

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5681
COMPANY NAME : PETRONAS DAGANGAN BERHAD
FINANCIAL YEAR : December 31, 2018

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 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.

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 (PDB or 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 (TOR) for each Board Committee can be found at the Company's corporate website 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 an enduring and profitable business admired by customers and stakeholders whilst achieving strong returns for the valuable 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, employees and third parties which perform works or services for the Company and/or Group will act ethically and remain above board at all times. 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 shareholders’ investment and the Group's assets. For this purpose, the Board has adopted a Risk Governance Framework and Risk Management Policy; • 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>

<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 1.2

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 also 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. His role is summarised as follows:</p> <ul style="list-style-type: none">• Leading the Board in setting the values and ethical standards of the Company.• Chairing the Board meetings and stimulating debates on issues and encouraging positive contributions from each Board member.• Consulting with the Company Secretary in setting the agenda for Board meetings and ensuring that all relevant issues are on the agenda.• Maintaining a relationship of trust with and between the Managing Director/Chief Executive Officer (MD/CEO) and Non-Executive Directors.• Ensuring the provision of accurate, timely and clear information to Directors.• Ensuring effective communication with shareholders and relevant stakeholders.• Arranging evaluation of performance of Board Members, its Committees and individual Directors, including assessment of the independence of Independent Non-Executive Directors.• 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.• Allowing every Board resolution to be voted on and ensuring the will of the majority prevails.• Casting his votes in accordance with the prescribed Company's Constitution.

	<ul style="list-style-type: none"> • 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. • Acting as liaison between the Board and Management, and between the Board and the MD/CEO.
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 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 was appointed to the Board on 16 April 2015. Whilst the CEO of the Company who is also the MD, Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir who joined the Board on 31 July 2017 was appointed as MD/CEO on 1 June 2018.</p> <p>The Chairman is primarily responsible for the stewardship and smooth functioning of the Board, whilst the 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	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
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 1.4

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 Secretaries of the Company, Nur Nadia Mohd Nordin and Yeap Kok Leong are qualified and competent to act as company secretaries under Section 235 of the Companies Act 2016. The former has a legal qualification whilst the latter is a Fellow of the Malaysian Institute of Chartered Secretaries and Administrators. The Company Secretaries play an advisory role to the Board, particularly with regard to the Company's Constitution, Board policies and procedures, and its compliance with regulatory requirements, codes, guidance and legislations.</p> <p>The Company Secretaries ensure that the discussions and deliberations at Board and Board Committee meetings are well documented, and subsequently communicated to the relevant Management for appropriate actions. The Company Secretaries update the Board on the follow-up of its decisions and recommendations by the Management.</p> <p>The Company Secretaries constantly keep themselves abreast with the regulatory changes and developments in corporate governance through continuous training. The Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging their functions.</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
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 during 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 MD/CEO.</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 the minutes of each meeting and the signed minutes of each meeting are properly kept by the Company Secretary. Minutes of</p>

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

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 TOR of its Board Committees, which are reviewed and updated from time to time to reflect relevant changes to the policies, procedures and processes as well as amendments to rules and regulations to ensure the documents remain relevant and consistent with the applicable rules and regulations and recommended best practice and the same were 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 sets forth 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 and other corrupt activities 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 corporate 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 has five Independent Non-Executive Directors (INEDs) who make up 62.5% of the total Board composition.</p> <p>The current INEDs of the Company are as follows:</p> <ul style="list-style-type: none"> i. Lim Beng Choon ii. Vimala V.R. Menon iii. Datuk Anuar Ahmad iv. Shafie Shamsuddin v. 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 Company has adopted a tenure policy where the total tenure of the Independent Non-Executive Directors (INEDs) is now capped at nine years.</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 sourcing of Independent Non-Executive Directors (INEDs) 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 nationality is also considered during the selection process.</p> <p>The Senior Management of the Company are employees of PETRONAS who are seconded to the Company, based on their relevant skills and experiences.</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, who represent 25% of the Board's composition.	
		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 has initiated the 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 2 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	:	<p>Pursuant to the Nomination and Remuneration Committee (NRC) TOR, NRC has the authority to obtain the services of professional recruitment firms to source for candidates for directorship or seek independent advice whenever necessary.</p> <p>The Company has engaged a third party consultant to assist in sourcing for suitable and qualified candidates according to the approved Board Selection Criteria.</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 4.7

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 had engaged an independent consultant to conduct the BEE exercise for the financial year 2017. For the year 2018, the BEE process was internally conducted and the BEE results were objectively analysed by an independent party. The Company may 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	:	Applied
Explanation on application of the practice	:	<p><u>Directors' Remuneration Framework</u></p> <p>The Board has approved the Directors' Remuneration Framework at its Board of Directors' meeting held on 26 February 2018. The remuneration framework has been uploaded into the Company's corporate website after the Company's Annual General Meeting 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. Only appropriate personnel with the relevant skills and experiences are appointed to Senior Management positions of the Company.</p> <p>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.</p>
Explanation for departure	:	.
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
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 6.2

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 TOR of the NRC, 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:

Pursuant to Article 84 of the Constitution of the Company, PDB also reimburses reasonable expenses incurred by Directors, where relevant, in the course of carrying out their duties as Directors.

During the year under review, the breakdown of the Directors' remuneration is as follows:

Name of Directors	Directors Fees	Board Meeting Attendance Fees [^]	Board 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	288,000	14,000	Nil	Nil	3,500	Nil	305,500*
Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir (appointed as MD/CEO on 1 June 2018)	60,000	3,500	Nil	3,500	3,500	Nil	70,500*
Lim Beng Choon	144,000	21,000	14,000	10,500	3,500	6,000	199,000
Vimala V.R. Menon	144,000	21,000	14,000	10,500	3,500	6,000	199,000
Datuk Anuar Ahmad	144,000	21,000	14,000	2,000	3,500	6,000	190,500
Nuraini Ismail	144,000	21,000	14,000	Nil	3,500	Nil	182,500*
Shafie Shamsuddin (appointed on 6 February 2018)	132,000	21,000	Nil	7,000	3,500	Nil	163,500
Alvin Michael Hew Thai Kheam (appointed on 6 February 2018)	132,000	21,000	Nil	Nil	3,500	Nil	156,500
Dato' Mohd Ibrahimuddin Mohd Yunus (resigned on 1 June 2018)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total	1,188,000	143,500	56,000	33,500	28,000	18,000	1,467,000

* Fees paid 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 its Top 5 Senior Management as follows, however, their remuneration will not be disclosed:</p> <ul style="list-style-type: none">i. Dato' Sri Syed Zainal Abidin Syed Mohamed Tahir<ul style="list-style-type: none">- MD/CEOii. Aadrin Azly<ul style="list-style-type: none">- Chief Operating Officeriii. Norliwati Abdul Wahab<ul style="list-style-type: none">- Chief Financial Officeriv. Khalil Jaffri Muhammad Muri<ul style="list-style-type: none">- Head, Retail Business Divisionv. Ikhwan Hamzah Azizan<ul style="list-style-type: none">- Head, Commercial and Business Division <p>The Senior Management are employees of PETRONAS and seconded to the Company. Their remuneration has been benchmarked with industry and is aligned with the market. In addition, their annual increments and bonus pay-outs are based on performance.</p> <p>The payroll cost and benefits ordinarily incurred in the course of the secondment of the MD/CEO who is also the Executive Director of the Company is disclosed in the Company's 2018 Integrated Report under the segment "Nomination and Remuneration Committee Report".</p>

	<p>The Senior Management are employees of PETRONAS and seconded to the Company. Their remuneration has been benchmarked with industry and is aligned with the market. In addition, their annual increments and bonus pay-outs 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 an alternative plan to meet the intended outcome.	
Timeframe	: Others	Not available

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 of the Company 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 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 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 TOR, 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>For the audit of the financial year ended 31 December 2018, the BAC reviewed and endorsed 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	:	Applied
Explanation on application of the practice	:	Audit Committee members possess a wide range of necessary skill as recommended by MCCG 2017. The BAC Member's Profile is disclosed in the Company's 2018 Integrated Report for further information. Audit Committee members acknowledged the need for continuous education trainings. During the year under review, all BAC members attended training on the developments in accounting and auditing standards, practices and rules. The list of training attended by the Directors of the Company is specified in the 2018 Integrated 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 9.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>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.</p> <p>Further information on risk management framework and internal control are disclosed in the Statement on Risk Management and Internal Control of 2018 Integrated Report.</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

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 2018 Integrated 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. The Head of IAD reports directly to BAC. Internal audit functions and its effectiveness are disclosed in the 2018 Integrated 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 Head of IAD reports directly to the BAC and administratively to MD/CEO to ensure impartiality and independence in executing his role. It is currently headed by Baba-A Rahman Tiriman effective 1 April 2018, succeeding Abu Bakar Baba who has assumed a new portfolio within PETRONAS Group. The incumbent, Baba-A Rahman Tiriman holds a Bachelor Degree in Business Administration (1st Class Hons) from International Islamic University, Malaysia.</p> <p>All internal audit activities for the financial year under review were performed in house by ten internal auditors from diverse backgrounds and disciplines such as accounting, finance, business management, marketing, engineering, energy management, commerce and information technology. 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 Organizations of the Treadway Commission (COSO) inclusive Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring Activities. COSO is an internationally recognised organization providing guidance on internal controls, enterprise risk management and governance. In addition, IAD's functions are guided by Internal Audit Manual as well 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	:	

<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 11.1

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 takes into consideration views and feedback it receives from the stakeholders. In the past year, the MD/CEO, Chief Financial Officer and other members of Senior Management together with the Company's Investor Relations Unit, had 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 latest information pertaining to business and financial performances on corporate website at www.mymesra.com.my. Press releases, announcements to Bursa Malaysia, media conference post AGM, 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	:	The Company has adopted the integrated reporting for its 2018 Integrated Report based on a globally recognised framework.	
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 the MMLR of Bursa Malaysia. 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 BAC and NRC 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 2018 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.	
		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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