


CEO'S OPERATIONS REVIEW — MANAGEMENT DISCUSSION & ANALYSIS



**AT MALAKOFF, WE
CONTINUOUSLY
STRIVE TO IMPROVE
OUR OPERATIONAL
EFFICIENCIES
AND STRENGTHEN
OUR VALUE
PROPOSITION
AT HOME AND
ABROAD.**

DATO' AHMAD FUAAD KENALI
Chief Executive Officer

Dear Shareholders,

The year 2018 exemplified Malakoff Corporation Berhad's ("Malakoff" or "the Group") resilience and ability to deliver satisfactory performance amidst challenging domestic and global business environment. Malakoff continues to focus on its strategic pillars of operational excellence, achieving sustainable growth and strengthening fundamentals to improve our performance and competitiveness.

Malakoff is an independent power and water producer with a total effective capacity of 7,036 MW for electricity and 420,925 m³/day for desalinated water respectively in 2018. In Malaysia, we are the largest independent power producer ("IPP") with a net generating capacity of 6,346 MW from a fleet of seven power plants. To achieve sustainable growth, we are actively seeking and exploring opportunities to further expand our power generation and water production capacity both locally and internationally.

In 2018, the global economy expanded by 3.1%, slowing towards the end of the year due to market volatility as well as escalating trade disputes among certain major economies. Malaysia's economy grew at 4.7% in 2018, well below 5.9% recorded in 2017, due to the deferment and cancellation of several major infrastructure projects, lower export growth as well as more cautious public and private sector's investments. Going forward, Malaysia's electricity demand growth is expected to moderate in 2019 in tandem with the outlook of the Malaysian economy.

Malakoff must evolve to remain relevant and competitive by continuously improving our efficiency, competitiveness and expertise particularly in the Renewable Energy ("RE") sector, and by consolidating and building upon our experience and efficiency as one of the leading IPPs in Malaysia.

KEY DEVELOPMENTS & TRENDS IN THE ENERGY SECTOR

Reforms in the Malaysian Energy Sector

Energy policies are expected to be recalibrated due to the change of Government in May 2018, and the domestic power sector has been undergoing reforms including a potential shift towards a liberalised market.

The review and cancellation of projects awarded through direct negotiation and the Government's policy to carry out competitive "open tender" bidding would allow Malakoff to participate in future tenders for power projects.

The Government's target to increase the country's share of RE generation to 20% by 2025 will provide opportunities for Malakoff to expand and grow its RE portfolio. New policies have also been announced to promote the development of RE capacity such as the improved Net Energy Metering ("NEM") Policy for rooftop solar projects, Green Investment Tax Allowance, and Green Income Tax Exemption. The new RE target will transition the power generation industry to become more environmentally friendly, and potentially competitive in view of the declining cost of RE.

The Malaysia Programme Office for Power Electricity Reform ("MyPower") unit has been reactivated to spearhead the

implementation of the reform of the domestic electricity supply sector under Malaysia Electricity Supply Industry ("MESI") 2.0 focusing on an efficient, transparent, market-based, sustainable power industry. The liberalisation of the power sector is intended to create a transparent and efficient market structure with a more cost-reflective tariff.

Power Industry Trends

The advent of Industry 4.0 is progressing concurrently with the rising demand for sustainable energy. Industry 4.0 technologies such as augmented reality, Internet of Things ("IoT"), rapid prototyping technologies, artificial intelligence, big data analytics and blockchain will make its way into the areas of generation, transmission and distribution of electricity.

Smart meters, microgrids, systems for energy management and other digital innovations are all paving a way to transforming the energy sector and could facilitate the transmission of energy into locations that lack proper supply or stability.

These major future trends in the power sector are conveniently encapsulated in the "4 Ds of Modern Power". We look at each of these trends and show how Malakoff is positioning to take advantage of the opportunities they offer, as follows:

GROUP'S CASH AND BANK
BALANCES INCREASED TO
RM5.1 BILLION



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Decarbonisation is the rapid movement from fossil fuel to RE in the energy mix. In light of Malaysia's new RE target, Malakoff will realign its focus towards increasing its RE portfolio.

Decentralisation is the distribution of small-scale generation throughout the transmission and distribution ("T&D") network. This trend presents an opportunity for Malakoff to venture into small scale generation, transmission and distribution. Liberalisation of the T&D segment will open up opportunities for merchant and retail power and flexible generation.

Digitalisation is the addition of intelligent control systems and internet-enabled software to optimise the performance of the plants and the grid. The digitalisation of plant information systems enables Malakoff to advise better analytics for enhanced plant performance.

Decreased consumption enabled through the establishment of new technologies allows energy efficiency to be increased, lowering energy consumption. Malakoff is able to provide packaged solutions to corporations and companies who aspire to achieve sustainability targets via our RE and energy-efficiency projects.

Other Key Challenges

The disruption of the classic utility model by challenging market forces such as the move towards minimising carbon footprint via RE and the advent of the IoT, has changed the way we conduct our business. With the rapid expansion of the RE market, sizes of projects have been reduced to smaller scales with very competitive rate of returns on investment ("ROI"). Competition has also intensified due to the aggressive expansion by key international players, including Malaysia's homegrown IPPs.

In 2018, the Group felt the first full year impact of the expiry of the original Power Purchase Agreement ("PPA") for Segari Energy Ventures Sdn Bhd ("SEV") Power Plant. Although the PPA was extended for another 10 years from July 2017, the rate was significantly lower compared with the original PPA.

We continue to improve the reliability of our power plants to eliminate or at least minimise the incidence of unplanned outages. In this connection, Tanjung Bin Energy Power Plant, which had experienced several outages since its commissioning, will be undergoing a major planned outage from 1 April 2019 to 10 June 2019 to improve its resiliency and reliability.

“MALAKOFF WILL NEED TO CONTINUE TO FOCUS AND IMPROVE ON OPERATIONAL EXCELLENCE TO ACHIEVE SUSTAINABLE GROWTH AS WELL AS STRENGTHENING ITS FUNDAMENTALS TO MAKE US MORE RESILIENT.



CORPORATE VISION

TO BE A PREMIER GLOBAL POWER AND WATER COMPANY

"Focusing on operational excellence and achieving sustainable growth on the back of solid fundamentals"



KEY STRATEGIC PILLARS



ASPIRATIONAL TARGETS



STRATEGIC CONSIDERATION

Amidst the changes and challenges mentioned above, Malakoff remains focused on enhancing our capabilities and expertise to be more competitive, effective and efficient in executing our business strategies in the rapidly evolving and challenging environment.

Malakoff will continue to execute on its strategic pillars of operational excellence, achieving sustainable growth and strengthening fundamentals.

Operational Excellence

The key focus will be on achieving the most optimal performance of our operating assets and ensuring all our contractual requirements are fulfilled. At the same time, we will continue to monitor their performance and carry out turn-around plans if they underperform to ensure that key targets are met. Additionally, more emphasis will be given towards project execution by enhancing project planning and implementation.

Strategic alliance and collaboration with reputable partners will facilitate knowledge transfer, thus improving operational capabilities. The Group will also be carrying out active engagement with local and international stakeholders to address their concerns while leveraging on potential opportunities. It is also imperative upon the Group to actively review its portfolio to optimise and unlock the value of its assets through strategic disposals, as and when necessary.

Achieving Sustainable Growth

Key to the Malakoff long term sustainability is its growth from new projects. The following are the key areas that have been identified for Malakoff to aggressively pursue:

- conventional power plant projects – in Malaysia and high growth areas such as ASEAN countries and the Middle East increasing our installed capacity base (organically and inorganically);
- RE projects – including solar, biogas, small hydro or any other viable RE projects;
- expanding the Operations & Maintenance ("O&M") business; and
- exploring potential new project(s) in the waste and environmental related sector, with Alam Flora Sdn Bhd ("Alam Flora"), leveraging on the respective companies' expertise especially in the area of Waste-to-Energy ("WTE").

The Group will leverage on the Group experience and expertise in developing projects, existing landbank and infrastructure for potential re-powering as well as new power plant projects and through strategic collaboration or joint ventures. In addition, the Group will also continue to explore value accretive acquisition of brown field assets in Malaysia as well as other high growth countries and regions such as South East Asia and the Middle East.

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Strengthening Fundamentals

While the Group embarks on growth initiatives, strengthening fundamentals of its business and operations is key to ensuring our long-term sustainability. Some of the key priorities include strengthening and streamlining of internal processes, continuous cost monitoring and maintaining an optimal capital structure.

We also continue to hone the technical and management skills of our employees to remain at the forefront of the industry. Establishing a high-performance culture not only inculcates an innovative mindset but fundamental to sustaining successful long-term business performance.

A strong foundation as well a healthy balance sheet will prepare us to pursue value-accretive green field projects and acquisitions aimed at further improving long-term shareholder returns.

HIGHLIGHTS OF THE YEAR

During the year, the Group explored and pursued numerous opportunities in Malaysia and overseas. The key achievements are as follows:

Proposed Acquisition of Alam Flora

- On 1 August 2018, Malakoff announced the proposed acquisition of Alam Flora for a purchase consideration of RM944.61 million. The proposed acquisition would accord Malakoff the opportunity to immediately penetrate the high growth areas of waste management and environmental services sectors through a leading player in the sector. The proposed acquisition is expected to also provide significant synergistic opportunity with Malakoff to aggressively pursue WTE projects as one of the solutions to the deepening issues relating to waste management and disposals.
- Alam Flora currently holds an exclusive concession to provide solid waste collection and public cleansing management services in Pahang, Federal Territories of Kuala Lumpur and Putrajaya, covering a total area of 36,430 square kilometres with an aggregate waste generation of at least 3,736 tonnes per day. The concession period is for 22 years, from 1 September 2011 to 31 August 2033. Potential growth may also come from the provision of solid waste management services for the East Coast states of Kelantan and Terengganu, with an estimated combined waste generation of about 2,693 tonnes per day.
- Through Alam Flora's wholly-owned subsidiary, DRB-HICOM Environmental Services Sdn Bhd ("DHES"), Malakoff will also be able to partake in the increasingly important and growing non-concession environmental services sector such as for the provision of integrated solid waste services, recycling and integrated facility management services. At present, DHES operates eight landfills, one transfer station, one leachate treatment plant and two incinerator plants within Peninsular Malaysia.

O&M Contract with ZEC Solar

- Malakoff's first foray into the O&M of RE assets, thereby expanding this segment of our business to include both thermal and RE power generation, came with the signing of the first Renewables O&M Contract for a 29-MWac Solar Farm in Kota Tinggi, Johor in April 2018. The O&M contract was signed between ZEC Solar Sdn Bhd and a consortium comprising Teknik Janakuasa Sdn Bhd ("TJSB"), a wholly owned subsidiary of Malakoff, and Zelleco Engineering Sdn Bhd for a period of 21 years, starting from the Commercial Operations of the Solar Farm.

Collaboration with Touch Meccanica for Small Hydro Projects

- In collaboration with Touch Meccanica Sdn Bhd ("TMSB"), Malakoff will jointly develop several small hydropower projects in Pahang. Under the Joint Development Agreement ("JDA"), Malakoff will drive and lead the project development work, particularly on the technical, operational and financial aspects.

Collaboration with Concord Alliance for Biogas Projects

- Malakoff have selected Concord Alliance Sdn Bhd ("Concord") as our partner due to their capability and experience in the development, construction and O&M of biogas-based power generation projects. A SPV form pursuant to the JDA had been shortlisted in the e-bidding exercise for biogas projects launched by the Sustainable Energy Development Authority ("SEDA") in November 2018.

Completion of New Coal Unloading Jetty

- The construction of a new coal unloading jetty and associated bulk material handling system at the Tanjung Bin Facility was completed and fully commissioned on 6 March 2019. The new jetty will be able to cater for the increase in the coal consumption at the Tanjung Bin complex as it will now enable two vessels, ranging from 35,000 Deadweight Tonnage ("DWT") to 178,000 DWT to dock simultaneously.

Disposal of 20% Interest in Lekir Bulk Terminal Sdn Bhd ("LBT")

- As part of Malakoff's effort to rationalise and unlock the value of its investments in order to focus on higher growth areas, we disposed of our equity interest in LBT. On 5 September 2018, Tuah Utama Sdn Bhd, a wholly-owned subsidiary of Malakoff completed the disposal to Tenaga Nasional Berhad ("TNB") for a total cash consideration of RM90 million.

FINANCIAL PERFORMANCE

For the financial year ended 31 December 2018 ("FY2018"), the Group's revenue increased to RM7,348.2 million from RM7,130.4 million reported in the previous financial year ended 31 December 2017 ("FY2017"). The increase in revenue was primarily due to higher energy payments recorded in Tanjung Bin Power Sdn Bhd ("TBP") and Tanjung Bin Energy Sdn Bhd ("TBE") coal-fired power plants on the back of higher applicable coal price.

The Group recorded Profit after Tax and Minority Interests ("PATMI") of RM274.4 million compared with RM295.9 million in FY2017, primarily due to lower capacity payment registered by SEV given the reduction in tariff under the extended PPA and absence of the compensation payment received from settlement of disputes over TBP's boiler failure recorded in FY2017. However, the decrease in PATMI was partially mitigated by gain from the disposal of investment in LBT.

The Group's cash and bank balances, and other investments representing deposit placements increased from RM5.0 billion to RM5.1 billion in FY2018. The strong cash generative capability of the Group's assets is represented by the relatively stable EBITDA of RM2.4 billion recorded in FY2018.

The Group incurred RM351.0 million of capital expenditure ("CAPEX") in FY2018 compared with RM304.5 million in FY2017. Apart from the C inspection works planned for SEV and GB3 gas power plants as well as the construction of the new coal unloading jetty and associated bulk material handling system at Tanjung Bin facility, CAPEX was also incurred to improve the effectiveness and efficiency of our power plants.

Domestic Power Assets

Plant name in Malaysia	Location	Plant type	PPA expiration	Generating capacity	Effective equity participation	Effective capacity
Tanjung Bin Energy Plant	Johor	Coal	2041	1,000 MW	100.00%	1,000 MW
Tanjung Bin Power Plant	Johor	Coal	2031	2,100 MW	90.00%	1,890 MW
SEV Power Plant	Perak	CCGT	2027	1,303 MW	93.75%	1,221.6 MW
Kapar Power Plant	Selangor	Multi-fuel	2019/29	2,420 MW	40.00%	968 MW
GB3 Power Plant	Perak	CCGT	2022	640 MW	75.00%	480 MW
Port Dickson Power Plant	Negeri Sembilan	OCGT	2019	436 MW	100.00%	436 MW
Prai Power Plant	Pulau Pinang	CCGT	2024	350 MW	100.00%	350 MW
Total effective power generation capacity in Malaysia						6,346 MW

As at 31 December 2018, the Group's debt-to-equity ratio improved to 2.28 times compared with 2.30 times in FY2017. Overall, the Group's balance sheets remained strong which is supported with total shareholders' equity of RM5.6 billion.

REVIEW OF BUSINESS AND OPERATIONS

At Malakoff, we continuously strive to improve our operational efficiencies and strengthen our value proposition at home and abroad. Setting of high aspirations, strict implementation of operational excellence and adherence to Group policies on Health Safety Security and Environment ("HSSE") and Statutory and Regulatory Compliance yielded a record of zero summons for 2018 from the authorities. However, availability was below target for both gas and coal plants due to the GB3 and TBEPP outages. In the following sections, we are pleased to present our reports on the key business sections of the Group.

DOMESTIC POWER GENERATION

Our domestic power generation asset portfolio comprises two coal-fired thermal plants, three combined-cycle gas turbine ("CCGT") power plants, and an open-cycle gas turbine ("OCGT") power plant. Our coal-fired power plants, including our associate, account for effectively 34.7% of Peninsular Malaysia's total installed coal-fired generation capacity.

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Subsidiary-Owned Power Plants

Tanjung Bin Power Plant

The 2,100 MW Tanjung Bin Power Plant ("TBPP") power plant is the first privately owned coal fired power plant in Malaysia. It consumes various types of bituminous and sub-bituminous coal imported from Australia, Indonesia, Russia and South Africa and is equipped with clean coal technologies including electrostatic precipitator and flue gas desulphurisation units.

The plant is in its 13th year of operations and continues to play a vital role in supplying power to the national grid. In terms of electricity generation, the plant supplied approximately 15,566 GWh of electricity to the national grid in 2018, at an average capacity factor of 84.62%. The plant's equivalent availability factor reduced from 87.82% in 2017 to 85.80% in 2018 due to higher outages. The unplanned outage rate ("UOR") recorded for 2018 is well below the threshold under the PPA.

Tanjung Bin Energy Power Plant

With a capacity of 1,000 MW, via the Group's wholly owned subsidiary, TBEPP is located on 65 hectares of land in the southwestern region of Johor, adjacent to the existing 2,100 MW TBPP.

The plant features ultra-supercritical technology, including a supercritical steam turbine and generator, a boiler and plant auxiliaries, which provide the most efficient coal combustion technology currently on the market, while minimising the plant's impact on the environment.

The plant, in its third year of commercial operation, delivered a total of 5,609 GWh of electricity to the national grid, achieving an average capacity factor of approximately 64.03% for FY2018. The plant recorded an average equivalent availability factor of 70.41%, which is an improvement from 63.94% in 2017.

SEV Power Plant

Now in its 23rd year of commercial operation, our longest serving power plant is the largest CCGT power plant owned by an IPP in Malaysia. The SEV Power Plant continues to sell electricity to TNB, following an award received from the Energy Commission in 2013, for a 10-year extension of the PPA term until June 2027.

The SEV Power Plant continues to maintain an optimal performance level in terms of availability, reliability and efficiency. During the year under review, our SEV Power Plant achieved an average capacity factor of approximately 31.99% and delivered approximately 3,651.47 GWh of electricity to the national grid. The plant also registered an availability factor of 93.16%, an increase from the previous year achievement. The plant has been able to maintain its UOR level well below its PPA threshold throughout the year.

GB3 Power Plant

The CCGT GB3 Power Plant is located adjacent to the SEV Power Plant.

The plant, held through GB3 Sdn Bhd, our 75% owned subsidiary, is in its 17th year of commercial operation. It delivered a total of 1,101.14 GWh of electricity to the national grid, achieving an average capacity factor of approximately 19.64%. However, the plant recorded a lower equivalent availability factor of 65.83% due to an increase in planned outages.

The lower generation despatch in 2018 from GB3 and SEV Power Plants (collectively known as Lumut Power Plant), compared with previous years, was due to the commercial operations of newer and more efficient neighbouring power plants, which effectively impacted both plants' positions in the merit order of despatch. Nevertheless, Lumut Power Plant continued to demonstrate its reliability in despatching power as demanded.

Prai Power Plant

This CCGT plant features one gas turbine, one heat recovery steam generator and one steam turbine with a unique single shaft configuration that provides reliable, efficient and low emission power supply to the national grid at a dependable capacity of 350 MW.

In 2018, our Prai Power Plant ("PPP") recorded a net efficiency of 51.56%. The plant, in its 16th year of operations, delivered a total of 1,662 GWh of electricity to the national grid in 2018. It also recorded an average capacity factor of 54.54%, while registering an equivalent availability factor of 85.89%.

Port Dickson Power Plant

Port Dickson Power Plant ("PDP Plant") is a 436 MW OCGT power plant that supplies electricity to the national grid for peaking and emergency requirements.

In 2018, PDP Plant delivered 13.49 GWh of electricity to the national grid. As a peaking open-cycle power plant, the facility recorded an average capacity factor of 0.35%, while registering an equivalent availability factor of 98.67%. PDP Plant's three-year PPA extension expired on 28 February 2019. With the cessation of PDP Plant's operations, its employees have been largely re-skilled and redeployed to other plants or business units within the Group.

Associate-Owned Power Plant

Kapar Power Plant

Our 40% owned Kapar Power Plant which is also known as the Sultan Salahuddin Abdul Aziz Power Plant has a total generating capacity of 2,420 MW comprising the following facilities utilising multi-fuel sources:

International Power and Water Assets

Plant Name	Location	Plant Type	PPA WPA PWPA Expiration	Generating Capacity	Effective Equity Participation	Effective Capacity
Shuaibah Phase 3 Expansion IWP	Kingdom of Saudi Arabia	Water	2029	150,000 m ³ /day	11.9%	17,850 m ³ /day
Shuaibah Phase 3 IWPP	Kingdom of Saudi Arabia	Water & Power	2030	880,000 m ³ /day 900.0 MW	12.0%	105,600 m ³ /day 108.0 MW
Al Hidd IWPP	Bahrain	Water & Power	2027	410,000 m ³ /day 929.0 MW	40.0%	164,000 m ³ /day 372.0 MW
Macarthur Wind Farm	Australia	Power	2038	420.0 MW	50.0%	210.0 MW
Al Ghubrah IWP	Sultanate of Oman	Water	2034	191,000 m ³ /day	32.5%	62,075 m ³ day
Souk Tleta IWP	Algeria	Water	2036	200,000 m ³ /day	35.7%	71,400 m ³ /day
Total effective power generation capacity						690 MW
Total effective water production capacity						420,925 m³/day

- Generating Facility 1 (GF1): 2x300 MW Dual-Fuel Firing (gas and oil);
- Generating Facility 2 (GF2): 2x300 MW Triple-Fuel Firing (coal, gas and oil);
- Generating Facility 3 (GF3): 2x500 MW Dual-Fuel Firing (coal and gas); and
- Generating Facility 4 (GF4): 2x110 MW Open Cycle Gas Turbine

In 2018, the plant delivered a total generation of 9,966 GWh to the national grid and recorded an equivalent availability factor of 84.18%.

INTERNATIONAL ASSETS

Shuaibah Phase 3 Independent Water and Power Plant (Saudi Arabia)

We have a 12% effective interest in the Shuaibah Phase 3 Independent Water and Power Plant ("IWPP"), which is located near Jeddah in the Kingdom of Saudi Arabia. The project is our first overseas venture and consists of a 3x300 MW crude oil-fired power plant and 880,000 m³/day Multi-Stage Flash Distillation Unit for the desalination of seawater. The project was executed on a Build-Own-Operate ("BOO") basis under a 20-year Power and Water Purchase Agreement ("PWPA") with the Water and Electricity Company of Saudi Arabia. In its ninth year of operation in 2018, annual outage and turbine tests were performed on its two main units to maintain the plant's reliability. During the year in review, it recorded an availability factor of 93.6% and 93.0% for power generation and water production respectively.

Shuaibah Phase 3 Expansion Independent Water Plant (Saudi Arabia)

We expanded our market share in the water production business with an 11.9% interest in the Shuaibah Expansion Project Company Ltd. The Shuaibah Phase 3 Expansion Independent Water Plant has a capacity of 150,000 m³/day and utilises reverse osmosis technology to desalinate sea water. Since its commissioning in 2009, we have recorded positive plant performance, and in FY2018, recorded a high availability factor of 95.1%.

Al Hidd Power Generation and Water Desalination Plant (Bahrain)

Comprising three phases, including a gas-fuelled combined-cycle gas turbine, the plant has a total power generation capacity of 929 MW and water production capacity of 410,000 m³/day, using the Multi Stage Flash ("MSF") and Multi Effect Distillation ("MED") technologies. The plant continued to perform steadily and has achieved an average availability factor of 93.4% and 96.8% for power generation and water production respectively in 2018.

Al Ghubrah Independent Water Plant (Sultanate of Oman)

The Al Ghubrah Independent Water Plant was awarded to a consortium, led by Malakoff International Limited ("MIL") on a build-own-operate basis, using reverse osmosis technology. The consortium was formed by Malakoff and Sumitomo, each

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of them holding a 32.5% interest in Muscat City Desalination Company SAOC (“MCDC”), and the public owning the remaining 35.0%. Under a Water Purchase Agreement (“WPA”) with the Oman Power and Water Procurement Co, the project is expected to deliver up to 191,000 m³/day of desalinated water over a period of 20 years. The project achieved its Commercial Operations Date (“COD”) on 19 February 2016 and the plant has been performing as per the projected performance, with a recorded average availability of 96.2% in 2018.

Macarthur Wind Farm (Australia)

Our acquisition of a 50.0% interest in the Macarthur Wind Farm marked our first venture into the RE market as well as the Group's first investment in Australia. The Macarthur Wind Farm is in the State of Victoria and is the largest wind farm in the Southern Hemisphere.

The Macarthur Wind Farm features 140 Vestas V112 – 3.0 MW wind turbines, with a capacity of 420 MW that is sufficient to power the equivalent of approximately 181,000 average-sized homes in Victoria and cut 1.7 million tonnes of greenhouse gases each year. This is in line with the Australian government's Renewable Energy Target (“RET”) to secure about 23.5% of Australia's electricity from renewable resources by 2020. This year, a plant equivalent availability factor of 97.7% was recorded.

Souk Tleta Independent Water Plant (Algeria)

Malakoff has an effective stake of 35.7% in the Souk Tleta Independent Water Plant, which is a 200,000 m³/day plant located in Wilaya Tlemcen in Algeria using reverse osmosis technology to desalinate seawater. COD in April 2011, we have continued to invest resources and technical expertise in the plant to ensure it performs at an optimal level. In FY2018, the desalination plant recorded an average availability factor of 28.4%.

The Group's associates, Almiyah Attilemcania SPA (“AAS”), being the project company and Tlemcen Desalination Investment Company SAS (“TDIC”), being the joint-venture investment holding company for the project, received a Notice of Termination in November 2018 from Sonatrach SPA (“Sonatrach”) and L'Algerienne Des Eaux (“ADE”), which are the Offtakers, based on an alleged breach of the WPA. As advised by solicitors, Notices of Dispute were issued by AAS and TDIC on 23 and 27 November 2018 to challenge the purported termination, and at present, AAS and TDIC are waiting for a response on the proposed amicable settlement negotiation. Notwithstanding the dispute, the Group's carrying amount of investment in AAS had been fully provided for in year 2016.

OPERATIONS AND MAINTENANCE (“O&M”)

The Group's portfolio of power generation and water production assets is supported by our strong O&M capabilities. We deliver O&M services through our wholly owned subsidiaries Malakoff Power Berhad (“MPower”) and TJSB. While MPower is responsible for servicing the Group's power plants in Malaysia, TJSB, which was incorporated in Malaysia in 1993, has been tasked with the management of the Group's associates, joint venture partners as well as third-party clients, both locally and abroad. As at 31 December 2018, the Group has accumulated well over 23 years of O&M experience and a proven track record of operating different types of power plants. These include CCGT, OCGT and coal fired power plants as well as multi-stage flash desalination plants, reverse osmosis plants and multi-effect distillation and cogeneration plants.

Domestic O&M Business

We continue to invest in cutting-edge O&M tools and methodologies, such as Reliability-Centred Maintenance and Root Cause Analysis. In keeping with prudent practice, plant improvement and upgrading projects were scheduled during the year to enhance the capabilities and reliability of the Group's plants, while major maintenance and inspection activities were also undertaken to meet the high reliability and availability targets.

At our Coal-Fired Power Plants (“CFPPs”), we have adopted the Risk Based Inspection (“RBI”) approach during plant outages on Boiler Pressure Parts Assessment. The RBI concept was implemented through extensive development and improvement programmes such as the Integrated Database Management System (“IDMS”) software project, which was executed for TBPP and TBEPP.

In 2018, we continued with our efforts to identify gaps and implement measures to improve and strengthen our quality of services. The procedures for critical functions and key activities are well documented and communicated to employees within relevant divisions, departments and subsidiaries.

Quality, Health, Safety and Environmental (“QHSE”) and Information Security Management System (“ISMS”) internal and external audits have been consistently conducted at all sites to ensure compliance with relevant standards and procedures. Malakoff's Local Generation Division including all local power plant operations, PPP, Lumut Power Plant, TBPP and TBEPP successfully maintained their certification status to MS ISO 9001:2015, MS ISO 14001:2015, OHSAS 18001:2007, MS 1722:2011 and ISO/IEC 27001:2013 international standards.

As part of our continuous effort to equip our staff with skills and competencies, they regularly undergo a structured Competency Based Assessment (“CBA”), On-Job Training (“OJT”) and simulator-based training.

International O&M Business

In 2018, TJSB continued to deliver safe and efficient power plant O&M to meet the objectives of our clients in MENA and Southeast Asia.

TJSB's subsidiary, TJSB Middle East Ltd, operates and maintains the 1,200 MW Azzour South Combined Cycle Power Plant in Kuwait under a manpower supply arrangement with Alghanim International General Trading and Contracting Co. W.L.L. which started on 1 May 2018.

TJSB also ventured into the Indonesian market in 2013 through its local subsidiary PT Teknik Janakuasa ("PTTJ") at the Merak Coal Fired Power Plant which operates a 120 MW and 55 tonnes/hour capacity steam generation plant. PTTJ, with an established local presence in Indonesia and a marketing arm operating from Jakarta, continues to explore new market opportunities.

In Bangladesh, TJSB is currently supporting China Northeast Engineering and Services Co Ltd ("NEPCS") operations at Bibiyana II 345 MW Gas Fired Combined Cycle Power Plant located in the district of Habiganj, Bangladesh. The contract was signed in July 2018 for the provision of one specialist to advise NEPCS on the day-to-day plant operations.

Maintenance, Repair, Reengineering and Overhaul ("MRRO")

Malakoff offers MRRO services to significantly reduce the overall maintenance cost of the power plants. MRRO services include the provision of expert personnel to local and international clients, mainly to undertake and deliver on-site field services for both planned and unplanned maintenance works. Our range of services include major and minor overhauls of thermal and gas plants and engineering field services.

Various electrical testing and diagnostic MRRO services were carried out for external power generation and industrial customers. Our list of clients includes TNB, Edra Energy Sdn Bhd, Teknologi Tenaga Perlis Consortium Sdn Bhd and Linde Malaysia Sdn Bhd. We also secured a contract to carry out a major overhaul of a generator for Sabah Electricity Sdn Bhd.

ELECTRICITY DISTRIBUTION & CHILLED WATER SUPPLY

Malakoff Utilities Sdn Bhd ("MUSB"), a wholly owned subsidiary of Malakoff, is one of the leading electricity distribution and district cooling plant infrastructure owners and operators in Malaysia. MUSB holds the exclusive license to distribute electricity within Kuala Lumpur Sentral ("KL Sentral"), a prestigious 72-acre development in the centre of Kuala Lumpur, with the capacity to meet offtake up to 100 MW. MUSB's customer base continues to expand in tandem with the on-going development of KL Sentral as a business and transportation hub. Its customer base has increased from 2,722 in 2017 to 3,443 in 2018.

MUSB started supplying chilled water to KL Sentral in 2001 and employed the latest thermal energy storage ("TES") technology in 2011. The district cooling supply which is delivered to multiple blocks of combined commercial and office space has a capacity of 17,000 RT. MUSB promotes sustainable and improved energy utilisation whilst reducing the environmental impact of its operations. MUSB was successfully recertified to ISO 9001:2015 in 2016.

Moving forward, MUSB is actively exploring opportunities to extend its business beyond KL Sentral. With an established record of accomplishment and leveraging on the Group's synergies, it is exploring the prospect of embarking on new ventures as a multiple utility provider in captive energy markets.

INFORMATION TECHNOLOGY

Malakoff has embraced digital technologies to enhance cost efficiency, productivity and overall business performance.

In 2018, Malakoff adopted and migrated to a cloud platform for our daily IT applications and production systems, disaster recovery process and email communication. The new Microsoft Office collaborative tool is deployed to enhance efficiency, increase system reliability and improve collaborative teamwork.

Third-party audits, security vulnerabilities tests and internal assessments are conscientiously and rigorously conducted as part of our annual certification and management system governance and compliance practices. This is to strengthen our security posture to reduce exposure to internal and external cyber risks and protect our information management environment to the fullest extent possible.

PROCUREMENT

To keep pace with the changing business environment, the Group undertook a comprehensive review of its procurement process with the objective of making it more practical, faster, efficient and cost-effective and at the same time enhancing its integrity, transparency and fairness. Among the key improvements are the introduction of e-Sourcing, to attract more vendor participation, and e-Auction for tenders to maximise savings from commercial proposals.

RISK MANAGEMENT

Malakoff upholds risk management as an integral component of its operations and decision-making process. Our Enterprise Risk Management Policy and Framework ("ERMPF") is based on ISO 31000:2009 Risk Management Principles and Guidelines. Key initiatives and activities undertaken during the year include:

- A total of 146 risk initiatives and activities were implemented which included a series of risk assessments, risk register reviews, Business Continuity Plan ("BCP") reviews and trainings organised across the Group. As at 31 December 2018, a total of 695 risks were registered and monitored in the Enterprise Risk Management System ("ERMS").

CEO'S OPERATIONS REVIEW – MANAGEMENT DISCUSSION & ANALYSIS

- As part of Malakoff's Enterprise Risk Management programme, Technical Risk Assessments Processes ("TRAPs") are carried out every year at Malakoff's power plants and reported to the Management Risk Committee.
- Implementation of Business Continuity Management ("BCM") programme at five of its local power plants namely TBPP, TBEPP, SEV Power Plant, GB3 Power Plant and PPP in 2018. A fully operational BCM based on ISO 22301:2012 Business Continuity Management Systems ensures that the plants are well prepared to swiftly respond to any business interruption.

OUTLOOK & PROSPECTS

Global population is forecasted to grow by 1.07% to 7.71 billion in 2019 and expected to reach 9.2 billion by 2040. The improved living standards particularly in the growing middle class will result in rising energy use.

Rising global energy demand is expected to increase at an average annual rate of 1%, led by non-OECD nations, and will further rise by 25% through 2040. Growth will mainly be seen in China, India and ASEAN countries. The centre of gravity of global energy demand will shift to Asia, mainly to South and Southeast Asia over the long term.

Domestic Prospects

Malaysia's near-term growth outlook remains resilient with sound macroeconomic fundamentals and stable financial conditions on a broad-based and diversified economic structure. The economy is projected to grow at a slightly faster pace of 4.9% in 2019 driven by the private sector. Lower inflation would lead to higher consumption, which in turn, would result in higher manufacturing activities, while domestic and commercial growth would create additional demand for power.

One of the major objectives in the 11th Malaysian Plan is to add 7,626 MW of new power generation capacity in Peninsular Malaysia. Also prioritised are plans to explore new RE sources, other than existing suppliers, increasing the focus on biogas and biomass, the continuation of the Large Scale Solar ("LSS") programme and the exploration of new RE technology such as micro grids and storage.

The Energy Efficiency & Conservation Act is expected to be tabled in Parliament in 2019. It will encompass energy reporting and companies will be incentivised accordingly based on energy efficiency targets that are met. The government has also reviewed and improved the National Energy Efficiency Action Plan ("NEEAP") 2016-2025. A joint study by the government's Economic Planning Unit and the United Nations Development Programme estimated that Malaysia had potential energy savings of up RM46.92 billion from 2016 to 2030, reflecting the significant potential for the energy efficiency industry.

COUNTRY	REAL GDP GROWTH	ELECTRIC POWER CONSUMPTION
	2018	kWh per capita
Global	3.1%	3,127
Malaysia	4.7%	4,956
Bahrain	1.7%	19,592
Oman	2.3%	6,553
Saudi Arabia	1.8%	9,444
Australia	2.9%	10,059

Source: World Bank

The share of RE from solar and wind is expected to triple by 2040. In Malaysia, the government has issued a tender for large scale solar projects totalling 500 MWac in February 2019. This is in addition to the total of 114 MW that was rolled out in 2018 for 74 MW hydro, 10 MW biomass and 30 MW biogas.

Malakoff will continue to explore RE projects such as small hydro, large scale solar, rooftop solar, biogas, biomass and WTE projects. In this regard, the Group will participate in the 500 MWac large scale solar tender through the Energy Commission to be commissioned by 2021.

International Prospects

The Middle East region is generally expected to achieve higher economic growth, spurred by stable oil market and the impact of major reforms to reduce energy subsidies to shift investment towards RE. The demand for electricity is relatively higher as shown in the table above for 2018. The per capita demand for electricity in Bahrain, for example, is four times that of Malaysia according to the World Bank.

Malakoff will continue to be on the lookout for viable RE opportunities in the ASEAN region that fit in strategically into our portfolio.

Powering Excellence

As we move forward into a new era of rapidly changing industry, Malakoff must respond and adapt to the changes in order to remain relevant. Malakoff will need to continue to focus and improve on operational excellence to achieve sustainable growth as well as strengthening its fundamentals to make us more resilient. Let us reflect on our performance for 2018 and strive to deliver better performance going forward. "Powering Excellence" in executing our strategic imperatives to realise our vision.

DATO' AHMAD FUAAD KENALI

Chief Executive Officer



Operational Efficiency

The Group continues to maintain sustainable performance through continuous improvements in operational efficiency.

SUSTAINABILITY STATEMENT



AS A LEADING REGIONAL INDEPENDENT POWER AND WATER PRODUCER, WE STRIVE TO ENSURE OUR SUSTAINABILITY GOALS ARE RELEVANT AND CONTRIBUTE SIGNIFICANTLY TO THE ADVANCEMENT OF THE INDUSTRY'S ECOSYSTEM.

CEO'S MESSAGE

OUR COMMITMENT
GRI 102-14

SUSTAINABILITY AT MALAKOFF

At Malakoff, we are on a journey of balancing both the exploration of new ideas on sustainability and entrenching the steps that have already been taken. As a leading regional independent power and water producer, we strive to ensure our sustainability goals are relevant and contribute significantly to the advancement of the industry's ecosystem. Historically, the power industry depended on fossil fuel energy sources such as oil, gas and coal which may have adverse impact on the environment. Global utilities particularly the Europeans are moving aggressively towards renewable energy.

CAPITALISING ON GLOBAL TRENDS

According to *ExxonMobil's Outlook for Energy: A view to 2040*, the world population is expected to reach 9.2 billion by 2040, up from 7.7 billion today. Over that period, global Gross Domestic Product ("GDP") will likely double. As a result, the per capita GDP is projected to rise significantly particularly in the non-Organisation for Economic Co-operation and Development ("OECD") countries. This growth will coincide with improved living standards, resulting in rising energy usage particularly in Asian countries like China and India. Global electricity demand is projected to rise by 60% between 2016 and 2040. Renewable Energy ("RE"), mainly solar and wind, is expected to triple between now and 2040 and will help lower CO₂ intensity by around 30%.

ACCELERATING THE GOVERNMENT'S PUSH FOR RE

The Malaysian Ministry of Energy, Science, Technology, Environment & Climate Change ("MESTECC") has set a goal of achieving 20% electricity generation through RE by 2025, a significant increase from the 2% currently. In line with the Government's aspiration, Malakoff is also aggressively pursuing an RE target of more than 1,000 MW (power generation capacity) by 2023.

The proposed acquisition of Alam Flora Sdn Bhd serves as a stepping stone for the Group to penetrate the Waste Management and Environmental Services sector. Besides the opportunity to participate in this high growth sector through Alam Flora's exclusive concession, Malakoff will also be able to leverage on waste as a source of energy thus complementing its power generating activities. The Group will also be able to play a role in accelerating the Government's zero-single use plastic roadmap by 2030, through Alam Flora's non-concession business which deals with recycling initiatives and waste treatment technology. The concept of 3R – Reduce, Reuse and Recycle – will be crucial in reducing plastic pollution.

ENHANCING OPERATIONAL EXCELLENCE

The Group continues to maintain sustainable performance through continuous improvements in operational efficiency. Continuous business improvement undertaken include creating an innovative culture, implementing best practices across our operations and ensuring a safe working environment.

EMPOWERING PEOPLE

Having a robust and energised workforce ensures that business goals and aspirations are attainable particularly in a challenging business environment.

THE PATH AHEAD

Moving forward, our business strategy will focus on adapting to the new way of doing business taking into consideration the rapid transformation in the power generation industry. Whilst we will continue in our efforts to achieve operational excellence for our plants, the Group will aggressively pursue opportunities in high growth areas in both conventional and RE power generation as well as waste management and environment related services to achieve sustainable growth for Malakoff.

DATO' AHMAD FUAAD KENALI

Chief Executive Officer

SUSTAINABILITY STATEMENT

About This Report

GRI 102-54

Our 3rd Sustainability Statement ("Statement") is guided by the Bursa Malaysia Sustainability Guide (2nd Edition, February 2018), and prepared, in compliance with the Global Reporting Initiative ("GRI") Sustainability Reporting Guidelines. This Statement aims to disclose to our stakeholders how we have set goals, measured performances, and managed changes in order to make our operations more sustainable. In doing so, our reporting facilitates in the understanding of the effects of sustainability development on the organisation's business activities and strategies, providing stakeholders with relevant information for decision making purposes.

This Statement documents various policies, programmes and commitments in relation to our Environmental, Social & Governance ("ESG") impact and mitigation. It also outlines our approach to improving and growing our business operations in a responsible and sustainable manner, with unwavering commitment to our stakeholders and other interested parties.

The Statement is structured based on issues and material topics relevant to the Group and our stakeholders.

Scope & Boundary

GRI 102-1, 102-2, 102-3, 102-4, 102,6, 102-46, 102-49, 102-50, 102-51, 102-52

This 3rd Sustainability Statement is based on the Group's activities and performance limited to Malakoff Corporation Berhad's operation in Malaysia for the financial year ended 31 December 2018. Information and disclosures provided in the Statement are updates from our 2017 Sustainability Statement with no significant changes to our scope, boundary or measurement method where applicable.

Our Approach to Sustainability

GRI 102-18, 102-19, 102-20, 102-22, 102-23, 102-24

Sustainability Governance

GRI 102-32

Our commitment to sustainability is reflected in our day-to-day operations at all levels of the organisation. At the leadership and strategic level, the Board and Senior Management acknowledge the importance of sustainable development and responsible investment. The approved 5-year Business Plan focused on the three key objectives i.e. strengthening fundamentals, achieving sustainable growth and operational excellence.

In the energy sector, sustainability is a key component of the operational ethos. Our responsibility to the environment is embedded in our philosophy. We ensure all specifications, equipment and standard operating procedures comply with regulations issued by the authorities and regulators and we offer periodic feedback and suggestions to the regulators.

The Group's strategic plan for sustainable growth includes potential investment in RE projects, in line with the government's target as stated in the CEO's Message under "Accelerating the Government's Push for RE". Embedding sustainability into the Group's culture is vital. Capital and resource planning geared to advance our initiatives to meet these imperatives were translated into measurable Key Performance Indicators ("KPIs") approved in the 5-year Business Plan.

KEY STRATEGIC PILLARS



- 1 FOCUSING ON OPERATIONAL EXCELLENCE
- 2 ACHIEVING SUSTAINABLE GROWTH
- 3 STRENGTHENING FUNDAMENTALS



The point of contact for queries and feedback is given below.
GRI 102-3, 102-53

Group Corporate Strategy Malakoff Corporation Berhad



Level 12, Block 4, Plaza Sentral,
Jalan Stesen Sentral 5,
50470, Kuala Lumpur,
Malaysia.

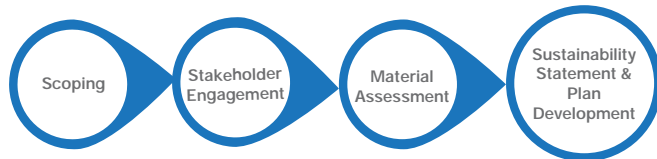


sustainability@malakoff.com.my



03-2263 3388

The Sustainability Working Group (“SWG”) section monitors, gathers data and provides consistent sustainability reports to the Chief Strategy and Investment Officer (“CSIO”) who in turn reports to the CEO. All inputs and performance achievement disclosures have been authorised by the Head of Divisions, then checked by SWG for compliance with the Bursa Malaysia Guidelines and against GRI Standards on sustainability.



Summary of the guiding principles applied in preparing the Statement

The sustainability section additionally seeks new information and updates on best practices from recognised sustainability practitioners and regulators as we progress on our journey.

The next review of the Sustainability Framework, is anticipated to be in 2020.

Disclosure and External Assurance

GRI 102-12

As this is the third year of our sustainability reporting journey, we are at the beginning of a multi-year learning curve. We benchmark our framework and Statement against the industry’s best practices. For 2018, we had obtained external assurances on performance baseline data on individual material topics.









Similar to the 2017 Statement, the 2018 Statement would be submitted to the register in accordance with the GRI Sustainability Reporting Guidelines.

STAKEHOLDER ENGAGEMENT

GRI 102-21, 102-29, 102-33, 102-34, 102-40, 102-42, 102-43, 102-44

The expectations of our stakeholders have evolved. Our engagement with stakeholders have been via formal and informal channels. We engage our stakeholders regularly alongside the Corporate Affairs (“CA”) Department and their feedback have helped us gauge what matters are important to them.

In 2018, we undertook a Stakeholder Engagement Survey, with our key internal and external stakeholders.

Stakeholder Group(s)	Engagement Platform	Frequency	Key Areas of Concern
 Government Authorities	<ul style="list-style-type: none"> • Face-to-face Meetings • Surveys • Corporate Events 	<ul style="list-style-type: none"> • Continuous • Bi-annual 	<ul style="list-style-type: none"> • CAR 2014 compliance performance • Seawater extraction • Expiring PPAs • Tax issues
 Law Enforcement Agencies	<ul style="list-style-type: none"> • Face-to-face Meetings • Surveys • Site Visits 	<ul style="list-style-type: none"> • Continuous • Bi-annual 	<ul style="list-style-type: none"> • Emission management • CAR 2014 compliance
 Shareholders	<ul style="list-style-type: none"> • Face-to-face Meetings • Annual General Meetings • Interviews • Performance Reports • Quarterly Results Briefing 	<ul style="list-style-type: none"> • Continuous • Annual • Bi-annual • Quarterly 	<ul style="list-style-type: none"> • Financial & Operational performance • Business growth • Strategic direction • ESG issues
 Customer	<ul style="list-style-type: none"> • Face-to-face Meetings • Surveys 	<ul style="list-style-type: none"> • Continuous • Annual 	<ul style="list-style-type: none"> • Customer experience • System availability • Resolving grievances • Supply issues
 Employees	<ul style="list-style-type: none"> • Workshops • Town halls and Dialogue Sessions • Surveys 	<ul style="list-style-type: none"> • Continuous • Annual 	<ul style="list-style-type: none"> • Career development • Welfare & benefits • Process improvement • Performance management
 Local Communities	<ul style="list-style-type: none"> • Face-to-face Meetings • Community Events 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • Environmental impacts • Educational programmes • Charitable contribution
 Rating Agencies and Financial Institution	<ul style="list-style-type: none"> • Face-to-face Meetings • Media Releases/Announcements 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • Business performance • Business growth • Sustainability initiatives
 Contractors/ Suppliers	<ul style="list-style-type: none"> • Vendor Day 	<ul style="list-style-type: none"> • Ongoing • Bi-annual 	<ul style="list-style-type: none"> • Competitive pricing • Procurement process improvement • Payment management • Coal procurement process

SUSTAINABILITY STATEMENT

MATERIALITY

GRI 102-31

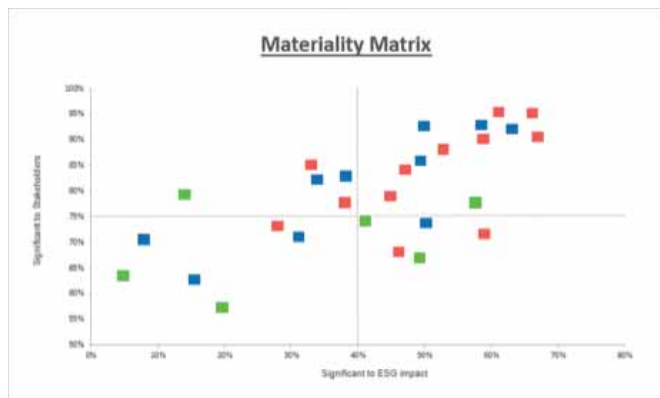
Material Topics

GRI 102-47,102-48

The heads of our business divisions capture stakeholder inputs and feed the data to SWG for analysis and disclosure. Together with the stakeholder's engagement conducted through survey forms, we have reviewed the findings of the 2016 Stakeholder Survey and identified 28 relevant topics for Malakoff's adoption.

The material topics identified have been prioritised based on their influence on stakeholders and impact on Economic, Social, Governance ("ESG"). These will be discussed in the following sections together with additional analysis and disclosure on other related topics. For 2018, they were regrouped according to 3 themes – Governance, Environment and People, in accordance with the GRI Guidelines.

Minor deviations on issues of interest from our initial 2016 materiality assessment have been incorporated in the re-prioritisation of our material topics of interest. Below is the materiality graph for the year under review.



- Governance
- Environment
- People



GOVERNANCE

Covers various aspects of governance, operations, growth and profitability

- Operational Excellence
- Strategic Business Development
- Regulatory Compliance
- Government Policy and Strategy
- Shareholders Return
- Security of Supply
- Technology and Innovation
- Information Security
- Plant Security
- Plant Decommissioning
- Geopolitical Context
- Renewable Energy



ENVIRONMENT

Covers topics on our impact and approach towards the environment

- Waste Management
- Emission Management
- Water Use Impacts
- Biodiversity Impacts
- Natural Disaster
- Nuisance



PEOPLE

Covers our strategies on social issues, including talent management, diversity and performance

- Business Ethics and Transparency
- Occupational Safety and Health
- Management Leadership
- Employee Welfare
- Talent Development
- Community Investment and Development
- Diversity and Equal Opportunities
- Social Dialogue
- Responsible Subcontracting and Procurement
- Human Rights

GOVERNANCE AND STRATEGY

Covers various aspects of governance, operations, growth and profitability

“We are committed to applying the principles and best practices recommended by the Malaysian Code on Corporate Governance to improve and enhance the standards of corporate governance practised within the Group as well as to protect and enhance shareholders’ value and financial performance. We believe that effective corporate governance is premised on three important cornerstones namely, independence, accountability and transparency”

Regulatory Compliance
GRI 203, GRI 307-1

3 Audits Conducted in 2018

- QHSSE Internal Audit
- Group HSSE Audit and Inspection
- Malakoff Group Internal Audit

To ensure we comply with the relevant Health, Security, Safety and Environment (“HSSE”) regulations, Malakoff has developed frameworks and processes in accordance with relevant laws, regulations and other requirements. These include various audits and verification programmes. In 2018, we successfully conducted three different types of audits, namely the Quality, Health, Security, Safety and Environment (“QHSSE”) Internal Audit, the Group HSSE Audit and Inspection and the Malakoff Group Internal Audit.

In addition to the above, Malakoff power plants successfully underwent a series of recertification audits conducted by SIRIM for ISO 9001, ISO 14001 & OHSAS 18001 accreditations and were successfully recertified.

3 SIRIM Recertification

- ISO 9001 Quality Management
- ISO 14001 Environmental Management
- OHSAS 18001 Occupational and Health Safety

As a result of these systematic and structured efforts, only one field citation was issued by the Department of Environment (“DOE”) Negeri Sembilan to the Port Dickson Power Plant in 2018. The notice which was served to us is related to the management of scheduled waste under the Environmental Quality (Scheduled Waste Regulations) 2005. Based on this citation, we have revised and improved the current process of managing scheduled waste to ensure full regulatory compliance.

SUSTAINABILITY STATEMENT



ENVIRONMENTAL QUALITY (CLEAN AIR) REGULATIONS 2014

Stringent limits relating to the Environmental Quality (Clean Air Regulations) 2014 ("CAR 2014") will come into effect in June 2019. These changes add the inclusion of Hydrogen Fluoride ("HF"), Hydrogen Chloride ("HCl"), Polychlorinated dibenzodioxins ("PCDD")/Polychlorinated dibenzofurans ("PCDF") and the introduction of new lower limits for Carbon monoxide ("CO") and Mercury ("Hg") for coal plants. Meanwhile, for gas plants, two new emission limits will be introduced which include Carbon CO and Opacity monitoring.

We appointed a consultant to conduct an assessment of the remedial works to be undertaken in order to achieve the limits specified in CAR 2014. In addition, we initiated an engagement session, audit and technical meeting jointly with DOE and other stakeholders to ensure that we are on course for compliance with the new Clean Air Regulations.



WHISTLE-BLOWING POLICY GRI 102-16

The Whistle-blowing Policy of the Group was established in 2014 and provides employees and third parties with proper procedure to disclose cases of Improper Conduct such as criminal offences, fraud, corruption, breach of Group Policies and Code of Conduct or other malpractices.

A Whistle-blower is assured confidentiality to the extent of being reasonably practicable. This includes protecting the Whistle-blower from detrimental actions which may result from the disclosure of Improper Conduct, provided that the disclosure is made in good faith. The Whistle-blowing Policy also ensures fair treatment is provided to both the Whistle-blower and the alleged wrongdoer when a disclosure of Improper Conduct is made.

A disclosure of Improper Conduct can be made verbally or in writing to the Chairman of the Board Audit Committee through a letter or e-mail to whistleblowing@malakoff.com.my. The Chief Internal Auditor is responsible for the administration, interpretation and application of the Whistle-blowing Policy and any amendment to this Policy shall be effected by the Chief Internal Auditor, subject to the final approval of the Chief Executive Officer, the Board Audit Committee and the Board of Directors.

In 2018, two cases were reported through the Whistle-blowing channel and appropriate actions were taken in accordance with the Policy.

The salient terms of the Whistle-blowing policy are available on our corporate website at:
<http://www.malakoff.com.my/About-Us/Whistleblowing-Policy/>

Security of Supply

GRI 103-1, 103-2, 103-3, GRI 203

The security of supply to the National Grid is directly related to the availability of capacity and the reliability of plants operating within a given period. The outage plans for all our plants are reviewed together with the Grid System Operator on a regular basis to ensure our plants are available to support the grid system as stipulated in the Power Purchase Agreement without compromising the integrity of the plants.

SASARAN PENTING NEGARA 2018

- Lumut Power Plant
- Prai Power Plant
- Tanjung Bin Power Plant
- Tanjung Bin Energy Power Plant

AUDITED BY

Jabatan Sasaran Penting Negara
("JSPN")

RESULTS 2018

SATISFACTORY



In 2018, we continued to review the security level of the plants for both adequacy and effectiveness. All our plants have been audited by JSPN with satisfactory results and added recommendations to further strengthen security especially at critical plants categorised as "Sasaran Penting Keutamaan Satu" or "Priority Target Number One". We have the responsibility to ensure safe, secure and reliable power supply to the National Grid.

To ensure continuous improvement in plant availability and reliability, we have implemented various operations and maintenance initiatives, adopted state-of-the-art tools such as Condition Based Maintenance, Reliability Centered Maintenance, Root Cause Analysis in failure investigations to avoid recurrences, Reliability Centered Spares, Risk Based Inspection, Process Safety Management, Hazard and Operability Study, forced outage management, and benchmarking activities in all the plants.

Information Security

GRI 103-1, 103-2, 103-3, GRI 203

In an environment where technology continuously evolves and new risks regularly, managing information risk and security and assuring compliance through an effective IT governance is critical. Malakoff is committed to establish a clear and defined IT Governance and Security Framework to effectively manage our IT-enabled investments, IT operations, and protection of information and IT resources.

Additionally, we have improved the Information Management and Cyber Security ("IMACS") standard operating procedure to ensure our IT and Plant Control System assets and resources are adequately protected from a wide range of threats including cyber-attacks internally and externally. We are also establishing the Risk, Internal Control and Compliance standards to protect IT resources by enforcing risk management, internal control monitoring and compliance review practices.

As part of our Digital Transformation journey, we have deployed cloud-based systems, such as Office365 to facilitate business operations and ease of communications. These initiatives are aligned with our policy of ensuring data security, uptime guarantee, archiving reliability, data loss prevention and other benefits. We continuously educate and provide alerts of cyber security threats to employees through emails and regularly conduct digital security awareness programme.

In 2019, we plan to enhance our operational and security processes, assess execution, strengthen enforcement, and review the compliance and effectiveness of policies and procedures. We continue to conduct security and vulnerability assessments periodically on all IT and plant control systems to protect critical information. Critical systems are assessed annually by independent third-party service providers who also provide updates on industry leading best practices.

In addition to accomplishing our 2019 IT Strategic Plan, we aim to facilitate the appropriate, effective and equitable use of IT resources, to improve overall efficiency to create optimal value.

Strategic Business Development

GRI 203

The Group has an established portfolio of power generation and water desalination assets and remains committed to develop these businesses by:

- Increasing the installed capacity (organically and inorganically);
- Expanding the renewable energy portfolio;
- Expanding the Operation and Maintenance ("O&M") businesses; and

SUSTAINABILITY STATEMENT

- Exploring potential new project(s) in environmental-related sectors, synergising our existing skill sets and resources outside of Malaysia, particularly in high growth countries and in regions such as South East Asia and the Middle East.

The Group plans to increase its capacity within Malaysia by leveraging on its expertise, existing landbanks and infrastructure for potential re-powering and new power plant projects.

Renewable Energy ("RE")

GRI 203

On the RE front, the Group continues to pursue opportunities in line with the Malaysian Government's targets of achieving a cumulative RE portfolio of 20% by the year 2025. Committed to growing our sustainable energy assets, we have submitted bids for both local and overseas tenders as well as identifying potential targets of commercially viable RE projects. Our plan to develop an optimised RE portfolios for the Group will catalyse new growth and help to meet our sustainability agenda.

The Group's existing RE portfolios consist of a 210 MW wind asset and a 29 MWac O&M contract for a large scale solar photovoltaic power plant. The Group is also collaborating with other companies to jointly secure, develop and implement several renewable energy projects namely small hydro, solar (including rooftop solar), biogas and waste to energy projects. In 2018, the Group signed a Memorandum of Understanding ("MoU") and a Joint Development Agreement ("JDA") with Touch Meccanica Sdn Bhd to jointly develop several small hydropower projects in Pahang. In addition, the Group has also signed a JDA with Concord Alliance Sdn Bhd to explore and develop biogas-based power generation projects. The Group is also venturing into the onsite rooftop solar business and projects by offering potential rooftop solar solutions to selected customers with large facilities and with electricity consumption.

Internationally, the Group is on the lookout for suitable RE opportunities in the South East Asia region strategically into our portfolio. In November 2018, the Group was credited as a qualified applicant by PT Perusahaan Listrik Negara ("Persero") Indonesia for potential IPP of RE projects in Indonesia.

Alam Flora Sdn Bhd

The Group through its wholly owned subsidiary, Tunas Pancar Sdn Bhd ("TPSB"), had on 1 August 2018, entered into a conditional Share Sales Agreement ("SSA") with HICOM Holdings Berhad, a wholly-owned subsidiary of DRB-HICOM Berhad for the proposed acquisition by TPSB of a majority equity interest in Alam Flora.

With the acquisition, the Group intends to expand and diversify its existing principal activities to include the provision of integrated solid waste collection and management, public cleansing management, asset and facility management services, waste recycling and waste treatment businesses. Alam Flora's business shall provide the Group with an immediate stream of stable income.



Alam Flora was awarded a concession under a tripartite concession agreement dated 19 September 2011 entered between the Government of Malaysia, the Solid Waste and Public Cleansing Management Corporation and Alam Flora to provide solid waste collection and public cleansing management services to several concession areas in Pahang, Federal Territories of Kuala Lumpur and Putrajaya. The concession agreement is for a period of 22 years from 1 September 2011 until 31 August 2033.

Alam Flora is deemed a strategic fit for Malakoff for the following reasons:

- Opportunity to penetrate the Waste Management and Environmental Services sector and participate in the growth of the industry through a major industry player;
- Potential for an additional and recurrent stream of revenue to sustain Malakoff's long-term growth; and
- Potential expansion of Malakoff's portfolio of RE investments including waste to energy projects.

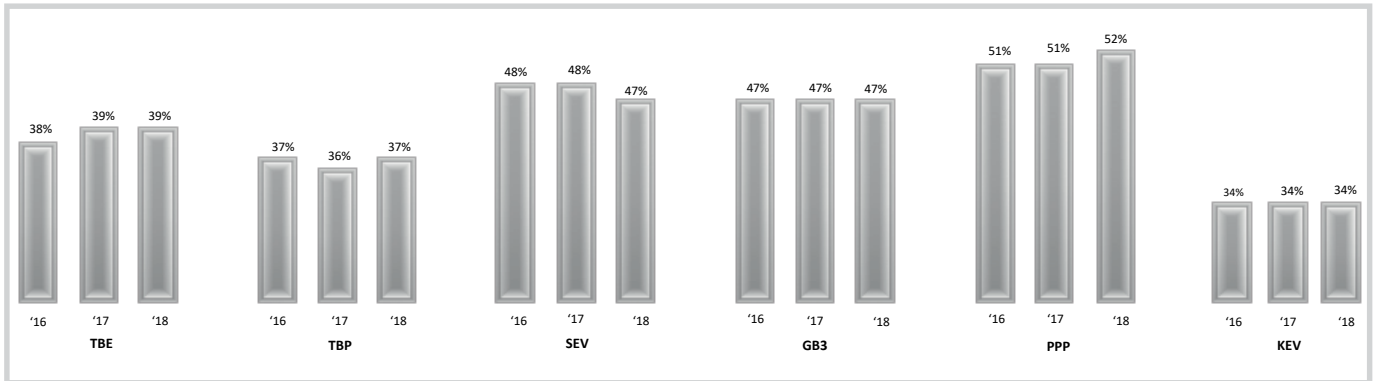
Operational Excellence

GRI 203

In 2018, Local Generation Division ("LGD") via our own Engineering Department continued to lend its engineering expertise in various aspects of operations and maintenance such as risk management, failure prevention, strategic planning, and cost optimisation to achieve our performance targets. The LGD also manages the power plants' operational and performance (thermal and emissions) activities and process improvements.

For local power plants, we set thermal efficiency goals for execution and continuous monitoring, with a dedicated thermal performance monitoring programme consisting of performance gap identification, remedy plans and potential risk forecasts. Periodic performance review sessions were conducted internally and externally throughout the year. The quarterly review identifies gaps and potential operational issues. It also helps the plants to properly plan the tasks to rectify any defects and schedule the required outage.

The following chart indicates the thermal efficiency among our local generating plants.



BUSINESS PROCESS IMPROVEMENT

Procurement Improvement Initiatives

GRI 102-9

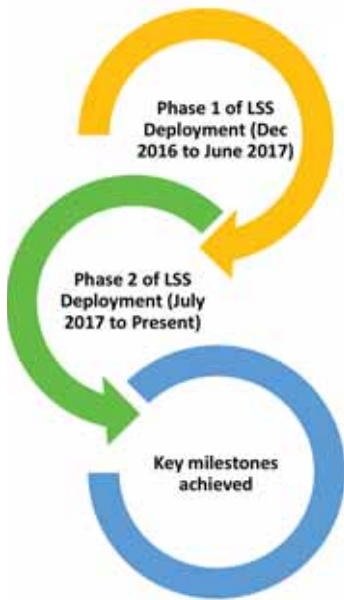
Implementation of E-Sourcing encourages more suppliers to participate. As E-Sourcing draws more competitive bids in the marketplace it has been embedded into the procurement process. Through E-Sourcing and E-Auction activities, the Group has benefited from significant cost savings in 2018.

To meet the challenging and competitive global economic conditions, Malakoff has sought new initiatives to improve the procurement process. A series of workshops and brainstorming sessions have been conducted by the appointed working group and the outcomes have been incorporated into the best practice procurement process to be implemented in the second quarter of 2019.



We recognise that Operational Excellence is key to pursuing sustainability to create value for the organisation. Since its first deployment in Malakoff to drive process improvements, Lean Six Sigma ("LSS") now also focuses on realising the full potential of trained employees to utilise the tactical improvement tools in their routine operations. To further enhance LSS deployment, a new policy has been initiated to require all executive and management employees to train as a Green or Black Belts with certification becoming a criterion for promotion.

SUSTAINABILITY STATEMENT



- The focus was on establishing the governance structure, performance indicators, reporting format, and the LSS programme training. A pioneer group of 22 employees were trained as Green Belts in this phase.
- The LSS program was fully deployed throughout the organisation. White, Yellow, Green and Black Belt training has been conducted, involving 11 batches of trainees from KLHQ, TBPP, TBEPP, LPP, PPP, PDP and MUSB.
- Malakoff LSS Burning Platform and Champion training was also organised to provide insight into coordinating a programme, scheduling training and selecting projects.
- The total number of staff trained is 280, equivalent to 27% of employees with a 30% target set by the end of 2020.
- Total accumulated project savings is RM53 million (Hard and Soft savings).



LSS 2018 Green Belt graduates

5S Green 5S

As part of our Lean programme initiatives, we embarked on Green 5S in the third quarter of 2018 encouraging all staff to work together with the objective of fostering a more efficient, safe, clean and conducive work environment.

5S OBJECTIVES			
Safe, clean and conducive workplace	Create a Green environment through the cultivation of Green Practices	Instill discipline, morale, and good work etiquette as working culture	Enhance the Group's image through a clean and safe work place

Internal facilitators, auditors and awareness training will be continuously developed and periodic 5S audits will be implemented to ensure the sustainability of the programme.

5S ACTIVITIES COMPLETED IN 2018		
Internal Facilitators Development	Awareness Training at all sites	 Gemba Session

PEOPLE

Covers our strategies on social issues, including talent development, diversity and performance management

“Our people are our priority. The Group is committed to creating a high-performance workforce and fostering a winning culture through an effective and efficient human resource system in order to realise our vision, mission and objectives. In 2018 the Group introduced a cloud-based Human Resources solution, branded as ‘iHuman’, with the aim of fostering excellent work values and principles amongst employees.”

Our People

In aspiring to be an employer of choice, we continue to emphasise the role of our people as the driving force behind growth. We promote values of integrity, teamwork, innovation, excellence and harmony, which in turn inspire a high-performance culture. We take an inclusive approach to building the capacity and skills of our employees. To this end, we create various online and physical platforms to continuously engage our employees, seek their feedback, understand their career and personal motivations, and most importantly, plan their professional and career development.





At Malakoff, we believe that diverse skills-sets and perspectives in the workplace shall improve the dynamics of teamwork. Hence, our hiring policy and development strategies are based on meritocracy and aim to provide equal opportunities for learning and growth. We do not discriminate between employees on the basis of their ethnicity, gender, age, disability or status.

We acknowledge the critical role of our human capital in fulfilling the Group's growth aspirations and recognise the need to build our employees' capabilities and competencies so that they will make positive contributions. Therefore, continuous learning and development is a priority in Malakoff in order to enhance productivity and optimise performance. This is executed by leveraging on the diverse capabilities of our leaders and by arranging cross-functional assignments within the Group. Over the years, we have demonstrated that talent mobility within the organisation through the restructuring and realignment of roles can contribute to an agile and flexible workplace.

As at 31 December 2018, we had 1,028 employees, working as one team to ensure Malakoff is able to operate, produce and serve at the highest levels of efficiency and effectiveness.



The table below shows the composition of our employees.

WORKFORCE DATA				
TOTAL NUMBER OF EMPLOYEES		2016	2017	2018
		1,074	1,035	1,028
BREAKDOWN OF EMPLOYEES				
NATIONALITY		99.91%	100%	100%
		0.09%	-	-
CONTRACT TYPE	PERMANENT	93.39%	91.79%	90.86%
	CONTRACT	6.61%	8.21%	9.14%
GENDER DISTRIBUTION		85.66%	83.29%	84.44%
		14.34%	16.71%	15.56%
EMPLOYEE ABOVE AND BELOW AGE OF 35	>35	46.09%	51.59%	48.25%
	<35	53.91%	48.41%	51.75%
EMPLOYEE GROUP	EXECUTIVE & ABOVE	703	677	655
	NON EXECUTIVE	371	358	373
NO. OF NEW HIRES	TOTAL	97	41	79
	EXECUTIVE & ABOVE	42	16	42
	NON EXECUTIVE	55	25	37
ATTRITION	TOTAL	54	80	83
	EXECUTIVE & ABOVE	48	52	65
	NON EXECUTIVE	6	28	18

Occupational Safety and Health (“OSH”)

GRI 403-2

Malakoff continues to implement a comprehensive HSSE Management System in accordance with ISO 14001 and OHSAS 18001 international standards. In 2018, Malakoff focused on improving its OSH performance by introducing the theme “Awareness & Enforcement”. The theme was selected as Malakoff believes in ensuring that a sustainable OSH performance requires a systematic approach of increasing the awareness while at the same time ensuring its strict enforcement.

In 2018, a total of 1,348 OSH activities and programmes were organised by the Group to support the awareness and enforcement objectives. Among the key highlights include:

- Organising Malakoff HSSE Day Celebrations:** Malakoff HSSE Day is celebrated at the Group level in conjunction with Group MMC HSSE day.
- Implementation of Systematic Occupational Health Enhancement Level Programme (SoHELP):** SoHELP is a voluntary programme by the Department of Occupational Safety and Health (DOSH) Malaysia designed to help the industries comply with relevant regulations pertaining to occupational health particularly in the field of chemical management, ergonomic issues and hearing protection. As part of Malakoff’s commitment, we have implemented the programme at two of our power plants namely Prai Power Plant and Lumut Power Plant. As a result, both power plants have achieved Level 5 which is the highest rating. The programme is also being introduced at Tanjung Bin Power Plant and Tanjung Bin Energy Power Plant.
- Organising Road Safety Campaigns:** Road Safety is an integral part of Malakoff HSSE programme and awareness activities are regularly carried out to remind our staff and contractors on the importance of road safety within and outside of the power plants.
- TAKE 2:** TAKE 2 is a behavioural-based programme to encourage all staff to spend TWO minutes of their time every day to observe any abnormal/unsafe practices to ensure his/her safety and health. This programme aims to create the awareness required to improve HSSE culture among staff.
- HOPE Card:** This is another behavioural-based programme aimed at creating awareness and ultimately reducing the possibility of an accident from occurring by recognising all unsafe acts and conditions which are precursors to the accidents. This also empowers both management and employees to take responsibility when it comes to safety and health.

- HSSE Document Review:** One of the key initiatives for 2018 is to review key HSSE documents such as HIRAC and SOPs. This is to ensure that these documents remain up-to-date and are aligned with the current regulatory requirements.
- HSSE Walkdown and Inspection:** As part of the “enforcement” element in 2018, a series of planned and impromptu walkdowns and inspections were carried out to ensure that all OSH issues are captured and addressed. This activity is conducted together by management and employees.

TOTAL NO. OF INCIDENTS	2017	2018
	22	25

CERTIFICATION: ISO 14001 and OHSAS 18001

TOTAL NO. OF LOST TIME INJURY	2017	2018	TARGET
	4	3	1

KEY FOCUS: Hazard and risk management (HIRAC, HAZOP, HAZID)

LOST TIME INJURY FREQUENCY RATE	2017	2018	TARGET
	0.59	0.45	0.12

KEY INITIATIVES: Malakoff HSSE Day, Road Safety Campaign, TAKE 2 and HOPE Card

The increase in the number of incidents was due to an increase in outage activities in Tanjung Bin Energy Power Plant. However, the number of Loss Time Injury (“LTI”) cases reduced from 4 in 2017 to 3 in 2018, which resulted in a lower Lost Time Injury Frequency Rate (“LTIFR”) of 0.59 in 2017 to 0.45 in 2018.

SUSTAINABILITY STATEMENT

Talent Development

GRI 404-2



- RM1.1 million for soft-skill, functional and leadership development
- RM2.19 million for technical training
- 1,600 man-days
- 5,300 man-days

LEADERSHIP DEVELOPMENT



- **Malakoff Management Development Programme ("MMDP")**
9-months development programme for Assistant Managers and Managers in the Group. A total of 50 employees were identified for this programme.
- **Harvard ASEAN Senior Management Development Programme (organised by HBS Alumni Club of Malaysia)**



TECHNICAL TRAINING

- Plant-specific training
- Competency Based Assessment ("CBA")



PERFORMANCE MANAGEMENT

- Implementation of iHuman Cloud-based Human Resources solution

The Human Capital division continues to support the Group in training and development. Investing and providing relevant development programmes are key to ensuring that employees are kept abreast of cutting-edge technological developments. The Human Capital division earmarked areas for improvement including refining the people management skills of our middle managers through the Malakoff Management Development Programme, a 9-month development programme for Assistant Managers and Managers in the Group. A total of 50 employees were identified for this programme.

Given the nature of our business which is technically driven, a substantial amount of training has been dedicated to developing our O&M work force. More tailored and specialised training programmes have been initiated to cater for changes in technology and to ensure business sustainability. The plant-specific training simulators at the power plants coupled

with Competency Based Assessment ("CBA") serves as an effective platform for our employees to practise handling realistic simulations of operations and maintenance in power plant scenarios.

As we prepare ourselves to respond to rapidly changing business requirements and demographics, we have deployed HR analytics, which help garner insights and solutions from historical trends and predictive analytics. The focus is on big data in Human Resources to optimise advanced analytic platforms and visualisation tools to evaluate and elevate organisational performance. In the process, various trends are analysed – from demographics to performance data – as an integrated process to drive people-related decisions and align them to our business goals.

In our quest to foster a high performance culture, we have implemented a cloud-based Human Resources solution and branded it as iHuman. It is our aspiration that the performance and management goals system which is part of iHuman will allow us to better organise our performance management system. The system allows us to better cascade and align the Group's goals and performance expectations to the level of the individual ensuring better understanding which will result in quality deliverables.

In aspiring to achieving growth, both in the local and international markets, it is critical for us to continue to invest

in human capital to achieve greater productivity and better performance. The priority will be to build our technical and non-technical capabilities internally by reskilling and upskilling our employees in various areas of operations, management and technology. With diverse skills sets, the scope of learning and development will also increase, enabling cross-functional assignments and talent mobility across our domestic and overseas operations.

Moving forward, we will endeavour to develop and sustain a high-performance culture, supported by our core values: integrity, teamwork, innovation, excellence and harmony.

EMPLOYEE WELFARE AND BENEFIT UPDATE

All our permanent employees enjoy equitable and fair compensation packages and benefits which are competitive and at par with industry standards. Our policies governing employee benefits are also streamlined across the Group, with a focus on improving employee's morale, promoting work-life balance and improving employee's health and productivity. All benefits are offered based on individual merit, performance and contributions to the Group. At Malakoff, employee benefits are also linked to attracting and retaining talent. In April 2018, we enhanced the employees' Group Personal Accident and Term Life insurance coverage.

Management Leadership

GRI 404-2

In 2018, our Human Capital Division continued to build the leadership and talent pipeline, inspiring the 'one-team' spirit towards achieving the Group's vision and mission.

As part of our succession management, we identified high-potential employees with commendable track records who have demonstrated the skills to serve the future needs of the organisation. The Human Capital division has developed job profiling for critical positions below the Chief Executive Officer ("CEO") position. Competency Based Assessments for technical employees assess skill gaps and various interventions, including formal training and development programmes strengthen teamwork.

Community Investment Strategy

GRI 413

Underpinned by our strong belief that our success depends on our commitment to constantly engage with and understand the expectations of local communities as well as our employees, we strive to fulfill our responsibilities as an active member and contributor to the community. Over the years, our focus has been on education and the environment, especially towards those communities where we conduct our operations.

Measures to Improve Likelihood of Community

During the year under review, we kept our annual commitment to channel funds through Wakalah Zakat towards community welfare and well-being. We supported various causes, catering to the real-time needs of the community members.

SUSTAINABILITY STATEMENT



HIGHLIGHTS OF WAKALAH ZAKAT 2018

- RM36,000 to 90 Asnaf Fakir and Miskin listed by Majlis Agama Islam Johor in Tanjung Piai for Hari Raya assistance
- RM125,000 to 250 Asnaf in Mukim Serkat, Segari and Lukut for Hari Raya assistance
- RM36,900 to the local community of Mukim Serkat for their religious duties and obligations during the year
- RM35,050 educational assistance for Kawasan 1, Mukim Serkat, Pontian community
- RM40,000 allocation for maintenance of Masjid Al-Amin, Sungai Dinar in Pontian
- RM20,000 to Masjid Khairul Jariah, Segari for its upkeep and maintenance

Aimed at fostering community harmony and spirit through religious gatherings, a celebration in remembrance of the birth of Prophet Muhammad s.a.w. was organised by Malakoff, in collaboration with JKKK Mukim Serkat, and held at Masjid Al-Amin Kampung Sungai Dinar, Pontian, Johor. During the event, we handed over a hearse which will ease the carriage of 'jenazah' for burial.

Two Ceramah Perdana were held in the local communities at Segari, Perak and Mukim Serkat, Pontian, Johor that aimed at broadening their knowledge about Islam. Approximately 1,500 residents attended both events which deliberated upon Prophet Muhammad s.a.w.'s teachings and Islamic family building, respectively.

We also organised "Korban" to both communities for their Aidil Adha celebration, during which the respective local congregations gathered to help divide the meat in the spirit of

gotong royong and distribute packages of meat to the needy in their respective areas.

As part of our efforts to further strengthen Malakoff's goodwill with the local community while promoting unity and togetherness among them, the annual "Karnival Sukan Rakyat Malakoff-Mukim Serkat" was held on 8 and 9 December 2018 at Jeti Nelayan Kampung Tanjung Piai and Balairaya Pekan in Mukim Serkat, Johor attracting more than 1,000 participants and spectators from the local community. The two-day event was packed with traditional community-oriented competitions and games such as 'Jong', bowling using coconuts, pillow fight on a pole, 'puyu' fishing, freestyle swimming and boat tug-of-war.

Along with the competitions, Malakoff staff also worked hand in hand with the Mukim Serkat community to clean up the surrounding area. A free medical check-up was also made available as a service for the community.

Youth Education and Development

GRI 413-1

In March 2018, we initiated an educational programme called, “Corporate Social Responsibility (CSR) Education Programme” for the Mukim Serkat community. The pillar of this programme is ‘Jom Sarap’, that aimed to provide school children with nutritious breakfast. Following this, 156 Primary 6 students from these schools participated in a motivational talk and examination seminar entitled “Program Kecemerlangan UPSR” to prepare UPSR students for the examinations. The other parts of the programme are “English is Fun” and the creation of a Mini Library in Kompleks Penghulu Mukim Serkat.

On top of the Education Programme, as part of our efforts in 2018 to help support education, we distributed RM60,000 to our 11 adopted schools for the provision of better infrastructure and learning tools.

For tertiary education, in order to enhance understanding in Science, Technology, Energy and Mathematics, (the ‘STEM’ subjects), Malakoff collaborated with University Malaysia Pahang (“UMP”), to carry out a “Switching on Green Technology” programme which was aimed at empowering students by raising their awareness and educating them on RE.



CSR EDUCATION PROGRAMME



“Jom Sarap”

7 Primary Schools
982 Students

programme aimed to provide school children with nutritious breakfast



“Program Kecemerlangan UPSR”

Motivational Talk & Examination Seminar

7 Primary School
156 Primary 6 Students



“English is Fun”

Three-day English language proficiency series

50 participants
consisting children and adults

aims to foster the usage of the English language among the local community by implementing an engaging and fun learning methodology.



“Mini Library”

At Kompleks Penghulu Mukim Serkat

~ 300 books donated by Malakoff Staff

cultivate a reading culture among the younger generation within the community.

SUSTAINABILITY STATEMENT

Environmental Awareness
GRI 413-1



Malakoff launched its latest CSR initiative in 2018 called "Jom Plogging Bersama Komuniti 2018" at Teluk Senangin, Manjung, Perak. The programme was organised in collaboration with Majlis Perbandaran Manjung ("MPM"), to raise public awareness on environmental conservation, cleanliness and to promote a healthy lifestyle. Around 300 participants took part in the activity, which involved cleaning-up while jogging for 4km along the shores and around the villages in Teluk Senangin. Approximately two tonnes of rubbish were collected by the participants, which were then sorted and separated for plastic, glass and paper.

The Malakoff-MPSJ Trees Planting Programme, another new CSR initiative, was held at Taman Kejiranan Putra Bahagia 8/3K in Putra Heights is a collaboration effort between Malakoff and Majlis Perbandaran Subang Jaya and is supported by Yayasan Hijau ("YaHijau"). 150 participants of all ages consisting of Malakoff staff and the residents of Taman Putra Bahagia 8/3K, Putra Heights, Selangor gathered to plant a tree to create awareness on environmental conservation for future generations, in line with Malakoff's CSR commitment to the environment.



Of the 500 saplings sponsored by Malakoff, 150 saplings planted in the park included Tamarindus indica (Tamarind), Annona muricata (Soursop), Laburnum x watereri (Golden Chain) and Maniltoa browneoides (Handkerchief tree).

ENVIRONMENT

Covers topics on our impact and approach on environmental aspects of sustainability

“Malakoff believes in the goal of sustainable development as the cornerstone of business policy. As a good corporate citizen, we responsibly adhere to and comply with all relevant environmental legislation of the countries in which we operate. In all matters pertaining to the use of resources and elimination of pollution we go a step beyond compliance to implement every available measure to safeguard and preserve the environment during the course of our business operations.”

Emissions Management

GRI 305-1, 305-2, 305-5

Considering its abundant reserves and competitive pricing, coal will likely maintain its market dominance as the biggest single source of energy for electricity production globally, despite the growing concern on CO emissions. Our strategy is to move towards balancing our energy-mix, which means shifting our focus towards renewable energy for the middle to long-term horizon. In the meantime, we have deployed advanced and clean technologies which will help to significantly reduce emissions. As an example, our recent installation of the highly efficient ultra-super critical boiler technology at TBEPP is in full compliance with the new CAR 2014 regulations.

To ensure compliance with emission limits, our plants employ a stringent emissions-control equipment maintenance schedule and ensure optimal operational efficiencies. Our facilities, as far as emissions management is concerned, report real-time emissions data from the plant to the respective Department of Environment (“DOE”) database for online monitoring by the regulator. All Greenhouse Gas (“GHG”) and non-GHG emissions produced by our local generating facilities are directly related to the fuel property and combustion process.

As part of our commitment towards better management of our carbon footprint, we are currently conducting an initial study on our carbon emissions, which will provide us with baseline data for sustainability reporting.

SUSTAINABILITY STATEMENT

Non-GHG	Emission from Coal	GHG
<p>Our facilities are equipped with:</p> <ol style="list-style-type: none"> 1. Filtration equipment to reduce Particulate Matter ("PM") emissions – an electrostatic precipitator and fabric filter are installed at TBPP and TBEPP respectively 2. Flue Gas Desulphurisation ("FGD") to reduce Sulfur Oxide ("SOx") emissions; and 3. Stage combustion to reduce Nitrous Oxide ("NOx") emissions 	<ol style="list-style-type: none"> 1. Minimising emissions from coal properties through a stringent coal selection process governed by established internal procedure complying to the Coal Supply and Transportation Agreement ("CSTA"). 2. Committed to partner with the industry to pioneer sustainable solutions. 	<ol style="list-style-type: none"> 1. Commitment towards reducing Scope 1 and Scope 2 emissions via fuel optimisation and a purchased electricity management strategy. 2. Participating with TNB Research ("TNBR") to develop the GHG emission factor for the electricity sector in Malaysia. This initiative will help the country meet its commitment as a signatory party to the United Nations Framework Convention on Climate Change ("UNFCCC").



ENERGY EFFICIENCY

In line with our effort to support the Government's aspiration in unlocking potential energy saving efficiency, the Group had also started implementing initiatives within our KL office. It involves the changing of fluorescent lights to LED lamps for five (5) office floors of our KL office. Savings in the monthly electricity bill amounted to approximately 27% a month after the full installation of the LED lamps. The initiative has been further extended to include an energy audit exercise for the Group's District Cooling Plant owned and operated by Malakoff Utilities Sdn Bhd ("MUSB"). It is conducted to understand the current efficiency of MUSB's chiller plant system and to identify potential improvement for the system which can translate into potential energy savings for MUSB.

Water Use Impact

GRI 303-1, 303-2, 303-3

Water Management

Seawater is used by our power plants for cooling purposes and raw water for general administrative and process requirements. Raw water used in electricity generation process is mainly to replenish water and steam loss to the environment during operations. Our raw water supplies are obtained from the respective state water supply companies such as Perbadanan Pembekalan Air Pulau Pinang ("PBAPP"), Syarikat Air Johor ("SAJ") and Lembaga Air Perak ("LAP").

Most of our power plants optimise the water usage by means of monitoring and reducing of all blowdown activities to reduce water losses as compared to previous operation method.

Efforts on water management at TBPP especially through the management of ash pond water has reduced raw water consumption by 20% in raw water costs per annum, while ensuring environmental compliance (e.g., ash pond water level). Additionally, the TBPP plant also adopted a rainwater harvesting system, which is used to collect water for general cleaning purposes around the plant area.

Waste Management





GRI 306-1, 306-2, 306-5

TBPP and TBEPP coal-fired plant have a combined generation capacity of 3,100 MW and produced about 45,000 metric tonnes of Fly Ash and 8,000 metric tonnes of Bottom Ash every month. We have a coal ash disposal procedure helping us to manage our ground, water and air contamination as we recognise the risks from coal ash disposal from our coal-fired power.

Malakoff has entered into a Coal Ash Offtake Agreement with G-Cast Concrete Sdn. Bhd. ("G-Cast") for the collection of coal ash from its Tanjung Bin Power Plant ("TBPP") in Pontian, Johor Darul Takzim. By the terms of the agreement, G-Cast will collect coal ash from TBPP for a period of 10 years, with an option to extend for an additional three years.

The third-party offtake agreement is one of Malakoff's sustainability initiatives to recycle the ash generated from TBPP's 2,100 MW coal-fired power plant into construction material such as sand replacement as practiced in Europe and Japan.

In addition, the internal waste (domestic waste) and internally generated scheduled waste such as used lube oil, distillate and contaminated solid waste are collected by appointed approved domestic contractors and sent for either landfill or incineration disposal.

RAW WATER CONSUMPTION				
		2016 (m ³)	2017 (m ³)	2018 (m ³)
PRAI POWER PLANT		201,565	207,476	223,731
LUMUT POWER PLANT		513,159	469,021	369,781
TANJUNG BIN POWER PLANT		1,995,067	1,631,673	1,629,642
TANJUNG BIN ENERGY POWER PLANT		720,902	379,528	356,567
TOTAL		3,420,693	2,687,698	2,579,722

SUSTAINABILITY STATEMENT

THE WAY FORWARD

The Group remains confident and optimistic that the strategies for sustainability laid out in this Statement, including new acquisitions, as well the initiatives in RE, promise an exciting new phase of growth in the Group's medium to long term effort to sustain value creation. The global demand for power and water will continue to be positive and will be met in future by ever more efficient and cost-effective technologies including repowering and renewables.

We are committed in our conviction that the proposed acquisition of Alam Flora will yield synergistic benefits and create satisfactory returns for the Group. We are encouraged by the dedication and commitment of our team and indeed, we believe this is the beginning of better things to come.

The widespread interest in RE to combat climate change is attracting public and private investment to meet Malaysia's target of a 20% contribution by renewables to the national generating capacity by 2025 and we will play our part in full to help the country achieve that target.

Other ongoing initiatives put in place will only enhance the Group's competitive advantages and sustainability. These include initiatives to create a culture of operational excellence, tightened IT security, and most importantly zero tolerance for any action or omission that risks the health and safety of our people.

In tandem with our support for the Energy Commission, the industry regulator, we will promote the growth and use of RE and we will continue to play our part in developing solutions and initiatives to overcome practical problems related to the adoption and verification of best practices for procurement, management, and development of the domestic power generation industry.

On the international front, the Group continues to develop and build alliances to strengthen our business in countries where we currently operate: Algeria, Bahrain, Oman, Saudi Arabia, Australia and more broadly, in the MENA and South East Asia regions. We hold fast to our ten-year aspiration to raise the Group's power and water capacity held worldwide to 10,000 MW and 1 million cubic metre of desalinated water production per day respectively.

We recognise that sustainability is a journey and our efforts will be directed and strengthened towards a more strategic approach in the next few years. In 2016, we began our sustainability journey with the setting up of a Sustainability Working Group comprising of the various departments and teams across the organisation. By encouraging dialogue and through taking on a more structured approach, we get closer every day to embedding sustainability in the organisation.



GRI Standard		Disclosure	Page No
GRI 101: Foundation 2018 General Disclosures			
GRI 102: General Disclosures 2018		Organizational Profile	
	102-1	Name of the organization	002 (refer to AR)
	102-2	Activities, brands, products, and services	002 (refer to AR)
	102-3	Location of headquarters	007 (refer to AR)
	102-4	Location of operations	010 - 011 (refer to AR)
	102-5	Ownership and legal form	007 (refer to AR)
	102-6	Markets served	010 - 011 (refer to AR)
	102-7	Scale of the organization	003 (refer to AR)
	102-8	Information on employees and other workers	060 (refer to AR)
	102-9	Supply chain	055 & 057 (refer to AR)
	102-10	Significant changes to the organization and its supply chain	055 & 057 (refer to AR)
	102-11	Precautionary principle or approach	102 - 108 (refer to AR)
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		Strategy	
	102-14	Statement from senior decision maker	048 - 049
	102-15	Key impacts, risks, and opportunities	048 - 049
		Ethics and Integrity	
	102-16	Values, principles, standards and norm behavior	054 - 054
	102-17	Mechanisms for advice and concerns about ethics	054 - 054
		Governance	
	102-18	Governance structure	084 - 101 (refer to AR)
	102-19	Delegating authority	050 - 051
	102-20	Executive-level responsibility for economic, environmental, and social topics	050 - 051
	102-21	Consulting stakeholders on economic, environmental and social topics	051 - 052
	102-22	Composition of the highest governance body and its committee	084 - 101 (refer to AR)
	102-23	Chair of the highest governance body	084 - 101 (refer to AR)

SUSTAINABILITY STATEMENT

	102-24	Nominating and selecting the highest governance body	084 - 101 (refer to AR)
	102-26	Role of highest governance body in setting purpose, values, and strategy	084 - 101 (refer to AR)
	102-27	Collective knowledge of highest governance body	084 - 101 (refer to AR)
	102-28	Evaluating the highest governance body's performance	084 - 101 (refer to AR)
	102-29	Identifying and managing economic, environmental, and social impacts	051 - 052
	102-30	Effectiveness of risk management processes	084 - 101 (refer to AR)
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	102-32	Highest governance body's role in sustainability reporting	084 - 101 (refer to AR)
	102-33	Communicating critical concerns	054
	102-34	Nature and total number of critical concerns	054
	102-35	Remuneration policies	084 - 101 (refer to AR)
	102-36	Process of determining remuneration	084 - 101 (refer to AR)
	102-37	Stakeholders' involvement in remuneration	084 - 101 (refer to AR)
	102-38	Annual total compensation ratio	084 - 101 (refer to AR)
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	Stakeholder Engagement		
	102-40	List of stakeholder groups	051
	102-42	Identifying and selecting stakeholders	051
	102-43	Approach to stakeholder engagement	051
	102-44	Key topics and concerns raised	051
	Reporting Practice		
	102-45	Entities included in the consolidated financial statements	118 - 242 (refer to AR)
	102-46	Defining report contents and topic boundaries	050
	102-47	List of material topics	052
	102-48	Restatement of information	052
	102-49	Changes in reporting	052
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	103-2	The management approach and its components	036 - 046 (refer to AR)
	103-3	Evaluation of the management approach	036 - 046 (refer to AR)
	Economic Performance		
	201-1	Direct economic value generated and distributed	118 - 242 (refer to AR)
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	103-1	Explanation of the material topic and its Boundary	063 - 066
	103-2	The management approach and its components	063 - 066
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	Indirect Economic Impacts		
	203-1	Infrastructure investments and services supported	063 - 066
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GRI 303: Water	Management Approach Disclosures		
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	103-2	The management approach and its components	069
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	Water Use Impact		
	303-1	Water withdrawal by source	069
	303-2	Water sources significantly affected by withdrawal of water	069
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GRI 305: Emissions	Management Approach Disclosures		
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	103-2	The management approach and its components	067 - 068
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SUSTAINABILITY STATEMENT

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	306-2	Waste by type and disposal method	069
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GRI 307: Environmental Compliance	Management Approach Disclosures		
	103-1	Explanation of the material topic and its Boundary	053 - 054, 068
	103-2	The management approach and its components	053 - 054, 068
	103-3	Evaluation of the management approach	053 - 054, 068
	Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	053 - 054	
GRI 401: Employment	Management Approach Disclosures		
	103-1	Explanation of the material topic and its Boundary	059 - 060
	103-2	The management approach and its components	059 - 060
	103-3	Evaluation of the management approach	059 - 060
Employment			
401-1	New employee hires and employee turnover	059 - 060	
GRI 403: Occupational Health and Safety	Management Approach Disclosures		
	103-1	Explanation of the material topic and its Boundary	061
	103-2	The management approach and its components	061
	103-3	Evaluation of the management approach	061
	Occupational Health and Safety		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	061	

GRI 404: Training and Education	Management Approach Disclosures		
	103-1	Explanation of the material topic and its Boundary	062
	103-2	The management approach and its components	062
	103-3	Evaluation of the management approach	062
	Training and Education		
404-2	Programs for upgrading employee skills and transition assistance programs	062	
GRI 413: Local Communities	Management Approach Disclosures		
	103-1	Explanation of the material topic and its Boundary	063 - 066
	103-2	The management approach and its components	063 - 066
	103-3	Evaluation of the management approach	063 - 066
	Local Communities		
413-1	Operations with local community engagement, impact assessments, and development programs	063 - 066	

CORPORATE EVENTS HIGHLIGHTS



8 January 2018
Malakoff and Touch Meccanica Sdn Bhd ("TMn") signed a Memorandum of Understanding ("MoU")

JANUARY



26 March 2018
"Jom Sarap" programme for 982 primary school students in Mukim Serkat was officially launched



APRIL



3 April 2018
The first batch of Lean Six Sigma graduates with their certificates

MARCH



12 April 2018
Ceramah Perdana KLHQ delivered by Ustaz Dato' Badli Shah on *Isra' Mikraj*



18 April 2018
Malakoff organised a friendly football match with the Energy Commission



26 April 2018
Malakoff's 12th Annual General Meeting





10 May 2018

Malakoff organised a motivational seminar for UPSR students in Mukim Serkat

MAY



JUNE

4 June 2018

Iftar with the local community at Masjid Kampung Tok Muda (Kapar, Selangor)



7 June 2018

Iftar with the local community at Masjid Al Amin Sungai Dinar (Mukim Serkat, Pontian, Johor) and Masjid Padang Lallang (Bukit Mertajam, Penang)



9 June 2018

Iftar with the local community at Masjid Kampung Paya (Lukut, Negeri Sembilan)



26 June 2018

Hari Raya Aidilfitri celebration at Tanjung Bin Power Plant



29 June 2018

Hari Raya Aidilfitri celebration at Lumut Power Plant



CORPORATE EVENTS HIGHLIGHTS

 <p>2 July 2018 Hari Raya Aidilfitri celebration at Prai Power Plant</p>	<h1>JULY</h1> 	<p>4 July 2018 Hari Raya Aidilfitri celebration at KLHQ</p> 
<p>5 August 2018 Malakoff and Energy Commission participated in an angling event hosted by Port Dickson Power Plant</p> 	<p>11 July 2018 Malakoff sponsored the "Switching on Green Technology" programme at University Malaysia Pahang</p> 	<p>5 July 2018 Hari Raya Aidilfitri celebration at Port Dickson Power Plant</p> 
<p>15 August 2018 Ceramah Perdana KLHQ delivered by Ustazah Datuk Dr Norhafizah Musa on <i>Maal Hijrah</i></p> 	 <p>14 August 2018 Malakoff's Tanjung Bin Power Sdn Bhd ("TBP") and G-Cast Concrete Sdn Bhd signed a Coal Ash Offtake Agreement</p>	<h1>AUGUST</h1> 

19 August 2018

Malakoff collaborated with Tanjung Piai Member of Parliament to distribute financial aids to asnaf recipients



20 August 2018

Malakoff donated 2 cows to the local community in Segari in conjunction with the Hari Raya Aidiladha celebration



21 August 2018

Malakoff donated 2 cows to the local community in Mukim Serkat in conjunction with the Hari Raya Aidiladha celebration



8 September 2018

Malakoff organised a friendly futsal game with the Economic Planning Unit, Energy Commission and Tenaga Nasional Berhad (“TNB”)



SEPTEMBER



7 September 2018

Malakoff and Concord Alliance Sdn Bhd (“Concord”) signed a Joint Development Agreement (“JDA”) on Renewable Energy (“RE”) projects

13 September 2018

Ceramah Perdana KLHQ delivered by Ustaz Haslin Bollywood



23 September 2018

Ceramah Perdana Mukim Serkat delivered by Ustaz Ebit Lew



29 September 2018

Malakoff organised “Jom Plogging Bersama Komuniti” at Teluk Senangin, Lumut, Perak



CORPORATE EVENTS HIGHLIGHTS

4 October 2018

Lumut Power Plant organised its Health, Security, Safety and Environment (“HSSE”) Day 2018



OCTOBER



2 October 2018

Malakoff Extraordinary General Meeting



6 October 2018

Malakoff collaborated with Yayasan Hijau and Majlis Perbandaran Subang Jaya (“MPSJ”) for a Tree Planting Programme



19 October 2018

Malakoff organised a friendly football match with the Ministry of Energy, Science, Technology, Environment and Climate Change (“MESTECC”)



26 October 2018

Malakoff organised friendly football and netball matches with TNB



1 November 2018

Malakoff and TMn signed a JDA on RE projects



NOVEMBER



3 November 2018

Malakoff organised a friendly bowling match with New Straits Times Press (“NSTP”)



18 November 2018

Malakoff launched its Mini Library at Mukim Serkat



11-12 November 2018

Tanjung Bin organised its HSSE Day 2018



DECEMBER



8 December 2018

Malakoff and JKKK Mukim Serkat organised “Karnival Sukan Rakyat Mukim Serkat”



22 November 2018

Ceramah Perdana Segari delivered by Ustaz Ebit Lew



12 December 2018

Villagers from Mukim Serkat participated in the “English is Fun” class organised by Malakoff



12-21 December 2018

Prai Power Plant organised its HSSE Week 2018



14 December 2018

Malakoff organised a friendly bowling match with MESTECC



CORPORATE EVENTS HIGHLIGHTS



22 December 2018

Malakoff donated an educational assistance to the Mukim Serkat community from Wakalah Zakat fund



29 December 2018

Malakoff donated a hearse to the community at Kampung Sungai Dinar, Pontian





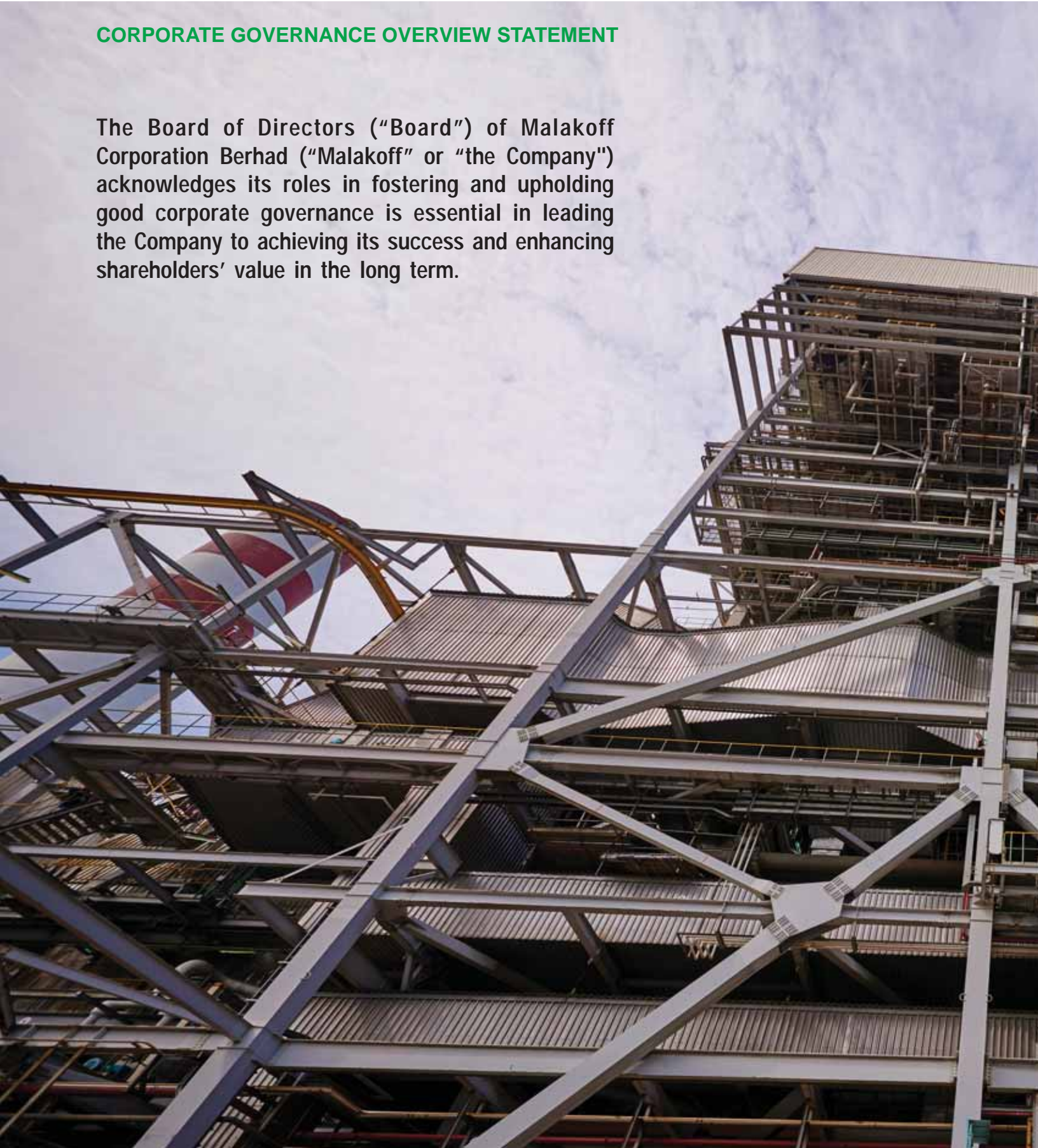
Value Creation

A strong foundation as well as a healthy balance sheet will prepare us to pursue value-accretive green field projects and acquisitions aimed at further improving long-term shareholder returns.

GOVERNANCE STATEMENTS

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) of Malakoff Corporation Berhad (“Malakoff” or “the Company”) acknowledges its roles in fostering and upholding good corporate governance is essential in leading the Company to achieving its success and enhancing shareholders’ value in the long term.



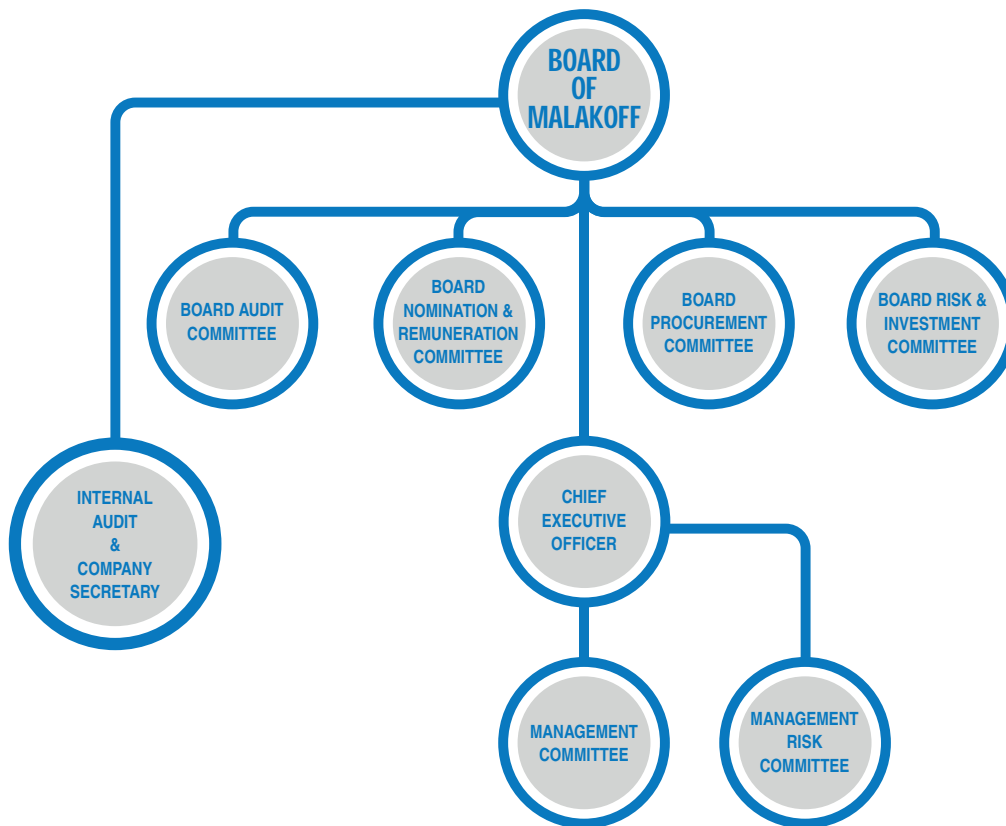
Therefore, although faced with an increasingly challenging operating environment, the Board continues to take its responsibilities under the Malaysian Code of Corporate Governance 2017 (“MCCG 2017”) with care and had made every effort, where possible, in applying the principles of good corporate governance prescribed in the MCCG 2017.



CORPORATE GOVERNANCE OVERVIEW STATEMENT

This corporate governance overview is prepared up to 8 March 2019 and was approved by the Board on even date. It sets out a summary of the corporate governance practices undertaken during the financial year with reference to the three principles of MCCG 2017, its key focus areas and future priorities in relation to the corporate governance practices. In addition to this, the application of each of the practices set out in the MCCG 2017 is disclosed in our Corporate Governance Report (CG Report) which is available on Malakoff’s corporate website at www.malakoff.com.my. Malakoff’s Corporate Governance Framework which is premised upon the following statutory provisions, best practices and guidelines is summarised in the diagram below:

1. Companies Act 2016 (“Act”);
2. Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Malaysia”); and
3. MCCG 2017.



A. BOARD LEADERSHIP AND EFFECTIVENESS

I. BOARD ACTIVITIES

The principal role of the Board of Malakoff (“**Malakoff Board**”) is to govern and set the strategic direction of the Group while exercising its oversight over management of Malakoff and its businesses in accordance with the approved strategic plan for the Malakoff Group. This strategic plan, albeit approved, remains a robust plan as it is reviewed periodically by the Management to ensure relevance to its current operating environment including changes to the Government’s policies for the power industry.

The Board also sets the Group’s core values, adopts proper standards to ensure that the Group operates with integrity, and complies with the relevant rules and regulations. The roles and responsibilities of the Board are set out in the Board Charter which is available on the Malakoff’s corporate website at www.malakoff.com.my.

In fulfilling its roles and responsibilities, the key activities of the Board during the financial year 2018 (“**FY2018**”) are as set out below:-

Strategy
<ul style="list-style-type: none"> • attended the annual strategy engagement session with the Management at an offsite location for the setting of the Group’s 5-year business plan from 2019 to 2023. • attended industrial analysts’ briefings to gain better insights of the global shift of market trends and industry, competition strategy, insights on emerging market before setting the strategic direction of the Group for its 5-year business plan. • quarterly update on business development initiatives approved under the business plan, its progress and their challenges.
Financial oversight & reporting
<p>Reviewed and deliberated on the following reports and approval papers:-</p> <ul style="list-style-type: none"> • Annual budget and capital/operation expenditure plan of the Group for financial year 2019; • the Group’s quarterly interim financial results; • the Group’s tenders and procurements in accordance with Limits of Authority (“LOA”) of the Group; • the Group’s Transfer Pricing Policy – Intragroup Financing Transactions of Malakoff Group; and • the revised LOA to streamline the approving authorities to reflect the revised organisation structure of Malakoff.
Risk, Compliance and Oversight
<p>Reviewed, deliberated and/or endorsed/approved the following reports and approval papers: -</p> <ul style="list-style-type: none"> • action plans to mitigate significant strategic and operational risks faced by the Group on quarterly basis; • quarterly reports of the Group’s safety performance for the Group’s local and overseas operating assets of the Group and reviewed the HSSE activities undertaken during the financial year to improve safety performance and enhance workplace safety awareness; • Internal Audit Reports from the Board Audit Committee (“BAC”);

CORPORATE GOVERNANCE OVERVIEW STATEMENT

<p>Risk, Compliance and Oversight (continued)</p> <ul style="list-style-type: none"> quarterly reports of the related party transactions and recurrent related party transactions to ensure that the transactions entered by the Malakoff Group with related parties are fair, reasonable and not detrimental to the minority shareholders' interest; the adequacy and the integrity of the Management information and internal control systems of the Company and the Group; and the Group's compliance with the relevant laws and regulation as well as Malakoff's internal policies and procedures including the Companies' Constitution.
<p>Governance</p>
<p>Board performance and composition</p> <ul style="list-style-type: none"> annual Board assessment to evaluate the performance of the Board, Board Committees and the individual directors. monitored the attendance of Directors for trainings, seminars and workshops to keep themselves abreast with recent development of laws, regulations and the industry. reviewed the composition of the Board and Board Committees and of its key subsidiaries.
<p>Leadership evaluation & selection</p> <p>Reviewed, deliberated, oversaw and/or endorsed/approved the following activities: -</p> <ul style="list-style-type: none"> setting of Corporate Key Performance Indicators ("KPIs") upon the approval of the business plan for 2019; achievement of the Corporate KPIs for the performance against set KPIs for 2018; and determination of bonus and salary increment for the Chief Executive Officer ("CEO") and the Senior Management team.
<p>Succession planning</p> <ul style="list-style-type: none"> succession planning for the CEO, Senior Management team and other key positions. reviewed and evaluated the calibre and suitability of candidate(s) to be nominated to the Boards of Malakoff's key subsidiaries or associate companies. establishment of internal policy and training for employees who are nominated to represent Malakoff on the Boards of subsidiaries and associates of the Group. reviewed Talent Management and Development programmes.
<p>Sustainability</p> <ul style="list-style-type: none"> reviewed and monitored the Group's corporate social responsibilities ("CSR") and the related activities to promote CSR. reviewed and considered the social and environmental impact of the Group's activities and operations and monitor the compliance with the Group's sustainability responsibilities and the relevant regulatory requirements.

The Board is assisted by four Board committees in the review and monitoring of the above functions. The Board Committees namely BAC, Board Nomination and Remuneration Committee ("BNRC"), Board Risk and Investment Committee ("BRIC") and Board Procurement Committee ("BPC") work within their delegated authority and respective terms of reference approved by the Board.

II. BOARD COMPOSITION

a) Board Size and Structure

The Malakoff Board, with eight non-executive directors, is composed of equal number of independent and non-independent directors. The composition of the Board meets the MMLR of Bursa Malaysia which requires a minimum one-third of independent directors (“IDs”) (including the Chairman). The Company endeavours to increase the number of IDs to more than 50% as set out in the MCCG 2017. During the year, the Board welcomed one new member who is a Non-Independent Non-Executive Director (“NINED”). The Board considers the current Board size to be optimal in ensuring swift decision making and at the same time, effective discharge of its duties and responsibilities.

The tenure of Malakoff’s IDs has not exceeded a cumulative term of nine years since its listing in May 2015 and will only be due in May 2024. Nevertheless, the Board had adopted a policy to set the cumulative term limit of 12 years for IDs who should thereafter serve as non-IDs of the Company.

The Board takes cognizance of having a diverse range of different skills, knowledge, experience, and background and gender among its members could bring along with its effective Board deliberation and robust decision making where matters are viewed from wider and broader perspectives. Since the adoption of a diversity policy on 21 November 2016, the Board regularly reviews the current and desired skills and experience of each Director and the Board as a whole, taking into consideration the specialised and changing environment that the Company operates.

During the year, there was an increase in percentage of women Directors on the Board from 10% in 2017 to 25% in 2018 with the appointment of Cik Sharifah Sofia Syed Mokhtar Shah as NINED of the Company. Being the youngest Board member at the age of 25, she brings balance of age to the Board as majority of our Board members are in the age range of 50 and above.

b) Re-election and Re-appointment of Directors

The Company’s Constitution mandates that all Directors submit themselves for re-election at least once every three years. The Company’s Constitution also mandates that one-third of the Board shall retire from office every year and shall be eligible for re-election at the Annual General Meeting (“AGM”) of the Company. In this respect, the new director and two non-executive directors will be retiring at the forthcoming AGM namely Cik Sharifah Sofia Syed Mokhtar Shah, Datuk Idris Abdullah and Datuk Syed Muhamad Syed Abd Kadir. They shall retire accordingly and, being eligible, will offer themselves for re-election at the Company’s forthcoming AGM.

The performance and contribution of the Directors seeking re-election are considered and recommended by the BNRC before the names of these Directors are submitted and recommended by the Board to the shareholders for re-election into office. For the financial year in review, this was done through a Board assessment whereby Board members were required to conduct a peer assessment of other Directors in areas amongst others, his/her knowledge, skills, qualifications and contributions to Board discussions. The BNRC’s recommendations on the Directors standing for re-election at the forthcoming AGM are stated in Explanatory Note 2 under the Notice of the 13th AGM.

c) Board Independence

IDs are expected to bring views and judgment to the Board deliberation and decision which are independent of Management and free of any business or other relationship that could or reasonably be perceived to materially interfere with the exercise of objective, unfettered or independent judgement, having regard to the best interest of the Company and its shareholders generally.

The Board reviews the interest declared by the Directors regularly and considers all business relationship between the Malakoff Group and the Directors or companies in which they are the directors or substantial shareholders. In each of this business relationship, the interested Directors will abstain from all deliberations and decisions on the proposal. The Board takes due consideration on any changes to the non-executive directors’ interest, position, associations or relationships that could affect the non-executive directors’ independence.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board conducts formal assessment on Directors' independence annually. The results of the independence assessment for IDs will be tabled at the Board for discussion. Prior to accepting any new director on Board, each new independent non-executive director ("**INED**") is required to declare his/her interests and relationship to the Board through the submission of an independence assessment form, which information will form the basis for the Board's consideration of accepting the ID to the Board.

The Board has reviewed the position and relationship of all Directors in office as at the date of the 2018 annual report and considered that all four INEDs fulfilled the independence criteria as IDs and are independent.

III. BOARD MEETINGS

The Board convened nine meetings during the year, five of which are scheduled meeting and the other four are on ad hoc basis to consider urgent matters. Most of the Directors have full attendance to the Board meetings. The lowest attendance rate recorded for one director is 75%.

Details of each Director's attendance to the Board meetings held during the year are tabulated below:-

Name of Directors	No. of meetings attended
Datuk Haji Hasni Harun	9 of 9
Dato' Sri Che Khalib Mohamad Noh	9 of 9
Cindy Tan Ler Chin	8 of 9
Datuk Ooi Teik Huat	9 of 9
Datuk Dr. Syed Muhamad Syed Abdul Kadir	9 of 9
Datuk Idris Abdullah	9 of 9
Datuk Rozimi Remeli	8 of 9
Sharifah Sofia Syed Mokhtar Shah <i>(appointed on 23 May 2018)</i>	4 of 5
Kohei Hirao <i>(resigned on 23 May 2018)</i>	3 of 4
Datuk Seri Johan Abdullah <i>(resigned on 26 July 2018)</i>	5 of 6
Dato' Wan Kamaruzaman Wan Ahmad <i>(resigned on 31 October 2018)</i>	7 of 8

The Board is committed to meeting at least four times a year after the end of each financial quarter where the unaudited quarterly results will be reviewed and approved before releasing to Bursa Malaysia. Meeting dates for the whole year are scheduled in advance and circulated to the Directors before the commencement of each financial year to enable the Directors to plan in advance.

Every effort is made to ensure timely circulation of notices, agenda and meeting materials to the Board to provide sufficient time for the Directors to prepare for Board meetings and to facilitate effective Board discussion. All deliberations and decisions made at the Board meetings are recorded by the Company Secretaries where the minutes of meetings will be circulated to the Board for review before the minutes of meeting are confirmed at the next Board meeting.

IV. BNRC

The BNRC of Malakoff consists of four members with a majority being INEDs. The Chairman of the BNRC, Datuk Haji Hasni bin Harun, is an INED.

The BNRC held four meetings during the FY2018 to review the nomination and remuneration matters related to the Board and Management and make the necessary recommendations to the Board for approval. The BNRC's Chairman reports to the Board after each BNRC meeting.

The roles and responsibilities of BNRC are set out in its terms of reference which are available on the Company's website. The key activities of the BNRC during the FY2018 were summarised below:-

NOMINATING MATTERS
Board composition and succession planning
<ul style="list-style-type: none"> • reviewed the size and composition of the Board and Board committees as well as the Board of the subsidiaries. • made recommendation on the composition of the Board of subsidiaries and appropriate nominees to represent MCB on the boards of these companies.
Recruitment/appointment of Directors
<ul style="list-style-type: none"> • reviewed the background, skills, expertise, knowledge and experience of the proposed candidates for appointment on the Board (Cik Sharifah Sofia Syed Mokhtar Shah) and the BAC (Datuk Rozimi Remeli) during FY2018 as well as on the BRIC (Datuk Rozimi Remeli) which took effect from the date of this Statement. • identify and evaluated candidacy of directors and made the necessary recommendations to the Board.
Nomination of new nominee on the subsidiaries/associate companies' Board
<ul style="list-style-type: none"> • reviewed the background, skills, expertise, knowledge and experience of the management team proposed by the CEO to be in the pool for nominee directors for selection to the Boards of Malakoff's local and offshore subsidiaries and associates. • evaluated the candidacy of directors to the Boards of local and offshore subsidiaries and associates and made the necessary recommendations to the Board.
Directors' retiring by rotation
<ul style="list-style-type: none"> • reviewed the performance of the Directors retiring by rotation and recommended to the Board on the re-election of directors. • one newly appointed Director and two NEDs are subject to retirement and re-election at this AGM. • recommended the re-election of directors based on the results of the peer review assessment on their performance on the Board for FY2018.
Board evaluation
<ul style="list-style-type: none"> • conducted the Board evaluation exercise in respect of the effectiveness of the Board and the Board committees for FY2018. • reviewed the results of the Board evaluation and proposed appropriate action plans to improve on areas of weaknesses and increase effectiveness of the Board. • reviewed the training needs of the Directors.
Organisation restructuring
<ul style="list-style-type: none"> • reviewed and recommended the organisation restructuring proposed by the CEO for the Board's approval.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

REMUNERATION MATTERS
Remuneration of non-executive directors
<ul style="list-style-type: none"> no recommendation from the BNRC on the revision of remuneration package for the non-executive directors.
Remuneration for the Malakoff Group
<ul style="list-style-type: none"> recommended bonus pool for the Group based on the achievement of the Corporate KPIs. recommended salary increment and bonus quantum for the Group as well as the CEO and his target group.

Non-Executive Director (“NED”) Remuneration Framework

The NEDs are remunerated through fixed monthly fees or allowances, meeting allowances and benefits-in-kind, such as annual leave passage and the reimbursement of business peripherals. The level of remuneration of NEDs reflects the current demanding challenges in discharging their fiduciary duties, roles and responsibilities, whether individually or collectively, as well as the complexity of the Company's operations and the industry and to also reflect the experience and level of responsibilities undertaken by the NEDs of Malakoff. The remuneration of NEDs shall not be based on commission, the percentage of profits, or turnover and it shall also not include commission based on the percentage of turnover.

Remuneration of each NED for the FY2018 is detailed below:

Directors	Directors' Fees	Board Committee Allowances	Meeting Allowances	Other Allowances ^a	Monetary Value of Benefits-in-Kind	Total
	(RM)	(RM)	(RM)	(RM)	(RM)	(RM)
Datuk Haji Hasni Harun	360,000.00	36,000.00	38,000.00	25,000.00	38,945.52 ^b	497,945.52
Dato' Sri Che Khalib Mohamad Noh	90,000.00 ^c	24,000.00 ^c	38,000.00 ^c	24,889.75	-	176,889.75
Cindy Tan Ler Chin	90,000.00 ^d	24,000.00 ^d	45,500.00	25,000.00	-	184,500.00
Datuk Dr. Syed Muhamad Syed Abdul Kadir	90,000.00	96,000.00	63,000.00	4,673.40	-	253,673.40
Datuk Idris Abdullah	90,000.00	90,000.00	63,000.00	24,854.75	-	267,854.75
Datuk Ooi Teik Huat	90,000.00	30,000.00	53,000.00	25,000.00	-	198,000.00
Datuk Rozimi Remeli	90,000.00	24,435.49	49,500.00	-	-	163,935.49
Sharifah Sofia Syed Mokhtar Shah (Appointed on 23 May 2018)	54,677.00	-	12,500.00	-	-	67,177.00

Directors	Directors' Fees	Board Committee Allowances	Meeting Allowances	Other Allowances ^a	Monetary Value of Benefits-in-Kind	Total
	(RM)	(RM)	(RM)	(RM)	(RM)	(RM)
Former directors (resigned during the FY2018):						
Dato' Wan Kamaruzaman Wan Ahmad (Resigned on 31 October 2018)	75,000.00	-	22,500.00	25,000.00	-	122,500.00
Kohei Hirao (resigned on 23 May 2018)	35,322.58	-	10,000.00	-	-	45,322.58
Datuk Seri Johan Abdullah (Resigned on 26 July 2018)	51,290.32	-	15,000.00	-	-	66,290.32
Zalman Ismail (Ceased as Alternate Director to Dato' Wan Kamaruzaman on 31 October 2018)	-	-	5,000.00 ^e	-	-	5,000.00
Total for NED	1,116,289.90	324,435.49	415,000.00	154,417.90	38,945.52	2,049,088.81

Notes:

- Other allowances paid by Malakoff to the NEDs comprising annual leave passage & annual supplemental fees (included financial year 2017 ("FY2017") claims that were paid in FY2018)
- Benefits-in-kind paid to the Chairman of Malakoff comprising company car and reimbursement of petrol and utilities expenses
- Directors' fees, Board Committee allowances and meeting allowances are shared on an equal basis between MMC Corporation Berhad ("MMC") and the NED who is nominated by MMC.
- Directors' fees and Board Committee allowances are shared on an equal basis between Employees Provident Fund Board ("EPF") and the NED who is nominated by EPF.
- Meeting allowance was paid to the Alternate Director for his attendance at Board meetings in the absence of Dato' Wan Kamaruzaman Wan Ahmad.

The approval of shareholders on the remuneration and benefits payable to NEDs, with no increase in rates from last year, will be sought at the 13th AGM.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

V. BOARD EFFECTIVENESS

The Board through the BNRC had carried out a yearly Board assessment exercise to evaluate the overall effectiveness of the Board and individual Directors for FY2018. The Board had for the past 2 years engaged an external consultant to facilitate this exercise. For this year, this exercise was conducted internally by the Corporate Secretarial office.

The evaluation was carried out through the feedback obtained from each Board member who is required to complete a set of customised questionnaires, designed to evaluate the current Board composition and activities. This Board assessment covers the evaluation of the Board effectiveness in terms of its structure, Board operation and interaction, Board communication and its roles and responsibilities as well as a combination of self and peer assessment. The Board's responses and feedback to the questionnaires will be collated and thereafter analysed for formulation of action plans with a view to improve on areas identified by the Board to require more focus and have room for improvement. The BNRC, upon discussion of the results of the assessment, had presented the findings to the Board.

VI. DIRECTORS' TRAINING

The Board is mindful of the importance of continuous education for its members to update their knowledge and enhance their skills so that they are sufficiently equipped to perform their duties and can address and meet the challenges faced by the Company and the Board.

During the year, the Board members attended an in-house training organised by MMC Corporation Berhad in respect of "Understanding Blockchain Technology and Its Potential". In addition, the Company Secretary circulates, on a period basis, regular updates on training programmes from various organisations to the Directors for their consideration for participation.

All Directors (during the financial year ended 31 December 2018) had attended at least one training session, in compliance with paragraph 15.08(2) and Appendix 9C (Part A, paragraph 28) of the MMLR of Bursa Malaysia. Details of the trainings attended by Board members are as follows:-

NAME OF DIRECTOR	CONFERENCE/TRAINING PROGRAMME ATTENDED	DATE
Datuk Haji Hasni Harun (Chairman)	• Malaysian Institute of Accountants ("MIA") International Accountants Conference 2018	9 – 10 October 2018
	• Energy Sector Outlook – presentation by RHB Research Institute	18 October 2018
	• Energy Transition: Trends and Opportunities - presentation by A.T. Kearney	18 October 2018
	• Remuneration Committee: Attracting and Retaining the Best Talents	13 November 2018

VI. DIRECTORS' TRAINING (CONTINUED)

NAME OF DIRECTOR	CONFERENCE/TRAINING PROGRAMME ATTENDED	DATE
Dato' Sri Che Khalib Mohamad Noh	<ul style="list-style-type: none"> • Invest Malaysia 2018 - Connecting Strengths, Advancing Performance • Talk by YBhg. Tan Sri Datuk Muhammad Ibrahim, Governor Bank Negara Malaysia @ 40th Harvard Business School Alumni Club of Malaysia Anniversary Dinner • Dialogue & Luncheon Session with Malaysian Captains of Industry & Business Forum with the China Entrepreneur Club in Beijing, China • Khazanah Megatrends Forum 2018 - On Balance: Recalibrating Markets, Firms, Society and People • MIA International Accountants Conference 2018 • Energy Sector Outlook – presentation by RHB Research Institute • Energy Transition: Trends and Opportunities - presentation by A.T. Kearney • Understanding Blockchain Technology and Its Potential Within the Context of MMC's Business Portfolio • Risk Culture Awareness Program 	<p>23 January 2018</p> <p>9 February 2018</p> <p>19 August 2018</p> <p>8 October 2018</p> <p>9 – 10 October 2018</p> <p>18 October 2018</p> <p>18 October 2018</p> <p>29 October 2018</p> <p>3 December 2018</p>
Cindy Tan Ler Chin	<ul style="list-style-type: none"> • Energy Sector Outlook – presentation by RHB Research Institute • Energy Transition: Trends and Opportunities - presentation by A.T. Kearney • Understanding Blockchain Technology and Its Potential Within the Context of MMC's Business Portfolio 	<p>18 October 2018</p> <p>18 October 2018</p> <p>29 October 2018</p>
Datuk Ooi Teik Huat	<ul style="list-style-type: none"> • Energy Sector Outlook – presentation by RHB Research Institute • Energy Transition: Trends and Opportunities - presentation by A.T. Kearney • Understanding Blockchain Technology and Its Potential Within the Context of MMC's Business Portfolio 	<p>18 October 2018</p> <p>18 October 2018</p> <p>29 October 2018</p>
Datuk Idris Abdullah	<ul style="list-style-type: none"> • FinTech and the Transformation in Financial Services (an online non-credit course authorized by Copenhagen Business School and offered through Coursera) • Energy Sector Outlook – presentation by RHB Research Institute • Energy Transition: Trends and Opportunities - presentation by A.T. Kearney • Qualified Risk Director Program: Cybersecurity Oversight in the Boardroom • Executive Lecture Series by LSE Alumni Society of Malaysia-10 Years After the Global Financial Crisis: Lessons Learnt....or Forgotten? 	<p>5 September 2018</p> <p>18 October 2018</p> <p>18 October 2018</p> <p>22 October 2018</p> <p>12 November 2018</p>

CORPORATE GOVERNANCE OVERVIEW STATEMENT

VI. DIRECTORS' TRAINING (CONTINUED)

NAME OF DIRECTOR	CONFERENCE/TRAINING PROGRAMME ATTENDED	DATE
Datuk Dr. Syed Muhamad Syed Abdul Kadir	• Speaker for Leadership Talk in Universiti Malaya	9 February 2018
	• Overview of Sustainability Reporting	25 June 2018
	• Forum on Blockchain in Financial Services Industry	17 July 2018
	• Energy Sector Outlook – presentation by RHB Research Institute	18 October 2018
	• Energy Transition: Trends and Opportunities - presentation by A.T. Kearney	18 October 2018
	• Understanding Blockchain Technology and Its Potential Within the Context of MMC's Business Portfolio	29 October 2018
Datuk Rozimi Remeli	• Advocacy Programme on CG Assessment organized by Bursa Malaysia	10 August 2018
	• Energy Sector Outlook – presentation by RHB Research Institute	18 October 2018
	• Energy Transition: Trends and Opportunities - presentation by A.T. Kearney	18 October 2018
	• Understanding Blockchain Technology and Its Potential Within the Context of MMC's Business Portfolio	29 October 2018
Sharifah Sofia Syed Mokhtar Shah	• Enhancing Board Leadership	16 - 17 April 2018
	• Corporate Liability Provision organised by MIA	19 July 2018
	• Mandatory Accreditation Programme	23 - 24 July 2018
	• Understanding Blockchain Technology and Its Potential Within the Context of MMC's Business Portfolio	29 October 2018

Induction Programme

A comprehensive induction programme has been developed to ease new Directors into their new roles and to assist them in their understanding of the Group's business strategy and operational matters. New Directors are required to attend the induction programme as soon as possible after they are appointed. The induction programme includes the briefing by each division heads of key aspects of their respective sections and the challenges currently faced by the Group. As part of the itinerary of induction programme, the new Directors are invited to the Group's power plants to enable them to familiarise themselves with the operations of the Group.

B. EFFECTIVE AUDIT AND RISK MANAGEMENT

I. BAC

The Board placed great emphasis on the effectiveness and independence of the BAC to provide additional assurance and oversight relating to financial reporting process, internal controls, risk management and governance for the Group due to the substantial amount of risk and compliance matters that may stem from the Group's operation in the highly regulated industry.

All of the members of the BAC are NEDs and three out of four of them are IDs. The BAC is chaired by Datuk Dr. Syed Muhamad Syed Abdul Kadir, an INED and not the Chairman of the Board. One of the BAC members is a member of the Malaysian Institute of Accountants thus fulfilling the requirement under paragraph 15.09(1)(c) (i) of the MMLR of Bursa Malaysia. Nevertheless, each of the BAC member is financially literate in accordance with the definition suggested by the Corporate Governance Guide 3rd Edition 2017 ("CG Guide").

Under the CG Guide, continuous development programmes have been recommended for BAC members in relation to four areas namely core functions, skills development, role and purpose of the audit committee and topical updates. During the financial year under review, the BAC members have attended trainings for their continuous professional development to keep themselves abreast of the relevant development in the industry which covered topics on cyber-security, energy transition, capital market and Islamic financing.

a) Assessment of External Auditors

The BAC performs an annually assessment of the services rendered by the External Auditors (“EA”) and had during the year assessed the quality of audit encompassing the performance of KPMG, the quality processes/ performance of the engagement team, audit team independence, objectivity and professional scepticism, audit scope and planning, audit fees, audit communication and interaction. Assessment questionnaires were used as a tool to obtain input from each BAC member and the Management.

The independence of the EA is maintained through a non-audit services policy approved by the Board on 23 May 2017. Under this policy, approval of the BAC is required for the engagement of the Group’s EA for non-audit services, if the cumulative non-audit fees for the year reaches 50% of prior year’s audit fees (including the fees for limited quarterly review). During the financial year under review, KPMG had provided a written assurance to the BAC that they had been independent throughout the audit engagement for FY2018 in accordance with the terms of all relevant professional and regulatory requirements. The Management had also ensured that necessary safeguards were in place when engaging KPMG to carry out non-audit services for the Group.

Details on the BAC are also elaborated in the BAC Report on pages 110 to 114 of this Annual Report.

b) Internal Audit Function

The Group Internal Audit (“GIA”) was established to support the Board through the BAC in discharging its duties and governance responsibilities of maintaining a sound internal control system within the organization. The internal audit function is considered an integral part of the assurance framework and GIA’s mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. At the same time, GIA also assists the BAC and Management to achieve the Company’s goals and objectives by bringing a systematic and disciplined approach in evaluating and improving the effectiveness of governance, risk management and control processes within the Group.

GIA has an independent status within the Group and reports directly and functionally to the BAC and administratively to the CEO. GIA is also independent of the activities and functions that it audits and performs its duties in accordance with the Internal Audit Charter, as approved by the BAC, which establishes the framework for the effective and efficient functioning of GIA. The BAC also reviews and approves the appointment and removal of the Chief Internal Auditor, the Annual Internal Audit Plan, budget and organization structure of GIA to ensure that it is adequately resourced with competent staff to perform its role and function effectively.

The standards and practices adopted by GIA are aligned to the International Professional Practices Framework issued by the Institute of Internal Auditors. As at 31 December 2018, the total number of personnel in GIA was nine including the Chief Internal Auditor. The name, credential and work experience of the Chief Internal Auditor of GIA are disclosed on page 28 of this Annual Report.

Details of the internal audit function and activities are presented in the BAC Report on pages 113 to 114 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

a) BRIC

With the appointment of a new member on 8 March 2019, the BRIC comprises four NEDs with a majority of IDs and chaired by an INED. The BRIC assists the Board to oversee the risk management activities of the Malakoff Group and to support the Board in fulfilling its responsibility for identifying significant risks and ensuring the implementation of appropriate systems to manage the overall risk exposure of the Group.

Since the end of November 2016, the BRIC was delegated with additional responsibility to review and recommend investment proposals by the Management. Under this purview, the Board had given authority to the BRIC to review and recommend the Group's major investments which includes bidding for binding tenders/contracts for new power and water generation projects and assessing the key associate risks including funding options and costs as well as investment returns of such investment in accordance to the Group's Investment Guideline and Policy.

b) Risk Management and Internal Control Framework

The Board takes cognisance of its responsibilities in maintaining a sound risk management and internal control system. The Enterprise Risk Management Policy & Framework ("ERMPF") ensures a structured risk management process is adopted across the Group. The ERMPF incorporates process relating to the identification, analysis, evaluation, treatment, monitoring, review, communication and consultation of the Group's risks and controls.

The Board, which is responsible for the risk management and internal control governance, has delegated its responsibility to the BRIC. The BRIC reports to the Board on a quarterly basis and provide reasonable assurance that any adverse impact on the Group's objectives are mitigated and managed.

Details of the Company's risk management framework and internal control system are set out in the Statement on Risk Management and Internal Control on pages 102 to 108 of this Annual Report.

C. INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDER

I. COMMUNICATION AND ENGAGEMENT WITH SHAREHOLDERS OR INVESTORS

The Board always upholds the principle of providing timely and accurate information to its shareholders, investors and public at large for them to make an informed investment decision. It encourages continuous disclosure and communication of information to its stakeholders and facilitates information exchange platforms to support effective engagement of stakeholders by the Company.

In order to keep the Company's shareholder and stakeholders informed of the Group's development and performance, the Company provides the following mediums of communication between the Company and its shareholders or investors:

- i) the disclosure of full and timely information on the Group's major developments pursuant to the MMLR of Bursa Malaysia;
- ii) all information of the Group's activities or press releases made available on the Company's website;
- iii) all announcements released to Bursa Malaysia and uploaded onto the Company's website;
- iv) physical forums for interactive exchange between the Company's Senior Management and investors at meetings, briefings, investor conferences and site visits; and
- v) electronic mail service as a quick and convenient means for receiving all related communications electronically especially in relation to matters on general meetings and annual report of the Company.

This is essential to strengthen the relationship of the Company with the stakeholders in realising long-term values of the Company and enhancing shareholders' value.

Other than the above, Malakoff's website also serves as an important channel of communication to provide the shareholders, stakeholders and investors at large with a wide range of information about the Company and its activities including corporate information, company policies & procedures, history, strategies, important operational updates, media releases, investor presentations, shareholdings, quarterly and full year financial results, outcome of general meetings and sustainability practices. The information posted on the Company's website is regularly updated to ensure stakeholders and interested investors have access to the latest information of the Company.

The Board also believes that annual report is important to the shareholders and the market at large as it provides a comprehensive overview of the Company's financial performance, business activities, strategies, corporate social responsibility and other key activities. An electronic/digital form of the annual report together with a printed abridged version incorporating the summarised financial statements of the Company, notice of general meeting and the proxy form will be sent to the shareholders, whilst a full version of the annual report will be made available on the Company's website at www.malakoff.com.my for access by the shareholders. The shareholders of the Company will be provided with a hard copy of the annual report, upon request. This will also prepare the shareholders with sufficient information to deliberate and approve the proposed resolutions tabled at the annual general meeting.

Other than the forum of general meeting, the Board through the Senior Management of the Company holds regular briefings with the investors to provide material development on the Company's business operations, corporate developments, growth strategies and, particularly, on the financial performance of the Company after the announcement of the quarterly results of the Group.

As part of the Company's efforts to continue promoting effective engagement with shareholders or the public at large, the Company has made available the relevant information for investors on the Company's corporate website at www.malakoff.com.my under the Investor Relations section as well as for any investor-related enquiries to be posted to the Head of Investor Relations.

Further explanation on the Company's engagement with the shareholders and investors is set out in the Investor Relations section on page 15 of this Annual Report.

Integrated reporting based on a globally recognised framework

The Company recognises that companies with experience in sustainability reporting is in a better position to adopt integrated reporting as it is more likely to have established the necessary systems, controls and assurance processes to ensure the quality of non-financial data is able to support and comply with the integrated reporting requirements. As this is the second year of practicing its sustainability reporting, the Company is still at the stage of data collection for non-financial reporting and it is foreseeable that it will take some time to reach maturity before adopting integrated reporting.

Once the level of maturity of non-financial reporting practices is adequate and able to comply with global recognised integrated reporting standards, the Company will implement this as soon as it is practicable.

The Board in recognising the benefits having an integrated report which establish integrated thinking and reporting that is designed to support sustainable business and financial stability, the Company will continue to review and improve on various reporting documents within the Company.

II. GENERAL MEETINGS

a) Shareholders participation at general meetings

General meeting serves as a principal platform for direct two-way interaction between the Board/Senior Management and the shareholders which encourages effective shareholder communication on the Company's performance, corporate and business developments and any other matters affecting shareholder interests.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Since the 12th AGM of Malakoff, the Company Secretaries, by order of the Board, have practiced to serving a notice of AGM to all shareholders of the Company at least 28 days prior to the AGM to provide the shareholders sufficient time to consider the proposed resolutions that will be discussed and decided at the AGM. Notice of the AGM clearly sets out details of the resolutions proposed accompanying with explanatory notes on the rationale of each resolution to enable the shareholders to make informed decision in exercising their voting rights.

The standard proceedings adopted by the Company in its AGM would involve a brief overview by the Chairman of the Group's operations and performance for the year followed by a detailed briefing by the CEO to the shareholders present at the general meetings, before the meeting proceeded with the voting of the resolutions. Shareholders are encouraged to ask questions and make comment on the Group's operations and performance. Questions submitted in advance by the Minority Shareholder Watchdog Group and the Management's response to those questions will also be shared at the general meetings.

General meeting also serves as an avenue for the Chairman and the Board members to engage in a two-way communication with shareholders where the shareholders are encouraged to participate in the questions and answers session with the Board personally and exercise their right to vote on the proposed resolutions. The Board will ensure the presence of all Board members, particularly the chair of each Board committee, to facilitate the conversations with shareholders and to direct the questions and concerns raised by the shareholders. The external auditors are invited to the AGM to highlight key audit matters for the attention of the shareholders, response to shareholders' queries on the audit conducted, the preparation and content of the auditors' report, the accounting policies adopted by the Company and the independent audit review of the Company's financial position.

The facility for voting in absentia is not available as the Board considers the venue of the AGM is accessible with good transportation network. In the unlikely event that the general meeting is held at a remote location, the Company will consider leveraging on the technology to encourage shareholders' participation.

b) Poll voting

Since the enforcement of paragraph 8.29A of the MMLR of Bursa Malaysia on 1 July 2016, all resolutions set out in the notice of general meeting have put to vote by way of polling at the general meeting. This could be seen at the last AGMs and EGMs held during the past two years where electronic voting via handheld device and polling station were used for voting of resolutions at the Company's AGMs and EGMs. An independent scrutineer, who is not the officer of the Company or its related corporation and independent of the person undertaking the polling process, was appointed to validate the polling process as well as the votes cast at the said general meetings. The outcome of voting on the proposed resolutions will be announced by the Chairman at the general meeting and released via Bursa Link to the public at large thereafter. A copy of the said announcement will also be uploaded to the Company's website after the general meeting.

III. CONSTITUTION OF THE COMPANY

The Company's Constitution defines the essential components of the structure of the Company and reins the relationship between the Company and its shareholders/stakeholders. It regulates the manner in which a company is governed.

With the introduction of the new Act on 31 January 2017, the Board is mindful of the changes of the new Act that would have to be reflected or updated in the Company's existing Constitution. The Board has reviewed the new Constitution for Malakoff and will seek the approval of the shareholders at the 13th AGM to adopt the new Company's Constitution pursuant to the new provisions of the Act.

D. KEY FOCUS AREAS AND FUTURE PRIORITIES

With the Company embarking into a new synergistic business in 2018, the Board will continue to refine its corporate governance practices and procedures throughout the whole Group to ensure all the existing and new businesses of the Group are operated in an orderly manner and in the best interest of all stakeholders of Malakoff.

To further enhance the Group's capability to compete in this challenging business environment, the Board will also prioritise its succession plan to establish a bigger pool of talents from which the new candidates will be assessed and identified to take on the senior positions in the Group.

CORPORATE GOVERNANCE REPORT

The Corporate Governance report as prescribed by Bursa Malaysia for the application of each practice set out in the MCCG 2017 can be downloaded from the Company's website.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

(Pursuant to paragraph 15.26(a) of the MMLR of Bursa Malaysia)

The Board has given its assurance that the financial statements are prepared in accordance with the Act and the applicable approved accounting standards for each financial year which gives a true and fair view of the state of affairs of the Group and the Company in a transparent manner at the end of the financial year and of the results and cash flows for the financial year.

The Directors' Report for the audited financial statements of the Company and the Group is outlined on pages 118 to 122 of this Annual Report together with the details of the Company and the Group financial statements for the financial year ended 31 December 2018 which are set out on page 123 to 236 of this Annual Report.

COMPLIANCE STATEMENT BY THE BOARD ON THE CORPORATE GOVERNANCE OVERVIEW STATEMENT

This statement on the Company's corporate governance practices is made in compliance with paragraph 15.25 and 15.08A of the MMLR of Bursa Malaysia.

Having reviewed and deliberated this statement, the Board is satisfied that to the best of its knowledge, the Company is substantially in compliance with the principles and practices set out in the MCCG 2017 as well as the relevant paragraphs under the MMLR of Bursa Malaysia for the financial year under review. Any practices in the MCCG 2017 which have not been implemented during the financial year will be reviewed by the Board and be implemented where possible and where relevant to the Group's business.

This statement has been presented and approved by the Board at its meeting held on 8 March 2019.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (“Board”) of Malakoff Corporation Berhad is committed to embed an effective risk management and internal control system into Malakoff Corporation Berhad and its subsidiaries (“the Group”). The Statement on Risk Management and Internal Control is made in accordance with Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and the revised guidelines on the Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers. This is also in line with the Malaysian Code on Corporate Governance (“MCCG”) 2017 which requires public listed companies to maintain a sound system of risk management and internal controls to provide assurance and safeguard shareholders’ investments, customers’ interests and company assets.

BOARD’S RESPONSIBILITY

The Board is responsible in the overall tone and culture towards an effective risk management and internal control system in the Group. The Board is also responsible for reviewing the adequacy and effectiveness of the Group’s risk management and internal controls processes. The Group’s risk management processes are designed such that all key risk areas are effectively managed to enable the Group to achieve its business objectives. The Board is aware that the risk management and internal control system can only provide reasonable and not absolute assurance against the risk of material loss or occurrences of unforeseeable circumstances.

RISK MANAGEMENT

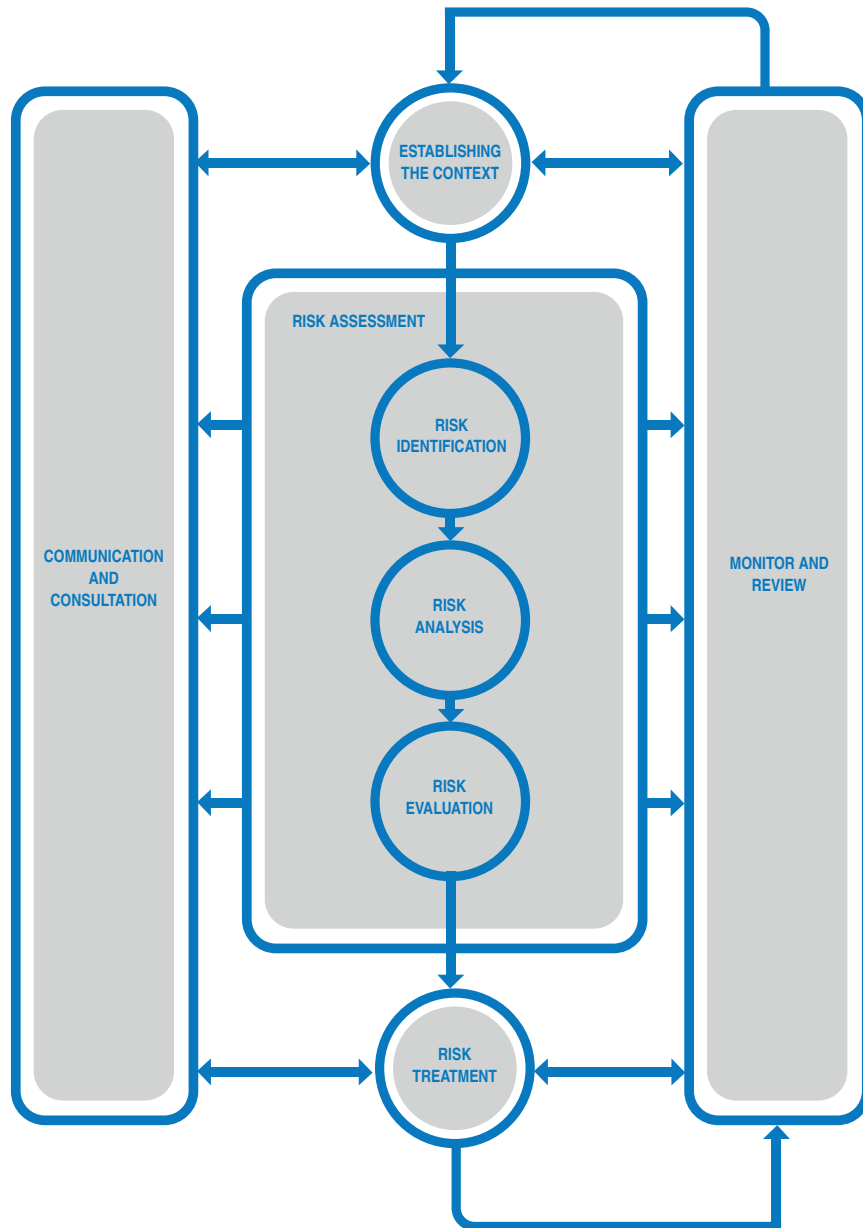
The Group acknowledges that risk management is fundamental in providing sound corporate governance practice. A holistic approach of risk management strengthens the overall internal control, decision making and the resource allocation processes within the Group. Risk management enables proactive and structured risk identification and evaluation process, and where required, management actions will be identified to mitigate the risk to enable the Group to achieve its business objectives.

Risk Management Framework

The Board is committed in the assessment, treatment, monitoring and review of all key risks to ensure sustainable growth of the Group. The Board’s commitment toward this is reflected in the establishment of the Board Risk and Investment Committee (“BRIC”) in 2016 which acknowledged the growing importance of the risk management in safeguarding the interest of the Group and its shareholders.

The Management Risk Committee (“MRC”) continuously supports the BRIC in integrating risk management strategies, risk appetite as well as reviewing the application of risk management practices across Malakoff Corporation Berhad, in accordance with the Group’s Enterprise Risk Management Policy and Framework (“ERMPF”). The ERMPF is in line with ISO 31000:2009 Risk Management – Principles and Guidelines codified by the International Organisation for Standardisation (“ISO”).

The ERMPF incorporates process relating to the identification, analysis, evaluation, treatment, monitoring, review, communication and consultation of the Group's risks and controls. The main elements of the Group's risk management process are as follows:



Source: MS ISO 31000:2010 Risk Management - Principles and Guidelines

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

Communication and consultation: Communication and consultation with stakeholders should take place during all stages of the risk management process.

Establishing the context: The Group articulates its objectives and defines the parameters to be considered when managing risk as well as the scope and criteria.

Risk assessment: The overall process of risk identification, risk analysis and risk evaluation.

Risk treatment: The process of selecting and implementing measures to modify the risk. The measures include terminate, reduce, accept, pass and spread the risk.

Monitoring and review: Monitoring and review are essential part of the risk management process which provide reasonable assurance that risks are being managed effectively.

The Group defines risk as events that could affect its objectives. It is measured by the likelihood of the risk occurring and the impact if the risk occurs. The ERMPF will ensure that the process of identifying, evaluating and treating risk are in place to protect the Group from material losses. It will assist the Group in making decisions and prioritising the implementation of the risk treatment.

The below risk matrix depicts the likelihood and impact parameters used to measure and assess the Group's risk level.

IMPACT \ LIKELIHOOD	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	Orange	Orange	Red	Red	Red
Likely	Yellow	Orange	Orange	Red	Red
Possible	Yellow	Yellow	Orange	Orange	Red
Unlikely	Green	Yellow	Yellow	Orange	Orange
Rare	Green	Green	Yellow	Yellow	Orange

Corporate Digital Assurance

To enhance the Group's risk management practices, a Corporate Digital Assurance module had been employed in the Enterprise Risk Management ("ERMS"). The scorecard owners, risk owners, control owners and action plan owners are required to provide assurance with respect to the status of all material risks, controls and management actions.

The respective owners will provide assurance that they have reviewed and updated the Corporate Risk Scorecard system with the status of all material risks, controls and management actions.

In relation to the Risk Management process, the owners also certify that:

- The risks, controls and management actions information within the Corporate Risk Scorecard are accurate and complete.
- Where exposure is considered acceptable they have documented and validated that the control activities are in place and are effective.
- Where an individual risk has been assessed as unacceptable, management actions have been formulated and individuals have been identified as owners, with accompanying due dates to address the risk.
- To the extent that an individual risk is not perceived to be within their control (either directly or as delegated to the immediate Management team), it will be documented and elevated to the appropriate level of Management within the Group.

In addition, the owners also confirm that the risk management process has been complied with and the information for which they are responsible for under Corporate Risk Scorecard fairly reflects the position of the Group.

Risk Reporting

On a quarterly basis, the identified risks are discussed and deliberated at the MRC meeting chaired by the Chief Executive Officer ("CEO"). The reports are subsequently tabled to the BRIC for deliberation and recommendations. The Board notes the report on the risks faced by the Group and actions taken by Management to mitigate the risks. The overview of the Group's reporting structure is provided in the table below:



STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is integrated into the Group's day to day business activities while risk-based evaluation is incorporated into its decision-making process. This demonstrates the emphasis placed by the Board on the risk management agenda and underlines the importance of a well-managed risk management programme. Echoing the tone of the Board, the MRC continues to reinforce risk management principles among employees to ensure continuous improvement at all levels.

INTERNAL CONTROL SYSTEM

The key features of the Group control structure that provide reasonable assurance against the occurrence of events that could prevent the achievement of business objectives are as follows:

The Board

The Board of Malakoff Corporation Berhad provides direction and oversight on internal controls. The terms of reference and responsibilities are defined together with the Board Charter. The specific lines of responsibility, accountability and delegation of authority as approved by the Board to facilitate the Group's operations is the obligation of the CEO and MRC.

Business Plan, Budget and Reporting

Malakoff Corporation Berhad establishes annual business plans and budgets that have been recommended by Management and approved by the Board before commencement of the new financial year.

The Board reviews the result against budget on a quarterly basis in conjunction with the public announcement of the Group's quarterly financial result under the Main Market Listing Requirement of Bursa Securities.

The Board also reviews Malakoff's Sustainability Statement which summarises the management of material aspects of operations in particular, economic, environment and risks, as well as opportunities.

Policies and Procedures

Documented internal policies and procedures are in place to ensure compliance with internal controls and the relevant rules and regulations. They are reviewed regularly to ensure that the gaps in controls are addressed and where required, policies and procedures are revised to meet with the business condition.

Limit of Authority

The Limit of Authority sets out the level of authority under key business areas (financial and non-financial) of the Group. The authorisation limits in respect of organisational requirements such as procuring goods and services, cash transactions and contracting are clearly defined and documented. The limits are reviewed and updated regularly to reflect the current business environment, operational and structural changes of the Group.

Internal Audit

The Group Internal Audit ("GIA") provides an independent and objective assurance on governance, risk management and control processes designed to improve and add value to the Group. This includes evaluating the adequacy, effectiveness and integrity of internal control system and risk exposures relating to the Group's governance, operations and information system.

GIA reports functionally to the Board Audit Committee ("BAC") and administratively to the CEO. GIA is independent from the functions and activities that it audits and performs its duties in accordance with the Internal Audit Charter as approved by the BAC and the International Professional Practices Framework by the Institute of Internal Auditors.

Details of the internal audit function and activities are presented in the BAC Report on pages 113 to 114 of this Annual Report.

Whistle-Blowing

The Group's Whistle-blowing Policy established in 2014 provides employees and third parties dealing with the Group with proper procedure to disclose cases of Improper Conduct such as criminal offences, fraud, corruption, breach of Group policies and Code of Conduct or other malpractices.

A Whistle-blower is assured confidentiality of identity, to the extent reasonably practicable. This includes protecting the Whistle-blowers from Detrimental Actions that may result from the disclosure of Improper Conduct, provided that the disclosure is made in good faith. The Whistle-blowing Policy is also to ensure that fair treatment is provided to both the Whistle-blower and the alleged wrongdoer when a disclosure of Improper Conduct is made.

A disclosure of Improper Conduct can be made orally or in writing to the Chairman of the BAC via a letter or e-mail to whistleblowing@malakoff.com.my.

The Chief Internal Auditor is responsible for the administration, interpretation and application of the Whistle-blowing Policy and any amendment to this Policy shall be affected by the Chief Internal Auditor, subject to the approval of the CEO, the Chairman of the BAC and the Board.

Joint Venture and Associates

Malakoff Corporation Berhad ensures that investment and interest in material joint ventures and/or associates, are protected by having board representation at the respective joint ventures and/or associates. The management of the joint ventures and/or associates is also responsible to oversee the operation and performance of the joint venture and/or associates.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM EFFECTIVENESS

The Board reviews the effectiveness of the risk management and internal control system through the following monitoring and assessment mechanisms:

- A quarterly review of the Group's actual financial and operational performance against planned performance and other key financial and operational performance indicators.
- The Risk Management Department presents the Risk Management Report to the BRIC every quarter to provide an overview of the Group's key risks and action plans in mitigating the risks. The BRIC notes and provides its views which are then communicated to the respective risk owners by the Risk Management Department. The report is then escalated to the Board upon deliberation by BRIC; and
- BAC deliberates and discusses reports issued by the Internal Audit report and external auditors pertaining to financial, operational, governance, risk management and control matters. The status of preventive and corrective actions for issue discussed are also updated to the BAC to enable monitoring of the actions.

COMMENTARY ON THE ADEQUACY AND EFFECTIVENESS

The risk management and internal control defined above have been in place for the year under review and up to the date of approval of this statement for inclusion in the annual report.

In making this statement, the Board had received assurance from the CEO, Chief Financial Officer and Head of Risk Management that the risk management and internal control process are operating adequately and effectively, in all material aspect for the reporting period.

The Board is of the opinion that the risk management and internal control are adequate and effective in providing reasonable assurance for the year under review.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

There was no major internal control weakness identified during the year under review that may result in any material loss that would require disclosure in this statement.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Audit and Assurance Practice Guide ("AAPG 3"), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

- a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- b) is factually inaccurate.

AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

This statement is made in accordance with the resolution of the Board dated 8 March 2019.

Strengthening Fundamentals

While the Group embarks on growth initiatives, strengthening the fundamentals of our business and operations is key to ensuring our long-term sustainability.



BOARD AUDIT COMMITTEE REPORT

The Board of Directors ("Board") of Malakoff Corporation Berhad ("MCB" or "Company") is pleased to present the Board Audit Committee ("BAC" or "Committee") Report which provides an overview on how the BAC discharged its functions and duties during the financial year ("FY") 2018.

MEMBERS OF BAC

<p>Datuk Dr. Syed Muhamad Syed Abdul Kadir Independent Non-Executive Director Chairman</p>
<p>Datuk Idris Abdullah Independent Non-Executive Director Member</p>
<p>Datuk Ooi Teik Huat Non-Independent Non-Executive Director Member (Member of the Malaysian Institute of Accountants)</p>
<p>Datuk Rozimi Remeli Independent Non-Executive Director Member</p>

COMPOSITION AND ATTENDANCE

The BAC comprises four (4) members, all of whom are Non-Executive Directors ("NEDs"); three (3) being Independent NEDs and one (1) Non-Independent NED. This meets the requirements of paragraph 15.09(1)(a) and (b) of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The Board has reviewed the terms of office of the BAC members and assessed the performance of the BAC and its members through an annual Board Committee effectiveness evaluation. The Board is satisfied that the BAC and its members had discharged their functions, duties and responsibilities in accordance with the BAC's Terms of Reference ("TOR") in supporting the Board in ensuring that the Company and its subsidiaries (collectively "Group") uphold appropriate Corporate Governance standards.

MEETINGS

The BAC met six (6) times during the FY2018 and had accordingly complied with the frequency of meeting requirement under its TOR. The BAC members and their attendance at the BAC meetings are as follows:

MEMBERS	NO. OF MEETINGS ATTENDED
Datuk Dr. Syed Muhamad Syed Abdul Kadir	6 out of 6
Datuk Idris Abdullah	6 out of 6
Datuk Ooi Teik Huat	6 out of 6
Datuk Rozimi Remeli	*4 out of 4

* Datuk Rozimi Remeli was appointed on 8 March 2018.

The Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Internal Auditor were invited to attend all BAC meetings. The involvement of senior management in the BAC meetings enabled direct communication and discussion between the BAC members and senior management so that matters pertaining to the Group's financial results, operational issues, internal control, governance and internal audit matters are better appreciated by the BAC.

The External Auditors were engaged to conduct a limited review of the Group's quarterly financial statements and these limited reviews provided assurance to the BAC on the reliability and consistency of the Group's quarterly financial statements as well as compliance with applicable Financial Reporting Standards. Representatives of the External Auditors were also invited to attend the BAC meetings, whenever the BAC considered appropriate.

The Company Secretaries act as the Secretary of the BAC. Minutes of each BAC meeting were tabled at the next BAC meeting for confirmation and then circulated to the Board for information and notation. The Chairman of the BAC would also report any key matters discussed at each BAC meeting to the Board.

SUMMARY OF WORK

Summary of work performed by the BAC during the FY2018 comprised the following:

(i) Financial Reporting

The BAC reviewed all the quarterly financial statements of the Group for the FY2018 with Management before making recommendation to the Board for its consideration and approval to release the same to Bursa Malaysia.

The BAC also reviewed the consolidated annual audited financial statements of the Group for the FY2018, any audit issues and reservations arising from the statutory audit with the External Auditors, prior to making recommendation to the Board for its consideration and approval.

The quarterly financial statements were prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") 134 Interim Financial Reporting and Appendix 9B of the MMLR of Bursa Malaysia while the consolidated annual audited financial statements were prepared in accordance with MFRS, International Financial Reporting Standards and the requirements under the Companies Act 2016.

During the review of the financial statements, the following tasks were carried out by the BAC:

- a) discussed and reviewed with Management and External Auditors, the accounting policies adopted by the Group to ensure compliance with the applicable approved accounting standards, including the appropriateness of the accounting provisions and compliance with accounting standards;
 - b) reviewed the declaration of the final and interim dividends of the Company including the solvency test required under the Companies Act 2016, ensuring that the Company will remain solvent for the next 12 months immediately after the dividend distributions were made, before such declaration of dividends were recommended to the Board for approval;
 - c) reviewed the key audit matters and their implications to the Group; and how these matters were addressed from the audit, going concern considerations and the Auditors' Report that were included in the Company's Annual Report; and
 - d) discussed, on quarterly basis, any corrected material misstatements in the accounts and reviewed the summary of the unadjusted audit differences for the Group.
- (ii) External Audit**
- At each quarterly meeting of the BAC for the FY2018, the following were reviewed and discussed with the BAC by the External Auditors, Messrs. KPMG PLT ("KPMG"):
- a) reviewed the quarterly reports on new and recurring significant audit findings arising from the limited review including financial reporting issues, significant judgements made by Management and unusual events or transactions. Also included in the report, were Management's responses to the audit findings and their action plans to address the issues raised by the External Auditors, for BAC's notation and feedback, where necessary;
 - b) reviewed and monitored, on a quarterly basis, the nature, scope and fees of the non-audit services provided by the External Auditors and ensured that such non-audit services to the Group were undertaken in accordance with the policy on non-audit services as approved by the Board. This will ensure that the independence and objectivity of KPMG in performing its duties as the Group's External Auditors are safeguarded and any potential conflict of interest is being managed;
 - c) reviewed the External Auditors' 2018 Audit Plan prior to the commencement of the statutory audit for FY2018. KPMG had briefed the BAC in respect of its 2018 Audit Plan highlighting amongst other, the engagement team involved in the statutory audit review, audit timeline, areas of audit emphasis and focus of key audit matters for the statutory audit. The potential key audit matters identified for the Group were in respect of the Group's recognition of goodwill and intangible assets, potential impairment of the power plants, recoverability of investment in associates and other significant risk matters;
 - d) discussed the proposed fees for the statutory audit which were duly approved by the Board upon the recommendation by the BAC;
 - e) discussed and reviewed the results of the annual assessment evaluated by the BAC and Management in respect of the quality of audit, covering the External Auditor's performance, suitability and its independence as the Company's External Auditor during the statutory audit for FY2018. The rating of the External Auditors for the FY2018 was an improved average rating of their performance compared to the last FY. The BAC had therefore endorsed the recommendation for the re-appointment of KPMG as the External Auditors of the Company for the FY ending 31 December 2019. The Board at its meeting held on 8 March 2019 approved the BAC's recommendation to re-appoint KPMG, subject to the shareholders' approval being obtained at the forthcoming Thirteenth AGM on the re-appointment of KPMG, the External Auditors of the Company for the FY ending 31 December 2019; and
 - f) held two private meetings with the External Auditors in February and November 2018, without the presence of the Management. The meetings provided an open and unrestricted forum for the External Auditors to discuss with the BAC the conduct of their audit, issues and findings related to the Group's quarterly financial statements for the attention of the BAC.

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The total fees incurred for non-audit services provided by KPMG for FY2018 amounted to RM1,183,903 which was above 50% of the previous year's statutory audit fees, and mainly comprise the following:

1. RM833,903 being fees incurred for services in respect of tax compliance and other advisory services for local and foreign subsidiaries; and
2. RM350,000 being fees incurred in relation to the acquisition of Alam Flora Sdn Bhd as KPMG was engaged as the reporting accountant and KPMG Deal Advisory Sdn Bhd was engaged to perform the financial and tax due diligence respectively.

The engagement of KPMG and KPMG Deal Advisory Sdn Bhd is in line with Clause 3 of the non-audit services policy of the Company which was approved by the Board where within certain parameters, the External Auditors may be requested to perform certain non-audit services for the Group due to business knowledge, confidentiality and cost considerations.

KPMG also, pursuant to the Company's policy on non-audit services, had undertaken the necessary measures to ensure that each non-audit service engagement would not result in conflict of interest nor impair the independence and objectivity of the External Auditors. Management had also ensured that necessary safeguards were in place when engaging KPMG to carry out non-audit services for the Group. With the above, the BAC is satisfied that the non-audit services provided during the FY followed the applicable rules and standards of independence for auditors, as well as the provisions stipulated in the non-audit services policy.

KPMG had provided a written assurance to the BAC that it had acted in accordance with the terms of all relevant professional and regulatory requirements and had been independent throughout the audit engagement for FY2018.

(iii) Internal Audit ("IA")

During the FY2018, the BAC had carried out the following:

- a) reviewed and approved the Annual IA Plan for FY2019 to ensure adequacy of audit scope, coverage, budget, resources and authority for Group Internal Audit ("GIA") to carry out its work effectively and independently;
- b) reviewed and deliberated on the IA reports tabled during the year by GIA which highlighted key

control issues together with root causes, risks, audit recommendations for improvement and Management's action plans to address the control deficiencies;

- c) reviewed and deliberated on the follow-up audit reports tabled during the year by GIA on the adequacy and effectiveness of the action plans or corrective actions undertaken by Management in addressing audit issues or control deficiencies highlighted from prior year audit reports to ensure non-recurrence;
- d) reviewed and deliberated on the results from ad-hoc special review assignments or audit investigations performed based on Management's request or complaints received through whistle-blowing channels and recommended appropriate remedial actions/measures to be taken;
- e) reviewed and monitored the progress and status of action plans or corrective actions undertaken by Management to ensure audit issues or control deficiencies highlighted by GIA are being addressed and rectified in a timely manner;
- f) reviewed and approved the update and revision of the Company's IA Charter to ensure that it remains current and aligned with the International Professional Practices Framework and latest International Standards for the Professional Practice of Internal Auditing. The updated IA Charter served to further enhance and improve the effective and efficient functioning of GIA within the organization, ensure compliance to the latest Standards and provide more clarity on key areas of the Charter;
- g) reviewed the effectiveness of the IA function and assessed the performance of GIA for FY2018 in respect of audit quality, scope, adequacy of resources and competency; and
- h) held private sessions with the Chief Internal Auditor in February and November 2018 without the presence of Management to ensure that there were no restrictions on GIA's scope of work and to discuss any other matters that GIA wishes to escalate to the BAC.

In February 2019, the BAC also reviewed and approved the Quality Assurance and Improvement Program for GIA which is designed to evaluate GIA's conformance with the International Standards for the Professional Practice of Internal Auditing; whether the internal auditors apply

the Code of Ethics by the Institute of Internal Auditors; and assess the efficiency and effectiveness of the IA function of the organization and identifies opportunities for improvement.

(iv) Related Party Transactions (“RPTs”)

The BAC had reviewed three (3) RPTs entered into with the Company's related parties in accordance with the RPT policy and procedure of the Company to ensure:

- a) compliance with the relevant provisions under the MMLR;
- b) the terms and conditions of the RPTs were based on arms' length and normal commercial terms, not detrimental to the interest of the minority shareholders and no more favorable to the related party than those generally available to the public; and
- c) the RPTs were transacted in the best interest of the Company and the Group.

The Group's RPTs and recurrent related party transactions (“RRPTs”) for the preceding 12 months up to each reporting quarter as well as the forecasted RPTs and RRPTs for the next 12 month period from the quarterly reporting period were also reported to the BAC and the Board on a quarterly basis. The reporting of these transactions by the Group was coordinated through the Corporate Secretarial Department with all the respective subsidiaries, departments and business units within the Group, before the same were collated and presented to the BAC and the Board. The subsidiaries, departments and business units within the Group were guided by the principles set out in the RPT and RRPT policy and procedure of the Company when dealing with RPTs. The threshold limit of the RPTs and RRPTs was also monitored accordingly to ensure compliance with the MMLR.

The GIA also assists the BAC by conducting an annual review of the Group's RPTs and RRPTs to provide assurance that the transactions reported to the BAC were accurate, complete, in compliance with the MMLR and undertaken on arm's length basis and normal commercial terms.

INTERNAL AUDIT FUNCTION

The GIA was established to support the Board through the BAC in discharging its duties and governance responsibilities of maintaining a sound internal control system within the organization.

The IA function is considered an integral part of the assurance framework and GIA's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. At the same time, GIA assists the BAC and Management to achieve the Company's goals and objectives by bringing a systematic and disciplined approach in evaluating and improving the effectiveness of governance, risk management and control processes within the Group. This function serves as an important source of support for the BAC concerning areas of weaknesses or deficiencies in internal processes to facilitate appropriate remedial measures to be taken by the Company.

The purpose, authority, responsibility, independence and objectivity of GIA are formally defined in the IA Charter, as approved by the BAC, which establishes the framework for the effective and efficient functioning of GIA. The standards and practices adopted by GIA are aligned to the International Professional Practices Framework issued by the Institute of Internal Auditors (“IIA”).

GIA has an independent status within the Group and is independent of the activities and functions that it audits. GIA reports directly and functionally to the BAC and administratively to the Chief Executive Officer. The BAC also reviews and approves the appointment and removal of the Chief Internal Auditor, the Annual IA Plan, budget and organization structure of GIA to ensure that it is adequately resourced with competent staff to perform its role and function effectively and independently.

Among the roles and responsibilities of GIA are as follows:

- (a) provide an independent and objective evaluation and assurance to the BAC and Management on the adequacy, effectiveness and integrity of key internal control systems and risk exposures of the Group's governance, operations and information systems;
- (b) prepare a risk based Annual IA Plan that is aligned to the Company's strategic objectives and takes into consideration of past audit history, criticality, inputs and feedback on any risk and control concerns from the BAC and Management;
- (c) carry out IA assignments in accordance with the approved Annual IA Plan and report to the BAC on key control issues, root causes, risks, relevant audit recommendations for improvement, along with Management's responses and agreed action plans;

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- (d) perform follow-up audits to determine whether the Management's agreed action plans or corrective actions in addressing audit issues or control deficiencies highlighted from past audit reports have been correctly implemented and adhered to consistently;
- (e) undertake ad-hoc IA assignments, special reviews or audit investigations as requested by the BAC or Management and present the results to the BAC and Management;
- (f) monitor the progress of Management's agreed action plans or corrective actions to address the audit issues or control deficiencies highlighted by GIA;
- (g) develop and implement a Quality Assurance and Improvement Program to evaluate GIA's conformance with the International Standards for the Professional Practice of Internal Auditing; whether the internal auditors apply the Code of Ethics by the IIA; and assess the efficiency and effectiveness of the IA activity of the organization and identifies opportunities for improvement; and
- (h) maintain professional audit staff with sufficient knowledge, experience and skills.

In addition, GIA is also responsible for the administration of the Group's Whistle-blowing Policy which provides an avenue for employees and third parties dealing with the Company to disclose cases of improper conduct such as criminal offences, fraud, corruption, breach of policies and procedures or other malpractices to the Company. Any disclosure of improper conduct can be made orally or in writing to the Chairman of the BAC via letter or e-mail to whistleblowing@malakoff.com.my.

For the FY2018, GIA conducted various IA assignments in accordance with the Annual IA Plan that is consistent with the Company's goals, complexity and risks of its activities. During the year, GIA had carried out fourteen (14) full audits and six (6) follow-up audits covering the areas of power plant operation and maintenance, inventory and warehouse management, procurement, finance, project management and health, safety, security and environment. In addition, GIA had also carried out an additional six (6) special review assignments including investigations. The Company's major shareholder i.e. MMC Corporation Berhad, through its Group IA also supported GIA by performing one (1) full audit and one (1) special review assignment in the area of human resource.

The IA reports were tabled and presented to the BAC for deliberation, highlighting key control issues together

with root causes, risks, audit recommendations for improvement, along with Management's responses and agreed action plans to be implemented. The progress of these action plans is monitored by GIA and reported to the BAC on a quarterly basis.

The Company's IA Charter was also updated and revised in November 2018 to ensure that it remains current and aligned with the International Professional Practices Framework and latest International Standards for the Professional Practice of Internal Auditing ("Standards"). The updated IA Charter serves to further enhance and improve the effective and efficient functioning of GIA within the organization, ensure compliance with the latest Standards and provide more clarity on key areas of the IA Charter.

As at 31 December 2018, the total number of personnel in GIA was nine (9) including the Chief Internal Auditor. The name, credential and work experience of the Chief Internal Auditor of GIA are disclosed on page 28 of the Annual Report.

The GIA has a sufficient mix of internal auditors with various knowledge, skills and competencies to perform its function and GIA is committed to equipping its auditors with adequate knowledge and proficiencies to discharge their duties and responsibilities effectively. The Company is also a corporate member of the Institute of Internal Auditors Malaysia which enables the internal auditors in GIA to keep abreast of latest developments in the IA practices and regulations as well as to attend the relevant trainings organized by the Institute of Internal Auditors Malaysia. The total cost incurred by GIA for FY2018 was RM2.3 million.

This BAC Report is made in accordance with the resolution of the Board duly passed on 8 March 2019.

ADDITIONAL COMPLIANCE INFORMATION

UTILISATION OF PROCEEDS

During the financial year, the utilisation of proceeds are as below:

SUBSIDIARY	DEBT RAISED	UTILISATION OF PROCEEDS
Wind Macarthur Finco Pty Limited	Term loan facility of AUD502 million ("AUD term loan 2")	All the proceeds raised from the AUD term loan had been utilised to refinance the financial indebtedness outstanding under the existing facility and payment of all fees, costs and related expenses incurred by the transaction parties in connection with the finance documents.

AUDIT FEES AND NON-AUDIT FEES

The fees paid/payable to the external auditors, KPMG PLT and its affiliates ("KPMG") in relation to the audit and non-audit services to the Group and the Company for the financial year ended 31 December 2018 are as follows:

	Group 2018 RM'000	Company 2018 RM'000
Audit fees	1,687	624
Non-audit fees*	1,184	463
	<u>2,871</u>	<u>1,087</u>

* The non-audit fees paid/payable to KPMG were mainly related to tax compliance services and other advisory services largely in respect of potential business undertakings and loan refinancing activities.

MATERIAL CONTRACTS

- i) Tuah Utama Sdn Bhd ("TUSB"), a wholly-owned subsidiary of the Company, had on 24 August 2018 entered into the Shares Sale Agreement ("SSA") with Pelabuhan Lumut Sdn Bhd ("PLSB") for the disposal of its 20% equity interest in Lekir Bulk Terminal Sdn Bhd ("LBTSB") to PLSB, comprising 13,600,000 ordinary shares in LBTSB to PLSB for a total cash consideration of RM90,000,000.00 only ("Purchase Price"). The said disposal was completed on 5 September 2018 ("Completion Date") in accordance with the terms and conditions of the SSA, whereby TUSB had received the payment of the Purchase Price in full and delivered all the completion documents to PLSB. Following the completion of the disposal, LBTSB had ceased to be an associate company of the Company on the Completion Date.
- ii) Tunas Pancar Sdn Bhd ("TPSB"), a wholly-owned subsidiary of the Company, had on 1 August 2018 entered into a conditional Share Sale Agreement ("SSA") with HICOM Holdings Berhad, a wholly-owned subsidiary of DRB-HICOM Berhad, in relation to the proposed acquisition by TPSB of 74,000,000 ordinary shares in Alam Flora Sdn Bhd ("Alam Flora"), representing 97.37% equity interest in Alam Flora, from HICOM Holdings Berhad for a total cash consideration of RM944,610,000, subject to the terms and conditions as contained in the SSA. On 31 January 2019, the parties had mutually agreed to extend the Cut-Off Date to fulfil the conditions precedent of the SSA for a further period of six months until 31 July 2019. Save for the said extension, all other terms of the SSA remain unchanged.