

How We're Governed

Statement of Corporate Governance

The Board of Directors of Sarawak Energy Berhad (Sarawak Energy) is committed to ensure that the highest standard of Corporate Governance is practiced throughout the Group with the objective of strengthening the Group's growth and corporate accountability and safeguarding the interests of the Shareholders.

The Board of Directors is pleased to present a statement to the Shareholders on how the Group has applied the principles of good governance and compliance with the best practices set out in the Malaysian Code of Corporate Governance.

THE BOARD OF DIRECTORS

The Board's principal responsibilities for corporate governance are to set out the strategic direction of the Group and establish the objectives and the achievements of the objectives and goals.

The current Board consists of five (5) members, whereby four (4) of the members are Non-Independent Non-Executive Directors and one (1) member is an Independent Non-Executive Director. The Directors collectively have wide range of experience and expertise drawn from the area of business, accounting, economics, legal as well as public administration. Their expertise, experience and background are vital for the strategic direction of the Group. The profiles of the Directors are set out on pages 56 to 58 of the Annual Report.

The Chairman's responsibility is to ensure the effectiveness and efficiency of the Board meetings and their conduct, whereas the role of Independent Non-Executive Director is to ensure that the views provided are professional and independent and that the advice and judgment made on issues and decisions are in the best interest of the stakeholders and the Group.

The Company has limits of authority prescribed by the terms of reference provided in the Procurement, Policies and Procedures (PPP) that identifies the various persons or authorities responsible for different business transactions including matters that require Board approval. It sets out a clear line of accountability

and responsibility of the persons or authorities to facilitate decision making and approval at the appropriate level in the organisation's hierarchy.

The Board meets at least four (4) times in a year, with additional meetings held as and when required. There were six (6) Board meetings and one (1) Board Workshop held during the financial year ended 31 December 2018. A summary of the attendance of each Director at Board meetings in 2018 is as follows:

Datuk Amar Abdul Hamed bin Sepawi

Non-Independent
Non-Executive Chairman

6/7

Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani

Non-Independent
Non-Executive Director

7/7

Dato' Haji Idris bin Haji Buang

Non-Independent
Non-Executive Director

7/7

Dato Sri Fong Joo Chung

Non-Independent
Non-Executive Director

7/7

Tan Sri Dato Sri Mohd Hassan bin Marican

Independent
Non-Executive Director

3/7

SUPPLY OF INFORMATION

The Board and its Committees have full and unrestricted access to all information within Sarawak Energy pertaining to the Group's business and affairs.

All the Directors are notified of the Board meetings within stipulated time prior to the date of the meetings. The Directors are also provided with an agenda and a set of Board papers in ample time prior to each Board meeting to enable them to gain information and insights to be properly briefed before the meeting.

In most instances, the Senior Management of the Group as well as External Advisors may be invited to attend Board meetings, to provide further information and to provide clarification on issues that may be raised by the Board.

Board members also have access to the Company Secretary to obtain any further details they may require. Directors may also seek independent professional advice on any matter connected with the discharge of their responsibilities if deemed necessary and appropriate, whether as a full board or in their individual capacities, at the Company's expense.

RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, all Directors appointed by the Board are subject to election by Shareholders at the first Annual General Meeting after their appointment. One third of the remaining Directors are required to submit themselves for re-election by rotation at each Annual General Meeting thereafter. All Directors must submit themselves for re-election at least once every three years.

DIRECTORS' TRAINING

The Board of Directors attends various accredited programmes organised by various course leaders in the country to enhance their knowledge and skills to enable them to effectively carry out their role as Directors. The Company will continuously arrange for Directors to attend such training to provide them with current updates and information so that they are equipped with the skills in good governance required to act as effective Directors of the Company.

BOARD COMMITTEES

The following Committees have been established to assist the Board in the execution of its responsibilities. These Committees have written terms of reference which have been approved by the Board and set out their authority and duties.

1. Board Audit and Risk Committee (BARC)

The BARC plays an important role in reviewing the Group's financial management and reporting and assessing the integrity of the Group's accounting procedures and financial control. The BARC is responsible for the review of accounting policy and the presentation of external financial reporting including the Group's interim results and its disclosures, overseeing the activities of the internal audit function and ensuring an objective and professional relationship is maintained with the External Auditors, and that conflicts of interest, if any, are avoided. The BARC has full access to both Internal and External Auditors, who in turn, have access at all time, to the Chairman of the BARC.

The BARC strives to ensure that it keeps abreast of all material developments in regulations and best practices in its area of responsibility.

The report of the BARC, including their attendance at the Committee meetings, is set out on pages 70 to 71 of this Annual Report.

2. Governance, Nomination and Remuneration Committee (GNRC)

The responsibilities of the GNRC are to identify potential candidates for Directorships to the Board and make recommendations on all new or re-appointments of members of the Board. Further, the GNRC also makes recommendations on the Company's framework for remuneration and its cost and to determine on behalf of the Board specific remuneration packages and the terms and conditions of employment for the Group's employees.

The GNRC's further duties are to provide remuneration input on contracts of employment with Executive Directors, determine the terms of any compensation in the event of early termination of the employment contracts, make recommendations on human resource policies from time to time and discuss and approve the revision of the Group's organisation structure, as and when needed. The GNRC also acts as a disciplinary committee to decide and recommend disciplinary action for senior staff misconduct to the Board for approval.

The composition of the GNRC members for the financial year ended 31 December 2018 is as follows:

- i. Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani
(Non-Executive Director) – Chairman
- ii. Tan Sri Dato Sri Mohd. Hassan bin Marican
(Non-Executive Director)
- iii. Dato Sri Fong Joo Chung
(Non-Executive Director)
- iv. Dato' Haji Idris bin Haji Buang
(Non-Executive Director)

The GNRC held five (5) meetings during the financial year ended 31 December 2018. The attendance record of the members is as follows:

Directors	Position	Meetings Attended	% of Attendance
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani	Non-Independent Non-Executive Director	5/5	100%
Tan Sri Dato Sri Mohd Hassan bin Marican	Independent Non-Executive Director	3/5	60%
Dato' Haji Idris bin Haji Buang	Non-Independent Non-Executive Director	5/5	100%
Dato Sri Fong Joo Chung	Non-Independent Non-Executive Director	4/5	80

MANAGEMENT COMMITTEE

To assist the Board in the execution of its responsibilities, a Management Committee named Group Executive Committee (GEC) has been established to ensure that corporate-level policies are well developed before they are adopted, and to award tenders within the approving limits as prescribed by the prevailing terms of reference provided in the Procurement, Policies and Procedures (PPP) of the Company.

This Committee has written terms of reference which have been approved by the Board and set out their authority and duties as follows: -

- a) Interpret, define and/or implement Corporate/Group policies and decisions.
- b) Formulate and/or approve the general management operating policies, procedures and guidelines.
- c) Decide and/or approve operational or matters requiring management decisions or approval by the GEC. In the event of uncertainties, the GCEO shall have the mandate to decide on the subject matters or issues to be referred to the GEC. To seek Board approval if this exceeds the limit of authority for GCEO/GEC.
- d) Review and/or decide on proposals, plans, projects, budgets and policies prior to submission to the Board.
- e) Implement change in management leadership and continuous improvement programmes and initiatives for the Group.
- f) Endorse and/or review decisions made by the disciplinary committees appointed to conduct disciplinary inquiry into disciplinary cases involving support groups.
- g) Discuss and/or review progress reports on projects and decide on any issues requiring management input or decisions.
- h) Appoint consultants subject to the limits of the GEC as defined in the PPP.
- i) Engage in such other matters not mentioned above provided that the approval of the GCEO has been obtained to refer the matter to the GEC and that such matters are within the scope or general authority of the GEC to decide/approve.

As at 31 December 2018, the GEC comprises the following members: -

- i. **Datu Sharbini Bin Suhaili**
(Group Chief Executive Officer) – Chairman
- ii. **Lu Yew Hung @ Lu Yew Hong**
(Group Chief Operating Officer)
- iii. **Lau Kim Swee**
(Chief Executive Officer, Syarikat SESCO Berhad)
- iv. **Ung Sing Kwong, James**
(Chief Executive Officer, SEB Power Sdn. Bhd.)
- v. **Aisah Eden**
(Executive Vice President, Corporate Services)
- vi. **Ting Ching Zung**
(Executive Vice President, Strategy & Corporate Development)
- vii. **Einar Gudmundsson Schie Kilde**
(Executive Vice President, Project Execution)
(resigned with effect from 31st October 2018)
- viii. **Pramod Kumar Karunakaran**
(Executive Vice President, Project Execution)
(appointed with effect from 1st July 2018)
- ix. **Alexander Chin**
(Chief Financial Officer)
- x. **Haji Sulaiman bin Haji Abdul Hamid**
(Senior Vice President, Contract & Procurement)
- xi. **Dr. Mak Anak Met**
(Senior Vice President, Human Resource)
- xii. **Nooruddin Bin Abdullah @ Liew Sze Hoon**
(Senior Vice President, Legal & Enterprise Risk)
- xiii. **Nick Wright**
(Vice President, Business Development)
- xiv. **Sim Ko Sin**
(Vice President, Information & Communication Technology)
(appointed with effect from 16th April 2018)
- xv. **Marconi Madai**
(Vice President, Health, Safety, Security & Environment)

There were twenty (20) GEC meetings, four (4) Special GEC Meetings, one (1) GEC Away Day, one (1) GEC Steering Committee Meeting and one (1) GEC Technology Council Meeting held during the financial year ended 31 December 2018.

CONFIDENTIALITY OF INFORMATION

Under the Company's Information Governance guidelines, documents are to be classified. For documents classified as Confidential, Secret or High Secret, there are stipulated guidelines to be adhered to.

Staff or external parties privy to information or documents classified Confidential or higher are required to sign a Secrecy Oath or Non-Disclosure Agreement.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors are responsible for ensuring that the annual financial statements of the Company and the Group are drawn up in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act 2016.

The Board aims to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects, primarily through the annual financial statements and quarterly financial results as well as the Chairman's Statement and Review of Operations in the Annual Report. The Board is assisted by the Board Audit & Risk Committee in overseeing the Group's financial reporting processes and the quality of its financial reporting.

Relationship with Auditors

The Board has, through the BARC, established a formal, transparent and appropriate relationship with the Group's Auditors, both External and Internal. The BARC meets regularly with External and Internal Auditors to discuss the yearly audit plan, quarterly financial results, annual financial statements and internal audit reports, and at every Board meeting convened, the Chairman of the BARC briefs the Board on significant matters discussed and deliberated at each BARC meeting and makes recommendations for the Board's approval and endorsement.

Internal Controls

Information on the Group's internal controls system is presented in the Statement of Risk Management and Internal Control as set out on pages 68 to 69 of this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board is responsible to ensure that the financial statements are prepared in accordance with the Companies Act 2016 and the applicable approved accounting standards set by the Malaysian Accounting Standards Board to present a true and fair, balanced and understandable assessment of the Group's financial position and results. In this Annual Report, an assessment is provided in the Directors' Report of the Audited Accounts.

The BARC reviews the statutory compliance and scrutinises the financial aspects of the Audited Accounts prior to deliberation at Board level.

ADDITIONAL COMPLIANCE INFORMATION

- **Material Contracts**

Neither the Company nor its Subsidiaries entered into any material contracts not in the ordinary course of business during the financial year ended 31 December 2018.

- **Sanctions/Penalties**

There were no material sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by any relevant regulatory authorities during the financial year ended 31 December 2018.

- **Revaluation Policy on Landed Properties**

The Group did not adopt any revaluation policy on landed properties during the financial year ended 31 December 2018.

How We're Governed

Statement of Risk Management and Internal Control

INTRODUCTION

The Board is committed to its responsibility of maintaining a sound system of internal control, covering financial and operating activities to safeguard Shareholders' investment, the Group's assets and customers' interests. This statement on Internal Control outlines the processes that have been implemented to ensure the efficacy and integrity of the system of internal control of the Group during the financial year.

The Group's system of internal control applies to Sarawak Energy and its subsidiaries. Associated companies are excluded because the Group does not have full management and control over them.

BOARD RESPONSIBILITY

The Board has an overall responsibility for the Group's system of internal control to provide reasonable assurance of efficient operations, effective internal checks and compliance with laws and regulations.

The on-going process for identifying, evaluating, monitoring and managing the significant risks faced by the Group is periodically reviewed by the Board during the financial year under review. However, the Board recognises that the Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve the Group's objectives, hence it can only provide reasonable but not absolute assurance against material misstatement, fraud or loss.

The Board is assisted by the Management in the implementation of the approved policies and procedures on risks and controls, in which the Management identifies and assesses the risks faced as well as implements and monitors appropriate control measures to mitigate and control these risks.

Further, the Board is assisted by the Board Audit and Risk Committee (BARC) to review the efficacy and integrity of the system of internal control in the Group as part of the internal and risk management processes.

INTERNAL AUDIT FUNCTION

The BARC, assisted by the Group Internal Audit Department (GIAD), provides the Board with the assurance it requires on the efficacy and integrity of the system of internal control. The BARC has an oversight function of all activities carried out by the GIAD.

The GIAD adopts a risk-based approach in preparing its audit strategy and annual plan. The GIAD independently reviews the risk exposures and control processes implemented by the Management and conducts assignments which cover auditing and review of critical areas within the Group, including financial, operations, projects and IT/information systems. The internal audit functions and activities are guided by its internal audit charter and annual audit plan which are approved by the BARC and the internal audit reports are tabled at the BARC meetings for review and deliberation.

Further, the GIAD engages in regular communication with the senior management team and various departments within the Group related to internal audit activities and efforts for continuous improvement in operations and systems. External Auditors' recommendations for improvements noted during their audit, if any, are also closely monitored and followed up to ensure that they are promptly implemented.



SYSTEM OF INTERNAL CONTROL

The Board is responsible for managing the key business risks of the Group and implementing appropriate internal control system to manage those risks.

Some of the key elements of the Group's System of Internal Control are as follows:

- The Group's Organisational & Management Structure formally defines line of the responsibility and delegation of authority for all aspects of the Group's affairs which is aligned to the Group's strategic and operational requirements. The structure will be reviewed and updated as and when needed to reflect the changing business environment and operating activities within the Group.
- The Group has in place written policies and operating procedures, which are reviewed and updated as and when necessary to improve on the control environment and operating efficiency. New policies, procedures and guidelines are also introduced from time to time to meet the operational requirements.
- Senior Management prepares and presents the business plans and budgets on an annual and bi-annual basis and the business plans include budget, new project proposals and capital expenditures. Measurement of performance is regularly monitored through the Group CEO's Report to the Board incorporating key project progress, financial and operational key performance indicators and departmental initiatives.
- The Board approves the annual budget and reviews key business variables and monitors the performance at its scheduled meetings.
- The BARC is responsible for reviewing the statutory annual financial statements and the quarterly group management reports and recommends to the Board for approval.
- The Management of the Group has established, documented and implemented the information security management system according to the ISO 27001 Information Security Management System (ISMS) standard and shall continually improve and upgrade its effectiveness and efficiency based on changes which may affect the information security risk exposure.
- The Group has implemented the Procurement Policies and Procedures (PPP) which includes the establishment of the tender committees and the limits of authority of all these committees.



ENTERPRISE RISK MANAGEMENT (ERM)

The Board also acknowledges that effective risk management is part of good business practices and recognises the need for a sound system of internal control capable of managing the principal or key risks of the Group.

Thus, in addition to discharging its duties and responsibilities in maintaining a robust and sound system of internal control, the Board has also formalised and implemented an ERM Framework for the Group to provide guidance relating to the implementation of enterprise risk oversight and management processes. This framework incorporates identification, assessment, mitigation and control, monitoring and reviewing processes especially relating to strategic risks and their trending.

The ERM framework ensures that significant risks are continuously identified and that instituted controls are efficaciously applied by the management to determine risk exposure which is tolerable and acceptable to the Group consistent with the Group's risk appetite and risk management practices.

Continuous risk education and awareness programmes are conducted for the employees including via the Group's on-boarding programme for new recruits with the ultimate aim of inculcating a risk conscious culture within the Group.

In 2018, the Board approved the renaming of BAC to BARC, i.e. Board Audit & Risk Committee, and the revision of the Terms and Reference (TOR) of the BARC to include risk oversight in its objectives and responsibilities.

In 2018, the Group also continued to roll out the implementation of the Fraud Risk Management Framework roadmap, embedded within the existing ERM Framework, which comprises fraud control policy and plan as well as fraud awareness training, reporting procedures and related programmes.

BUSINESS CONTINUITY MANAGEMENT (BCM)

The Board acknowledges the significance of instituting a BCM which can be used by the Group as a holistic management process to identify potential threats or risks and their impacts to the business and operations of the Group. This BCM will provide a framework for the Group to build and enhance its organisational resilience with the capability and capacity to create an effective response that safeguards the interests of its key stakeholders, reputation, and value-creating activities.

The Group had implemented BCM Framework and continues its roll out of the implementation roadmap, and related programmes.