

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5238
COMPANY NAME : AIRASIA X BERHAD
FINANCIAL YEAR : December 31, 2017

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

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

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

Application	: Applied
Explanation on application of the practice	<p>The Board of Directors ("the Board") is responsible for the oversight of the overall management of AirAsia X Berhad ("AAX") and retains full and effective control over the affairs of AAX. It reviews policies and strategies, actively oversee the conduct, management and business affairs of AAX, and monitors Senior Management's performance.</p> <p>The Board has established the following Board Committees to assist in carrying out its duties and responsibilities:</p> <ul style="list-style-type: none">• Audit Committee ("AC");• Nomination and Remuneration Committee ("NRC");• Risk Management Committee ("RMC"); and• Safety Review Board ("SRB"). <p>The Board Committees are authorised by the Board to deal with and to deliberate on matters delegated to them within their authority provided for in their Terms of Reference. Although the Board has granted discretionary authority to these Board Committees to deliberate and decide on certain operational matters, the ultimate responsibility for final decision on all matters lies with the Board.</p> <p>The Board ensures the effective discharge of its fiduciary and leadership functions as well as sustains long-term shareholder value while safeguarding the interests of stakeholders.</p> <p>The Board's role can be summarised as follows:</p> <ul style="list-style-type: none">• review and approve strategies, business plans and significant policies for AAX, its subsidiaries and associated company ("the Group") and monitor management's performance in implementing them;• set corporate values and clear lines of responsibility and

	<p>accountability, including governance systems and processes that are communicated throughout the Group;</p> <ul style="list-style-type: none"> • ensure full compliance and to carry out the duties of the Board in accordance with the relevant provisions of the Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Malaysia”), the Capital Markets and Services Act, 2007 (“CMSA”), the Companies Act, 2016 (“CA”) and all applicable laws, regulations and guidelines, with the assistance of Legal department and the Company Secretary; • oversee the conduct of the Group’s business and ensure that the management of AAX is competent and effective; • ensure that there shall be unrestricted access to independent advice or expert advice at AAX’s expense in furtherance of the Board’s duties (whether as a Board or a director in his/her individual capacity); • formalise ethical standards through a code of conduct which will be applicable throughout the Group and ensure the compliance of this code of conduct; • ensure that the operations of AAX are conducted prudently, and within the framework of relevant laws and regulations; • establish, approve, review, and monitor AAX’s risk appetite and comprehensive risk management policies, processes and infrastructure, and receive regular reports therein, which is assisted by the Head of Risk Management and the RMC; • approve delegated authority for expenditure, lending, and other risk exposures, through the recommendation of the AC; • consider emerging issues which may be material to the business and affairs of AAX and ensure that AAX has a proper succession plan for its Senior Management, through the recommendation of the NRC; • keep under review and maintain AAX’s capital and liquidity positions as well as ensure that AAX’s strategies promote sustainability; • review and approve proposals for the allocation of capital and other resources within AAX; • review and approve AAX’s annual capital and revenue budgets (and any material changes thereto), following the review and recommendation of the AC; • ensure that the Board has adequate procedures in place to receive reports periodically and/or on a timely basis from AAX’s management that would provide the Board with a reasonable basis to make proper judgement on an ongoing basis as to the financial position and business prospects of AAX; • approve AAX’s annual reports and unaudited periodic financial statements as required by the applicable stock exchange, including but not limited to other published financial statements and material and significant statements issued to shareholders; • review the adequacy and integrity of AAX’s internal control system and management information systems, including systems for complying with applicable laws, regulations, rules, directives and guidelines;
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	<ul style="list-style-type: none"> • set up an internal audit department (“IAD”) staffed with qualified personnel to perform internal audit functions, covering financial and management audit as well as regulatory compliance, that reports directly to AAX’s AC; • establish procedures to assess any related party transactions or conflict of interest situations that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity; • establish and ensure the effective functioning and monitoring of the AC, RMC and NRC, and any other committees as deemed necessary by the Board, and to delegate appropriate authority and terms of reference to such committees established by the Board; • prepare an AC report at the end of each financial year that will be clearly set out in the annual report of AAX; • look at and to address their mind to major and/or material litigation situations against the Group as and when they arise; • to ensure that AAX has a beneficial influence on the economic well-being of its community; • ensure that AAX has in place a policy and/or procedures to enable effective communication with, and appropriate disclosure to, its shareholders and other stakeholders; and that its shareholders have access to information about AAX; • receive and consider high level reports on matters material to AAX; • receive the minutes of and/or reports from the committees established by the Board; • review and agree to changes in the terms of reference of AAX’s Board and committees established by the Board; • achieve an optimum balance and dynamic mix of competent and diverse skill sets amongst the Board members; • ensure adequate training of members of the Board, through the recommendation of the NRC and the Company Secretary; and • undertake an assessment of the independence of its independent directors annually in accordance with the assessment criteria to be developed by the NRC, which is performed annually.
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 1.2

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 of AAX is responsible for the following:-</p> <ul style="list-style-type: none"> • oversees the Board to ensure the effective discharge of its role; • monitors the workings of the Board and conduct of the Board meeting; • ensures all relevant issues for the effective running of AAX's business are on the agenda for Board meetings; • ensures that quality information to facilitate decision-making is delivered to Board members on a timely basis; • encourages all directors to play an active role in board activities; • chairs general meetings of shareholders; and • to liaise with the Chief Executive Officer ("CEO") and Company Secretary on the agenda for Board meetings. <p>The roles and responsibilities of the Chairman have been clearly specified in the Board Charter, which is available on AAX's website at: http://www.airasiac.com/misc/board_charter.pdf</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 1.3

The positions of Chairman and CEO are held by different individuals.

Application	:	Applied
Explanation on application of the practice	:	<p>In line with the Malaysian Code of Corporate Governance 2017 ("MCCG"), the positions of the Chairman and CEO of AAX are held by different individuals. To provide for proper checks and balances, the Chairman holds a Non-Executive position.</p> <p>The Chairman, Tan Sri Rafidah Aziz leads and manages the Board by focusing on strategy, governance and compliance whereas the CEO, Mr. Benyamin Ismail manages the business and operations of AAX and implements the Board's decisions. The division of roles and responsibilities of the Chairman and CEO is set out in the Board Charter and it ensures a balance of power and authority.</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 Company Secretary, Jasmindar Kaur A/P Sarban Singh, is a Fellow member of Malaysian Institute of Chartered Secretaries and Administration. All Directors have access to the Company Secretary who also serves in that capacity in the various Board Committees, save for the SRB, and ensures that Board procedures are followed. The Company Secretary advises on measures to be taken and requirements to be observed by AAX and Directors arising from new statutes and guidelines issued by Bursa Malaysia, the Securities Commission Malaysia ("SC") and Companies Commission of Malaysia ("CCM"). The Company Secretary also advises the Directors on their obligations and duties to disclose their interest in AAX's securities, as well as any conflicts of interest in transactions involving AAX. In addition, the Company Secretary monitors and ensures the timely lodgment of statutory documents with Bursa Malaysia, SC and CCM.</p> <p>The Company Secretary attends all Board and Board Committee meetings (save for SRB meetings which are handled by the SRB) and ensures that accurate and proper records of the proceedings and resolutions passed are maintained in the statutory records at the registered office of AAX in compliance with the CA. The Company Secretary also facilitates timely communication of decisions made and policies set by the Board at Board meetings, to the Senior Management for action. The Company Secretary works closely with the Senior Management to ensure timely and appropriate information flows within and to the Board and Board Committees, and between the Non-Executive Directors and Senior Management.</p> <p>The Company Secretary also serves notice to Directors on the closed periods for trading in AAX's securities, in accordance with Chapter 14 on Dealings in Listed Securities of the MMLR of Bursa Malaysia.</p> <p>The appointment and removal of the Company Secretary is a matter reserved for the collective decision and approval of the Board.</p>
Explanation for departure :	

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

Intended Outcome

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

Practice 1.5

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>An annual meeting calendar is prepared and circulated by the Company Secretary in advance of each new year, which includes scheduled meeting dates for Board, Board Committees and the annual general meeting ("AGM") to facilitate Directors' time planning.</p> <p>Notice of the Board and Board Committee meetings are sent to Directors via email at least seven (7) days before the meeting date. The same notification is sent to the Senior Management, which includes the deadlines for submission of meeting materials.</p> <p>Prior to Board meetings, all Directors receive the agenda and a set of Board meeting papers duly signed and recommended by the relevant Senior Management personnel containing information for deliberation at least five (5) business days before the meeting date. This is to accord sufficient time for the Directors to review the Board papers and seek clarification, if required, from the Senior Management or the Company Secretary.</p> <p>AAX encourages a paperless environment which requires granting digital access via a dedicated Google Drive to meeting documents instead of distributing hard copy documents. Google Drive allows Directors to access various company documents which are uploaded onto personal or company provided devices for easy reference and in a timely manner.</p> <p>AAX makes use of video conferencing to enable the participation of members of Senior Management from other offices without their need to travel, when the need arises. The video conference allows the Board to have access to information in a timely manner from the relevant person in charge while saving time and cost.</p>
Explanation for departure :	

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

Measure	:		
Timeframe	:		

Intended Outcome

There is 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 informs prospective and existing Board members of their fiduciary duties and responsibilities as directors of AAX. It sets out amongst other things, the membership and operation of the Board, principles of good corporate governance and practice, that accord with applicable laws.</p> <p>At present the Board Charter does not provide for the annual review of the Board Charter. However, the Board is presently reviewing it to include amongst other things a paragraph on the annual review of its Board Charter to ensure its relevance in assisting the Board to discharge its duties with the changes in the corporate laws and regulations that may arise from time to time and to remain consistent with the Board’s objectives and responsibilities. The Board Charter is available on AAX’s website at: http://www.airasiac.com/misc/board_charter.pdf</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>In order to engage efficiently, responsibly and profitably in the commercial aviation business, AAX seeks high standards of performance and also aims to maintain a long term position in the competitive environment towards shareholders, passengers, employees, business partners and society. These standards are reflected in AAX's Code of Business Conduct, which is available at: http://www.airasiac.com/misc/code_of_business_conduct.pdf</p> <p>The Code of Business Conduct allows AAX to do its business fairly, impartially, ethically, and with the utmost regard to safety. It regards integrity as the basis of AAX's relationships with its guests, suppliers and communities. It ensures AAX's directors, employees, agents and representatives carry out their respective functions with honesty, impartiality and compliance with all applicable laws and regulations. It sets out the prohibited activities or misconduct involving gifts, gratuities, bribes, dishonest behaviour and sexual harassment. The Code of Business Conduct also promotes prudent management of conflict of interests which may interfere with the objectivity in carrying out AAX's duties.</p> <p>In addition to AAX's own Code of Business Conduct, the Directors are also required to observe the Code of Ethics established by the CCM in furtherance of their duties.</p> <p>The Company also has a Code of Conduct which governs the professional conduct of our employees and outlines their responsibilities to the Company in performing their duties. It spells out the standards and ethics that all employees are expected to adhere to in the course of their work. It is designed to maintain discipline and order in the workplace among employees at all levels. It also sets out the disciplinary actions which would be taken against employees who have breached the Code of Conduct.</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 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

Application	:	Applied
Explanation on application of the practice	:	<p>AAX’s Whistleblowing Policy enables genuine and legitimate concerns to be raised by employees, directors and others. The policy provides an opportunity for those concerns to be investigated and for appropriate action to be taken to ensure that the matter is resolved effectively and within the Company wherever possible.</p> <p>All concerns should be addressed to Head of Internal Audit who will then assess all concerns reported and recommend the appropriate action, and subsequently:</p> <ul style="list-style-type: none"> • To compile all reports received and submit to the Chairman of the Board, AC; and • To report to Management the results of the investigation for further action. <p>All details pertaining to the name and position of the whistleblower will be kept strictly confidential throughout the investigation proceedings.</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	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Board of AAX consists of seven (7) members and comprises of directors as follows:</p> <ul style="list-style-type: none"> • A Senior Independent Non-Executive Chairman; • A Non-Independent Executive Director and Group Chief Executive Officer (“GCEO”); • A Non-Independent Executive Director and Co-Group Chief Executive Officer; • Two (2) Non-Independent Non-Executive Directors; and • Two (2) Independent Non-Executive Director (“INED”). <p>During the financial year ended 31 December 2017 (“Financial Year”), the NRC had reviewed the composition of the Board. The NRC unanimously agreed that the Board consisted of adequate members at the moment with the right mix of skills and competencies. It was also confirmed that the Board had complied with the requirements of at least one-third (1/3) of the Board to be independent, board meeting attendance of more than fifty per centum (50%) and participation during the Board was satisfactory with no dissenting views.</p> <p>However, the Company recognises the benefits of having at least half of its composition comprising of Independent Directors.</p> <p>The NRC and the Board are actively seeking new Independent Directors to join AAX. Selection of candidates will be made based on recommendations made by existing Board members, Senior Management or major shareholders. The NRC and the Board aim to achieve its target to have at least half of its composition comprising Independent Directors by 2021.</p>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		

Measure	:		
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	:	<p>The maximum tenure of an Independent Director is based on Practice 4.2 of the MCCG, which states that an Independent Director's tenure does not exceed a cumulative of nine (9) years.</p> <p>Upon completion of the nine (9) years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. The Board must justify and seek shareholders' approval in the event it intends to retain as an Independent Director, a person who has served in that capacity for more than nine (9) years.</p> <p>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. However, it is not encouraged to retain an Independent Director for a period of more than twelve (12) year unless there is justification to do so.</p> <p>This policy is set out in AAX's Board Charter. The Board has recommended to the shareholders of the Company for approval to amend the AAX's existing Memorandum and Articles of Association (Constitution) to incorporate the same at the forthcoming AGM of the Company.</p>

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

Application	:	Applied																								
Explanation on application of the practice	:	<p>AAX has implemented procedures for the nomination and election of Directors via the NRC. The NRC will assess candidates when sought as part of its recruitment exercise with the necessary skills, knowledge and experience. AAX also recognises and embraces the benefits of having a diverse Board and has adopted a Board Diversity Policy and through the NRC, will take steps to ensure that women candidates are sought as part of its recruitment exercise. Selection of candidates to join the Board will be, in part, dependent on the pool of candidates with the necessary skills, knowledge and experience. The NRC will review the nominee(s) for directorship and Board Committees membership by going through the profile and interviewing the nominee(s) and thereupon submitting their recommendation to the Board for decision.</p> <p>AAX's diverse Board includes and makes good use of differences in skills, regional and industry experience, background, race, gender, ethnicity, age and other attributes of Directors. Besides, AAX maintains a good mix of diversity in the Senior Management of the Company. The ultimate decision of a Board appointment will be based on merit and contributions the candidate can bring to the Board.</p> <p>The Company Secretary will ensure that all appointments are properly made, that all information necessary is obtained, as well as all legal and regulatory obligations are met.</p> <p>The current diversity in the race/ethnicity (cultural background), nationality, age and gender of the existing Board is as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">Race/Ethnicity</th> <th colspan="2">Gender</th> <th colspan="3">Age Group</th> </tr> <tr> <th>Malay</th> <th>Chinese</th> <th>Indian</th> <th>Male</th> <th>Female</th> <th>50-59</th> <th>60-69</th> <th>70-89</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">4</td> <td style="text-align: center;">2</td> <td style="text-align: center;">1</td> <td style="text-align: center;">6</td> <td style="text-align: center;">1</td> <td style="text-align: center;">4</td> <td style="text-align: center;">1</td> <td style="text-align: center;">2</td> </tr> </tbody> </table> <p>The Board strongly views that diversity of the Board's composition is important to facilitate optimal decision-making by harnessing different insights and perspectives of Directors from a wide variety of backgrounds, experiences and skills.</p>	Race/Ethnicity			Gender		Age Group			Malay	Chinese	Indian	Male	Female	50-59	60-69	70-89	4	2	1	6	1	4	1	2
Race/Ethnicity			Gender		Age Group																					
Malay	Chinese	Indian	Male	Female	50-59	60-69	70-89																			
4	2	1	6	1	4	1	2																			

	<p>The appointment of key Senior Management was also made with due regard for diversity in skills, experience, age, cultural background and gender. Their detailed particulars are provided on pages 54 to 61 of the Annual Report 2017. Their diversity is reflected in the following table:</p>				
	Race/Ethnicity			Gender	
	Malay	Chinese	Indian	Male	Female
	4	2	1	6	1
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 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>AAX currently has one (1) woman director. The Company recognises the benefits of having at least 30% women directors and is working towards that target.</p> <p>The Board has established a Board Diversity Policy which ensures a broad dimension of diversity is present to guarantee diverse viewpoints. In particular, the Board places emphasis in recruiting women directors to achieve an optimum and balanced composition of the Board. This is reflected in paragraph 5.2 of the Policy as follows:</p> <p><i>“In identifying suitable candidates for appointment to the Board, the Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. The following criteria are set in the selection of suitable candidates:</i></p> <ul style="list-style-type: none"> <i>(i) Millennial appeal;</i> <i>(ii) Gender diversity (female);</i> <i>(iii) Entrepreneurial skills;</i> <i>(iv) Global mindset;</i> <i>(v) Digital savvy; and</i> <i>(vi) Influencer.”</i> <p>The NRC and the Board are actively seeking new women directors to join AAX. Selection of candidates will be made based on recommendations made by existing Board members, Senior Management or major shareholders. The NRC and the Board aim to achieve a composition of 30% women directors by 2021.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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 has established a formal and transparent process whereby the NRC is responsible to identify candidates suitably qualified to become Board members including Independent Directors and make recommendations to the Board of such individuals for appointment by taking into considerations the competencies, commitment, contribution and performance of such potential candidates.</p> <p>The NRC may also utilises independent sources (e.g. directors' registry and open advertisements or use independent search firms) to identify suitably qualified candidates. The independent search firms are required to use the following candidate criteria in identifying the suitable candidates:</p> <ul style="list-style-type: none"> (i) Millennial appeal; (ii) Gender diversity (female); (iii) Entrepreneur skills; (iv) Global mindset; (v) Digital savvy; and (vi) Influencer. <p>The ultimate decision as to who shall be nominated shall be the responsibility of the full Board after considering the recommendations of the NRC.</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 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

Application	:	Applied	
Explanation on application of the practice	:	The membership of the NRC is set out in its Terms of Reference. The members of the Committee shall be appointed by the Board and shall comprise at least three (3) members, all of which shall be non-executive directors, a majority of whom shall be independent directors. The current Chairman of the NRC is the Senior Independent Non-Executive Director, who is appointed by 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

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

Application	:	Applied
Explanation on application of the practice	:	<p>The NRC reviews the composition of the Board and the Board's Committee annually. During the year under review, the Board had conducted the assessments on the performance of the Board as a whole and its Board committees as well as the performance of each AC Member. The NRC reports their findings to the Board for assessment of the performance and effectiveness of the Board as a whole and its Board Committees, and each AC Member, and the independence of Independent Non-Executive Directors. During the Financial Year, the NRC had also reviewed and assessed the independence of the Independent Directors of the Company. These assessments was carried out through a series of questionnaires, which takes into account the Directors' professionalism and integrity in the decision-making process, their ability to form independent judgments, as well as their objectivity and clarity in deliberations. Directors' contribution, performance and personality in relation to the skills, experience and other qualities they bring or advice to the Board at meetings are also evaluated.</p> <p>The NRC was satisfied with the performance of all the Directors and Committee members during the Financial Year; and there were no dissenting views.</p> <p>The Board is also satisfied with the level of commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of AAX. Most of the Directors had attended 80% of the total number of Board meetings in 2017. Details of Directors' meeting attendance at Board and Board Committee meetings are evidenced by the attendance record as set out in the Company's Corporate Governance Overview Statement.</p> <p>To further improve the ability to discharge its functions, the Board is planning to engage an independent expert to facilitate board evaluations and implement the action plan recommended by such expert.</p>

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

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board has in place in a Remuneration Policy which is clear and transparent, designed to support and drive business strategy and long term objectives of the Company. The Remuneration Policy is reviewed by the NRC prior to making its recommendations to the Board for approval.</p> <p>AAX maintains transparent procedures in determining the remuneration policy for the Directors, GCEOs, CEO and Senior Management. The NRC is responsible to review and recommend to the Board the compensation payable to the Directors, GCEOs, CEO and Senior Management in connection with their individual contributions to AAX's overall performance or any loss or termination of their office or appointment, and the compensation arrangements relating to their dismissal or removal for misconduct.</p> <p>Executive Directors play no part in decisions on their own remuneration. The remuneration packages of Non-Executive Directors are determined by the Board as a whole. All the individual Directors concerned abstain from discussing their own remuneration. This is to ensure the compensation is competitive and consistent with AAX's business strategy and long-term objectives.</p> <p>The policy and procedures would be periodically reviewed and updated to ensure the same remain competitive, appropriate, and in alignment with the prevalent market practices.</p> <p>The Remuneration Policy is available on the corporate website at www.airasiac.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 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>The primary responsibilities of the NRC, in accordance with its terms of reference, are available on AAX's website at: http://www.airasiac.com/misc/tor_nrc.pdf</p> <p>The main activities of the NRC in 2017 included the following:</p> <ul style="list-style-type: none">• Annual review of size and composition of Board, Board balance and independence of Directors and skills of Directors;• Annual assessment of effectiveness of the Board as a whole;• Annual review of composition, functions and performance of the Board Committees;• To review annually and recommend to the Board the overall remuneration policy for Directors, GCEOs, CEO and Senior Management to ensure that rewards commensurate with their contributions to the Group's growth and profitability;• To review annually the performance of the GCEOs and CEO and recommend to the Board specific adjustments in remuneration and/or reward payments if any, reflecting their contributions for the year. Their total remuneration package with market comparability would also be considered; and• To ensure the level of remuneration for Non- Executive Directors and Independent Directors are linked to their level of responsibilities undertaken in the Board and Board Committees and contributions to the effective functioning of the Board. <p>The NRC meets as and when required. It held two (2) meetings during the financial ended 31 December 2017 which were attended by all the members.</p> <p>The Company maintains transparent procedures in determining the remuneration policy for Directors. The determination of remuneration</p>

packages of Non-Executive Directors is a matter for the Board as a whole. All the individual Directors concerned abstained from discussing their own remuneration.

Based on the annual review of the Non-Executive Directors, the NRC recommended and the Board affirmed for an increase in the Chairman of the Board's fee from RM150,000 p.a. to RM165,000 p.a., the basic board fee from RM60,000 p.a. to RM65,000 p.a. and no change to the Committee fees with effect from the Financial Year until the next AGM of the Company to be held in the year 2018 as shown below:-

Non-Executive Directors' Fees (per annum)	Non-Executive Chairman (RM)	Per Non-Executive Director/Per other Committee Member (RM)
Board of Directors	165,000	65,000
AC	40,000	30,000
NRC	30,000	20,000
SRB	30,000	20,000
Non-Executive Directors' Benefits (per attendance by each director or committee member)	Board Directors	Board Committees
Meeting allowance	1,000	1,000
Other Non-Executive Directors' Benefits		
Insurance premiums on medical coverage, and other claimable expenses incurred in the course of carrying out their duties.	Up to a total amount of RM100,000 for all Non-Executive Directors	

Section 230(1) of the CA provides amongst others, that "the fees" of the directors and "any benefits" payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting. In this respect, the Board agreed that the shareholders' approval shall be sought at the 11th AGM on the Non-Executive Directors' remuneration in the following resolution:

- **Resolution 2** on the payment of Non-Executive Directors' Remuneration with effect from the financial year ending 31 December 2017.

Resolution 2 was approved at the 11th AGM.

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

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

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

Application :	Applied
Explanation on application of the practice :	<p>The Directors' remuneration package is reviewed annually to support long-term sustainability and shareholder value, consistent with AAX's business strategy. There is a clear distinction between the remuneration structures of the Non-Executive Directors, Executive Directors and the Senior Management.</p> <p>The remuneration package for the Financial Year comprises the following elements:</p> <p>1. Fee The fees payable to the Non-Executive Directors for their services to the Board are based on a basic board fee and their respective additional responsibilities on the Board Committees.</p> <p>2. Benefits-in-kind Other customary benefits (such as meeting allowance of RM1,000 per attendance by each director or committee member, insurance premiums on medical coverage and other claimable expenses incurred in the course of carrying out their duties up to a total of amount of RM100,000 for all the Non-Executive Directors, travel coupons, etc.) are made available as appropriate.</p> <p>3. Service contract The GCEOs and CEO have a three-year service contract with AAX, subject to further review.</p> <p>4. Directors' share options There are currently no share options for the Directors.</p> <p>The detailed disclosure of remuneration breakdown for all Directors, is as set out in the Corporate Governance Overview Statement on page 131 of the Annual Report 2017.</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

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

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Board is of the view that the disclosure of the Senior Management's remuneration would be unfavourable to the Group as talent poaching is common in the industry and the Group would like to ensure employee retention efforts are safeguarded.</p> <p>Alternatively, the disclosure of the salary of Senior Management personnel is made on an aggregate basis in the Audited Financial Statements for the Financial Year.</p> <p>The Company will monitor the market practices and take the necessary measures to achieve the required disclosure under Practice 7.2 by the year 2021.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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	:	<p>The AC comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.</p> <p>The AC Chairman, Dato' Yusli Bin Mohamed Yusoff qualified as a member of the Institute of Chartered Accountants England and Wales, and is a member of the Malaysian Institute of Accountants, as well as an Honorary Member of the Institute of Internal Auditors Malaysia. He is not the Chairman of the Board. He is an Independent Non-Executive Director of AAX and a member of the NRC as well as the RMC of the Board. He reports to the Directors at Board meetings any salient matters raised at the AC meetings which require the Board's notation, approval or decision.</p> <p>The Terms of Reference of the AC has been amended on 21 February 2018 to reflect the requirements in Practice 8.1 of the MCCG that <i>"The AC Chairman is not the Chairman of the Board"</i>.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.2

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	:	None of the members of the Board were former key audit partners within the cooling-off period of two (2) years. Hence, there is no such person being appointed as a member of the AC. The Terms of Reference of the AC has been amended on 21 February 2018 to reflect the requirements in Practice 8.1 of the MCCG that <i>"Any former key audit partner must have observed a cooling-off period of at least two (2) years before one (1) is eligible for appointment as AC member"</i> .
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board, through the AC, has maintained appropriate, formal and transparent relationship with the external auditors. The AC meets the external auditors without the presence of management, whenever necessary, and at least twice a year. Meetings with the external auditors are held to further discuss AAX's audit plans, audit findings, financial statements as well as to seek their professional advice on other related matters. From time to time, the external auditors inform and update the AC on matters that may require their attention.</p> <p>An External Auditor Independence Policy was established aimed at establishing a process to monitor the suitability and independence of external auditors. In the assessment of the performance of the external auditors, including their independence policies and procedures, the AC noted that the external auditors had in accordance with the independence requirements set out in the By-Laws (on professional ethics, conduct and practice) of the Malaysian Institute of Accountants, evaluated the level of threat to objectivity and potential safeguards to prevent any threats prior to acceptance of any non-audit engagement.</p> <p>AAX appointed Messrs Ernst & Young ("EY") in place of the retiring external auditors, Messrs PricewaterhouseCoopers at the 11th AGM of AAX held on 23 May 2017. The appointment of EY demonstrated AAX's good corporate governance of revisiting the appointment of its external auditors from time to time. EY has provided their written confirmation to the AC in respect of their independence throughout the audit engagement with the Group for the Financial Year.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Not Adopted
Explanation on adoption of the practice	:	At present the AC comprises of the following: The Chairman is an Independent Non-Executive Director One (1) Member of the AC is an Independent Non-Executive Director One (1) Member is a Non-Independent Non-Executive Director

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 Chairman and members of the AC are financially literate, and have carried out their duties in accordance with the Terms of Reference of the AC. The AC members are expected to continuously update their knowledge and enhance their skills.</p> <p>Based on the performance evaluation of the AC for the Financial Year, the Board is satisfied that the AC members have discharged their responsibilities effectively. During the Financial Year, the AC was involved in the following:-</p> <p><u>Financial Reporting</u></p> <ul style="list-style-type: none">• Reviewed and deliberated on the quarterly financial announcements and annual audited financial statements prior to submission to the Board for consideration and approval. <p><u>External Audit</u></p> <ul style="list-style-type: none">• The AC reviewed the external auditors' overall work plan and recommended to the Board their remuneration, terms of engagement and considered in detail the results of the audit, the external auditor's performance and independence and the effectiveness of the overall audit process. Reviewed updates on the Malaysian Financial Reporting;• Standards and how they will impact AAX and has monitored progress in meeting the new reporting requirements;• The AC was also updated by the external auditors on changes to the relevant guidelines on the regulatory and statutory requirements;• Deliberated and reported the results of the annual audit for recommendation to the Board; and• Met with the external auditors without the presence of management to discuss any matters that they may wish to

	<p>present.</p> <p><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Deliberated and approved the Internal Audit Plan for the Financial Year to ensure adequate scope and comprehensive coverage of audit as well as to ensure the audit resources are sufficient to enable IAD to discharge its functions effectively; • Deliberated on the investigation reports and after having understood the case in details, directed the Senior Management to implement controls to strengthen the control environment and prevent recurrence; • Deliberated and approved the Audit Charter for IAD; • Reviewed the quarterly audit finding status reports and deliberated on the rectification actions and timeline taken by the Management to ensure the control lapses are addressed and resolved promptly; • Reviewed the results of operational audit reports; and • Provided assistance to the appointed external auditor in all oversight of the operational audits on each quarterly review. <p><u>Related Party Transactions</u></p> <ul style="list-style-type: none"> • Reviewed related party transactions entered into by the Company and its affiliates in conformity to the established procedures in adherence to the MMLR of Bursa Malaysia. <p><u>Continuous Education</u></p> <p>The AC members were invited to various training programmes to keep abreast of relevant industry developments including accounting and auditing standards, business practices and rules, to address any skills or knowledge gaps according to their needs.</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

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>AAX maintains a comprehensive and robust risk management and internal control system as part of AAX’s corporate governance and in line with best practices. AAX’s Risk Management function aims to foster a strong risk management culture and ensure event-ready procedures and operations throughout AAX. A comprehensive risk management framework that includes clear risk management process, lines of responsibility and accountability as well as reporting guidelines are adopted.</p> <p>The system of internal control is designed to manage the Company’s risk within acceptable risk profile, and provides reasonable assurance against material errors, misstatement or irregularities. In view of the limitations inherent in any system of internal control, such a system is designed to mitigate rather than eliminate risks of failure to achieve corporate objectives. Accordingly, the system provides reasonable and not absolute assurance against material error, misstatement or loss. The system of internal control covers, inter alia, risks management, financial, operational and compliance controls. The Board confirms that the system of internal control and risk management of the Company was in place during the Financial Year. The system is subject to regular review by the Board.</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

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	<p>Risk Management Framework</p> <p>The Risk management Framework is coordinated by Group Risk. Group Risk develops risk policies, sets minimum standards, provides guidance on risk related matters, coordinates risk management activities with other departments, as well as monitors AAX's business risks. The Group Risk's principal roles and responsibilities are as follows:</p> <ul style="list-style-type: none"> • Review and update risk management methodologies, specifically those related to identification, measuring, controlling, monitoring and reporting of risks; • Provide risk management training and workshops; • Review risk profiles and mitigation plans of business units; and • Identify and to communicate to the RMC and CEO critical risks to the organisation, as well as corresponding control action plans for managing such risks. <p>Internal Control</p> <p>The following key internal control structures (including AC and IAD disclosed above) are in place to assist the Board to maintain a proper internal control system.</p> <p><u>Segregation of Duties</u></p> <p>Segregation of duties is embedded in the key business processes. The Group has in place a system to ensure there are adequate risk management, financial and operational policies and procedures.</p> <p><u>Internal Policies and Procedures</u></p> <p>Policies, procedures and processes governing the Company's businesses and operations are documented and made available to employees across the Company on the Company's intranet portal. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured process of review to cater to changes in legal and regulatory requirements as well as to the business and operational environment. The policies, procedures and processes are reviewed to ensure that appropriate</p>

controls are in place to manage risks inherent to the business and operations.

Financial Budgets

A detailed budgeting process has been established requiring all Heads of Department to prepare budgets and business plans annually for deliberation and approval by the Board. A reporting system on actual performance against the approved budget is also in place, which requires explanations for significant variances and action plans by Management to address these.

Human Capital Management

AAX acknowledges that one of the key elements of a robust internal control system is our people. Our system of risk management and internal control is dependent on the responsibility, integrity and judgement that people apply to their work. Consequently, the Group has in place policies and procedures that govern our recruitment, appointment, performance management, compensation and reward mechanisms as well as policies and procedures that govern discipline, termination and dismissal of employees.

Limits of Authority

AAX documented its Limits of Authority (“LOA”) which clearly defines the level of authority and responsibility in making operational and commercial business decisions. Approving authorities cover various levels of management and includes the Board. The LOA is reviewed regularly and any amendments made to the LOA must be tabled to and approved by the Board. The latest version of LOA was approved by the Board in November 2016.

Insurance

The Group undertakes adequate insurance and maintains physical safeguards on assets to ensure these are sufficiently covered against any mishap that will result in material loss. AAX Aviation Insurance provides coverage for the following:

- Aviation Hull and Spares All Risks and Liability;
- Aviation Hull and Spares War and Allied Perils (Primary and Excess)
- Aircraft Hull and Spares Deductible; and
- Aviation war, hijacking and other perils excess liability (Excess AVN52).

Information Security

Information Technology (“IT”) security protects information from a wide range of threats as well as safeguards the confidentiality, integrity and availability of information. IT security in the Group is achieved through a set of controls which includes policies, standards, procedures, guidelines, organisation structures and software control functions.

The Group acknowledges the importance of leveraging on IT to promote effectiveness and efficiency of business operations. Heavy

	<p>reliance on IT may pose emerging cyber security threats, hence AAX Cyber Risk Management is in place to manage cyber security risk. The Cyber Risk Management programme includes:</p> <ul style="list-style-type: none"> • Establishing an Information Security Management System to design, implement and maintain a coherent set of policies and processes to manage information risks; and • Conducting penetration tests, system vulnerability assessments and reviews to minimise IT security incidents. <p><u>Adequacy and Effectiveness</u></p> <p>The Company's IAD regularly reviews AAX's systems of internal controls and evaluates the adequacy and effectiveness of the controls, risk management and governance processes implemented by management. It integrates a risk-based approach in determining the auditable areas and frequency of audits. The Board is of the view that the risk management and internal control system in place for the year under review is sound and adequate to safeguard the shareholders' investment, the interest of customers, regulators and employees and AAX's assets.</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

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>AAX established its RMC in August 2017. The RMC comprises of three (3) members, all of which are non-executive directors of which a majority of whom are independent directors. The Terms of Reference of the RMC are available at this link: http://airasiac.com/misc/RMC_Terms_of_Reference.pdf</p> <p>The RMC meets as and when required. The RMC oversees the risk management matters of AAX. It supports the Board in fulfilling its responsibility for identifying significant risks and ensuring the implementation of appropriate systems to manage the overall risk exposure of AAX.</p> <p>The RMC's primary objectives are as follows:</p> <ul style="list-style-type: none">• To oversee and recommend the risk management strategies, frameworks and policies of the Group;• To implement and maintain sound risk management frameworks, which identify, assesses, manages and monitors the Group's strategic, financial, operational and compliance risks; and• To develop and inculcate a risk awareness and risk avoidance culture within the company. In fulfilling its responsibilities in risk management, the RMC is assisted by the Group Risk function.

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 AC is guided by the AC Terms of Reference and the work of the AC during the Financial Year is set out below:</p> <p>Deliberated and approved the Internal Audit Plan for Financial Year to ensure adequate scope and comprehensive coverage of audit as well as to ensure the audit resources are sufficient to enable Audit to discharge its functions effectively;</p> <p>Deliberated on the investigation reports and after having understood the case in details, directed the Management to implement controls to strengthen the control environment and prevent recurrence;</p> <p>Deliberated and approved the Audit Charter for IAD;</p> <p>Reviewed the quarterly audit finding status reports and deliberated on the rectification actions and timeline taken by the Management to ensure the control lapses are addressed and resolved promptly;</p> <p>Reviewed the results of operational audit reports; and</p> <p>Provided assistance to the appointed external auditor in all oversight of the operational audits on each quarterly review.</p> <p>IAD is guided by its Internal Audit Charter approved by AC that provides independence & reflects the function and responsibilities of the department. IAD reports functionally to AC and administratively to the CEO. IAD executives declare yearly that they are free from any conflict of interest which could impair their objectivity and independence.</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	:		
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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>IAD executives declare yearly that they are free from any conflict of interest which could impair their objectivity and independence.</p> <p>IAD is a corporate member of the Institute of Internal Auditors (IIA) and carries out its audits in accordance with the International Professional Practices Framework issued by the IIA.</p> <p>The IAD is staffed by five (5) executives. The Head of Internal Audit, Mr. Seng Kian Aik was appointed in April 2017. He is a member of Institute of Internal Auditors Malaysia and Malaysian Institute of Certified Public Accountants. He is also a Chartered Accountant of Malaysian Institute of Accountants and Chartered Accountants of Australia and New Zealand.</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>AAX recognises that open communication is essential, taking into account the importance of the activities in which they are engaged and the impact on national economies and individuals. To this end, AAX has comprehensive corporate information programmes and provides full relevant information about its activities to legitimately interested parties, subject to any overriding considerations of business confidentiality and cost.</p> <p>AAX is dedicated in maintaining good communications with shareholders and investors. Several communication channels are in place to disseminate information to shareholders and investors on the performance of AAX. These include the Annual Report, Financial Announcements and Key Operating Statistics and Announcements through Bursa Malaysia and Annual General Meetings.</p> <p>Senior Management that is supported by the Investors Relation Team, participate actively in investor relations activities that consist of road shows, conferences, quarterly investor briefings locally and globally with financial analysts, institutional investors and fund managers.</p> <p>Financial Results, Key Operating Statistics and Presentations on a quarterly basis are available for download at AAX's website.</p> <p>Shareholders may also obtain AAX's announcement on the website or via the Bursa Malaysia's website at www.bursamalaysia.com.</p> <p>In conjunction with AAX's Initial Public Offering ("IPO"), the Shareholders' Benefit Programme was implemented. This programme is running for three (3) years from the first anniversary of the IPO. During the AGM in the year 2016, the Board has proposed that the programme be extended for another three (3) years and was approved.</p>
Explanation for departure	:	

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

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

Application	:	Applied	
Explanation on application of the practice	:	AAX has adopted the integrated reporting to better meet the needs of various stakeholders and achieve business benefits. AAX aims to improve the quality of information disclosures to stakeholders and promote greater transparency and accountability. AAX will continue to produce a fully integrated annual report based on the International Integrated Reporting Council's International Integrated Reporting Framework for financial year ending 31 December 2018.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Notice of 11th AGM was issued on 28 April 2017 and the AGM date was 23 May 2018. AAX dispatches the Notice of AGM to its shareholders at least 21 days before the AGM as required under the CA, and the MMLR of Bursa Malaysia.</p> <p>AAX will dispatches the Notice of the 12th AGM to shareholders at least 28 days before the AGM. This allows shareholders to make the necessary arrangements to attend and participate in person or through corporate representatives, proxies or attorneys. It also enables the shareholders to consider the resolutions and make an informed decision in exercising their voting rights at the general meeting.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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>At the AGM, there will be a brief presentation on AAX's performance for the year and future prospects. The Chairman, all Board Committee chairmen, GCEOs and CEO will be present to hear shareholders' views and answer their questions. Shareholders are encouraged to participate in the proceedings and engage in dialogue with the Board and Senior Management. Extracts of the minutes of the AGM are available on AAX's website.</p> <p>At the 11th AGM, all seven (7) Directors were present in person to engage directly with shareholders. This shows the Board is accountable for its stewardship of AAX. In addition to the Directors, GCEOs, CEO, Senior Management and external auditors were in attendance to respond to shareholder's queries.</p> <p>The proceedings of the 11th AGM included a power-point presentation on AAX's performance for 2016 and its strategies for 2017 by the CEO, the presentation of the Audited Financial Statements together with the Reports of the Directors and Auditors, and a Questions and Answers session during which the Chairman invited shareholders to raise questions, before putting any resolution to vote.</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	:	Applied
Explanation on application of the practice	:	<p>AAX has adopted poll voting by using electronic voting devices for the conduct of poll on all resolutions proposed. This aligns with AAX's aspiration to embrace digitalisation where electronic voting devices can provide a more efficient and accurate outcome of the results.</p> <p>The counting at the 11th AGM was conducted on a poll in accordance with Paragraph 8.29A of the MMLR of Bursa Malaysia. AAX had appointed Symphony Share Registrars Sdn. Bhd. as Poll Administrator to conduct the polling process, and Messrs Symphony Corporatehouse Sdn. Bhd. as scrutineers to verify the poll results.</p> <p>Personalised coloured and bar coded wristbands were issued by the Share Registrar upon registration for e-voting at the 11th AGM. The polling process for the resolutions was conducted only upon completion of the deliberation of all items transacted at the 11th AGM. The Poll Administrator briefed on the e-voting process prior to the commencement of the e-voting. The shareholders/proxies were directed to the e-voting counters to cast their votes with his/her personalised passcodes.</p> <p>Upon the verification of the poll voting results by the scrutineers, the results were projected on the screen in the meeting room. The poll results were also announced by AAX for the benefit of all shareholders. Minutes of the 11th AGM are also available on AAX's website.</p> <p>The 11th AGM was held at the Asian Aviation Centre of Excellence. This venue was easily accessible as it was familiar to most shareholders of AAX since several past AGMs were held at the same venue.</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	:		

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES
PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA
MALAYSIA**

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

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