

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 ----- to ----- 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 given and judgment made on issues and decisions are in the best interest of the stakeholders and the Group.

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 held during the financial year ended 31 December 2016. A summary of the attendance of each Director at Board meetings in 2016 is as follows:

DIRECTORS	POSITION	MEETINGS ATTENDED	% OF ATTENDANCE
Datuk Amar Abdul Hamed bin Sepawi	Non-Independent Non-Executive Chairman	6/6	100
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani	Non-Independent Non-Executive Director	6/6	100
Dato' Haji Idris bin Haji Buang	Non-Independent Non-Executive Director	5/6	83
Datuk Fong Joo Chung	Non-Independent Non-Executive Director	5/6	83
Tan Sri Dato Sri Mohd Hassan bin Marican	Independent Non-Executive Director	5/6	83

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 of 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, in order 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.

STATEMENT OF CORPORATE GOVERNANCE

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 Committee (BAC)

The BAC 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 BAC 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 BAC has full access to both Internal and External auditors, who in turn, have access at all times, to the Chairman of the BAC.

The BAC 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 BAC, including their attendance at the Committee meetings, is set out on pages ----- to ----- 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 make 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 staff misconduct to the Board for approval.

The composition of the GNRC members for the financial year ended 31 December 2016 is as follows:

<p>Tan Sri Datuk Amar Haji Mohamad Morshidi bin Haji Abdul Ghani Non-Executive Director Chairman</p>	<p>Tan Sri Dato' Sri Mohd. Hassan bin Marican Non-Executive Director</p>
<p>Datuk Fong Joo Chung Non-Executive Director</p>	<p>Dato' Haji Idris bin Haji Buang Non-Executive Director</p>

The GNRC held five (5) meetings during the financial year ended 31 December 2016.

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:-

- Interpret define and/or implement Corporate/Group policies and decisions.
- Formulate and/or approve the general management operating policies, procedures and guidelines.
- 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.
- Review and/or decide on proposals, plans, projects, budgets and policies prior to submission to the Board.
- Implement change in management leadership and continuous improvement programmes and initiatives for the Group.
- Endorse and/or review decisions made by the disciplinary committees appointed to conduct disciplinary inquiry into disciplinary cases involving support groups.

STATEMENT OF CORPORATE GOVERNANCE

- 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 2016, the GEC comprises the following members:-

GROUP EXECUTIVE COMMITTEE	
i.	Sharbini Bin Suhaili (from 01.11.2016 – 31.12.2016) Group Chief Executive Officer - Chairman
ii.	Lu Yew Hung Group Chief Operating Officer
iii.	Aisah Eden Executive Vice President, Corporate Services
iv.	Lau Kim Swee Chief Executive Officer, SESCO
v.	James Ung Sing Kwong Executive Vice President, SEB Power Sdn Bhd
vi.	Einar Kilde Executive Vice President, Project Execution
vii.	Alexander Chin Chief Financial Officer
viii.	Ting Ching Zung Executive Vice President, Planning, Strategy & Corporate Development
ix.	Tuan Haji Sulaiman bin Haji Abdul Hamid Vice President, Group Governance for Procurement & Contracts
x.	Hajjah Siti Aisah Binti Adenan Vice President, Distribution & Representing Vice President, People & Leadership Development
xi.	Nick Wright Vice President, Business Development
xii.	Marconi Madai General Manager, Corporate Risk & HSE

There were twenty-three (23) GEC meetings and six (6) extraordinary GEC meetings held during the financial year ended 31 December 2016.

CONFIDENTIALITY OF INFORMATION

In conducting briefings or presentations, the Company takes due care to ensure that any information regarded as undisclosed material information about the Company and its operations will not be given to any single Shareholder or group of Shareholders.

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, 1965.

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 Committee in overseeing the Group's financial reporting processes and the quality of its financial reporting.

Relationship with Auditors

The Board has, through the BAC, established a formal, transparent and appropriate relationship with the Group's Auditors, both External and Internal. The BAC 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 BAC briefs the Board on significant matters discussed and deliberated at each BAC meeting and makes recommendations for the Board's approval and endorsement as the case may be.

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---to---of this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board is fully accountable to ensure that the financial statements are prepared in accordance with the Companies Act, 1965 and the applicable approved accounting standards set by the Malaysian Accounting Standards Board so as 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 BAC reviews the statutory compliance and scrutinises the financial aspects of the Audited Accounts prior to deliberation at Board level.

STATEMENT OF CORPORATE GOVERNANCE

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 2016.

- **Sanctions/Penalties**

There were no 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 2016.

- **Revaluation Policy on Landed Properties**

The Group did not adopt any revaluation policy on landed properties during the financial year ended 31 December 2016.

STATEMENT OF RISK MANAGEMENT & 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 adequacy and integrity of the system of internal control of the Group during the financial year.

The Group's system of internal control applies to SEB 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 recognizes that the Group's system of internal controls 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 BAC to review the adequacy and integrity of the system of internal controls in the Group as part of the internal and risk management processes.

INTERNAL AUDIT FUNCTION

The BAC, assisted by the Group Internal Audit Department ("GIAD"), provides the Board with the assurance it requires on the adequacy and integrity of the system of internal controls. The BAC 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 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 BAC and the internal audit reports are tabled at the BAC meetings for review and deliberation.

Further, the GIAD engages in regular communication with 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 CONTROLS

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 as follows:

- The Group's Organizational & Management Structure formally defines lines of 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 CEO 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.

STATEMENT OF RISK MANAGEMENT & INTERNAL CONTROL

- The BAC 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 a New Procurement Policies & Procedures (PPP) replacing the previous General Instructions for Purchasing and Contracts (GIPC) which includes the establishment of the new tender committees and enhancement of the terms of reference of the existing tender committees and the limits of authority of all these committees.

ENTERPRISE WIDE RISK MANAGEMENT (“EWRM”)

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

As part of its effort to discharge its duties and responsibilities of maintaining a robust and sound system of internal control and ensuring their continuing adequacy and integrity, the Board has implemented a formalized EWRM framework for the Group. The framework provides guidance for the establishment and implementation of risk management processes in the Group and incorporates risk identification, assessment, reporting, treatment, monitoring and review of risks in the Group, particularly strategic risks and risk trends.

The EWRM framework ensures that significant risks are continuously identified and that instituted controls are appropriate and effectively applied by the management to achieve acceptable exposures consistent with the Group's risk management practices.

Enterprise Risk Management

In 2016, Sarawak Energy held a total of 56 risk assessment and action planning reviews covering the Group's strategic and key high risks. These included monitoring the risk of the timely completion of the 500kV Transmission Backbone, the Balingian Coal-Fired Power Plant and securing coal supply besides the inherent risk of reliability of power supply. In November 2016, with the decommissioning of the Tunku Abdul Rahman plant targeted for the end of 2017 once the 500kV Transmission Backbone is in place, Sarawak Energy held a risk review and action planning workshop with key stakeholders and risk owners to determine the impact on supply of essential load in event of outage. The results were presented to and accepted by the Group Operation Management Committee.

From August to September 2016, risk reviews were conducted for the major power plants – Kuching Power Station, Sejingkat Power Corporation, Miri Power Station, Bintulu Power Station and Mukah Power Generation.

Sabah-Sarawak Interconnection Risk Assessment and Action Planning

In June 2016, Sabah Electric Supply Berhad (SESB) and Sarawak Energy embarked on a joint interconnection study. The Sabah-Sarawak interconnection serves as one of the main agendas in the power development for the two states. The project will be the first interconnection between different utilities in Malaysia and will serve as a catalyst for other interconnections in ASEAN.

There are six tasks under the scope for this study, of which one is risk assessment. A total of 63 risks, classified into 11 categories, which may threaten the project's goals and objectives, were identified and evaluated and corresponding mitigation action plans documented. The risk assessment exercise also provided an opportunity for Sarawak Energy and SESB to share their knowledge on risk management methodology for enhancement of their risk management practices.

Knowledge Sharing

On 28 March 2016, the Risk Management Division initiated knowledge sharing sessions with TNB and Telekom in recognition of the importance of continuous learning. The topics covered included Risk, BCM and Anti-Fraud.

Educating and Inculcating a Risk Conscious Culture

A key responsibility of the Risk Management Division is to educate Sarawak Energy's staff on risk and risk management to raise risk awareness and inculcate it as a risk conscious culture and business discipline. To this end, orientation programmes are held for new recruits and risk awareness briefings for existing employees.

In 2016, eight Orientation Risk Management modules were held for 200 new executive and non-executive recruits and more than 20 risk awareness briefings for existing risk owners, co-risk owners and persons-in-charge of action plans.

Fraud Risk Management

The Group has also implemented Fraud Risk Management Framework and rolled out the implementation roadmap embedded within the existing EWRM framework which comprise of fraud control policy and fraud control plan as well as fraud awareness training, reporting procedures and system and related programs to mitigate the risks of fraud and misconduct.

In March 2016, a proactive fraud risk management project was mandated by the Board Audit Committee to establish a Fraud Risk Management Framework that aligns with the Enterprise Risk Management Framework.

STATEMENT OF RISK MANAGEMENT & INTERNAL CONTROL

The project was launched with a series of meetings and interviews with various Heads of Department and members of the project steering committee, followed by risk assessment workshops and data analytics on various business areas.

BUSINESS CONTINUITY MANAGEMENT

In August 2015, Sarawak Energy began the implementation of Business Continuity Management (BCM).

BCM is an important element of business and provides a holistic framework for building organisational resilience by enabling an organisation to craft an effective response that safeguards the interests of key stakeholders, reputation, brand and value-creating activities.

For Sarawak Energy, the main purposes of implementing BCM in its operations are:

- To establish a BCM framework in line with ISO 22301:2013, inclusive of policies, procedures, guidelines, organisational set-up, crisis management plan, incident escalation procedures and an implementation road map.
- To conduct risk assessment and business impact analysis for critical business areas.
- To develop business continuity plans (BCP) for critical business areas.
- To identify and develop recovery strategies and response options.
- To conduct desktop walk-through exercises for identified areas.
- To develop training materials and train Sarawak Energy's employees on crisis and disaster preparedness, response and recovery.

Key Milestones in BCM

With the mandate of Sarawak Energy's Board Audit Committee, the Risk Management team sought professional assistance to expedite the implementation of BCM and in July 2015, engaged PricewaterhouseCoopers Advisory Services Sdn Bhd (PwC). On 7 August 2015, the BCM project was launched.

From 12 to 19 August 2015, Business Impact Analysis (BIA) training for BCM Coordinators took place. The training aimed to provide awareness and understanding of roles and responsibilities and BCM methodology and guide the coordinators through the completion of BIA questionnaires.

From 14 September to 2 October 2015, BIA Focus Group interviews and brainstorming sessions were conducted. The purpose of the workshops was to validate the inputs and approve and sign-off the BIA questionnaires.

From 29 October to 3 November 2015, BCM Strategy Workshops were held to present and discuss Menara Sarawak Energy and Wisma SESCO's BCM recovery strategies.

The BCM Framework and Crisis Management Plan were approved by the Project Steering Committee on 11 December 2015 and by the Group Executive Committee on 15 December 2015. It consisted of:

- BCM Policy
- BCM Organisation Structure
- Roles and Responsibilities
- Incident Escalation Procedures
- Code Declaration Criteria

On 21 January 2016, the Group Crisis Management Team (CMT) held its first meeting.

From 7 to 31 January 2016, BCPs were developed and on 29 February signed off for several business areas.

In May 2016, the Command Centre and BCM Secretariat and Corporate Communications Rooms at Menara Sarawak Energy were completed.

Throughout 2016, three Desktop Simulation Exercises were carried out for Menara Sarawak Energy, Sejangkat Power Corporation and the Kuching Regional Office.

From 2017 to 2020, more crisis simulation exercises and roll out of BCM implementation within the Sarawak Energy Group will be carried out in order to ensure the Group's preparedness for any crisis or disaster. Various competency building and knowledge transfer exercises with PwC will enable Sarawak Energy to build a team of in-house expertise able to independently implement and sustain the BCM programme.

Recognition for Sarawak Energy's BCM

Sarawak Energy's BCM initiatives have received recognition at regional level. At the 2016 DRI Regional BCM Conference and Awards of Excellence in Kuala Lumpur, Mervin Kuek, Senior Risk Executive in the Risk Management Division's BCM Unit, won the accolade of Industry Best Newcomer in BCM.