Abdul Wahab - <i>Chief Financial Officer</i> iii) Aadrin Azly - <i>Head, Retail Business Division</i> iv) Mahmud Zahri Mahzan - <i>Head, Commercial Business Division</i> v) Ramzulahkim Ramli - <i>Head, LPG Business Division</i> <p>The remuneration of the Managing Director/Chief Executive Officer who is also the Executive Director of the Company is disclosed in the Company's 2017 Annual Report under the Nomination and Remuneration Report.</p> <p>Employees of the Company are seconded from PETRONAS where their remuneration package has been benchmarked with the industry and is in line with the industry practice. In addition, their annual increments and bonus payouts are based on performance.</p>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		

Measure	:	The Company does not have any alternative plan to meet the intended outcome.	
Timeframe	:	Others	Not Applicable

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.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

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.

Application	:	Applied	
Explanation on application of the practice	:	Chairman of the Audit Committee is Vimala V.R. Menon, an Independent Director and is not the Chairman of the Board.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied	
Explanation on application of the practice	:	The Board Audit Committee (BAC) has a policy that requires an Independent Director who is a former key audit partner to observe a cooling-off period of two years before being appointed as a member of the BAC.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board Audit Committee (BAC) is responsible for assessing the capabilities and independence of the external auditor and to make subsequent recommendations to the Board on the appointment, re-appointment or termination of the external auditor.</p> <p>Under its Terms of Reference, the BAC reviews the suitability and independence of the external auditor of the Company. The review process covers the assessment of the independence of the external auditor, the evaluation of their performance, quality of work, audit fees and the adequacy resources.</p> <p>During the year under review, the BAC met with the external auditors namely KPMG PLT once in the absence of the Management.</p> <p>For the audit of the financial year ended 31 December 2017, the BAC reviewed and endorsed certain non-audit engagements provided by KPMG PLT and monitored the fee of total non-audit work carried out by them with the main objective of ensuring there was no impairment of independency or objectivity. In relation to this, the BAC noted the assurance provided by the External Auditor confirming their independence throughout the financial year under review.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

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.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>Board Audit Committee (BAC) members possess a wide range of necessary skill as recommended by MCCG 2017. The BAC Member's Profile is disclosed in the Company's 2017 Annual Report for further information.</p> <p>BAC members acknowledged the need for continuous education trainings. During the year under review, majority of the BAC members attended training on the developments in accounting and auditing standards, practices and rules.</p> <p>The list of training attended by the directors of the company is specified in the 2017 Annual Report.</p>
		Alternative Practice : Not Available
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	All Board Audit Committee will attend at least one training which is relevant to accounting and auditing standards, practices and rules in enhancing their professional development in 2018.
Timeframe	:	Within 1 year

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.

Application	:	Applied	
Explanation on application of the practice	:	The Company has a risk management framework and internal control systems in place to ensure the smooth running of the business with the aim to manage the risks and control of the Company's business and financial affairs economically, efficiently and effectively to be able to seize profitable business opportunities in a disciplined way while avoiding or mitigating risks that could cause loss, reputational damage or business failure. Further information on risk management framework and internal control are disclosed in the Statement of Risk Management and Internal Control of 2017 Annual Report.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied	
Explanation on application of the practice	:	The key features of the Company's risk management and internal control framework, which cover their adequacy and effectiveness are disclosed under the Statement on Risk Management and Internal Control in the 2017 Annual Report.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

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.

Application	:	Applied	
Explanation on application of the practice	:	The Company has an in-house Internal Audit Department (IAD). The IAD undertakes a systematic and disciplined approach in evaluating and improving the effectiveness of governance, risk management and control processes within the Group and its key function is to assist the Group in accomplishing its goals. Internal audit functions and its effectiveness are disclosed in the 2017 Annual Report.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The internal audit function of the Company is headed by Abu Bakar Baba, the Head of Internal Audit who reports directly to the Audit Committee to ensure impartiality and independence in executing its role. He is a Qualified Risk Auditor from Institute of Enterprise Risk Management, Malaysia. He holds a Certificate in Business Management from Duke University, United States of America and a Bachelor of Administration (Honours) degree in Business Studies from University of East London, United Kingdom.</p> <p>All internal audit activities for the year under review were performed in house by 12 internal auditors from diverse backgrounds and disciplines such as accounting, finance, business management, marketing and information technology. Internal Audit Department (IAD) undertakes to ensure that the staff are competent and adequately equipped in carrying out their duties and responsibilities by having structured development programmes and providing sufficient and relevant trainings.</p> <p>IAD adopts the five components set in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO), inclusive control environment, risk assessment, control activities, information and communication, and monitoring activities. COSO is an internationally recognised organisation providing guidance on internal control, enterprise risk management and governance. In addition, IAD's functions are guided by Internal Audit Manual as well as the International Professional Practices Framework (IPPF).</p> <p>In maintaining independence and objectivity, auditors will not be assigned any scopes that would lead to a conflict of interest.</p>
Explanation for departure	:	

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

Measure :		
Timeframe :		

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board recognises the importance of effective dialogue with shareholders and investors. The Company believes that communication with the shareholders is a two-way process. The Company take into consideration views and feedback it receives from all the shareholders. In the past year, the Managing Director/Chief Executive Officer, Chief Financial Officer and other members of Senior Management together with the Company's Investor Relations Unit, conducted regular dialogues with both its local and foreign shareholders and analysts. This resulted in better understanding of the Group's financial performance and operations.</p> <p>In addition, the Company actively updates its website www.mymesra.com.my with the latest information on the corporate and business aspects of the Group. Press releases, announcements to Bursa Malaysia Securities Berhad, media conference post Annual General Meeting, analyst briefings and quarterly results of the Group are also made available on the website and this serves to promote accessibility of information to the Company's shareholders and all stakeholders.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied
Explanation on application of the practice	:	<p>This is the second year the Company is embarking on the integrated reporting (IR) journey. The Company's IR journey is based on the intent to present a more comprehensive updates of the Company's objectives, strategies and performance for the year. The Company recognised that the Company has a wide range of stakeholders with different interests in the Company's business and operations. The objective of integrating our material financial, economic, social, environmental and governance issues are to be able to demonstrate more clearly and in a holistic manner to each group of stakeholders how we seek to create value for them.</p> <p>By reading the 2017 Annual Report:</p> <ul style="list-style-type: none">• our stakeholders will understand our strategies for sustainable growth;• our customers will appreciate the importance we place on offering products and services of a consistently high quality;• Our business partners, dealers and contractors will recognise how the Company seeks to foster win-win solutions with them; and• Employees will see how the Company nurtures a stimulating and rewarding work environment. <p>The Company also highlights initiatives undertaken to enhance the well-being of local communities, and actions that underline our commitment in protecting the environment.</p> <p>The process of fully integrating our report will necessarily take time. We intend to progress every year towards our ultimate goal, to have a fully integrated report in line with the International Integrated Reporting Council Framework.</p> <p>This year, the Company continued its efforts to improve the Company's IR with the introduction of new sections – "What Differentiates Us" and "Approaching the Financial Statements" – which adds clarity to how we maintain our competitive edge, and how to navigate our financial report, respectively. In addition, the Company added further linkages and connectivities throughout this report for the purpose of integrating our narratives.</p>

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

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.

Application	:	Applied	
Explanation on application of the practice	:	The Company dispatches the notice of its Annual General Meeting (“AGM”) to shareholders at least 28 days before the AGM, well in advance of the 21-day requirement under the Companies Act 2016 and Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The additional time given to shareholders is to allow them to make the necessary arrangements to attend and participate in person or through corporate representatives, proxies or attorneys. More importantly, it enables the shareholders to consider the resolutions and make an informed decision in exercising their voting rights at the general meeting.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied	
Explanation on application of the practice	:	All the Company's Directors attended the general meetings of the Company. The Chairmen of the Board Audit Committee and Nomination and Remuneration Committee will respond to any queries and clarifications addressed to them (if any).	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company's general meetings are not held at remote locations. The Company has adopted e-voting for 2017 Annual General Meeting (AGM). As for voting in absentia and remote shareholders' participation, the existing proxy form authorising proxies or Chairman of meeting is an alternative measure adopted by the Company. The Company also allows shareholders to send in their questions by a certain date before the AGM.	
		Alternative Practice : Shareholders are allowed to appoint any person(s) as their proxies to attend, participate, speak and vote in his/her stead at a general meeting.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	The Company intends to maintain the current practice.	
Timeframe	:	Others	Not Applicable

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT
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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