

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5243
COMPANY NAME : VELESTO ENERGY 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 is in charge of leading and managing the Company in an effective and responsible manner. The Board plays an important role in determining the Company's value and standard, as well as long term and strategic direction of the Group for the purpose of enhancing shareholders' value and to ensure long term sustainability of the Group.</p> <p>Certain responsibilities of the Board are delegated to Board Committees, which operate within clearly defined Terms of Reference ("TOR"). Standing committees of the Board includes:</p> <ul style="list-style-type: none">• Board Executive Committee ("BEC")• Board Audit Committee ("BAC")• Board Risk Management Committee ("BRMC")• Board Nomination & Remuneration Committee ("BNRC")• Board Whistleblowing Committee ("BWBC") <p>Although specific powers are delegated to the Board Committees, the Board keeps itself abreast of key issues, deliberation, recommendations and/or decisions made by each Board Committee through reports made by the Chairman or Representative of each Board Committee. The Board is also updated on the proceedings of the Board Committee through the tabling of minutes of meetings of the respective Board Committee, for notation by the Board.</p> <p>It is the general policy of the Company that all major decisions be considered by the Board as a whole.</p> <p>To ensure the effective discharge of its function and duties, the primary duties of the Board including (but are not limited to) the following: -</p> <p>(i) Establishing the corporate vision and mission, as well as the philosophy of the Company.</p>

	<p>Following the demerger exercise from UMW Holdings Berhad in July 2017, the Board has reviewed and rebranded the vision and mission for the Group, as follows: -</p> <p>Vision – to be a leading player in the oil and gas industry operating both domestically and globally supported by proven track records, true spirit, quality services and healthy growth potential.</p> <p>Mission – developing a Malaysian-owned company that provides quality services to the oil and gas industry and maintaining standards by matching – if not surpassing – other international companies providing similar global services.</p> <p>(ii) Setting key targets for Management and monitoring the performance of the management thereof.</p> <p>The Board monitor the performance of the Company and the Group, both financial as well as non-financial, on regular basis. Depending on meetings schedule, the Management provides updates and reports to the Board and / or Board Committees, through the monthly Management Report as well as the quarterly Unaudited Financial Results Statements.</p> <p>The Management analyses the financial results and highlights various operational issues or factors that affect and / or could affect the business of the Group. Instructions given by the Board will be followed by action plans. Enquiries / concerns raised by the Board members in relation to the agenda items will be clarified by the Management.</p> <p>(iii) Reviewing and setting Group’s strategic direction, business plans and budget: -</p> <p>(a) Business Plan</p> <p>For the financial year ended 2018 (“FY2018”), the Board set a tagline of “Return to Profitability” for the Group with the main thrusts as follows: -</p> <ul style="list-style-type: none"> • maximising utilisation of key assets via direct negotiation with key clients/stakeholders; • improving revenue stream through increased Day-Charter Rates and addition related income through improved commercial terms; • development and retention of high performers; • continuous improvement in business efficiency and cost optimisation; • improves process and enhance automation; and
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	<ul style="list-style-type: none"> • other key initiatives including developing new corporate culture, further enhancing staff engagement, reviewing existing remuneration structure, enhancing industry cooperation as well as exploring new viable business. <p>(b) Strategic direction</p> <p>For FY2018, the Board coordinated a review on Group’s business direction and new business opportunities, whereby external expert was appointed to assist and support the Board and Management in developing Group’s strategies, moving forward.</p> <p>(c) Strategic planning – Divestment of Oilfield Services Division</p> <p>(i) On 8 February 2018, VELESTO disposed off its entire shareholdings of 318,750 ordinary shares in UMW Oilpipe Services (Turkmenistan) Ltd. (“UOS-TK”) representing 51% of the issued share capital of UOS-TK;</p> <p>(ii) In October 2018, following approval by all shareholders of UOT (Thailand) Limited (“UOT”), TMF (Thailand) Limited was appointed as provisional liquidator to initiate Members Voluntary Liquidation. Subject to clearance from relevant authorities in Thailand, the liquidation proceedings is expected to commence in Q1 2019.</p> <p>UOT is an associate company within the Group with 49% equity holding held via Velesto Oilpipe Services Sdn. Bhd.;</p> <p>(iii) Velesto Oilpipe Services Sdn. Bhd. (“VOS”) ceased operation in December 2018 and will remain as a dormant company.</p> <p>(d) Annual Budget</p> <p>For FY2018, the Board has reviewed and approved budget and expenditure for the mandatory five (5)-yearly Special Periodic Surveys for several of its drilling rigs.</p> <p>(e) Change of Name</p> <p>For FY2018, the shareholders was briefed during the Eighth (8th) Annual General Meeting (“AGM”) of the Company held on 15 May 2018 on the change of name of the Company from “UMW Oil & Gas Corporation Berhad” to “Velesto Energy Berhad”. The change of name was made following</p>
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the demerger exercise from UMW Holdings Berhad in July 2017. It was part of VELESTO's rebranding strategy to position itself by having a new corporate identity for its existing and future undertakings.

(f) Organisation structure

In November 2018, the Board has, upon recommendation by the BNRC, approved and adopted VELESTO's new Organisation Structure, with the following objectives: -

- building a more dynamic and effective management of the Group and at the same time, to address issues that continue plague the operations and management of the Group such as Supply Chain, Business Process and Management Information System;
- creating new C-Suite positions, namely Chief Commercial Officer and Chief Operating Officer, (and together with the existing Chief Finance Officer) would be assisting the President in running and monitoring the day-today operations of VELESTO. It was also envisioned as succession planning objective; and
- restructuring various divisions and departments within VELESTO by providing clarity and accountability of functions and at the same time, to develop second-tier succession planning objective.

(iv) Review, approve and provide feedback on corporate key performance indicators ("KPIs") and targets.

During FY2018, the Board has reviewed and approved the 2018 KPIs for the Group, amongst otherwise: -

- developing new business and expand existing business to ensure business sustainability;
- ensuring compliance to the Group's corporate operation policies on conduct, integrity and governance; and
- strengthening employees' engagement by building leadership capability.

(v) Evaluate the Performance of the President and Direct Reports, Succession Planning for the President and his Direct Reports.

During FY2018, the Board and the BNRC have evaluated the performance and deliverable of the President. The Board and BNRC have also deliberated and approved the contract extension for the President.

As at the date of this statement, the Board has adopted Succession Plan Framework for all key leadership positions including the President and all his Direct Reports.

	<p>(vi) Set VELESTO risk parameters and risk appetites, understands major risk exposure and ensure appropriate risk mitigation approaches are in placed: -</p> <p>(a) 2019 National Budget – Impact on the Group</p> <p>The 2019 National Budget was announced by the Government on 2 November 2018. Subsequently, the Finance Bill 2018 was tabled at the Parliament on 19 November 2018.</p> <p>The Board has, during the FY2018 reviewed various scenarios illustrating the impact to VELESTO on the new Tax Regime under the 2019 National Budget and further considered various options that VELESTO could opt to manage the impact thereof.</p> <p>(b) Update on Entrepreneurship Risk Management and Business Continuity Management.</p> <p>For FY2018, Board has reviewed and approved on the following matters: -</p> <ul style="list-style-type: none"> • The Group’s top risks; • Risk Action Plan status for the Group; and • The Group’s Business Continuity Management Programme. <p>In addition to the above, the Board has, among others: -</p> <p>(a) together with Senior Management, promote good corporate governance culture within the Group, which reinforced ethical, prudent and professional behaviour;</p> <p>(b) reviewed, challenged and resolved on Management’s proposals and thereafter monitor the progress of the implementation thereof;</p> <p>(c) ensured that the strategic plans for VELESTO supports long-term value creation and included the strategies on economic, environmental and other social considerations underpinning sustainability;</p> <p>(d) supervised and assessed Management’s performance in determining whether the business was properly managed;</p> <p>(e) ensured there was a sound framework for internal controls and risk management;</p> <p>(f) understood the principal risks of VELESTO’s business and recognised that business decisions would involve taking appropriate but calculated risks;</p> <p>(g) set the risk appetite within which the Board expected Management to operate and ensure that there was appropriate</p>
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	<p>risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;</p> <p>(h) ensured that Senior Management has the necessary skills and experiences and there are measures in place to provide for the orderly succession of the Board and Senior Management;</p> <p>(i) ensured that the Company has in place procedures to enable effective communication with stakeholders; and</p> <p>(j) ensured the integrity of the Company's financial and non-financial reporting.</p> <p>The Board has put in place a clear and formal schedule of matters that are specifically reserved to the Board for decision-making, which include (but are not limited to) the followings: -</p> <p>(a) Material acquisitions and disposal of assets;</p> <p>(b) Investments in major projects;</p> <p>(c) Authority levels;</p> <p>(d) Treasury policies;</p> <p>(e) Risk Management policies;</p> <p>(f) Key human resource issues; and</p> <p>(g) Conflict of interest issues relating to a substantial shareholder or Director.</p>
<p>Explanation for departure</p>	<p>:</p>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p>Measure</p>	<p>:</p>
<p>Timeframe</p>	<p>:</p>

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 Chairman of the Board is Dato' Abdul Rahman Ahmad - a Non-Independent Non-Executive Director.</p> <p>The key responsibilities as a Chairman of the Board, among others, include (but are not limited to) the following: -</p> <ul style="list-style-type: none">(a) providing leadership for the Board so that the Board can perform its responsibilities effectively;(b) setting the Board agenda and ensuring that Board members receive complete and accurate information in a timely manner;(c) leading Board meetings and discussions;(d) encouraging active participation and allowing dissenting views to be freely expressed;(e) managing the interface between the Board and Management;(f) ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the Board as a whole; and(g) leading the Board in establishing and monitoring good corporate governance practices in the Company.
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 Chairman of the Board is Dato' Abdul Rahman Ahmad - a Non-Independent Non-Executive Director whilst the President is Rohaizad Darus - an Executive Director.</p> <p>The Board recognises the importance of having a clearly accepted division of power and responsibilities at the head of the Company to ensure a balance of power and authority.</p> <p>Separation of the positions of the Chairman and President promotes accountability and facilitate division of responsibilities between them. In this regard, no one individual can influence Board's discussions and decision-making. The role of Chairman as well as the role of President have been clearly outlined in the Board Charter.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.4

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 Board is supported by two (2) qualified and competent Company Secretaries: -</p> <ul style="list-style-type: none">(a) Mohd Nizamuddin Mokhtar(b) Rafiza Ghazali <p>Both Company Secretaries are qualified to act as company secretary under Section 235(2) of the CA 2016.</p> <p>The brief profile of the company secretaries are as follows:-</p> <ul style="list-style-type: none">(i) Mohd Nizamuddin Mokhtar's profile is available for viewing at Page 25 of the Annual Report. He has been appointed as Company Secretary of the Company with effect from 14 May 2018.(ii) Rafiza Ghazali's profile is available for viewing at Page 25 of this Annual Report. She has been appointed as company secretary of the Company with effect from 30 March 2018. <p>All Directors have unrestricted access to the advice and support of the Company Secretaries, which should include advice on:-</p> <ul style="list-style-type: none">(a) disclosure of interest in securities;(b) disclosure of any conflict of interest in a transaction involving the Company;(c) prohibition on dealing in securities; and(d) restrictions on disclosure of price-sensitive information. <p>The main roles and responsibilities of the Company Secretaries, include (but are not limited to) the following:-</p> <ul style="list-style-type: none">(a) Manage all Board and Committee meeting logistics, attend and record minutes of all Board and Committee meetings and facilitate Board communication;(b) Advise the Board on its roles and responsibilities;

	<ul style="list-style-type: none"> (c) Facilitate the orientation of new Directors and assist in Director training and development; (d) Advise the Board on corporate disclosures and compliance with company and securities regulations and listing requirements; (e) Manage processes pertaining to the annual shareholder meeting; (f) Monitor corporate governance development and assist the Board in applying governance practices to meet the board's needs and stakeholders' expectations; and (g) Serve as a focal point for stakeholders' communication and engagement on corporate governance issues. <p>For FY2018, 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>For the FY2018, the notice of the scheduled board meetings and the board papers were circulated electronically via secured cloud sharing application, at least five (5) days prior to the board meetings. The Directors have ample time to review and consider the relevant information.</p> <p>In situation where there is exceptional case for convening of special meeting of the Board to address emergency issue, shorter notice is allowed with the consent of all Directors.</p> <p>All proceedings of the Board meetings are duly recorded as minute of the proceedings and circulated to all Directors for their perusal prior to the confirmation of the minutes.</p> <p>The Company Secretaries recorded the proceedings of all meetings including pertinent issues, the substance of inquiries, if any, and responses thereto, members' suggestion and the decision made, as well as the rationale for those decisions. By doing so, the Company Secretaries kept the Board updated on the follow-up actions arising from the Board's decisions and / or requests at subsequent meetings. The Board was, therefore able to perform its fiduciary duties and fulfil its oversight role towards instituting a culture of transparency and accountability in 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

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 Charter serves as a guide to the Board members of their roles and responsibilities in discharging their duties as Directors.</p> <p>The principles of good corporate governance as set out in the MCCG 2017 and Main Market Listing Requirements (“Main LR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) were taken into consideration during the process of formalising the Board Charter.</p> <p>The Board Charter is also designed to provide guidance and clarity for the Directors and Senior Management with regard to the role of the Board and its Committees, the requirements of Directors in carrying out their role and in discharging their fiduciary duties towards the Company as well as the Board’s operating practices.</p> <p>The Board Charter is subject to review by the Board, as and when necessary, to ensure it complies with all applicable laws, rules and regulations of the regulators and remain consistent with the policies and procedures of the Board.</p> <p>The Board Charter was recently reviewed and approved by the Board on 18 December 2018.</p> <p>The Board Charter of the Company is available for viewing at the VELESTO’s corporate website at www.velesto.com.</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>All employees endeavour to uphold the Company brand, which in essence, is the identity and image of the Company. The Company brand should be reflected in the way employees conduct themselves at work and permeates at every point of interaction employee have with each other and the public. The Directors and the employees of the Group are expected to behave ethically and professionally for or on behalf of the Company comply with the Code of Business Conduct and Ethics ("CoBE") of the Company.</p> <p>The CoBE should describe measures put in place to:-</p> <ul style="list-style-type: none">(i) handle actual or potential conflict of interests;(ii) prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;(iii) encourage the reporting of unlawful or unethical behaviour;(iv) protect and ensure the proper usage of the Company's assets; and(v) ensure compliance with laws, rules and regulations. <p>The CoBE is available for viewing at the VELESTO's corporate website at www.velesto.com.</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>In promoting the highest level of professionalism and ethics in the conduct of the Group’s businesses, the Whistle-Blowing Policy welcome disclosures of suspected wrongdoings that include mismanagement, malpractices, corrupt practices, fraud, conflict of interest, abuse of authority or breach of any laws and regulations by any member of staff and management. The Policy serves to provide a formal channel of communication for the employees and any other persons to raise concerns in a responsible and timely manner.</p> <p>Disclosure channel</p> <p>Should a person wishes to lodge a report on any suspected wrongdoings, they may elect to make disclosures to the Management Whistle-Blowing Committee via:-</p> <p>Attention: Syed Rozhan Syed Hassan Telephone number: +603-2096 8788 Email: syed.rozhan@velesto.com</p> <p>The Whistle-Blowing Policy is available for viewing at the VELESTO ’s corporate website at www.velesto.com.</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

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 recognises the benefits of having a diverse Board to ensure that the mix and profiles of the Board members in terms of age, ethnicity and gender, provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management. The Board believes that a truly diverse and inclusive Board will leverage the differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and geographical background, age, ethnicity and gender which will ensure that the Company retains its competitive advantage.</p> <p>For FY2018, the Board comprises ten (10) members, six (6) Independent Non-Executive Directors (“INEDs”), two (2) Non-Independent Non-Executive Directors, one (1) Executive Director, who is the President of the Company and one (1) Non-Independent Non-Executive Director, who is the Chairman of the Board and is compliant with the Paragraph 15.02(1) of the MMLR with the requirement for one-third (1/3) Independent Directors in the Board.</p> <p>The role of the Independent Directors are particularly important in ensuring that the strategies proposed by the Executive Directors and Management are deliberated on and have taken into account the interest, not only of the Company, but also that of the shareholders, employees, customers, suppliers and the community.</p> <p>The Board took note of the requirement of Practice 4.1 of the MCCG 2017 which requires at least half of the Board comprises Independent Directors, hence, six (6) out of ten (10) or 60% of the Board’s composition comprises of Independent Directors.</p> <p>The composition of the Board provides an effective blend of entrepreneurship, business and professional expertise in general management, finance, corporate affairs, legal and technical areas of the industry in which the Group operates. The individuality and vast experience of the Directors in arriving at collective decisions at board level will ensure impartiality.</p>
Explanation for departure	:	

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

Measure :		
Timeframe :		

Intended Outcome

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 - No independent director(s) serving beyond 9 years	
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	:	The Board takes cognisance that Practice 4.3 of MCG 2017, and has instituted a policy by way of inclusion in the Board Charter, which limits the tenure of its INEDs up to nine (9) years.

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 BNRC is entrusted to develop the policies and procedures in formalising the approach in the recruitment process and annual assessment of Directors, which serve as guides for the BNRC in discharging its duties in the aspects of nomination, evaluation, selection and appointment process of new Directors.</p> <p><u>Appointment of Directors</u></p> <p>The appointment of a new Director is a matter for consideration and decision by the full Board upon appropriate recommendation from the BNRC. In making these recommendations, the BNRC will consider the required mix of skills, experiences, core competencies, other qualities and diversity in terms of gender, ethnicity and age, which the Directors bring to the Board.</p> <p>The Board is cognisant the requirement of Practice 4.5 of the MCCG 2017, has instituted a policy on gender diversity by way of inclusion in the Board Charter, to have at least 30% women Directors on the Board.</p> <p>The Board Charter stipulated that the selection of candidates may come on recommendations by any existing Board members, management or major shareholders. BNRC may also consider appointing an independent party or source out to third party in identifying suitably qualified candidates. If the selection of candidate was made solely based on recommendations made by existing Board members, Management or major shareholders, BNRC shall explain why other sources were not used.</p> <p>During FY2018, the Board through its BNRC conducts an annual review of its size and composition, to determine if the Board has the right size and sufficient diversity with independence elements that fit the Company's objectives and strategic goals.</p> <p>Having conducted all relevant reviews and assessments, for FY2018, the BNRC recommended the following Directors, to be appointed as VELESTO Directors:-</p> <p>i) Rizal Rickman Ramli (Non-Independent Non-Executive Director); and</p>

ii) Dato' Dayang Fatimah Johari (Independent Non-Executive Director).

For the appointment of INED, Dato' Dayang Fatimah Johari has fulfilled the Independent Test prior to her appointment, and has confirmed that: -

- she is independent of the Management, free from any businesses or other relationship which could interfere with the exercise of independent judgement or ability to act in the best interest of the Company;
- within the last two (2) years, she is not an officer of the Company or its related corporation;
- she is not a major shareholder;
- she is not a family member of the Executive Director, officer or major shareholders of the Company;
- she is not a nominee of any Director or major shareholder; or
- she has either been engaged as advisor by the Company nor is a Partner, Director or major shareholders of a firm/corporation which provides professional advisory services to the Company.

Previously, the Senior Independent Director role was assumed by Dato' Afifuddin Abdul Kadir, who has since retired as Director of the Company with effect from 15 May 2018. On 31 January 2019, Mohd Rashid Mohd Yusof was appointed as the new Senior Independent Non-Executive Director of the Company.

Appointments to Board Committees

The review is conducted on an annual basis, and as and when the need arises, such as when a new Director is appointed. In determining the candidates for appointment to the Board Committees, various factors are considered by the BNRC, including (but are not limited to) the following factors: -

- the needs of the particular Board Committees;
- the results of the Board Effectiveness Evaluation for the Board Committees;
- time commitment and availability;
- regulatory requirements; and
- best practices or governance practices.

Appointments to Senior Management

The Human Resources Department is responsible for selection and appointment of candidates for senior management position based on selection criteria which best matches the requirements of the open position.

	The selection criteria include (but are not limited to) diversity in skills, experience, age, cultural background and gender.	
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	:	Applied
Explanation on application of the practice	:	<p>The Board, through its diversity policy, has identified and based on merit, appointed suitable female directors. The Board's commitment to gender diversity is clearly demonstrated by the representation three (3) female directors on the Board of Directors of the Company, which is in compliance with Paragraph 4.5 of the Principle A of the MCCG 2017.</p> <p>With the appointment of Dato' Dayang Fatimah binti Johari as INED in FY2018, the Board now has three (3) female directors namely</p> <ul style="list-style-type: none">• Haida Shenny Hazri,• Rowina Ghazali Seth; and• Dato' Dayang Fatimah Johari; <p>which represents 30% of the Board's composition. The Company has achieved its target of at least 30% women directors on the Board.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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>The Board Nomination and Remuneration Committee (“BNRC”) is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at the Company level as well as within the Group. The Board Charter has outlined the policies and procedures for recruitment or appointment (including re-election/reappointment) of Directors.</p> <p>The Board Charter further states that potential candidates for appointment of directors, may be referred to the BNRC for consideration and recommendation to the Board, wherein the BNRC will determine appropriate means for seeking additional candidates, including engagement of outside consultants to assist the BNRC in the identification of candidates.</p> <p>The BNRC shall decide on the appropriate means for the review and approval of individual candidates.</p> <p>In formulating its recommendation, the BNRC will consider not only the findings and conclusions of its evaluation process, but also the current composition of the Board, the attributes and qualifications that should be represented on the Board and whether the candidate can provide such additional attributes, capabilities or qualifications.</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 Chairman of the BNRC, Dato' Ibrahim Marsidi is an Independent Non-Executive Director of the Company.	
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>For FY2018, the Board, through its BNRC has engaged KPMG Management & Risk Consulting Sdn Bhd (“KPMG”) - an Independent External Expert, to facilitate the Board Effectiveness Evaluation (“BEE”) for the Company, which include the conduct of assessment and analyses thereof on Company’s Board, Board Committees, the individual directors (including the Executive Directors).</p> <p>The questionnaires / assessment forms (“Forms”) were the primary mode of gathering insights on the performance of the Board, Board Committees and individual directors. The Forms were furnished to all ten (10) directors by the Company Secretary on 25 October 2018. Thereafter, separate interview session were conducted with all the ten (10) directors, individually, to corroborate the responses received.</p> <p>All the ten (10) Directors who received the Forms were directors who have served for a period of at least 6 months during the FY2018 and remain as Board members as at 25 October 2018. Responses were received from all Directors and at the direction of the Company Secretary, KPMG undertook to conduct the analyses based on those available responses. This was augmented with insights that were gathered from the interview sessions with all the assessed Directors.</p> <p>1. <u>Board of Directors Assessment</u></p> <p>In conducting the assessment, the following main criteria were adopted: -</p> <ul style="list-style-type: none">• Board mix and composition• Quality of information and decision-making• Boardroom activities• Board Chairman’s role <p>2. <u>Directors’ Skill Sets Assessment</u></p> <p>In conducting the assessment, the following main criteria were adopted: -</p>

- Leadership and strategy
- Legal and regulatory requirements
- Corporate governance, risk management and internal controls
- Accounting and financial reporting
- Industry experience
- Operations and quality management
- Information Technology

3. Directors’ Self and Peer Evaluation

In conducting the assessment, the following main criteria were adopted: -

- Contribution and performance
- Calibre and personality

4. Independent Directors’ Self-Assessment

Based on the responses received, INEDs have declared compliance for all assessment criteria relating to background, economic relationship, family relationship and tenure.

The Board is satisfied with the level of independence demonstrated by the INEDs and their ability to act in the best interest of the Company.

5. Consolidated Board Committee Assessment

There were nine (9) positive highlights identified from the Board of Directors which were clustered into five (5) thematic categories, namely:-

Highlights	Details
Strategic Planning	There were cogent indicators that the Board’s value creation role in short-term and long-term strategic planning was a key strength of the Board
Board skill sets	Members of the Board were “brand-names”, whom known for their hard edged skills and vast experience in both upstream and downstream oil and gas industry
Focus on internal control and risk management	Heightened focus was given in addressing leakages, particularly procurement. Current risk management framework is proportionate to the Group’s singular business nature
Relationship with key stakeholders	Symbiotic relationship with the Company’ principal client and its controlling shareholder

	Efficacy of board deliberation	Board deliberations were conducted with a high level of rigour, professionalism and candour											
Explanation for departure :	Based on the BEE exercise, an analyses were deduced as follows:-												
	<table border="1"> <thead> <tr> <th data-bbox="544 407 1177 483">Category of Assessment</th> <th data-bbox="1177 407 1407 483">Score (out of 100%)</th> </tr> </thead> <tbody> <tr> <td data-bbox="544 483 1177 521">Board of Directors Assessment</td> <td data-bbox="1177 483 1407 521">89%</td> </tr> <tr> <td data-bbox="544 521 1177 560">Directors Skill Sets Assessment</td> <td data-bbox="1177 521 1407 560">87%</td> </tr> <tr> <td data-bbox="544 560 1177 598">Directors Self and Peer Assessment</td> <td data-bbox="1177 560 1407 598">94%</td> </tr> <tr> <td data-bbox="544 598 1177 636">Independent Directors' Self-Assessment</td> <td data-bbox="1177 598 1407 636">100%</td> </tr> <tr> <td data-bbox="544 636 1177 667">Board Committee Assessment (average for all)</td> <td data-bbox="1177 636 1407 667">90%</td> </tr> </tbody> </table>	Category of Assessment	Score (out of 100%)	Board of Directors Assessment	89%	Directors Skill Sets Assessment	87%	Directors Self and Peer Assessment	94%	Independent Directors' Self-Assessment	100%	Board Committee Assessment (average for all)	90%
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Board Committee Assessment (average for all)	90%												
	The Board was satisfied with the overall performance of all individual Directors, with an average score of 94%, while the performance of Board, as a whole was 92%.												
<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>The Board has put in place a Remuneration Policy & Procedures for the Non-Executive Directors and the same was reviewed from time to time.</p> <p>The policy spell-out the remuneration structure, which include fixed components (such as board fees and meeting allowances) as well as variable components (benefit-in-kind, insurance coverage, medical as well as other reimbursable claims). Notwithstanding that the structure was approved by the Board, the salient information thereof was shared with the shareholders in the Explanatory Notes to the Notice to the Annual General Meeting.</p> <table border="1"> <tr> <td>Fees</td> <td>A fixed sum shall be provided to the Non-Executive Directors for their on-going contribution to the Board (Directors Fees) and Board Committees (Board Committee Fees for Board Audit, Board Nomination & Remuneration, Board Risk Management and Board Executive).</td> </tr> <tr> <td>Meeting Allowance</td> <td>A payment is made to the Non-Executive Directors on a per meeting basis with a condition that attendance, either physical or virtual, is a pre-requisite requirement</td> </tr> <tr> <td>Benefits</td> <td> <p>Non-Executive Directors are provided with benefits such as per diem, mobile phone allowance as well as medical, hospitalisation and dental benefits.</p> <p>In addition to the aforementioned benefits, the Chairman of the Board of Directors is entitled for a company car (including driver) and leave passage.</p> </td> </tr> </table> <p>Following the completion of the BEE exercise mentioned above, a spin-off exercise was also undertaken by the Board to further review the existing Remuneration Policy & Procedures for the Non-Executive Directors. The exercise took into consideration the best practice as</p>	Fees	A fixed sum shall be provided to the Non-Executive Directors for their on-going contribution to the Board (Directors Fees) and Board Committees (Board Committee Fees for Board Audit, Board Nomination & Remuneration, Board Risk Management and Board Executive).	Meeting Allowance	A payment is made to the Non-Executive Directors on a per meeting basis with a condition that attendance, either physical or virtual, is a pre-requisite requirement	Benefits	<p>Non-Executive Directors are provided with benefits such as per diem, mobile phone allowance as well as medical, hospitalisation and dental benefits.</p> <p>In addition to the aforementioned benefits, the Chairman of the Board of Directors is entitled for a company car (including driver) and leave passage.</p>
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	<p>enumerated in the MCCG 2017 and MMLR as well as concerns raised by the Minority Shareholders Watchdog Group at the previous 8th AGM.</p> <p>In December 2018, the Board has appointed KPMG to undertake a comprehensive review on existing Remuneration Policy and Procedures for Non-Executive Directors for the Company.</p> <p>The engagement was carried out in a methodical manners based on five (5) phases :-</p> <ul style="list-style-type: none"> • Phase 1 : Engagement Initiation • Phase 2 : Planning • Phase 3 : Engagement Execution • Phase 4 : Reporting • Phase 5 : Engagement Management <p>The review on the Remuneration Policy and Procedures for Non-Executive Directors for the Company was completed in February 2019 and tabled to the BNRC on 18 February 2019 and to the Board of Directors on 20 March 2019.</p> <p>The key points on the review and the recommendation thereof are stated in page 86 of the 2018 Annual Report.</p> <p>The new Remuneration Policy and Procedures for Non-Executive Directors for the Company is available for viewing at the VELESTO's corporate website at www.velesto.com</p>
<p>Explanation for departure :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p>Measure :</p>	
<p>Timeframe :</p>	

Intended Outcome

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	:	<p>On August 2017, the previous Board Nomination Committee and Board Remuneration Committee were merged as Board Nomination & Remuneration Committee.</p> <p>Following the merger, a new TOR for BNRC was crafted and adopted. The said TOR was further reviewed and approved by the Board on 18 December 2018.</p> <p>The BNRC currently comprises exclusively of INEDs:-</p> <table border="1"><thead><tr><th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr></thead><tbody><tr><td>Dato' Ibrahim bin Marsidi</td><td>Chairman</td><td>INED</td></tr><tr><td>Cheah Tek Kuang</td><td>Member</td><td>INED</td></tr><tr><td>Rowina Ghazali Seth</td><td>Member</td><td>INED</td></tr><tr><td>Dato' Dayang Fatimah Johari <i>(appointed w.e.f. 24 May 2018)</i></td><td>Member</td><td>INED</td></tr><tr><td>Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i></td><td>Chairman</td><td>INED</td></tr></tbody></table> <p>A copy of the TOR of the BNRC is available for viewing at the VELESTO's corporate website at www.velesto.com</p>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Dato' Ibrahim bin Marsidi	Chairman	INED	Cheah Tek Kuang	Member	INED	Rowina Ghazali Seth	Member	INED	Dato' Dayang Fatimah Johari <i>(appointed w.e.f. 24 May 2018)</i>	Member	INED	Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	Chairman	INED
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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 :	For FY2018, the aggregate remuneration received/receivable by the Directors of the Company from the Company categorised into appropriate components are as follows:-						
	Directors' Remuneration	Fees*	Salaries and Other emoluments	Bonus	Benefits-in-kind	Others	Total
		(RM)	(RM)	(RM)	(RM)	(RM)	(RM)
	Executive Director						
	Rohaizad Darus	Nil	1,380,000	Nil	164,000	188,000	1,732,000
	Non-Executive Directors						
	Dato' Abdul Rahman Ahmad	1	Nil	Nil	Nil	Nil	1
	Razalee Amin	83,323	21,200	Nil	3,600	Nil	108,123
	Cheah Tek Kuang	83,323	27,700	Nil	3,600	Nil	114,623
	Dato' Ibrahim Marsidi	83,323	25,500	Nil	3,600	Nil	115,423
	Mohd Rashid Mohd Yusof	83,323	16,000	Nil	3,600	Nil	102,923
	Rowina Ghazali Seth	83,323	20,200	Nil	3,600	Nil	107,123
	Haida Shenny Hazri	83,323	15,400	Nil	3,600	Nil	102,323
	Rizal Rickman Ramli	44,759	8,500	Nil	2,797	Nil	56,056
	Dato' Dayang Fatimah Johari	53,952	10,500	Nil	2,158	Nil	66,610
	Dato' Afifuddin Abdul Kadir	26,952	10,500	Nil	38,845	Nil	76,297

	(retired w.e.f. 15 May 2018)						
	GRAND TOTAL	625,602	1,538,500	0	229,400	188,000	2,581,502
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 7.2

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>While the Board is cognisant on the importance of transparency, the Board is of the view that the disclosure of the senior management's remuneration would be unfavourable to the Group due to intense competition and scarcity for C-level talent and the Group would like to ensure its senior employee retention efforts be safeguarded to ensure the success of the Group</p> <p>Please provide an alternative practice and explain how the alternative practice meets the intended outcome.</p> <p>The Board further believes that the interest of the shareholders will not be prejudiced as a result of such non-disclosure of the remuneration of the Company's top five (5) senior management.</p> <p>The remuneration of the President who is also the Executive Director of the Company is disclosed under the Statement on Corporate Governance on page 108 of Annual Report.</p>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	The Board will continue to re-visit this matter on a periodic basis, including the possible implications to the senior management personnel if such disclosure is made, as well as whether such disclosure would provide any value to the stakeholders.	
Timeframe	:	Others	Not Applicable

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

Application	:	Applied	
Explanation on application of the practice	:	The BAC is chaired by Razalee Amin – an Independent Non-Executive Director, who is a separate person from the chair 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 BAC has instituted a policy by way of inclusion in the TOR of the BAC that requires a former key audit partner to observe a cooling-off period of at least two (2) 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>BAC is tasked to assess and monitor the performance, suitability, objectivity and independence of the External Auditors annually. The assessment is to be based on established External Auditors Assessment Policy Statement, that consider among others:-</p> <ul style="list-style-type: none">• the competence, audit quality and resource capacity of the external auditor in relation to the audit;• the nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and• obtaining written assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. <p>During the FY2018, the BAC has carried out the annual assessment and in its assessment, the BAC considered, inter alia, the following factors:-</p> <p><u>Independence</u></p> <p>The External Auditors must be independent from the Group and shall not provide any services that may materially impair their independence or conflict with their role as External Auditors.</p> <p><u>Non-Audit service</u></p> <p>The External Auditors may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of the External Auditors.</p> <p>External Auditors shall observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services.</p> <p>The management shall obtain confirmation from the External Auditors that the independence of the External Auditors will not be impaired by the provision of non-audit services. All engagements of the External Auditors to provide non-audit services are subject to the approval of the BAC.</p>

	<p><u>Rotation of Audit Partner</u></p> <p>The audit partner responsible for the external audit of the Group is subject to rotation at least every five (5) years.</p> <p>The BAC has assessed the suitability, objectivity and independence of External Auditors vide an annual assessment of the suitability, objectivity and independence of the External Auditors, namely Messrs. Ernst & Young (“EY”) for the FY2018.</p> <p>The External Auditors provided a written statement that they will continuously complied with the relevant ethical requirements regarding independence throughout the audit of the Group, in accordance with the International Federation of Accountants’ Code of Ethics for Professional Accountants and the Malaysian Institute of Accountants’ By-Laws (On Professional Ethics, Conduct and Practice). They are not aware of any relationship between EY and the Group that, in their professional judgment, may reasonably be thought to impair their independence. They have reviewed the non-audit services provided to the Company during the FY2018 and are not aware of any non-audit services that have compromised our independence as External Auditors of the Company.</p> <p>Upon completion of its assessment, the BAC was satisfied with EY’s technical competency and audit independence and recommended to the Board the re-appointment of EY as External Auditors for the financial year ended 31 December 2018. The Board, in turn now recommends for the same for shareholders’ approval at this coming 9th AGM of the Company.</p>	
<p>Explanation for departure</p>	<p>:</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p>Measure</p>	<p>:</p>	
<p>Timeframe</p>	<p>:</p>	

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	:	Adopted																				
Explanation on adoption of the practice	:	The BAC composition comprises solely of Independent Non-Executive Directors.																				
		<table border="1"><thead><tr><th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr></thead><tbody><tr><td>Razalee Amin</td><td>Chairman</td><td>INED</td></tr><tr><td>Cheah Tek Kuang</td><td>Member</td><td>INED</td></tr><tr><td>Dato' Ibrahim Marsidi</td><td>Member</td><td>INED</td></tr><tr><td>Dato' Dayang Fatimah Johari <i>(appointed w.e.f. 24 May 2018)</i></td><td>Member</td><td>INED</td></tr><tr><td>Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i></td><td>Chairman</td><td>INED</td></tr></tbody></table>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Razalee Amin	Chairman	INED	Cheah Tek Kuang	Member	INED	Dato' Ibrahim Marsidi	Member	INED	Dato' Dayang Fatimah Johari <i>(appointed w.e.f. 24 May 2018)</i>	Member	INED	Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	Chairman	INED		
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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	:	<p>The members of our BAC possess the necessary qualifications/experience in financial and auditing matters. Their profiles are disclosed on pages 14 to 23 of 2018 Annual Report and on the Company's website.</p> <p>In addition, the Chairman of BAC - Razalee Amin, is a member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants and a member of the Financial Planning Association of Malaysia. The BAC therefore, meets the requirements of Paragraph 15.09(1)(c) of the Main LR of Bursa Securities.</p> <p>The members of the BAC have attended various continuous trainings and development programmes as detailed in the 2018 Annual Report.</p> <p>To keep abreast of relevant developments in accounting and auditing standards, our BAC members are regularly briefed by the External Auditors on key changes in accounting standards, practices and rules.</p> <p>Based on the results of the annual assessment in FY2018, the BAC members are financially literate and understand the Group's business. The BAC as a whole, has necessary skills and knowledge to discharge their duties.</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 9.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Board fulfils its responsibilities in the risk governance and oversight functions through its BRMC in order to manage the overall risk exposure of VELESTO.</p> <p>The BRMC has instituted Risk Management and Internal Control Framework by way of inclusion in the TOR of the BRMC, 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>The BRMC assessed and monitored the efficacy of the risk management controls and measures taken, whilst the adequacy and effectiveness of the internal controls were reviewed by the BAC in relation to internal audit function for the Group.</p> <p>The Board is of the view that the system of internal control and risk management in place in FY2018, is sound and sufficient to safeguard the Group's assets, as well as shareholders' investments, and the interests of customers, regulators, employees and other stakeholders.</p> <p>The salient features of our risk management and internal control framework are disclosed in the SORMIC on pages 113 to 120 of 2018 Annual 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	:		
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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 salient features of our risk management and internal control framework are disclosed in the Statement on Risk Management and Internal Control on pages 113 to 120 of 2018 Annual Report.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

Application	:	Adopted																					
Explanation on adoption of the practice	:	<p>The BRMC comprises solely of Non-Executive Directors, with a majority being independent directors.</p> <table border="1"><thead><tr><th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr></thead><tbody><tr><td>Cheah Tek Kuang</td><td>Chairman</td><td>INED</td></tr><tr><td>Mohd Rashid Mohd Yusof</td><td>Member</td><td>INED</td></tr><tr><td>Rowina Ghazali Seth</td><td>Member</td><td>INED</td></tr><tr><td>Haida Shenny Hazri</td><td>Member</td><td>NINED</td></tr><tr><td>Rizal Rickman Ramli <i>(appointed w.e.f. 21 March 2018)</i></td><td>Member</td><td>NINED</td></tr><tr><td>Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i></td><td>Members</td><td>INED</td></tr></tbody></table>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Cheah Tek Kuang	Chairman	INED	Mohd Rashid Mohd Yusof	Member	INED	Rowina Ghazali Seth	Member	INED	Haida Shenny Hazri	Member	NINED	Rizal Rickman Ramli <i>(appointed w.e.f. 21 March 2018)</i>	Member	NINED	Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	Members	INED
COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP																					
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Rizal Rickman Ramli <i>(appointed w.e.f. 21 March 2018)</i>	Member	NINED																					
Dato' Afifuddin bin Abdul Kadir <i>(retired w.e.f. 15 May 2018)</i>	Members	INED																					

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	:	<p>The Internal Audit Department (“IAD”) is headed by Norzalizah Alias, who reports directly to the BAC, to ensure impartiality and independence in executing its role.</p> <p>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.</p> <p>The IAD provides independent assurance on the adequacy and effectiveness of the internal control systems implemented by the Company.</p> <p>The IAD functions in enshrined in the Internal Audit Charter, which was reviewed and approved by the Board on 20 August 2018.</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 have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.2

The board should disclose—

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Internal Audit Division (“IAD”) is an integrated part of the assurance structure of the Group. The Division’s primary responsibility is to provide an independent and reasonable assurance on the adequacy, integrity and effectiveness of the Group’s overall system of internal control, risk management and governance processes.</p> <p>The Head of IAD reports directly to the BAC on a functional basis and to the President administratively. The Head of IAD periodically reports to the BAC on the activities performed as well as the key control issues noted by the internal auditors. The details of the Head of IAD, Norzalizah Alias can be found at page 27 of 2018 Annual Report.</p> <p>The purpose, authority and responsibility of IAD are reflected in the Internal Audit Charter, which was approved by the BAC. In order to maintain its independence and objectivity, IAD has no operational responsibility and authority over the activities it audits.</p> <p>The total staff strength in IAD as at 31 December 2018 stood at 6 staff and a total of RM852,543 was incurred as part of resource allocation for an internal audit function, covering mainly manpower and incidental costs such as travelling and training.</p> <p>IAD adopts a risk-based approach as part of its audit planning and execution focusing on significant identified risks and effectiveness of the controls in mitigating the risks. In performing the audit engagements, IAD is guided by the Institute of Internal Auditors’ International Professional Practices Framework (“IPPF”) which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.</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 an effective communication channel between the Board, Shareholders and the general public and shall inform in a timely manner to its Shareholders of its latest business and corporate developments in enhancing value to its shareholders.</p> <p>In consequence thereto, the Board had a Corporate Disclosure Policy in place to provide consolidated guide, procedure and structure in disseminating corporate information to, and in dealing with shareholders, stakeholders, media representatives, analysts and investing public.</p> <p>A copy of the Corporate Disclosure Policy is available on the VELESTO's website: www.velesto.com</p> <p>During FY2018, the Company has implemented the following manners to communicate with its Shareholders:-</p> <ul style="list-style-type: none">i. General meeting <p>The 8th AGM was held on 15 May 2018. The Chairman of the AGM allowed reasonable time for questions and answers session in the AGM to ensure that all subject matters tabled are thoroughly considered and debated. The minutes of the AGM together with the response to Minority Shareholder Watch Group ("MSWG") were uploaded onto the company's website after the AGM.</p> <ul style="list-style-type: none">ii. Announcements made to Bursa Securities <p>Annual Report, Quarterly Financial Results and various announcements made to Bursa Securities in accordance with the Main LR of Bursa Securities.</p> <ul style="list-style-type: none">iii. Annual Report and Circular to Shareholders <p>The Annual Report for year 2017 together with the notice of AGM were distributed to Shareholders on 16 April 2018.</p>

iv. Company's website

All announcements released to Bursa Securities are also appear in the VELESTO's website at www.ir.chartnexus.com/velesto-energy/index.php.

Shareholders and the general public may also access to the said website for information such as financial reports, bursa announcements, stock information, investor updates, investor relations contact, email alerts and reports – AGM/EGM.

v. Media release

One (1) write-up in respect of UMW JDC Drilling Sdn. Bhd., a joint venture with Japan Drilling Company has commenced the process of voluntary winding up, has been uploaded to the VELESTO's website at www.velesto.com/media-centre/

vi. Analyst briefing and / or Press conference

Analyst briefing was held four (4) times in FY2018 after the release of each Quarter Financial Results. A press conference was held after the 8th AGM on 15 May 2018, followed by a press release on the AGM. Chaired by the President, these briefings provided venues to keep the investors informed of the various activities and initiatives undertaken by the VELESTO and to provide clearer understanding of the VELESTO's financial and operational performance.

vii. One-on-one Meeting

VELESTO aims to communicate fully with fund managers, investors and analysts upon request. One-on-one meetings with analysts and fund managers are held to provide updates on the VELESTO's strategy and financial performance.

viii. Investor Relations matters

A dedicated "Investor Relations Contact" section with the listing the following information, for ease of communication by stakeholders:-

Strategy & Investor Relations
Velesto Energy Berhad
Telephone: +603 2096 8788
Email: investor_relation@velesto.com

The detailed communication with the stakeholders for FY2018 are disclosed in the Stakeholder Engagement as set out in 2018 Annual Report.

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

Intended Outcome

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	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company would review the need to adopt the integrated reporting based on a globally recognised framework at the appropriate time.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	The Company will commence the preparation of the integrated reporting when the relevant authority(ies) provide sufficient guidance/ guidelines to the listed issuers and that such reporting would be a value-adding activity to the Company.	
Timeframe	:	Others	Not Applicable

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	:	<p>The notice of the 9th AGM together with the Annual Report is dispatched to shareholders at least twenty-eight (28) days prior to the meeting date, well in advance of the twenty-one (21) days requirement under the Companies Act 2016 and Main LR of Bursa Securities. 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.</p> <p>More importantly, it enables the shareholders to consider the resolutions and make an informed decision in exercising their voting rights at the general meeting. Full explanation of the effects of a proposed resolution of any special business will accompany the notice of the AGM.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

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	:	<p>All the Directors including the Chairman of the respective board committees were present at the previous 8th AGM of the Company held on 15 May 2018.</p> <p>The Chairman of the Board of Directors, presided over the 8th AGM, and together with the President, chairman of the respective board committees and senior management were readily available to address various questions from our shareholders and their proxies.</p> <p>For the coming 9th AGM, it is expected that all the Board members, including the President and Senior Management team will be present to meet the shareholders.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

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	:	<p>Prior to implementing the voting in absentia and remote shareholders' participation at general meeting(s), the Board noted several factors/ conditions need to be fulfilled prior to making such consideration:-</p> <ul style="list-style-type: none"> • Availability of technology and infrastructure; • Affordability of the technology and infrastructure; • Sufficient number of shareholders residing/locating at particular remote location(s); and • Age profile of the shareholders. <p>In view thereof, the Board will not be recommending the adoption such Voting/ Participation at the forthcoming 9th AGM of the Company.</p> <p>For shareholders who are not able to make the journey to the 9th AGM's venue, they are allowed to appoint any person(s) as their proxies to attend, participate, speak and vote in his stead at the AGM.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	The Board will continue to re-visit this matter on a periodic basis, including the possible implications if disclosure is made, to determine whether a change in disclosure decision is appropriate.
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.

N/A
